Accounting Standard Board, Nepal

Decision on Carve-outs in NFRS with Alternative Treatments

The 172nd Meeting of the Accounting Standard Board, Nepal held on August 15, 2025 (2082 Shrawan 30) resolved the following Carve-outs in NFRS with the following Alternative Treatment and effective Period of Carve-outs.

NFRS Reference number	Existing Provision	Carve out: Alternative treatment	Proposed Carve-out/Deferral period
NFRS 9: Financial Instruments			
Appendix A Defined terms relating to Amortised Cost	Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.	Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. *<u>For the purpose of interest income recognition only, loss allowance shall be the allowance as per paragraph 5.5 without considering loan loss provision as per the prescribed regulatory norms of respective industry.</u>*	**Carve out till FY 2082.83**
Non-Optional: This carve-out is not optional.			

NFRS Reference number	Existing Provision	Carve out: Alternative treatment	Proposed Carve-out/Deferral period
Para 5.4 read together with appendix A (Defined Terms) relating to *Effective Interest Rate*	Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected 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 paragraphs B5.4.1–B5.4.3), 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 reliably estimate 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).	Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected 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 paragraphs B5.4.1–B5.4.3), transaction costs, and all other premiums or discounts, *unless it is impracticable to determine reliably between parties to the contract that are an integral part of the effective interest rate (see paragraphs B5.4.1-B5.4.3), transaction costs, and all over 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 reliably estimate 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).	**Carve out till FY 2082.83**

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NFRS Reference number	Existing Provision	Carve out: Alternative treatment	Proposed Carve-out/Deferral period
Appendix A (Defined Terms) relating to credit-adjusted effective interest rate	Credit adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected 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 paragraphs B5.4.1–B5.4.3), 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 reliably estimate the cash flows or the remaining 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).	Credit adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, an entity shall estimate the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected 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 paragraphs B5.4.1–B5.4.3), transaction costs, and all other premiums or discounts, *unless it is impracticable to determine reliably for financial assets recognized before end of fiscal year 2082.83 and/or the amount is immaterial.* 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 reliably estimate the cash flows or the remaining 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).	**Carve out till FY 2082.83**

Optional: The crave-out is optional. If an entity opts to use this carve-out, it should be disclosed in the financial statements, including its monetary impact, to the extent practicable.

NFRS Reference number	Existing Provision	Carve out: Alternative treatment	Proposed Carve-out/Deferral period
Para 5.4 Amortised cost measurement	**5.4 Amortised cost measurement** **Financial assets** **Effective interest method** 5.4.1 Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs B5.4.1–B5.4.7). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for: (a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.	**5.4 Amortised cost measurement** **Financial assets** **Effective interest method** 5.4.1 Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs B5.4.1–B5.4.7). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for: (a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. (b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods. *For bank or other financial institutions established /licensed by appropriate government bodies, interest revenue can be recognized as per the Guidance Note issued by respective regulators.*	**Carve out till FY 2082.83**
Non-Optional: This carve-out is not optional.			

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NFRS Reference number	Existing Provision	Carve out: Alternative treatment	Proposed Carve-out/Deferral period
Para 5.5 impairment read together with appendix A (Defined Terms) relating to loss allowance	Loss allowance is the allowance for expected credit losses on financial assets measured in accordance with paragraph 4.1.2, lease receivables and contract assets, the accumulated impairment amount for financial assets measured in accordance with paragraph 4.1.2A and the provision for expected credit losses on loan commitments and financial guarantee contracts.	Loss allowance is the allowance for expected credit losses on financial assets measured in accordance with paragraph 4.1.2, lease receivables and contract assets, the accumulated impairment amount for financial assets measured in accordance with paragraph 4.1.2A and the provision for expected credit losses on loan commitments and financial guarantee contracts *unless the entity is bank or other financial institutions established /licensed by appropriate government bodies. For such entities, loss allowance shall be higher of total amount derived as per the respective regulatory norms for loan loss provision or measured as per paragraph 5.5.*	**Carve out till FY 2082.83**
Non- Optional: This carve-out is not optional.			
Para 5.5 Impairment	**Recognition of expected credit losses** **General approach** **5.5.7** If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that paragraph 5.5.3 is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.	**Recognition of expected credit losses** **General approach** **5.5.7** If an entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that paragraph 5.5.3 is no longer met, the entity shall measure the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date, *unless the entity is bank or other financial institution established /licensed by appropriate government bodies. Such entity shall measure loss allowance in line with the Guidance Note issued by respective regulators*.	**Carve out till FY 2082.83**

NFRS Reference number	Existing Provision	Carve out: Alternative treatment	Proposed Carve-out/Deferral period
	Determining significant increases in credit risk **5.5.11** If reasonable and supportable forward-looking information is available without undue cost or effort, an entity cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, an entity may use past due information to determine whether there have been significant increases in credit risk since initial recognition. <u>Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An entity can rebut this presumption if the entity has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.</u> When an entity	**Determining significant increases in credit risk** **5.5.11** If reasonable and supportable forward-looking information is available without undue cost or effort, an entity cannot rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, an entity may use past due information to determine whether there have been significant increases in credit risk since initial recognition. Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An entity can rebut this presumption if the entity has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due. When an entity determines that there have been significant increases in credit risk before contractual payments	

NFRS Reference number	Existing Provision	Carve out: Alternative treatment	Proposed Carve-out/Deferral period
	determines that there have been significant increases in credit risk before contractual payments are more than 30 days past due, the rebuttable presumption does not apply.	are more than 30 days past due, the rebuttable presumption does not apply. *However, for bank or other financial institution established /licensed by appropriate government bodies, such presumption cannot be rebutted.*	
Non-Optional : This carve-out is not optional.			
Application guidance Definition of default	B5.5.36 Paragraph 5.5.9 requires that when determining whether the credit risk on a financial instrument has increased significantly, an entity shall consider the change in the risk of a default occurring since initial recognition. B5.5.37 When defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied	B5.5.36 Paragraph 5.5.9 requires that when determining whether the credit risk on a financial instrument has increased significantly, an entity shall consider the change in the risk of a default occurring since initial recognition. B5.5.37 When defining default for the purposes of determining the risk of a default occurring, an entity shall apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and consider qualitative indicators (for example, financial covenants) when appropriate. However, there is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. The definition of default used for these purposes shall be applied consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a	**Carve out till FY 2082.83**

NFRS Reference number	Existing Provision	Carve out: Alternative treatment	Proposed Carve-out/Deferral period
	consistently to all financial instruments unless information becomes available that demonstrates that another default definition is more appropriate for a particular financial instrument.	particular financial instrument. *However, such rebuttable presumption does not apply for bank or other financial institution established /licensed by appropriate government bodies.*	
Non-Optional: This carve-out is not optional.			

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Aug 18, 2025