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Government loans

Amendments to IFRS 1

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IN THE HEADLINES

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Additional relief for first-time adopters

On 13 March 2012, the IASB published *Government Loans – Amendments to IFRS 1*.

The amendments add a new exception to retrospective application of IFRS. A first-time adopter of IFRS now applies the measurement requirements of the financial instrument standards[1] to a government loan with a below-market rate of interest prospectively from the date of transition to IFRS.

Alternatively, a first-time adopter may elect to apply the measurement requirements retrospectively to a government loan, if the information needed was obtained when it first accounted for that loan. This election is available on a loan-by-loan basis.

No use of hindsight

The amendments have been issued in response to requests to provide first-time adopters with the same relief as that available to existing preparers when IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* was amended in 2008. As amended, IAS 20 requires existing preparers to measure government loans with a below-market rate of interest at fair value on initial recognition. Existing preparers were required to apply the 2008 amendments to IAS 20 prospectively. However, a corresponding exception to retrospective application was not provided to first-time adopters at that time. This meant that first-time adopters may have been required to use hindsight in measuring government loans with below-market rates of interest at fair value at their dates of origination. The amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* eliminate the need to use hindsight when measuring government loans on transition to IFRS.

Guidance on prospective application

The amendments provide additional guidance, including an illustrative example showing how to apply the new relief.

If a first-time adopter applies the measurement requirements prospectively, then it uses the previous GAAP carrying amount of a government loan with a below-market rate of interest as the carrying amount of the loan in its opening IFRS statement of financial position.

Subsequently, the entity measures the loan at amortised cost, using an effective interest rate that is calculated at the date of transition.

No impact on presentation

The amendments do not affect the presentation of government loans upon transition to IFRS. The presentation of government loans as equity or liability continues to follow the requirements in IAS 32 *Financial Instruments: Presentation*.

Fair value option remains

The requirements and guidance in the amendments do not preclude a first-time adopter from applying to government loans the exemption in IFRS 1 on designating previously recognised financial instruments at fair value through profit or loss.

Effective date

The amendments will be effective for annual periods beginning on or after 1 January 2013; earlier application is permitted.

Find out more

For more information on the amendments please speak to your usual KPMG contact.

1 IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* if it is applied.

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