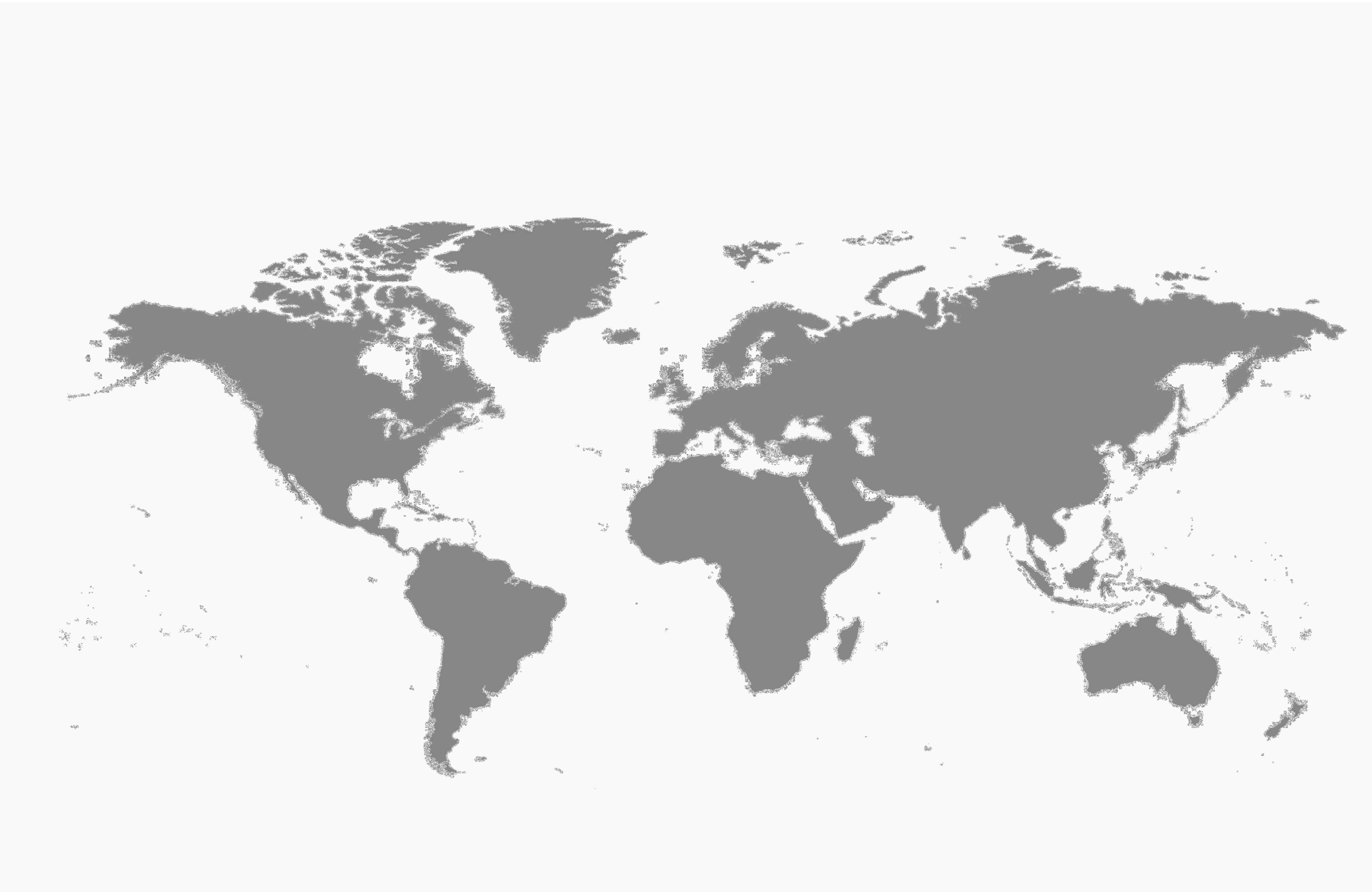
# NFRS in Banks of Nepal

## Gap Analysis for implementation



April 2015

# Contents

## Preface

This publication "IFRS in Banks of Nepal" is prepared by ICAN to highlight some of the key differences between NFRS and accounting practice in Nepal (as per NRB Directives, prevailing NAS and accounting most commonly found in practice) and also to encourage early implementation of NFRS by banks and financial institutions. If there are no or only less significant differences, such differences are ignored. The document also serves the purpose of informing on the technical and operational challenges and the practicalities and implications of implementing NFRS in banking sector. This includes information on how converting to NFRS has implications far beyond the entity's financial reporting function and future changes in NFRS in line with IFRS that has impact on implementation.

The publication is based on NFRS issued by Accounting Standard Board of Nepal 2014 version and Nepal Rastra Bank directives issued for 2014/15 issued with effect from Shrawan 1, 2071. With regard to IFRS authoritative pronouncements, provision as issued till 31st October 2014 are taken into account.

This document is not meant to be comprehensive to cover all areas that is affected by conversion to NFRS, but based on accounting practices followed by banks significant areas have been identified.

The significant areas are identified based on:

a. Significant changes in accounting policies that impact financial results of the bank such as impairment of intangible assets.
b. Issues that impact bank's internal management information system and process to implement NFRS, such as generation of information for calculating impairment of loan and advances.
c. Area that require significant changes in bank's system to evaluate and implement adjustment/disclosures required by NFRS, such as segment reporting.

# 1. Introduction to IFRS and NFRS

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) with the belief that a single set of IFRS is in the best interests of the global economy. IFRS provides a set of principles to be followed while accounting for transaction and events in financial statements. Today it is becoming the global standard for the preparation of public company financial statements and approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies. Approximately 90 countries have fully conformed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports[1].

The use of single set of high quality standard by companies all over the world improves comparability and transparency of financial information. The amount of cross-border investment are huge (see box) and the capital market participants and other stakeholders are expected to have better quality information for decision making purpose if the standards are rigorously and consistently applied.

