Accounting Standard Board, Nepal

Decision on Carve-outs in NFRS with Alternative Treatments

The **133rd Meeting of the Accounting Standard Board, Nepal** held on October 19, 2020 (2077 Kartik 03) resolved the following **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 Bank and Financial Institutions of Nepal through Nepal Bankers Association which was endorsed by the meeting of NFRS Implementation Committee of Nepal Rastra Bank held on 2077 Ashoj 01 & 20 and was recommended to Accounting Standard Board Nepal for its consideration and necessary action.

The following **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	**NAS 39 : Financial Instruments: Recognition and Measurement** *Incurred Loss Model to measure the Impairment Loss on Loan and Advances*			
Para 58		An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.	An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss *unless the entity is bank or financial institutions registered as per Bank and Financial Institutions Act, 2073. Such entities shall measure impairment loss on loan and advances as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63; and shall apply paragraph 63 to measure the impairment loss on financial assets other than loan and advances. The entity shall disclose the impairment loss as per this carve-out and the amount of impairment loss determined as per paragraph 63.*	**FY 2077-78**

Not Optional

- Bank and Financial Institutions shall measure impairment loss on loan and advances as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63; and shall apply paragraph 63 to measure the impairment loss on financial assets and other assets other than loan and advances. The Bank and Financial Institutions shall disclose the impairment loss as per this carve-out and the amount of impairment loss determined as per paragraph 63.

2	**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 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).	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 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).	**FY 2077-078**

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	**NFRS 3 : Business Combination**		
Para 18	The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.	*The acquirer shall account for and integrate into it books of account on announced books integration date (being acquisition date) the total assets and liabilities (except equity and all reserves) of acquiree at the value determined by applying same basis considered for determining restated value for its adjusted net worth for the purpose of swap ratio as per NRB Merger and Acquisition Bylaws, the value so determined is to be considered as fair value the acquiree.*	**FY 2076-077** **FY 2077-078** **FY 2078-079**
4	**NFRS 3 : Business Combination**		
Para 37	The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. (However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquiree's employees that is included in consideration transferred in the business combination shall be measured in accordance with paragraph 30 rather than at fair value.) Examples of potential forms of consideration include cash, other assets, a business or a subsidiary of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.	*Where purchase consideration is settled through issue of share (ordinary equity or other shares) of acquirer, fair value of such ordinary equity share to be issued by acquirer shall be the value determined by applying the various parameters as per the NRB Merger and acquisition Bylaws for the purpose of Swap Ratio.* *Accordingly, acquirer will issue required number of its ordinary equity shares (or other shares) to the shareholders of acquiree as per swap ratio so determined/approved by regulatory authority. Ordinary equity shares so issued are valued at the fair value (as determined for the purpose of swap ratio) where the face value shall be accounted for as cent percent paid up ordinary equity shares in the books of account of acquirer and the balance being difference between the fair value of share (considered for swap ratio) and face value of such ordinary equity shares shall be accounted for as other component of equity (share premium /discount).*	**FY 2076-077** **FY 2077-078** **FY 2078-079**
Para 34	Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in paragraph 32 (b) exceeds the aggregate of the amount specified in paragraph 32 (a). If that excess remains after applying the requirement in the paragraph 36, the acquirer shall recognize the resulting gain in profit or loss on the acquisition date. The gain shall be attributed to the acquirer.	*Where acquiree's total value of assets less all liabilities so taken over on acquisition date is more than the fair value (sum up of face value of ordinary equity share and other component of equity-share premium/discount) of shares issued by the acquirer, same shall be treated as gain on bargain purchase attributable to the acquirer and will be routed through Profit or Loss Statement.*	It's not a carve out in true sense but presented here just for clarity in application of related para of NFRS 3.

Para 32	The acquirer shall recognise goodwill as of the acquisition date measured as the excess of (a) over (b) below: (a) the aggregate of: (i) the consideration transferred measured in accordance with this NFRS, which generally requires acquisition-date fair value (see paragraph 37); (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this NFRS; and (iii) in a business combination achieved in stages (see paragraphs 41 and 42), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree. (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this NFRS.	*Where acquiree's total assets less all liabilities so taken over on acquisition date is less than the fair value (sum up of face value ordinary equity share issued and other component of equity-share premium/discount) of shares issued by the acquirer, same shall be treated as goodwill.*	It's not a carve out in true sense but presented here just for clarity in application of related para of NFRS 3.
5	**NFRS 3 : Business Combination**		
Para B63	Examples of other NFRSs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include: (a) NAS 38 prescribes the accounting for identifiable intangible assets acquired in a business combination. The acquirer measures goodwill at the amount recognised at the acquisition date less any accumulated impairment losses. NAS 36 Impairment of Assets prescribes the accounting for impairment losses.	*Goodwill is to be adjusted and netted off against the other component of equity (e.g. reserves), subject to adherence with applicable laws, instead of presenting the goodwill as an asset*	**FY 2076-077** **FY 2077-078** **FY 2078-079**

Non-optional

- *The above carve-out (3-5) is applicable for banks and financial institutions only and not optional.*