Accounting Standard Board, Nepal
Decision on Carve-outs in NFRS with Alternative Treatments

The **129th Meeting of the Accounting Standard Board, Nepal** held on **November 20, 2019 (Mangsir 04, 2076)** resolved the following **4 Carve-outs in NFRS** with the following Alternative Treatment and effective Period of Carve-outs. The carve-outs proceeding was initiated by Accounting Standard Board Nepal following the request of the Financial Institutions of Nepal through Nepal Bankers Association which was endorsed by the meeting of NFRS Implementation Committee of Nepal Rastra Bank held on Kartik 01, 2076 and was recommended to Accounting Standard Board Nepal for its consideration and necessary action.

The following **4 carve-outs** have been considered based on the specific request of the Banks and Financial Institutions regulated by Nepal Rastra Bank; however, other entities may also use these carve-outs with necessary disclosures.

Carve-Out Number	NFRS/ NAS	Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
1	NFRS 1 : First-time Adoption of Nepal Financial Reporting Standards ***Exceptions to the retrospective application of effective interest method to recognise interest income***			
Para 13		This NFRS prohibits retrospective application of some aspects of other NFRSs. These exceptions are set out in paragraphs 14-17 and Appendix B.	This NFRS prohibits retrospective application of some aspects of other NFRSs. These exceptions are set out in paragraphs 14-17 and Appendix B. **In addition to this, Bank and Financial Institutions registered as per Bank and Financial Institutions Act, 2073 shall not apply paragraph 30 (a) of NAS 18; and paragraph 9 and AG5-AG8 retrospectively for recognition of interest income.** **Further, an entity shall not apply following provision of paragraph 35 of NAS 32 Financial Instruments: Presentation, retrospectively.** *"Transaction costs of an equity transaction shall be accounted for as a deduction from equity, net of any related income tax benefit"*	First Time adoption

Rational for Carve out

- *Harmonise the interest income of previous years with tax return that have already been submitted to the income tax office.*
- *To avoid the fee and penalty to be imposed by income tax authorities on increase in previous year interest income due to retrospective application of effective interest rate.*
- *Better presentation of transaction cost of equity transactions that have occurred in past.*

Not Optional

- *The first time adopter financial institutions shall not apply effective interest method of interest income recognition retrospectively. The comparative information shall be presented as per previous GAAP. However, the financial institutions shall disclose the monitory impact in financial statements as far as practicable.*

2	NFRS 1 : First-time Adoption of Nepal Financial Reporting Standards *Appendix C : Exemptions to accounting method for business combinations*		
***Para** C1*	A first-time adopter may elect not to apply NFRS 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to NFRSs). However, if a first-time adopter restates any business combination to comply with NFRS 3 it shall restate all later business combinations and shall also apply NFRS 10 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to NFRSs, and it shall also apply NFRS 10 from 30 June 20X6.	A first-time adopter may elect not to apply NFRS 3 retrospectively to past business combinations that occurred **before or at the end of fiscal year 2018/19. If an entity elects so, it shall account those business combinationsby applying pooling of interest method i.e. all assets and liabilities shall be accounted for at their book values. The entity shall not recognise goodwill; however, it shall debit the excess of purchase consideration over the net assets acquired in retained earnings. Further, the entity shall credit the excess of net assets acquired over the purchase consideration to capital reserve or merger/acquisition reserve.** However, if a first-time adopter restates any business combination to comply with NFRS 3 it shall restate all later business combinations and shall also apply NFRS 10 from that same date. For example, if a first-time adopter elects to restate a business combination that	First Time adoption

		occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to NFRSs, and it shall also apply NFRS 10 from 30 June 20X6.	

Rational for Carve out

- *NFRS 3 : Business Combination requires to account all business combinations as per purchase method. Further, existing GAAP requires to account business combination as per pooling of interest method. Merger/acquisition bylaws does not allow to recognise Goodwill and requires to credit the gain on merger to capital reserve or merger/acquisition reserve. All business combinations that occurred before the end of fiscal year 2018-19 has already been accounted for as per pooling of interest method. Restatement of the carrying amount all assets and liabilities at fair value involve hard work, time consuming and heavy cost. Hence, in the such short spam of time it shall not be able to determine fair value of all assets and liabilities acquired.*

Optional

- *The Carve-out is optional. If an entity opts to use this carve out that should be disclosed in the financial statements with its monitory impact on the financial statements as far as practicable.*

3	NAS 17 : Lease *Operating lease in the financial statements of Lessees*		
Para 33	Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit	Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless either: (a) another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or (b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.	2018-19 2019-20 2020-21

Rational for Carve out • *This is extension of carve-our no. 2 of previous carve-out provided by ICAN. Development bank and finance should also get the carve out to provide ease on implementation of NFRS.* • *The proposed amendment attempts to reflect an economic reality of our economy. The long term lease agreements are generally executed with periodic inflation driven escalations.* • *Banks and financial institutions have opened majority of their branches on leasehold property and incur major chunk of expense on operating lease. If lease expenses are straight lined, the financial statements shall not give true view of lease expense as some amount of future lease payment, which shall be paid to the lessor only due to inflation driven escalations, is to be recognised on today.*				
4	NAS 39 : Financial Instruments: Recognition and Measurement ***Impracticability to determine transaction cost of all previous years which is the part of effective interest rate***			
Para 9 *Definitions relating to recognition and measurement*		The *effective interest rate* is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see NAS 18 *Revenue*), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated	The *effective interest rate* is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received, **unless it is immaterial or impracticable to determine reliably,** between parties to the contract that are an integral part of the effective interest rate (see NAS 18 *Revenue*), transaction costs and all other premiums or discounts. There is a presumption that the cash flows and the	2018-19 2019-20

	reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	

Rational for Carve out

- *This is extension of carve-our no. 5 of previous carve-out provided by ICAN. Development bank and finance companies should also get the carve out further one year as Commercial banks got, to provide ease on implementation of NFRS.*
- *The proposed carve-out shall provide ease on practical difficulty in dig out of management fees received by banks of all previous. The carve-out shall justify the principle of benefits and cost of adoption of some provisions of NFRS.*