

Proposed first-time adoption relief from retrospective fair value measurement of government loans



In response to constituent concerns, the IASB has proposed an exception to the retrospective fair value measurement of government loans with below-market rates of interest. ED/2011/5 *Government Loans – Proposed amendments to IFRS 1* was issued on 20 October 2011, with comments due by 5 January 2012.

Previous relief for existing IFRS users

In 2008 the standard on government grants¹ was amended to require:

- government loans with below-market rates of interest to be measured at fair value on initial recognition in accordance with the relevant financial instruments standard²; and
- the benefit of the reduced interest to be accounted for as a government grant.

The amendment was applied prospectively as the IASB noted that retrospective application would require entities to measure the fair value of loans as of a past date.

Level playing field for first-time adopters

However, a corresponding exception to retrospective application was not introduced for first-time adopters of IFRS. Consequently, the general requirement for first-time adopters to apply IFRS retrospectively at the date of transition to IFRS means measuring government loans with below-market rates of interest at fair value at their date of origination; in some cases this will be at a date prior to the date of transition. This requirement may lead to entities applying hindsight if they must derive a fair value that needs significant unobservable inputs.

¹ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

² IAS 39 *Financial Instruments: Recognition and Measurement*, or IFRS 9 *Financial Instruments* if applied

Highlights

- On transition, first-time adopters would not be required to retrospectively measure government loans with below-market rates of interest at fair value
- Final amendment would be effective 1 January 2013
- Responses due by 5 January 2012

The proposed amendment would require first-time adopters to apply the requirements of IFRS in respect of government loans with below-market rates of interest prospectively to loans entered into on or after the date of transition. First-time adopters would be allowed to apply the fair value measurement requirements retrospectively to government loans received before the date of transition only if the information needed to measure fair value was obtained at the time of initially accounting for the loan.

2013 proposed effective date

The amendments would be effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

© 2011 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG International Standards Group is part of KPMG IFRG Limited.

Publication name: *In the Headlines*

Publication number: Issue 2011/34

Publication date: October 2011

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

kpmg.com/ifrs

***In the Headlines* is KPMG's update on International Financial Reporting Standards (IFRSs) and financial reporting related regulatory developments.**

If you would like further information on any of the matters discussed in this issue of *In the Headlines*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.