**Amounts of cross-border investment are huge:**

| | |
|---|---|
| Global foreign direct investment 2013 | $1.5 trillion |
| US stocks & bonds held overseas 2012 | $14 trillion |
| Foreign stocks & bonds held by US investors 2013 | $8 trillion |

*Source: www.ifrs.org*

Countries develop their own mechanisms for bringing IFRS formally into national law. In Nepal, Accounting Standards are developed by the Accounting Standards Board (ASB). The ASB came into existence on 10 March 2003 as per the provisions of Nepal Chartered Accountants Act, 1997. Approval of NFRSs and related documents, such as the Conceptual Framework of Financial Reporting, exposure drafts, and other discussion documents, is the responsibility of the ASB.

ASB had earlier issued Nepal Accounting Standard (NAS) in line with IAS and with the gradual replacement of IAS by updated IFRS, the board has now issued NFRS on basis of recent international standards. Nepal Financial Reporting Standards (NFRSs) mean Standards and Interpretations adopted by the Accounting Standards Board (ASB). They comprise:

a. Nepal Financial Reporting Standards;
b. Nepal Accounting Standards;
c. IFRIC Interpretations issued by the International Accounting Standards Board (IASB); and
d. Application Guidance and SIC Interpretations issued by the IASB.

When IASB revises, amends, or withdraws International Accounting Standards, IFRSs, IFRIC or SIC, such revision, amendments and withdrawals shall accordingly be treated as effected with immediate revision, amendments and withdrawals in NFRS by ASB as well, to the extent not in conflict with existing National laws. So for ease, the number assigned to IFRSs and IASs by

[1] Source: http://www.ifrs.com/updates/aicpa/ifrs_faq.html#ftnt1

IASB has also been retained for NFRSs and NASs for better comparative understanding of users.

ASB is committed to narrowing differences if any by seeking to harmonize accounting standards and procedures relating to the preparation and presentation of the financial statements in line with IFRS[2]. NASs and NFRSs are developed with the objective of making the fewest possible modifications to IFRSs, but taking into consideration the legal and regulatory environment and the preparedness of stakeholders in Nepal. The ASB works with ICAN and stakeholders to promote and facilitate adoption of IFRSs through convergence of NFRSs and IFRSs.

The Council meeting of ICAN on 13 September 2013 decided to pronounce 27 NAS and 13 NFRS including IFRICs and SICs for implementation upon the recommendation from ASB. These standards are prepared in line with IAS, IFRS, IASB framework and all interpretations and are being phased in for implementation for different class of entities as below, starting from 2014-15, subject to implementation of NFRS-9, Financial Instrument only from 16 July, 2015 onwards.

NFRSs are designed to apply to the general purpose financial statements and other financial reporting of profit-oriented entities. NFRSs sets out recognition, measurement, presentation and disclosure requirements dealing with transactions and events that are important in general purpose financial statements. NFRSs are based on the Conceptual Framework[3] which addresses the concepts underlying the information presented in general purpose financial statements.

**Entities requiring adoption of NFRS**

The table below shows the organizations that require adoption of NFRS and the period for NFRS complied financial statements. Commercial Banks are required to publish NFRS complied Financial Statements for FY 2015/16 and financial institutions the period is 2016/17.

| Type | **Entities Requiring adoption of NFRS** | **NFRS Complied Financial Statements** |
|---|---|---|
| A | 1. Listed Multinational Manufacturing companies<br>2. Listed State Owned Enterprises (SOEs) with minimum paid up capital of Rs. 5 billions (except Banks and Financial Institutions under BAFIA Act, 2006) | 2014-15 |
| B | 1. Commercial Banks, including State Owned Commercial Banks;<br>2. All other Listed State Owned Enterprises (SOEs) | 2015-16 |
| C | 1. All other Financial Institutions not covered under A & B above | 2016-17 |

[2] Para 6 of Preface to NFRSs

[3] The ASB is currently in the process of updating its conceptual framework. This conceptual framework project is conducted in phases. As a chapter is finalized, the relevant paragraphs in the *Framework for the Preparation and Presentation of Financial Statements* that was published in 2003 (revised in 2008) will be replaced. The published Conceptual Framework includes two chapters updated by ASB.

| | | |
|---|---|---|
| | 2. All other SOEs<br>3. Insurance Companies<br>4. All other Listed Companies<br>5. All other Corporate Bodies/Entities not defined as SMEs or entities having borrowing with minimum of Rs. 500 million. | |
| D | 1. NFRS for SMEs (SMEs as defined and classified by ASB) | 2016-17 |

## 2. IFRS Implementation- Global Experience[4]

When we move to NFRS, we are not alone. Most issues that we face in Nepal have been considered in other countries that have already transitioned towards the adoption of IFRS.

The factors that initially contributed to the introduction of IFRS varies from countries to countries. For e.g. in Brazil, the reason that triggered the process of IFRS implementation was the Central Bank's intention is to bring financial reporting in line with international best practice to facilitate the comparability of financial reports and fostering investor confidence. In Germany, a number of large companies began to prepare their financial statements in accordance with IAS in order to be able to access financial markets outside Germany. Kenya wanted to raise national financial reporting requirements to international best practices in the aftermath of significant collapses in the country's financial services sector in the 1980s and 1990s.

Inconsistencies between prudential regulation and IFRS-based measurement requirements have been identified as a challenge in implementation. The fact that to what extent does IFRS based financial statement are accepted for prudential purpose by regulators such as Central Bank, Insurance Boards is a challenge and inconsistencies should either be eliminated or narrowed down for effective implementation of IFRS.

Practical implementation of IFRS requires adequate technical capacity among preparers, auditors, users and regulatory authorities. Shortage of accountants and auditors who are technically competent in implementing IFRS and limited availability of training materials and experts on IFRS at an affordable cost is an issue for most of the countries in process of implementing IFRS.

A significant technical implementation challenge is the Fair-value measurement requirements of IFRS. Preparers face difficulty in obtaining reliable measures of and data for, among others: discount rates in a volatile financial environment, cash flow trends, crop yields, loan yields, loan default rates and sector-wide benchmarks for determining fair value for some items. The technical difficulties discussed above pose challenges to auditors too, as they need to assess the reliability of fair value measurements contained in the financial statements[4]. The use of fair value accounting can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

The disclosure and reporting requirements under IFRS can be completely different from the national reporting requirements. The business reporting models or the Management Information System of companies might have to be amended to meet the reporting requirements of IFRS. The information systems of the companies should be designed to capture new requirements relating to segment disclosures, fair value assessment, related party transactions etc. This might require significant investment for the companies, and data transition issues.

