Accounting Standards Board, Nepal

Decision on Carve-outs in NFRS with Alternative Treatments

The 117th Meeting of the Accounting Standards Board, Nepal held on September 13, 2018 (Bhadra 28, 2075) resolved the following 7 Carve-outs in NFRS with the following Alternative Treatment and effective Period of Carve-outs. The carve-outs proceeding was initiated by Accounting Standards Board, Nepal following the request of the Commercial Banks of Nepal through Nepal Bankers Association which was endorsed by the meeting of NFRS Implementation Committee of Nepal Rastra Bank held on Bhadra 07, 2075 and was recommended to Accounting Standards Board, Nepal for its consideration and necessary action.

The following 7 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 10 : Consolidated Financial Statements** ***Preparation of consolidated financial statement using uniform accounting policies***			
Para 19		A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.	A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances *unless it is impracticable to do so.*	FY 2017-18 FY 2018-19 FY 2019-20
Option • *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.*				
2	**NAF 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:*	2017-18

		(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.*	
Option • *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 28 : Investments in Associates and Joint Ventures** ***Accounting for Investment in Associates as per equity method using uniform accounting policies***		
Para 35	The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.	The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances *unless, in case of an associate, it is impracticable to do so.*	FY 2017-18 FY 2018-19 FY 2019-20
Option • *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.*			
4	**NAS 34 : Interim Financial Reporting** ***Accounting for Investment in Associates as per equity method using uniform accounting policies***		
Para 2	If an entity's interim financial report is described as complying with NFRSs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard.	If an entity's interim financial report is described as complying with NFRSs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard. *However, an entity shall not required to restate its corresponding previous interim period balance if it is impracticable to restate.*	FY 2017-18 FY 2018-19

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<tr><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="4"><u>Option</u>

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<tr><td>5</td><td colspan="3">NAS 39 : Financial Instruments: Recognition and Measurement

Incurred Loss Model to measure the Impairment Loss on Loan and Advances</td></tr>
<tr><td>Para 58</td><td>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.</td><td>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.</td><td>FY 2017-18
FY 2018-19
FY 2019-20</td></tr>
<tr><td colspan="4"><u>Not Optional</u>

• 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.</td></tr>
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<tr><td>6</td><td colspan="3">NAS 39 : Financial Instruments: Recognition and Measurement
Impracticability to determine transaction cost of all previous years which is the part of effective interest rate</td></tr>
<tr><td>Para 9

Definitions relating to recognition and measurement</td><td>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).</td><td>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).</td><td>FY 2017-18
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7	**NAS 39 : Financial Instruments: Recognition and Measurement** ***Impracticability to determine interest income on amortized cost***		
Para AG93 *Interest income after impairment recognition*	Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.	Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. *Interest income shall be calculated by applying effective interest rate to the gross carrying amount of a financial asset unless the financial asset is written off either partially or fully.*	FY 2017-18 FY 2018-19 FY 2019-20

Option

- *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.*