

HKFRS / IFRS UPDATE 2012/05

GOVERNMENT LOANS – AMENDMENTS TO HKFRS 1



On 29 March 2012, the Hong Kong Institute of Certified Public Accountants (HKICPA) issued “*Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*”. The amendments relate to the treatment of government loans as defined in HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* when adopting HKFRS. The amendments are a textual copy of the amendments to IFRS 1 “*First-time Adoption of International Financial Reporting Standards*” issued by the International Accounting Standards Board (IASB) in March 2012. Therefore, this update is also a summary of the key amendments to IFRS 1.

The annual improvements 2008 amended HKAS 20 to the effect that an entity is required to account for a government loan at a below-market rate of interest as a government grant. The benefit received is measured at the difference between the proceeds received and the fair value of the loan at initial recognition, determined in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. The new requirement was applied prospectively to government loans received in periods beginning on or after 1 January 2009.

In contrast, under the existing requirements of HKFRS 1 a first-time adopter was required to apply the accounting for government loans at a below-market rate of interest retrospectively. This was inconsistent with the requirement for existing HKFRS preparers, and could have led to an entity applying hindsight if it was required to derive a fair value that needed significant unobservable inputs.

The amendments to HKFRS 1 allow first-time adopters to apply the amendment to HKAS 20 prospectively. This provides the same relief to first-time adopters as was granted to existing preparers of HKFRS financial statements when HKAS 20 was amended. With the amendments a first-time adopter that did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest at fair value, is provided relief from a requirement to adjust its previous GAAP carrying amount for the loan at the date of transition to reflect its fair value when the loan was originally received.

However, a first-time adopter may choose to apply the requirements of HKAS 39 and HKAS 20 retrospectively to a below-market rate of interest government loan originated before its date of transition to HKFRS, provided that the information needed to do so had been obtained at the time of initially accounting for the loan. This option is available on a loan-by-loan basis.

STATUS

Final

EFFECTIVE DATE

Annual periods beginning on or after 1 January 2013

ACCOUNTING IMPACT

Relief for first-time adopters of HKFRS when applying HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

As a result of feedback received in response to the Exposure Draft, the amendments also clarify that the above changes do not preclude a first-time adopter from being able to use the option, in certain circumstances, to designate a financial liability as at fair value through profit or loss on transition to HKFRS.

The amendments to HKFRS 1 are effective for annual periods beginning on or after 1 January 2013. Earlier adoption is permitted.

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