The last section of this document "Moving Forward" looks at some issues that we need to consider as we plan to roll out NFRS in banking sector.

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[4] This section includes several observation made in report published by United Nations in 2008 entitled "Practical implementation of international financial reporting standards: Lessons learned."

# 3. Major Accounting Policy & Presentation requirement of NRB

The Nepal Rastra Bank Act empowers the NRB to regulate financial reporting of the financial sector, including banks and financial institutions. NRB Directives prescribes formats for financial statement of banks and other disclosure requirements. Banks are also required to comply with requirements of the Companies Act, provided they are consistent with the Bank and Financial Institution Act.

All banks and financial institutions are required to comply with NRB accounting and reporting guidelines, and national or international accounting standards in cases where such guidelines are not specified. The Company Act 2006 also makes Nepal Accounting Standards mandatory for all companies.

NRB prescribes accounting policies to be followed by banks and financial institutions and the format for financial statements. The prescribed accounting policies do not cover all aspects of financial statements, and for areas where there are no prescribed policies the banks are required to comply with Nepal Accounting Standards or International Accounting Standard. For e.g. employee benefits are to be accounted as per NAS-19 Employment Benefits in absence of specific NRB prescribed policy on employee benefits.

NAS has been in place on selected basis from over a decade; however the implementation has not been as expected. A proper implementation of NAS and NRB directives to follow international practice would have minimized the impact of transition to NFRS. But full implementation of NAS is yet to be achieved, resulting into some major adjustment in financial statements when moving to NFRS.

The table below summarizes the NRB requirement as per NRB directives and its comparison with NAS/ NFRS.

| Policy | NRB Requirement | Remarks |
|---|---|---|
| Depreciation Policy | As per Generally Accepted Accounting Principles | NAS complied with. |
| Income Tax Policy | Tax Provision calculated on basis of Income Tax Law. Deferred Tax disclosure needed. | NAS complied with. |
| Deferred Tax Policy | Deferred Tax to be created as per NAS-09. In case of Deferred Tax Asset, an equivalent Deferred Tax Reserve is created out of PL Appropriation Account and adjusted with future Deferred Tax Liabilities. | NAS complied with. |
| Investment Policy- | • Held For Trading-Marked to Market on Daily basis. Impact on Income Statement.<br>• Held to Maturity- Amortized Cost. Impairment to be | Difference Exists. Refer Para 3.2 and |

| | | |
|---|---|---|
| Categorization | provided in income statement.<br>• Available for Sale- Residual Classification. Marked to Market on regular basis with impact to investment adjustment reserve. | 3.3. |
| Investment Policy- Provision | • Investment Adjustment Reserve to be created for Held for Trading and Available for Sale category Investment that are not listed and do not have active market. One Year/Two Year/Three Years grace period applies in certain cases of share and debentures of corporate bodies.<br>• For listed securities if market price is lower than cost price, provision to be created for shortfall. | Difference Exists. Refer Para 3.2 and 3.3. |
| Forex Exchange Policy | • Trading Gain and Revaluation Gain to be separately accounted.<br>• 25% of Revaluation Gain to be transferred to Revaluation Reserve. | Transfer of revaluation gain is a statutory requirement. |
| Non-Banking Asset Policy | • NBA to be booked at lower of Market Price or total receivables. Shortfall of market price compared to total receivable to be charged to income statement.<br>• Interest Receivable cannot be booked as income unless NBA is not settled and should be transferred to NBA Provision.<br>• 100% provision to be created on NBA at the time of initial recognition of NBA. | Difference Exists. Refer Para 3.9. |
| Income Policy | • Interest Income on Loan and Advances to be recognized on cash basis.<br>• Other income to be recognized on accrual basis.<br>• Interest on moratorium period cannot be booked as income by capitalizing interest.<br>• Commission income to be pro-rated if service is for two years or more. | Difference Exists. Refer Para 3.7. |
| Proposed Dividend | Proposed Dividend is charged to PL Appropriation Account and is disclosed as liability in face of financial statement. | Difference Exists on treatment/presentation. Refer 3.9. |
| Proposed Bonus Shares | Proposed Bonus Shares is charged to PL Appropriation Account and disclosed under Share Capital. | Difference Exists on treatment/ presentation. Refer 3.9. |
| Loan Loss Provision | Categorized as pass, substandard, doubtful and bad loan on basis of overdue period of principle and interest. Additional criteria includes personal guarantee loans, security shortfalls, blacklisting of borrowers, rescheduled loans etc. In case of margin lending, 100% loan loss provision to be provided if loan is not good loan. | Difference Exists. Refer 3.3. |

Detail explanation of the above differences is covered in relevant sections of this document.

# 3.1 Consolidation of Financial Statements:

Banks often use Special Purpose Entities for specific functions. Several of the mutual funds in Nepal are subsidiaries of banks. Nepalese banks may also have substantial investment in micro finance and other entities and the legal structures of such investment may be simple or complex. Each investment made by banks should be reviewed in order to determine whether consolidation under NFRS is required. For e.g. banks in Nepal do not account for investment in associates using Equity interest method, but is simply shown as investment at cost, with provisions created for unlisted investments. But once move to NFRS is made it is essential that equity basis accounting is followed for such investment in associates.

As per NEB directives, investment in equity shares of body corporate, associates and subsidiary has been accounted as available for sale category by providing adequate provision. Same has to be accounted using equity valuation model in case of associates, consolidation in case of subsidiaries and as per IAS 39 in case of other investment. An associate is an entity over which an investor has significant influence, being the power to participate in the financial and operating policy decisions of the investee (but not control or joint control). A holding of 20% or more of the voting power (directly or through subsidiaries) will normally indicate significant influence.

