Straight away
IFRS bulletin from PwC

15 March 2012

IFRS 1 amendment gives first-time adopters with government loans same relief as existing preparers

What's the issue?

The IASB has amended IFRS 1, 'First-time adoption of International Financial Reporting Standards' to provide relief from the retrospective application of IFRSs in relation to government loans.

The new exception requires first-time adopters to apply the requirements in IFRS 9, 'Financial instruments', and IAS 20, 'Accounting for government grants and disclosure of government assistance', prospectively to government loans that exist at the date of transition to IFRSs. This will give first-time adopters the same relief as existing preparers.

The amendment aligns IFRS 1 with the IAS 20 requirements (after its revision in 2008) to prospectively fair value government loans with a below-market rate of interest. The general requirement in IFRS 1 for first-time adopters to apply IFRSs retrospectively at the date of transition to IFRSs could mean some entities have to measure such government loans at fair value at a date before the date of transition to IFRS. This might mean management has to apply hindsight in order to derive a fair value that has significant unobservable inputs. So the Board has added an exception that allows a first-time adopter to use its previous GAAP carrying amount for such loans on transition to IFRS. The exception applies to recognition and measurement only. Management should use the requirements of IAS 32, 'Financial instruments: Presentation', to determine whether government loans are classified as equity or as a financial liability.

Key amendments

The key amendments are:

- First-time adopters should classify all government loans as a financial liability or an equity instrument in accordance with IAS 32. They should apply the IFRS 9 and IAS 20 requirements prospectively to government loans existing at the date of transition to IFRS; they should not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.
- Management may apply the IFRS 9 and IAS 20 requirements retrospectively to any government loan originated before the date of transition to IFRS, provided that the information needed to do so had been obtained at the time of initially accounting for that loan. This is available on a loan-by-loan basis.
- Management can use the exemptions in IFRS 1, paragraphs D19-D19D relating to the designation of previously recognised financial instruments at fair value through profit or loss in conjunction with the government loan exception.

Am I affected?

The amendment affects first-time adopters with government loans with a below-market rate of interest. It applies to annual periods beginning on or after 1 January 2013. Earlier application is permitted.

What do I need to do?

If you are a first-time adopter with questions about the amendment, speak to your PwC contact.