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Government Loans

Proposed amendments to IFRS 1

Comments to be received by 5 January 2012

IFRS™

Exposure Draft

Government Loans
(proposed amendments to IFRS 1)

Comments to be received by 5 January 2012

ED/2011/5

This exposure draft *Government Loans* (proposed amendments to IFRS 1) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as an amendment to IFRS 1. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **5 January 2012**. Respondents are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Introduction

IN1 The International Accounting Standards Board (IASB) has published this exposure draft of proposed amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* to require that first-time adopters apply certain requirements in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively.

IN2 IAS 20 requires entities to measure government loans with a below-market rate of interest at fair value on initial recognition. This requirement was incorporated into IAS 20 in 2008 by the addition of paragraph 10A. A first-time adopter applying IAS 20 retrospectively to existing government loans at the date of transition to IFRSs would be required to identify a fair value at an earlier date. The proposed amendment would require that first-time adopters apply this requirement in IAS 20 prospectively to loans entered into on or after the date of transition to IFRSs. However, if an entity obtained the information necessary to apply these requirements to a government loan as a result of a past transaction at the time of initially accounting for that loan, then it may choose to apply paragraph 10A of IAS 20 retrospectively to that loan.

IN3 The proposed amendment would add an exception to the retrospective application of IFRSs and in doing so would provide the same relief to first-time adopters as was granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.

Next steps

IN4 The Board will consider the comments that it receives on the proposals and will decide whether to proceed with an amendment to IFRS 1.

Invitation to comment

The Board invites comments on the proposals in this exposure draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

(b) indicate the specific paragraph or group of paragraphs to which they relate;

(c) contain a clear rationale; and

(d) include any alternative that the Board should consider, if applicable.

In this exposure draft, the Board is not requesting comments on matters in IFRS 1 that are not addressed in the exposure draft.

Comments should be submitted in writing so as to be received no later than **5 January 2012**.

Prospective application provisions

Question 1

The Board proposes to amend IFRS 1 so that first-time adopters would be required to apply paragraph 10A of IAS 20 prospectively to loans entered into on or after the date of transition to IFRSs, unless the information needed to apply these requirements to a government loan as a result of a past transaction was obtained at the time of initially accounting for that loan. Do you agree? Why or why not?

Question 2

Do you have any other comments on the proposals?

[Draft] Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 39N and 39O are added and B1 is amended. After paragraph B9 a heading and paragraphs B10 and B11 are added.

39N *Government Loans* (Amendments to IFRS 1), issued [Month, year] added paragraphs B1(f), B10 and B11. An entity shall apply those paragraphs for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

39O Paragraphs B10 and B11 refer to IFRS 9. If an entity applies this IFRS but does not yet apply IFRS 9, the references in paragraphs B10 and B11 to IFRS 9 shall be read as references to IAS 39 *Financial Instruments: Recognition and Measurement*.

B1 An entity shall apply the following exceptions:

(a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);

(b) hedge accounting (paragraphs B4–B6);

(c) non-controlling interests (paragraph B7);

(d) classification and measurement of financial assets (paragraph B8); ~~and~~

(e) embedded derivatives (paragraph B9)~~.~~; and

(f) government loans (paragraphs B10 and B11).

Government loans

B10 Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in IFRS 9 *Financial Instruments* and paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to loans entered into on or after the date of transition to IFRSs. For example, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with that required by IFRS 9, it shall not adjust its previous GAAP carrying amount at the date of transition for the loan for compliance with IFRS 9 and paragraph 10A of IAS 20.

B11 Despite paragraph B10, an entity may apply the requirements in IFRS 9 and paragraph 10A of IAS 20 retrospectively from the date on which a government loan was originated, provided that the information needed to apply these requirements to that government loan was obtained at the time of initially accounting for that loan.

Approval by the Board of *Government Loans* (proposed amendments to IFRS 1) published in October 2011

The exposure draft *Government Loans* (proposed amendments to IFRS 1) was approved for publication by all fifteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Dr Elke König	
Patricia McConnell	
Takatsugu Ochi	
Paul Pacter	
Darrel Scott	
John T Smith	
Wei-Guo Zhang	

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

Government loans

BC1 IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (as revised in May 2008) contains a requirement that government loans with a below-market rate of interest be measured at fair value on initial recognition. When this requirement was added to IAS 20 in May 2008, the Board recognised that applying this requirement retrospectively may require entities to measure the fair value of loans at an earlier date. Accordingly the Board decided that this requirement in IAS 20 be applied prospectively.

BC2 In August 2011 the application of this requirement by first-time adopters of IFRSs was brought to the Board's attention. The Board noted that the general requirement in IFRS 1 for first-time adopters to apply IFRSs retrospectively at the date of transition could require some entities to measure government loans with a below-market rate of interest at fair value from a date prior to the date of transition. This may lead to an entity applying hindsight if it must derive a fair value that needs significant unobservable inputs. Accordingly the Board is proposing to add an exception to the retrospective application of IFRSs to require that first-time adopters of IFRSs apply the requirements in paragraph 10A of IAS 20 prospectively to loans entered into on or after the date of transition to IFRSs, unless the information needed to apply these requirements to a government loan as a result of a past transaction was obtained at the time of initially accounting for that loan.

