Deloitte.

IFRS Global office
March 2012

IFRS in Focus

IASB amends IFRS 1 for government loans at below-market rates of interest

Contents

The Bottom Line

- The amendments provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 to government loans outstanding at the date of transition to IFRSs.
- The amendments are effective for annual periods beginning on or after 1 January 2013, with early application permitted.

The amendments

On 13 March 2012, the International Accounting Standards Board ('IASB' or 'the Board') issued *Government Loans* (Amendments to IFRS 1) ('the amendments'), providing relief to first-time adopters of IFRSs by amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* to permit prospective application of IAS 39 *Financial Instruments: Recognition and Measurement* or, when applied, IFRS 9 *Financial Instruments* and paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to government loans outstanding at the date of transition to IFRSs.

Paragraph 10A of IAS 20 requires the benefit of government loans advanced either interest free or at a below-market rate of interest to be treated as a government grant, measured as the difference between the initial carrying amount of the loan determined in accordance with IAS 39 or IFRS 9 and the proceeds received. When this requirement was introduced as part of the Annual Improvements issued in May 2008, the IASB decided on prospective application to avoid entities measuring the fair value of loans at an earlier date. However, no corresponding amendment was made to IFRS 1, which has a general requirement of retrospective application at the date of transition to IFRSs.

The amendments correct this oversight by permitting first-time adopters of IFRSs to apply the requirements in paragraph 10A of IAS 20 only to new loans entered into after the date of transition to IFRSs. The first-time adopter is required to apply IAS 32 *Financial Instruments: Presentation* to classify the loan as a financial liability or an equity instrument at the transition date. However, if it did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with IFRS requirements, it would be permitted to apply the previous GAAP carrying amount of the loan at the date of transition as the carrying amount of the loan in the opening IFRS statement of financial position. An entity would then apply IAS 39 or IFRS 9 in measuring the loan after the transition date.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

The amendments give first-time adopters the option, on a loan by loan basis, of applying the requirements of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 retrospectively provided that the necessary information to apply the requirements to a particular government loan was obtained at the time of initially accounting for that loan.

The amendments include the following example to illustrate the accounting for a government loan at a below-market rate of interest at the date of transition to IFRSs when an entity takes advantage of the relief offered by the amendments:

To encourage entities to expand their operations in a specified development zone where it is difficult for entities to obtain financing for their projects, the government provides loans at a below-market rate of interest to fund the purchase of manufacturing equipment.

Entity S's date of transition is 1 January 20X2.

In accordance with the development scheme, in 20X0 Entity S receives a loan at a below-market rate of interest from the government for CU100,000. Under its previous GAAP, Entity S accounted for the loan as equity and the carrying amount under previous GAAP was CU100,000 at the date of transition to IFRSs. The amount repayable will be CU103,030 on 1 January 20X5.

No other payment is required under the terms of the loan and there are no further performance conditions attached to the loan. The information needed to measure the fair value of the loan was not obtained at the time of initially accounting for the loan.

The loan meets the definition of a financial liability in accordance with IAS 32. Entity S therefore reclassifies the government loan as a liability. It also uses the previous GAAP carrying amount of the loan at the date of transition to IFRSs as the carrying amount of the loan in the opening IFRS statement of financial position. Entity S therefore reclassifies the amount of CU100,000 from equity to liability in the opening IFRS statement of financial position. In order to measure the loan after the date of transition to IFRSs, the effective interest rate starting 1 January 20X2 is calculated as below:

$= (103{,}030 / 100{,}000)^{(1/3)} - 1$

= 1 per cent

The carrying amounts of the loan are as follows:

Date	Carrying amount (CU)	Interest expense (CU)	Interest payable (CU)
1 January 20X2	100,000	–	–
31 December 20X2	101,000	1,000	1,000
31 December 20X3	102,010	1,010	2,010
31 December 20X4	103,030	1,020	3,030

Effective date

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Key contacts

IFRS global office
Global Managing Director, IFRS Clients and Markets
Joel Osnoss
ifrsglobalofficeuk@deloitte.co.uk

Global Managing Director, IFRS Technical
Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

Global IFRS Communications
Randall Sogoloff
ifrsglobalofficeuk@deloitte.co.uk

IFRS centres of excellence

Americas		
Canada	Karen Higgins	iasplus@deloitte.ca
LATCO	Fermin del Valle	iasplus-LATCO@deloitte.com
United States	Robert Uhl	iasplusamericas@deloitte.com
Asia-Pacific		
Australia	Anna Crawford	iasplus@deloitte.com.au
China	Stephen Taylor	iasplus@deloitte.com.hk
Japan	Shinya Iwasaki	iasplus-tokyo@tohmatsu.co.jp
Singapore	Shariq Barmaky	iasplus-sg@deloitte.com
Europe-Africa		
Belgium	Laurent Boxus	BEIFRSBelgium@deloitte.com
Denmark	Jan Peter Larsen	dk_iasplus@deloitte.dk
France	Laurence Rivat	iasplus@deloitte.fr
Germany	Andreas Barckow	iasplus@deloitte.de
Luxembourg	Eddy Termaten	luiasplus@deloitte.lu
Netherlands	Ralph ter Hoeven	iasplus@deloitte.nl
Russia	Michael Raikhman	iasplus@deloitte.ru
South Africa	Graeme Berry	iasplus@deloitte.co.za
Spain	Cleber Custodio	iasplus@deloitte.es
United Kingdom	Elizabeth Chrispin	iasplus@deloitte.co.uk

Designed and produced by The Creative Studio at Deloitte, London. 17770A