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No. S 4

INCOME TAX ACT (CHAPTER 134)

INCOME TAX (ADJUSTMENT FOR CHANGE OF BASIS OF COMPUTING PROFIT, LOSS OR EXPENSE OF FINANCIAL INSTRUMENTS RESULTING FROM FRS 109 OR SFRS(I) 9) REGULATIONS 2020

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In exercise of the powers conferred by sections 14I(2H) and 34AA(13) of the Income Tax Act, the Minister for Finance makes the following Regulations:

Citation and commencement

1. These Regulations are the Income Tax (Adjustment for Change of Basis of Computing Profit, Loss or Expense of Financial Instruments resulting from FRS 109 or SFRS(I) 9) Regulations 2020 and come into operation on 3 January 2020.

Definitions

2.—(1) In these Regulations, unless the context otherwise requires —

“date of initial application” means the first day of a basis period in which a qualifying person prepares or maintains the qualifying person’s financial accounts in accordance with FRS 109 or SFRS(I) 9 for the first time;

“FRS 39” means the financial reporting standard known as Financial Reporting Standard 39 (Financial Instruments: Recognition and Measurement) that is treated as made by the Accounting Standards Council under Part III of the Accounting Standards Act (Cap. 2B), as amended from time to time;

“FRS 109” means the financial reporting standard known as Financial Reporting Standard 109 (Financial Instruments) that is made, and amended from time to time, under Part III of the Accounting Standards Act;

“initial year of assessment”, in relation to a qualifying person, means the year of assessment for the basis period in which the person’s date of initial application falls;

“qualifying person”, in relation to any year of assessment, has the meaning given by section 34AA(15) of the Act;

“SFRS(I) 9” means the financial reporting standard known as Singapore Financial Reporting Standard (International) 9 (Financial Instruments) that is made, and amended from time to time, under Part III of the Accounting Standards Act.

(2) Any term used in these Regulations and not defined in these Regulations but defined in FRS 39, FRS 109 or SFRS(I) 9, has the meaning given by FRS 39, FRS 109 or SFRS(I) 9, as the case may be.

Transition from tax treatment under section 34A of Act to tax treatment under section 34AA of Act

3.—(1) This regulation applies to a qualifying person that is a qualifying person under section 34A of the Act for the year of assessment immediately before the initial year of assessment.

Tax treatment for profit in respect of financial instrument recognised on date of initial application

(2) Where —

- (a) the qualifying person recognises (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, a profit in respect of any financial instrument; and
- (b) the profit is credited to the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment,

then the amount of the profit that is revenue in nature is treated as income of the qualifying person for the initial year of assessment.

Tax treatment for loss (other than impairment loss or expected credit loss) in respect of financial instrument recognised on date of initial application

(3) Where —

- (a) the qualifying person recognises (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, a loss (other than an impairment loss or expected credit loss) in respect of any financial instrument; and
- (b) the loss is debited from the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment,

then the amount of the loss that is revenue in nature is to be allowed as a deduction against the qualifying person's income for the initial year of assessment.

Tax treatment for reversal of impairment loss in respect of financial instrument recognised on date of initial application

(4) Where —

- (a) the qualifying person recognises (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, a profit that is a reversal of an impairment loss in respect of any financial instrument;

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- (b) the profit is credited to the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment; and
 - (c) an amount of the impairment loss in respect of the financial instrument was previously allowed as a deduction against the qualifying person's income under section 14 or 14I of the Act read with section 34A of the Act for any year of assessment before the initial year of assessment,

then the amount of the profit equal to the amount of the impairment loss that was so allowed as a deduction is treated as income of the qualifying person for the initial year of assessment.

