

Introduction and Invitation to Comment

The International Accounting Standards Board proposes to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to remove an inconsistency with IAS 39 *Financial Instruments: Recognition and Measurement*. The proposed amendment clarifies that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39.

The Board invites comments on the proposed amendments. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 20 not addressed in the exposure draft.

Question

Do you agree with the proposed amendments to IAS 20 to clarify that the benefit of a loan received from a government with a below-market rate of interest should be quantified by the imputation of interest in accordance with IAS 39? If not, why?

Proposed amendments to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

In the Standard, paragraph 10A is inserted and paragraph 37 is deleted as follows. Paragraph 10 is reproduced for ease of reference but is not proposed for amendment.

Government grants

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- 10 A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.
- 10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit shall be quantified by the imputation of interest on the loan in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The loan shall be recognised and measured in accordance with IAS 39 and the benefit of the below-market rate of interest shall be accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

...

Government assistance

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- 37 ~~[Deleted] Loans at nil or low interest rates are a form of government assistance, but the benefit is not quantified by the imputation of interest.~~

...

Basis for Conclusions on Proposed Amendments to IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Accounting for loans from government with a below-market rate of interest

- BC1 The Board identified an apparent inconsistency in the guidance in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 39 *Financial Instruments: Recognition and Measurement*. It relates to the accounting for loans received from a government with a below-market rate of interest. IAS 20 states that no interest should be imputed for such a loan, whereas IAS 39 requires all loans to be recognised at fair value, thus imputing interest to loans with a below-market rate of interest.
- BC2 The Board decided to remove this inconsistency. It believes that the imputation of interest will provide more relevant information to a user of the financial statements than not doing so. Accordingly the Board proposes to require that loans received from a government that have a below-market rate of interest should be recognised and measured in accordance with IAS 39. The benefit of the government loan is quantified by the imputation of interest in accordance with IAS 39. This benefit is accounted for in accordance with IAS 20.