The bank follows Central bank guidelines for accounting of investment. This involves classification of investment as held for trading, held to maturity and available for sale Investment.

a. **Investment in Associates**

| **Type of Financial Asset** | **NRB Requirement** | **NFRS Requirement- Held to Maturity** |
|---|---|---|
| Investment in Associates | • Investment booked at cost less market value whichever is lower. | • Initial measurement at cost and the carrying amount is increased or decreased to recognize share of profit or loss of the entity. |

b. **Investment in Subsidiaries**

| **Type of Financial Asset** | **NRB Requirement** | **NFRS Requirement- Held to Maturity** |
|---|---|---|
| Investment in Subsidiaries | • No any specific requirement. | • Consolidated Financial Statements |

**Example**

XBC Bank Ltd. has investment Rs. 50 million in BP Development Bank which accounts for 30% of total share capital of BP Development Bank. The shares of BP Development Bank are not listed. As per NRB directives, XBC creates an investment adjustment reserve for unlisted investment through Profit/Loss appropriation account. While preparing NFRS based financial statement, the Investment Adjustment reserve is not required and the investment in BP Development Bank qualifies as an associate as per IAS 28, thus requiring accounting of investment as per equity method under IAS 28 "Investment in associates". Under the equity method of accounting, an equity investment is initially recorded at cost and is subsequently adjusted to reflect the investor's share of the net profit or loss of the associate.

**Significant Influence Explained**

Significant influence is the power to participate in the financial and operating policy decisions but not control them. Apart from voting rights of 20% or more as explained above, there are several evidences that may lead to significant influence to account as an associate.

- representation on the board of directors or equivalent governing body of the investee
- participation in the policy-making process
- material transactions between the investor and the investee
- interchange of managerial personnel
- provision of essential technical information
- Potential voting rights are a factor to be considered in deciding whether significant influence exists.

The banks implementing NFRS should review whether any of the evidences above exists and if the definition of significant influence is met to account under equity method. If the investment structure is complex, it may require review of each individual transaction in order to determine whether consolidation under NFRS is appropriate. This will be a major departure from the accounting currently followed by Banks as per NRB directives.

## 3.2 Financial Assets- classification, measurement, recognition and de-recognition

This section is based on IAS-39 Financial Instruments: Recognition and Measurement, though ASB has issued NFRS-09 with effective for annual period beginning on or after 16 July 2015. Globally, IAS-39 will be largely replaced by IFRS 9 Financial Instruments only from 1 January 2018. As IFRS 09 has not been made mandatory before 2018 because of the wide ranging effect on credit impairment basis for loan and advances and the measurement and recognition differences, it is considered that implementation of NFRS-09 in Nepal before implementation of IFRS-09 might have to be reconsidered.

As per IAS 39, financial assets are classified into one of the following categories:

a. Loans and receivables
b. Held to maturity
c. Available-for-sale; and
d. At fair value through profit or loss, and within this category as:
- Held for trading; or
- Designated at fair value through profit or loss

Financial instruments are initially measured at fair value, which most often, though not always, is the transaction price. After initial recognition they are measured at fair value, amortised cost, or cost, depending on category of assets. Equity investments are generally accounted for at fair value. There is a limited exemption for unlisted equity investments when fair value cannot be reliably measured, which are accounted for at cost less impairment.

**NRB Guidelines**

NRB guidelines classify financial assets into held for trading, held to maturity and available for sale categories. Different guidelines apply for loan and advances which are separately considered. The accounting requirements are:

- **Held for trading** investments should be marked to market on a daily basis and differences reflected in the profit and loss account.
- **Held to maturity** investments should be valued at amortized cost i.e. the cost price less any impairment (if applicable). The impairments should be included in the profit and loss account for the period.
- **Available for sale** investments should be marked to market on a regular basis and the difference to be adjusted through reserves. For those investment actively quoted in market, periodic review on six monthly basis of Investment shall be performed and on review if market value of such share is less than the cost price, necessary provision for such investments shall be made. Those investments, included in held for trading or available for sale investment which are not listed and do not have active market, shall be accounted for in cost price.

**Impact of NFRS- Specific Examples**

The differences in NRB requirement and NAS requirement for major types of investment appearing in balance sheet of banks are explained below. The differences can have impact in initial recognition of assets, subsequent measurement and income recognition. For e.g. in case of held to maturity investments, if issue cost is involved, amortized cost (required by accounting standard) of the investment would be different from the face value (required by NRB). Similarly, coupon rate would be different from the effective interest rate of investment.

a. **Investment in government development bond**

| **Example of Financial Asset** | **NRB Requirement** | **NFRS Requirement- Held to Maturity** |
|---|---|---|
| Government Development Bond | • Investments are booked at face value.<br>• Premium paid on bond amortized on proportionate basis over the maturity period.<br>• Interest income booked under accrual basis using coupon interest rate. | • Investment shall be booked at amortized cost using effective interest rate method.<br>• Premium paid shall be included while computing amortized cost.<br>• Interest income booked under accrual basis using effective interest rate method. |

b. **Investment in Treasury Bills**

| **Example of Financial Asset** | **NRB Requirement** | **NFRS Requirement- Held to Maturity** |
|---|---|---|
| Treasury Bills | • Investments booked on discounted value i.e. equivalent to amortized cost.<br>Interest income booked on accrual basis proportionately over the period on daily basis. | • Investment shall be booked at amortized cost using effective interest rate method.<br>• Interest income booked under accrual basis using effective interest rate method. |

c. **Inter-Bank Lending**

| **Example of Financial Asset** | **NRB Requirement** | **NFRS Requirement- Held to Maturity** |
|---|---|---|
| Inter-Bank Lending | • Investments booked at amortized cost (cost less impairment). | • Investment shall be booked at amortized cost using effective interest rate |

| | | |
|---|---|---|
| | • Interest income booked on accrual basis on daily basis. | method.<br>• Interest income booked under accrual basis using effective interest rate method. |

d. **Investment in Unlisted Shares**

| Example of Financial Asset | NRB Requirement | NFRS Requirement- Available for shares |
|---|---|---|
| Investment in Equity Shares | • Investment booked at cost less market value whichever is lower. | • At fair Value. Since, Fair value can't be reliably estimated hence valued at Cost. Further, impairment testing shall be done. |

e. **Investment in Listed Shares**

| Example of Financial Asset | NRB Requirement | NFRS Requirement- Available for shares |
|---|---|---|
| Investment in Equity Shares | • Investment booked at cost less market value whichever is lower. | • At fair Value. |

