AASB Exposure Draft **ED 221**

October 2011

Government Loans

(proposed amendments to AASB 1)

Comments to the AASB by 5 December 2011

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 5 December 2011. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 5 January 2012. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

Respondents to the IASB are asked to send their comments electronically through the 'Open to Comment' page on the IASB website (www.ifrs.org).

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This AASB Exposure Draft is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this AASB Exposure Draft are available by contacting:

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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 5 December 2011. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

No specific Tier 2 proposals

The AASB considers that, if the proposals in the attached IASB Exposure Draft were to proceed, they would not affect Tier 2 disclosure requirements and, therefore, there is no need for specific Tier 2 proposals.

Not-for-Profit Entities

The AASB considers that, if the proposals in the attached IASB Exposure Draft were to proceed, they would not affect not-for-profit entities. This is because the proposals relate to AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (which incorporates IAS 20), which is not applicable to not-for-profit entities. However, consideration could be given to adopting an exception similar to the one proposed in the context of accounting for government loans under AASB 1004 *Contributions*.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether, overall, the proposals would result in financial statements that would be useful to users;

2. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;

3. whether there is any practical need to make similar amendments in respect of not-for-profit entities adopting AASB 1004 for the first time;

4. whether the proposals are in the best interests of the Australian economy; and

5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

October 2011

Exposure Draft ED/2011/5

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.

