

# INTERNATIONAL FINANCIAL REPORTING BULLETIN 2011/13

## GOVERNMENT LOANS – PROPOSED AMENDMENTS TO IFRS 1



On 20 October 2011, the International Accounting Standards Board (IASB) issued Exposure Draft 2011/05 *Government Loans – Proposed amendments to IFRS 1* (the ED).

Annual improvements 2008 added paragraph 10A to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* that requires an entity to account for a government loan at a below-market rate of interest as a government grant. The benefit received is measured at the difference between the proceeds received and the fair value of the loan at initial recognition, determined in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The annual improvement was required to be adopted prospectively to government loans received in periods beginning on or after 1 January 2009.

Under the existing requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, a first time adopter has to apply the accounting for government loans at a below-market rate of interest retrospectively. This is inconsistent with the transitional guidance for existing users of IFRS, and could lead to an entity applying hindsight if it is required to derive a fair value that needs significant unobservable inputs.

The ED therefore proposes an amendment to IFRS 1 that would allow first time adopters to apply the above requirement prospectively. This would provide the same relief to first-time adopters as was granted to existing preparers of IFRS financial statements when IAS 20 was amended. 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 at fair value, it would not be required to adjust its previous GAAP carrying amount at the date of transition for the loan.

However, if an entity had already had obtained fair value information as a result of a past transaction at the time of initially accounting for that loan, it could still choose to apply accounting for a government loan below-market rate retrospectively and hence adjust the amount recognised under its previous GAAP. This is consistent with the amendment to IAS 20, which permits application from a date earlier than its mandatory effective date.

The ED proposes an effective date for the amendment to IFRS 1 for periods beginning on or after 1 January 2013 with earlier application permitted. Constituents are invited to respond to the ED by 5 January 2012.

### STATUS


Exposure Draft

### EFFECTIVE DATE

Annual periods beginning on or after 1 January 2013

### ACCOUNTING IMPACT

Relief for first-time adopters of IFRS when applying IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.



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