## 3.3 Financial instruments – impairment

Loan and Advances and Deposits of commercial banks make up the majority of most banks' assets and liabilities respectively. In 2012 and 2013, the ratio of total loan and advance of all commercial banks to total assets was in between 58% to 60%. Similarly, total deposit of commercial banks represented 80% to 81.5% of total liabilities of the banks.[5]

The initial recognition of loan and advances in financial will not pose an issue due to stringent documentary requirements for credit sanctioned, including legally enforceable contracts with borrowers. However recognition of impairment of financial instruments will be a significant challenge in process of implementing NFRS because of the difference in NRB basis for loan loss provision and requirements of NFRS.

**NRB Guidelines for Loan Loss Provision**

The banks are required to provide loan loss provision in their financial statement as below:

a. All loans requires at least 1 % loan loss provision, including loans with installment and/or interest overdue up to 3 month
b. Loan is classified as substandard and 25% loan loss provision is required if the installment and/or interest on loan is overdue by more than 3 month and less than 6 months.
c. Loan is classified as doubtful and 50% loan loss provision is required if the installment and/or interest on loan is overdue by more than 6 month and up to 12 months.
d. Loan is classified as bad loans and 100% loan loss provision is required if the installment and/or interest on loan is overdue by more than 12 months.
e. 100% provision is provided in case of collateral shortfalls, loans provided to borrowers blacklisted by NRB and forced loan.

The NRB basis outlined above is applied in case of each individual loan separately resulting into different loans of a same borrower falling into different categories. The only exception is the loan provided to borrowers who are blacklisted where all loans are classified as bad loan with 100% provisioning.

**Impairment of Loan and Advances as per NFRS**

The formulaic approach based on the age of the non-performing loan given by NRB is not consistent with the requirement of NFRS. The impairment of financial assets as per IAS 39 Financial Instruments[6] is currently measured on an "incurred loss" basis. This typically requires an assessment of the total loan book on both a collective and specific basis.

The incurred loss model means that no impairment allowance can be established at initial recognition of a financial asset. Impairment is recognized if objective evidence indicates that an asset is impaired due to events occurring after initial recognition.

[5] Source- NRB Statistics.
[6] IFRS 9 that replaces IAS 39 is effective from 1 January 2018.

**Impairment Basis**

At each reporting date, the bank should assess whether there is objective evidence that the loan and advances are impaired. The loan is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably. Objective evidence that financial assets are impaired includes:

- Default or delinquency by borrower
- Significant financial difficulty of the borrower
- Indications that a borrower or issuer will enter bankruptcy
- The need of restructuring of a loan or advance
- The disappearance of a an active market of the security
- Observable data relating to the group of assets such as adverse changes in the payment status of borrowers or economic conditions that correlate with defaults in the group

**Specific and Collective Assessment**

The evidence of impairment for loans and advances should be considered at both a specific asset and a collective level. All individual significant loans and advances are assessed for specific impairment. The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include:

- the size of the loan;
- the number of loans in the portfolio; and
- the importance of the individual loan relationship, and how this is managed.

Loans that meet the above criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been occurred but not yet identified. The collective impairment test is done by grouping together loans and advances with similar risk characteristics. In assessing collective impairment, the bank should use statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. Adjustment should be made if the current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against outcomes to ensure that they remain appropriate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. If an event occurring after the impairment was recognized causes the amount of impairment loss to decease, then the decrease in impairment loss is reversed through profit or loss. Interest on the impaired assets continues to be recognized through the unwinding of the discount. Loans are written off, either partially or in full, and any related allowance for impairment losses when the bank determines that there is no realistic prospect of recovery.

**Differences between NRB Provision requirements and NFRS requirement**

The basis of the impairment assessment given by NFRS is a system that considers all the facts and circumstances, but the existing NRB guidelines require a limited use of judgement and are mechanistic nature with prescribed loan loss provision rates.

The fundamental difference between NRB provision requirements and NFRS requirement is summarized below:

a. LLP guideline of NRB is applied to individual credits. It ignores the fact that if a borrower has defaulted in a loan due to financial difficulty of borrower or any other reason, it is highly likely that the other loans too will be default.
b. Under the NRB requirements, the banks does not take into account any collateral that might be realized in the future in the event of a default. Even if a loan is categorized as bad loan with 100% provision, a portion of it is recoverable from the collateral.
c. 1% provision is created on the loan and advances once loans are recognized in financial statement. But in NFRS, impairment cannot be recognized unless any past events indicate the likelihood of loan impairment.

## Collective Assessment of Loan and Advances – Case of HSBC Holdings Plc
### *(Extract from Annual Reports and Accounts 2013)*

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

**Incurred but not yet identified impairment**

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This reflects impairment losses that HSBC has incurred as a result of events occurring before the balance sheet date, which HSBC is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.
The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by local management for each identified portfolio. The factors that may influence this estimation include economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis the estimated period between a loss occurring and its identification may vary over time as these factors change.

**Homogeneous groups of loans and advances**

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group. The methods that are used to calculate allowances on a collective basis are as follows:

- When appropriate empirical information is available, HSBC utilises roll-rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which HSBC is not able to identify on an individual loan basis, and that can be reliably estimated. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. In addition to the delinquency groupings, loans are segmented according to their credit characteristics as described above. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring and its discovery, for example through a missed payment, (known as the emergence period) and the period of time between discovery and write-off (known as the outcome period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio. In certain highly developed markets, sophisticated models also take into account behavioural and account management trends as revealed in, for example, bankruptcy and rescheduling statistics.
- When the portfolio size is small or when information is insufficient or not reliable enough to adopt a rollrate methodology, HSBC adopts a basic formulaic approach based on historical loss rate experience, or a discounted cash flow model. Where a basic formulaic approach is undertaken, the period between a loss occurring and its identification is explicitly estimated by local management, and is typically between six and twelve months.