Tax treatment for impairment loss or expected credit loss arising from credit-impaired financial instrument recognised on date of initial application

(5) Where —

- (a) the qualifying person recognises (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, a loss that is an impairment loss or expected credit loss in respect of any financial instrument;
- (b) the impairment loss or expected credit loss is debited from the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment; and
- (c) the financial instrument is credit-impaired in accordance with FRS 109 or SFRS(I) 9,

then the amount of the loss that is revenue in nature is allowed as a deduction against the qualifying person's income for the initial year of assessment.

Tax treatment for provision by bank and qualifying finance company for expected credit loss and allowance for non-credit-impaired loans and investments in securities that are not credit-impaired

(6) Subject to paragraph (7), where a qualifying person is a bank or qualifying finance company, an amount computed using the formula $A + B + C$ is to be allowed as a deduction against the qualifying person's income for the initial year of assessment, where —

- (a) A is the amount of any expected credit loss in respect of its loans that are not credit-impaired and that is recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, and debited from the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment;
- (b) B is the amount of any expected credit loss in respect of its investments in securities (where such securities are not credit-impaired) and that is recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application, and debited from the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment; and
- (c) C is the amount of any allowance made by the qualifying person in respect of its loans that are not credit-impaired and investments in securities (where such securities are not credit-impaired) on the date of initial application, as required by an MAS notice, and debited from the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment.

(7) The amount of deduction allowed under paragraph (6) must not exceed 3% of the prescribed value of loans and investments in securities of the qualifying person in the basis period for the year of assessment immediately before the initial year of assessment, less the total amount of all deductions previously allowed to the qualifying person under section 14I of the Act and that have not been treated as trading receipts under that section.

(8) In this regulation —

“bank”, “loan”, “MAS notice”, “prescribed value of loans and investments in securities” and “qualifying finance company” have the meanings given by section 14I(7) of the Act;

“securities” has the meaning given by section 14I(8) of the Act.

Transition from other tax treatment to tax treatment under section 34AA of Act

4.—(1) This regulation applies to a qualifying person that is not a qualifying person under section 34A of the Act for the year of assessment immediately before the initial year of assessment.

(2) The amount of any profit or loss in respect of any financial instrument on revenue account of the qualifying person on the date of initial application (called in this regulation the specified amount) is computed using the formula specified in the second column of the Schedule opposite the description in the first column of that Schedule to which the financial instrument belongs.

(3) Where the specified amount computed in accordance with paragraph (2) is a positive amount, the specified amount is treated as income of the qualifying person for the initial year of assessment.

(4) Where the specified amount computed in accordance with paragraph (2) is a negative amount, an amount equal to the specified amount expressed as a positive amount is to be allowed as a deduction against the qualifying person’s income for the initial year of assessment.

Prescribed amount of gain or loss on disposal of equity instrument on revenue account measured at fair value through other comprehensive income

5.—(1) For the purpose of section 34AA(3)(i) of the Act, the prescribed amount of gain or loss to a qualifying person on the disposal of an equity instrument on revenue account of the qualifying person that is measured at fair value through other comprehensive income is —

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- (a) the net amount of gains or losses in respect of the equity instrument recognised (in accordance with FRS 109 or SFRS(I) 9) in the period between the date of acquisition of the equity instrument and the date of its disposal (both dates inclusive) in a reserve account of the statement of changes in equity in the qualifying person's financial statements for that period; or
- (b) if it is not possible to determine the amount in sub-paragraph (a), an amount determined by the formula $P - A + D$, where —
- (i) P is the consideration received or receivable by the qualifying person from the disposal of the equity instrument;
 - (ii) A is the value of the equity instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in the qualifying person's balance sheet for the basis period for the initial year of assessment; and
 - (iii) D is —
 - (A) where the net amount of gains or losses (before any deduction for tax is made in accordance with FRS 12 or SFRS(I) 1-12) in respect of the equity instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in a reserve account of the statement of changes in equity in the qualifying person's financial statements for the basis period for the initial year of assessment is a loss — the amount of the loss expressed as a negative value; or
 - (B) where the net amount of gains or losses (before any deduction for tax is made in accordance with FRS 12 or SFRS(I) 1-12) in respect of the equity instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in a reserve account of the

statement of changes in equity in the qualifying person's financial statements for the basis period for the initial year of assessment is a gain — the amount of the gain expressed as a positive value.