The inherent loss within each portfolio is assessed on the basis of statistical models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical models, they are taken into account by adjusting the impairment allowances derived from the statistical models to reflect these changes as at the balance sheet date.

These additional portfolio risk factors may include recent loan portfolio growth and product mix, unemployment rates, bankruptcy trends, geographic concentrations, loan product features (such as the ability of borrowers to repay adjustable-rate loans where reset interest rates give rise to increases in interest charges), economic conditions such as national and local trends in housing markets and interest rates, portfolio seasoning, account management policies and practices, current levels of write-offs, changes in laws and regulations and other factors which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances by adjusting the impairment allowances derived solely from historical loss experience. Roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

(Source- http://online.wsj.com/public/resources/documents/annual-reports-accounts-2013.pdf )

## 3.4 Employment Benefits

Employment Benefits provided by Banks in Nepal normally include provident funds, encashment of accumulated home leave and sick leave, gratuity facilities and other facilities such as medical benefit. Normally, pension plans for employees is non-existent.

As a normal practice, gratuity rules are prepared on basis of Labor Law. Gratuity provisions are recognized in income statement when employee's right to receive is established as per Labor Law. For e.g. employees who have completed 3 years of service are entitled to receive gratuity at the time of retirement. The rates are progressive beginning from half a month salary, which gradually increases after completion of prescribed service years.

Though NAS 14 on Employment Benefits is already implemented, non-compliance is observed in case of accounting for gratuities and other short term employee benefits relating to accumulated leave. Once banks are required to fully comply with NFRS, the accounting policies and practices followed for by banks need to be revised to meet the requirement of NAS 14, this in turn may affect profitability of the banks.

**Accounting as per NFRS**

As per NAS 14 on “Employee benefits”, an entity shall recognize the expected cost of short-term employee benefits expected to be paid in exchange for that service in the form of paid absences at undiscounted amount, when the employees render service that increases their entitlement to future paid absences and are measured at expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

This requires provision for facilities such as Sick leave, Home leave etc. should be computed on the basis of expected cost that the employers are expected to pay for the un-availed leave on the reporting period. Further, the expenses for sick leave and paid leave are recognized in the period that increases their entitlement to future paid advances. Hence, at the end of each reporting period, expected undiscounted cost for un-availed leave should be computed and changes in the expected cost from previous reporting period shall be charged as current period cost.

> NAS 19 requires mandatory actuary valuation of its Defined Benefit Plan such as Gratuity at each year end.

Gratuities facilities benefits fall under "Defined Benefit Plan" as per NAS 19 on “Employee Benefit.” Currently, if the policy of a bank requires 1 month salary per year as gratuity for service period of 10 years or more, gratuity provision is not made if on cut-off date (balance sheet date or any other cut-off date used consistently by the company) the employee does not reach 10 years. As per NAS 19, Defined Benefit Plans are measured by discounting the obligations that may be settled after several years of rendering the service by the employee. This requires making a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods estimating the current expenses using actuarial assumption. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit.

## 3.5 The emphasis on disclosures

The actual purpose of the conversion to IFRS, is to make financial results more transparent and comparable for financial statement users and stakeholders. So disclosure is one of the most important things during preparation of NFRS based financial statement.

While IFRS will not change the economics of the business, it may present an organization's financial story in a new way, perhaps revealing fresh insights about business results[7].

The disclosure and reporting requirement as per NFRS are very comprehensive compared to local NRB requirements and accounting standards implemented so far. Banks would need to make necessary changes in their management information system or business reporting model to suit the reporting requirement of NFRS. This might include additional reporting requirements on segment reporting, related party transactions etc.

Few major disclosure aspects are summarized below:

**a. Risk Reviews**

NFRS 7.31 provides that "an entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period". These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

For each type of risk arising from the financial instruments, qualitative disclosures are required in the context of quantitative disclosures that explains the exposures to risk and how they arise and the entity's objectives, policies, and processes for managing the risk and the methods to measure the risk. Any changes as compared to previous period should be explained.

**b. Operating Segments**

The strategic divisions of the banks that offer different products and services can be reportable segments. For example, corporate banking, retail banking, treasury functions, investment banking etc.

NFRS 8.23 requires the entity to report a measure of profit or loss for each reportable segment. IT also requires a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided for internal reporting purpose. The disclosure requirements includes:

- Revenues from external customers
- Revenues from transactions with other operating segments of the same bank and how such pricing is determined

[7] Industry Insight September 2010 issue published by Institute of Chartered Accountants of British Columbia

- Interest revenue
- Interest Expense
- Depreciation and amortization and other non-cash item
- Other material items
- Income tax expenses or income

c. Related Party Disclosures
The disclosure requirement on related party transaction requires disclosure of transaction with Key Management Personnel, both compensation and transactions and disclosure of transactions with all associated parties.

Other disclosure points includes:

d. Valuation Models and techniques used for deriving Fair Values
e. Use of judgement and estimates
f. Retirement Plans and movement in plan assets and liabilities
g. Earning per share, including basic and diluted earnings per share
h. Leases- Operating and Financial
i. Intangible Assets and Goodwill and the basis of impairment

The disclosure requirement is further elaborated in Annex 1 of this document.

# 3.6 First Time Adoption of NFRS

First time adoption of NFRS will be an issue for the banks and financial institutions if the implementation is not properly planned for.

Accounting Standard Board of Nepal has published a detailed guide for first time adoption of NFRS that detail out the procedures and principles that needs to be followed on 1st time adoption of NFRS. NFRS 1, *First-Time Adoption of International Financial Reporting Standards* is created to help companies transition to NFRS and provides practical accommodations intended to make first-time adoption cost-effective. It also provides application guidance for addressing difficult conversion topics.

**Activity Schedule for NFRS Compliance by Commercial Banks**

NFRS-1 requires that if NFRS is to be implemented in annual financial statements for the year ended mid July 2016, this requires preparation of financial statement by applying NFRS for financial statement of mid July 2016, mid July 2015 and the opening balance sheet for 16 July 2014. The NFRS adoption period for banks is FY 2015/16. So, this requires preparation of NFRS based financial statements/disclosures as below:

- Date of Transition- 16 July 2014- Requires restatement of opening balance sheet as per NFRS
- Comparative Period 16 July 2014-15 July 2015 (2014/15)- Preparation of comparatives as per NFRS
- NFRS adoption period 16 July 2015-15 July 2016 (2015/16)- Fully compliance with NFRS

NFRS 1 requires that the opening NFRS statement of financial position:

- Include all of the assets and liabilities that NFRS requires
- Exclude any assets and liabilities that NFRS does not permit
- Classify all assets, liabilities, and equity in accordance with NFRS
- Measure all items in accordance with NFRS
- Be prepared and presented within an entity's first NFRS financial statements

As it appears from above, NFRS requires retrospective application. An early understanding of the numerous mandatory and optional exemptions from the retrospective application of NFRS is paramount for a successful and cost-effective implementation of NFRS.

**What does NFRS 1 require?**

The key principle of NFRS 1 is full retrospective application of all NFRS standards that are effective at the end of reporting period of the first IFRS financial statements. IFRS 1 requires companies to:

- Identify the first NFRS financial statements
- Prepare an opening statement of financial position at the date of transition to NFRS
- Select accounting policies that comply with NFRS effective at the end of the first NFRS reporting period and apply those policies retrospectively to all periods presented in the first NFRS financial statements
- Consider whether to apply any of the optional exemptions from retrospective application

- Apply the mandatory exceptions from retrospective application
- Make extensive disclosures to explain the transition to NFRS

**Matters to consider**

Banks will need to make changes to existing accounting policies to comply with NFRS, including in key areas such as revenue recognition, financial instruments, employee benefit plans, impairment testing, provisions etc. Selecting accounting policies at the time of preparing the opening balance sheet under NFRS not only affects the first NFRS financial statements but also the financial statements for subsequent periods, including reported profits.

A number of NFRS standards allow companies to choose between alternative policies. Banks should select carefully the accounting policies to be applied to the opening statement of financial position and have a full understanding of the implications to current and future periods

Preparation of the opening NFRS statement of financial position may require the calculation or collection of information that was not previously required under NRB directives and NAS. While selecting accounting policies, banks will also have to consider the data available in MIS to be collected to comply with NFRS informational and disclosure requirements.

## 3.7 Revenue Recognition

NRB Directives requires banks to book their income on accrual basis, except for interest receivables on loan and advances which are accounted for on cash basis. Interest income from loan and advances are transferred to suspense account until the amounts is realized.

Commission incomes are required to be pro-rated if service is for two years or more. Interest income on investment is booked on accrual basis. Interest on moratorium period cannot be booked as income by capitalizing interest.

The principles of NAS-07 Revenue Recognition are the guidelines for the bank to recognize revenue in its books, except for interest income on loan and advances that requires cash basis of accounting as explained above.

**Interest Income and Loan Service Fees**

Apart from Interest payable on loans, banks also charge documentation fees and loan service charge to customer. Banks book documentation fees and service charge as income on cash basis, when loans are initially sanctioned.

NFRS requires that incomes on loans are accounted for on an effective interest-rate basis. This spreads the interest and any associated fees over the life of the loan. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. The calculation of the effective interest rate includes transactions costs and fees that are integral part of the effective interest rate. This requires the banks to consider all contractual terms of the financial instrument.

NFRS do not have specific requirements for ceasing accrual of interest on financial assets. But 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.

Predominant practice for financial institutions in the US is to follow non-accrual guidance included in regulatory reporting instructions for GAAP financial reporting purposes. The principle in the regulatory reporting guidance is that banks shall not accrue interest, amortize deferred net loan fees or costs, or accrete discount on assets for which full payment of principal or interest is not expected, or assets for which principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection or assets maintained on cash basis because of deterioration in the financial condition of the borrower[8]. This is one of the difference that exist between US GAAP and IFRS.

**Fees and Commission Income**

[8] IASB/FASB Meeting Paper on Non-accrual principle- http://www.ifrs.org/Meetings/Documents/FI0411b04Cobs.pdf

As mentioned above, fees and commission expense relating to sanctioning of loans such as service fees, documentation fees etc. are integral to the effective interest rate and are included in the measurement of the effective interest rate.

Other fees and commission income are recognized when the related services are performed. If a loan commitment is not expected to result in drawdown of a loan, then the related loan commitment fees are normally recognized on a straight-line basis over the commitment period.

## 3.8 Impairment Test of Intangible Assets

NAS 36 Impairment of Assets specifies the approach for assessing the impairment of assets including fixed assets, goodwill and other intangibles. NAS 36 Impairment of Assets seeks to ensure that an entity's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use). At the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired, then the asset's recoverable amount must be calculated.

Though NAS 38 and NAS 36 has been implemented from some years now, the actual implementation is seen quite limited. Intangible assets with finite lives are amortized, but practice in Nepal shows that assets are amortized over the life of the asset on straight line basis. NAS 38 provides that the amortization method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed. Only if this pattern cannot be determined reliably, the straight line method is used. If there is change in pattern of future economic benefits expected to flow to the entity, the amortization period should be changed to reflect the changed pattern.

**Accounting of Goodwill**

NRB has been encouraging mergers between banks and financial institutions to minimize cost and optimize efficiency of the banking system. Mergers have also become compulsory for institutions suffering from low capital base and limited geographical coverage. As a result, mergers have gained momentum in past few years.

While valuation of assets and liabilities at the time of merger is mandatory,[9] the treatment of goodwill in the books of the acquirer is not found in accordance with accounting standards. Banks are found to have either amortize goodwill in the books over a specific period and in some case have fully written off as impaired. But even in cases of impairment, the method of impairment test is not in accordance with NAS and not explained in the Notes to accounts.

As per NFRS, goodwill cannot be amortized. This is especially because periods and patterns in which economic benefit from goodwill is consumed are hardly estimated.

With implementation of NFRS, impairment test of goodwill will be an area for which banks need amend their policy and develop MIS for gathering information for impairment test each year.