(2) Where the amount determined in paragraph (1)(b) is a positive value, that amount is the prescribed gain mentioned in paragraph (1).

(3) Where the amount determined in paragraph (1)(b) is a negative value, that amount is the prescribed loss mentioned in paragraph (1).

(4) In this regulation, “FRS 12” and “SFRS(I) 1-12” mean the financial reporting standards known as Financial Reporting Standard 12 (Income Taxes) and Singapore Financial Reporting Standard (International) 1-12 (Income Taxes) that are made, and amended from time to time, under Part III of the Accounting Standards Act.

THE SCHEDULE

Regulation 4(2)

PROFIT OR LOSS IN RESPECT OF FINANCIAL
INSTRUMENT OF QUALIFYING PERSON
RECOGNISED ON DATE OF INITIAL APPLICATION

1. The specified amount mentioned in regulation 4(2) in respect of a financial instrument of a qualifying person is computed in accordance with the following table:

<i>First column</i>	<i>Second column</i>
<i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i>	<i>Formula for computing specified amount</i>
<p>1. In respect of an equity instrument —</p> <p>(a) that is required by FRS 39 to be classified as any of the following financial assets as at the last day of the basis period for the year of assessment immediately before the initial year of assessment:</p> <p style="padding-left: 40px;">(i) a financial asset at fair value through profit or loss;</p> <p style="padding-left: 40px;">(ii) an available-for-sale financial asset;</p> <p style="padding-left: 40px;">(iii) a financial asset carried at cost; and</p> <p>(b) that is required by FRS 109 or SFRS(I) 9 to be classified as a financial asset at fair value through profit or loss as at the date of initial application.</p>	<p style="text-align: center;">$A - B + C$</p> <p>where —</p> <p>(a) A is the value of the equity instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in the qualifying person's balance sheet for the basis period for the initial year of assessment;</p> <p>(b) B is the cost incurred by the qualifying person in acquiring the equity instrument; and</p> <p>(c) C is the total amount of losses allowed under the Act to the qualifying person in respect of the equity instrument for all years of assessment before the initial year of assessment, excluding the amount of the losses that had been reversed and treated as income for any year of assessment before the initial year of assessment.</p>
<p>2. In respect of an equity instrument —</p>	$A - B + C + D$

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<p><i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i></p>	<p><i>Formula for computing specified amount</i></p>
<p>(a) that is required by FRS 39 to be classified as any of the following financial assets as at the last day of the basis period for the year of assessment immediately before the initial year of assessment:</p> <ul style="list-style-type: none"> (i) a financial asset at fair value through profit or loss; (ii) an available-for-sale financial asset; (iii) a financial asset carried at cost; and <p>(b) that is required by FRS 109 or SFRS(I) 9 to be classified as a financial asset at fair value through other comprehensive income as at the date of initial application.</p>	<p>where —</p> <ul style="list-style-type: none"> (a) A is the value of the equity instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in the qualifying person's balance sheet for the basis period for the initial year of assessment; (b) B is the cost incurred by the qualifying person in acquiring the equity instrument; (c) C is the total amount of losses allowed under the Act to the qualifying person in respect of the equity instrument for all years of assessment before the initial year of assessment, excluding the amount of the losses that had been reversed and treated as income for any year of assessment before the initial year of assessment; and (d) D is — <ul style="list-style-type: none"> (i) where the net amount of the gains or losses (before any deduction for tax is made in accordance with FRS 12 or SFRS(I) 1-12) in respect of the equity instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in a

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i>	<i>Formula for computing specified amount</i>
	<p>reserve account of the statement of changes in equity in the qualifying person's financial statements for the basis period for the initial year of assessment is a loss — the amount of the loss expressed as a positive value; or</p> <p>(ii) where the net amount of the gains or losses (before any deduction for tax is made in accordance with FRS 12 or SFRS(I) 1-12) in respect of the equity instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in a reserve account of the statement of changes in equity in the qualifying person's statements for the basis period for the initial year of assessment is a gain — the amount of the gain expressed as a negative value.</p>
<p>3. In respect of a debt instrument —</p> <p>(a) that is required by FRS 39 to be classified as any of the following financial assets as at the last day of the basis period for the year of assessment immediately</p>	<p>$(A - B + C) + (X - Y)$</p> <p>where —</p> <p>(a) A is the value of the debt instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial</p>

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i>	<i>Formula for computing specified amount</i>
<p>before the initial year of assessment:</p> <ul style="list-style-type: none"> (i) a financial asset at fair value through profit or loss; (ii) an available-for-sale financial asset; (iii) a financial asset carried at amortised cost; and <p>(b) that is required by FRS 109 or SFRS(I) 9 to be classified as a financial asset at fair value through profit or loss as at the date of initial application.</p>	<p>application in the qualifying person's balance sheet for the basis period for the initial year of assessment;</p> <ul style="list-style-type: none"> (b) B is the cost incurred by the qualifying person in acquiring the debt instrument; (c) C is the total amount of losses allowed under the Act to the qualifying person in respect of the debt instrument for all years of assessment before the initial year of assessment, excluding the amount of the losses that had been reversed and treated as income for any year of assessment before the initial year of assessment; (d) X is the total amount of interest income from the debt instrument, determined using the contractual interest rate, for all years of assessment between the first year of assessment relating to the basis period in which the qualifying person acquired the debt instrument and the year of assessment immediately before the initial year of assessment (both years of assessment inclusive); and (e) Y is the total amount of interest income from the debt instrument that was chargeable with tax, for all years of assessment between

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i>	<i>Formula for computing specified amount</i>
	the first year of assessment relating to the basis period in which the qualifying person acquired the debt instrument and the year of assessment immediately before the initial year of assessment (both years of assessment inclusive).
<p>4. In respect of a debt instrument —</p> <p>(a) that is required by FRS 39 to be classified as any of the following financial assets as at the last day of the basis period for the year of assessment immediately before the initial year of assessment:</p> <p style="padding-left: 40px;">(i) a financial asset at fair value through profit or loss;</p> <p style="padding-left: 40px;">(ii) an available-for-sale financial asset;</p> <p style="padding-left: 40px;">(iii) a financial asset carried at amortised cost; and</p> <p>(b) that is required by FRS 109 or SFRS(I) 9 to be classified as a financial asset carried at amortised cost as at the date of initial application.</p>	$(A - B + C - E) + (X - Y)$ <p>where —</p> <p>(a) A is the gross value (before any deduction is made for expected credit loss) of the debt instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in the qualifying person's balance sheet for the basis period for the initial year of assessment;</p> <p>(b) B is the cost incurred by the qualifying person in acquiring the debt instrument;</p> <p>(c) C is the total amount of losses allowed under the Act to the qualifying person in respect of the debt instrument for all years of assessment before the initial year of assessment, excluding the amount of the losses that had been reversed and treated as income for any year of assessment before the initial year of assessment;</p>

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i>	<i>Formula for computing specified amount</i>
	<p>(d) E is the amount of expected credit losses of the debt instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment, to the extent that the debt instrument is credit-impaired in accordance with FRS 109 or SFRS(I) 9, as the case may be;</p> <p>(e) X is the total amount of interest income from the debt instrument, determined using the contractual interest rate, for all years of assessment between the first year of assessment relating to the basis period in which the qualifying person acquired the debt instrument and the year of assessment immediately before the initial year of assessment (both years of assessment inclusive); and</p> <p>(f) Y is the total amount of interest income from the debt instrument that was chargeable with tax, for all years of assessment between the first year of assessment relating to the basis period in which the qualifying person acquired the debt instrument and the year of assessment</p>

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i>	<i>Formula for computing specified amount</i>
	immediately before the initial year of assessment (both years of assessment inclusive).
<p>5. In respect of a debt instrument —</p> <p>(a) that is required by FRS 39 to be classified as any of the following financial assets as at the last day of the basis period for the year of assessment immediately before the initial year of assessment:</p> <p>(i) a financial asset at fair value through profit or loss;</p> <p>(ii) an available-for-sale financial asset;</p> <p>(iii) a financial asset carried at amortised cost; and</p> <p>(b) that is required by FRS 109 or SFRS(I) 9 to be classified as a financial asset at fair value through other comprehensive income as at the date of initial application.</p>	<p>$(A - B + C + D - E) + (X - Y)$</p> <p>where —</p> <p>(a) A is the gross value (before any deduction is made for expected credit loss) of the debt instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in the qualifying person's balance sheet for the basis period for the initial year of assessment;</p> <p>(b) B is the cost incurred by the qualifying person in acquiring the debt instrument;</p> <p>(c) C is the total amount of losses allowed under the Act to the qualifying person in respect of the debt instrument for all years of assessment before the initial year of assessment, excluding the amount of the losses that had been reversed and treated as income for any year of assessment before the initial year of assessment;</p> <p>(d) D is —</p> <p>(i) where the net amount of the gains or losses (before any deduction for tax is made in accordance with FRS 12 or SFRS(I) 1-12) in respect of</p>

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<p><i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i></p>	<p><i>Formula for computing specified amount</i></p>
	<p>the debt instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in a reserve account of the statement of changes in equity in the qualifying person's financial statements for the basis period for the initial year of assessment is a loss — the amount of the loss expressed as a positive value; or</p> <p>(ii) where the net amount of the gains or losses (before any deduction for tax is made in accordance with FRS 12 or SFRS(I) 1-12) in respect of the debt instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in a reserve account of the statement of changes in equity in the qualifying person's financial statements for the basis period for the initial year of assessment is a gain — the amount of the gain expressed as a negative value;</p>

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i>	<i>Formula for computing specified amount</i>
	<p>(e) E is the amount of expected credit losses of the debt instrument recognised (in accordance with FRS 109 or SFRS(I) 9) on the date of initial application in the opening balance of the qualifying person's retained earnings account for the basis period for the initial year of assessment, to the extent that the debt instrument is credit-impaired in accordance with FRS 109 or SFRS(I) 9, as the case may be;</p> <p>(f) X is the total amount of interest income from the debt instrument, determined using the contractual interest rate, for all years of assessment between the first year of assessment relating to the basis period in which the qualifying person acquired the debt instrument and the year of assessment immediately before the initial year of assessment (both years of assessment inclusive); and</p> <p>(g) Y is the total amount of interest income from the debt instrument that was chargeable with tax, for all years of assessment between the first year of assessment relating to the basis period in which the qualifying person acquired the debt instrument and the year of assessment</p>

THE SCHEDULE — *continued*

<i>First column</i>	<i>Second column</i>
<i>Change in classification of financial instrument on date of initial application as required by FRS 109 or SFRS(I) 9</i>	<i>Formula for computing specified amount</i>
	immediately before the initial year of assessment (both years of assessment inclusive).

THE SCHEDULE — *continued*

2. In this Schedule —

“contractual interest rate” has the meaning given by section 34AA(15) of the Act;

“FRS 12” and “SFRS(I) 1-12” mean the financial reporting standards known as Financial Reporting Standard 12 (Income Taxes) and Singapore Financial Reporting Standard (International) 1-12 (Income Taxes) that are made, and amended from time to time, under Part III of the Accounting Standards Act.

Made on 30 December 2019.

TAN CHING YEE
*Permanent Secretary,
Ministry of Finance,
Singapore.*

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