Goodwill cannot be amortized, but should be tested for impairment on annual basis. The normal method is to allocate goodwill to cash generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the combination. A *cash-generating unit* is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

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[9] Merger Bye-laws 2068 of Nepal Rastra Bank

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. "Value in use" is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. The corporate assets that do not generate separate cash inflows and are used by one or more CGU are allocated to CGU on reasonable and consistent basis and tested for impairment as part of the testing of the CGUS to which the corporate assets are allocated.

Value in use requires many complex valuation assumptions, including:

- Forecasting methods
- Risk Adjustments
- Estimates around timing
- Future disposal proceeds
- CGU growth rates
- CGU discount rates
- Expected Synergies
- Discounted Cash flow modeling
- Terminal Valuation

Goodwill impairment testing is a complex area of financial reporting that requires careful judgement. In sector-based surveys, the impairment testing of goodwill is regularly cited as a critical judgement and a key area of estimation uncertainty in preparing financial statements[10].

[10] Who cares about Goodwill impairment? A collection of stakeholder views- Published by KPMG IFRG Limited, UK, April 2014

## 3.9 Impact on other items of Financial Statements

Apart from issues specifically covered in sections above, there are few additional accounting issues that will impact treatment and presentation and disclosure in financial statement while moving to NFRS.

**a. Non Banking Assets**

| Accounts Item | Current Practice | IAS 32/IAS 39 |
|---|---|---|
| Non Banking Assets | At lower of receivable amount due from borrower or prevailing market price of assets. 100% provision is created on Non Banking Assets. | At lower of carrying amount and fair value less cost to sell. (IFRS 5) |

NRB Directives requires 100% provision on non-banking assets when it is initially booked. Though the provision was initially introduce to prevent banks from recognizing profit by transferring loans to non-banking assets in year end, the requirement of 100% provision is not justifiable because non-banking assets are collaterals such as land and building, shares etc. which has realizable value.

**b. Share Issue Cost**

Banks have the practice of charging share issue cost to income statement as an expenditure. But as per the requirement of IAS 32, the share issue cost should be deducted from the paid up share capital.

IAS 32.32 requires, “An entity shall, in general, different types of costs in issuing or acquiring its own equity instruments. Such costs may include, inter alia, registration and other fees charged by regulators or supervisors, the amounts paid to legal counsel, accountants and other professional advisers, printing costs and related rings. Transaction costs of equity is counted as a deduction from the amount thereof (net of any related tax incentive) to the extent they are incremental costs directly attributable to the equity transaction which would have been avoided by not having been put it out. The costs of an equity transaction, which has been abandoned or has been abandoned, are recognized as expenses.”

As per the definitions of IAS 39, “Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.”
The share issue cost is therefore a transaction cost of equity which should be deducted from the amount of paid up share capital.

### c. Proposed Dividend and Proposed Bonus Shares

| Accounts Item | Current Practice | IAS 32/IAS 39 |
|---|---|---|
| Proposed Treatment | Proposed dividend is charged to profit and loss appropriation account and presented as Proposed Dividend under Capital and Liabilities in the face of the Balance Sheet. | Dividend payable is recognized only after it has been declared. |

Disclosure of Dividend is covered by IAS 10 Event after Reporting period. As per Para 12 of the IAS 10, If an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognize those dividends as a liability at the end of the reporting period.

NRB directives also requires bonus shares proposed by Board of Directors to be charged to profit and loss appropriation account and disclosed under Share Capital. The treatment and presentation is not as per under IAS 10 Event after Reporting period.

### d. Debentures & Bonds

| Accounts Item | Current Practice | IAS 32/IAS 39 |
|---|---|---|
| Debenture and Bonds | Accounted in face value, issue cost is written off over period of debenture and interest calculated charged to income statement calculating on face value. | The debenture should be accounted at amortized cost. Effective interest rate method is used. |

The accounting treatment for debenture is provided by IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement. As per IAS 39 a financial liability is any liability that is a contractual obligation: to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or a contract that will or may be settled in the entity's own equity instruments.

The debenture issued by the banks of Nepal meets the criteria of financial liability and should be accounted as per IAS 39. Interest Expenses for the same shall be recognized using effective interest rate method.

### e. Borrowings

| Accounts Item | Current Practice | IAS 32/IAS 39 |
|---|---|---|
| Borrowings | Accounted at principal value and the interest expenses is accounted under the accrual | Borrowing shall be considered as financial liability and shall be valued at amortized cost. |

| | | |
|---|---|---|
| | basis of accounting. | |

Being financial liability, Borrowing shall be recognized and measured as per the requirement of IAS 39 which requires financial liability to be recognized at amortized cost and interest expenses for the same shall be measured using effective interest rate method.

When no other cost is involved other than interest expenses, principal value at which borrowing is presented will be the amortized cost as per IAS 39 and interest rate applied will be the effective interest rate as per IAS 39.

**f. Employee Bonus and Management Remuneration**

Though the bonus provided to employees and the method of distribution is given by Bonus Act 2030 that takes taxable profit[11] as basis for bonus calculation, the banks and financial institutions calculate the employee bonus as a prescribed percentage of accounting profit. Similarly, banks often base the performance based remuneration to their CEO and key employees based on profit of the bank. Accounting profit of the bank would likely be very different after full implementation of NFRS, thus affecting employee's bonus and higher management remuneration.

So, a wider discussion among regulators on determining basis for bonus amount should be conducted. Discussion with management may require fresh negotiation of contracts with the vendor.

# 4. System Improvement

Moving into full compliance with NFRS would mean that banks need to make increased effort to capture, analyse and report new data to comply with NFRS requirements. As we saw in previous sections, areas such as use of incurred loss model for credit impairment, impairment testing etc. need additional information and analysis. It will be essential for the management to automate most of the day-to-day operations, including data management and analysis for the conversion to NFRS.

From the initiation of transactions through to the generation of financial reports, there are many ways information systems may be affected. Due to reclassifications and additional reporting criteria, there will be new data requirements, different way of calculating and analyzing information and changes in chart of accounts. The IT team and finance team of the banks should work together as the accounting differences that exist in NRB directives/current practices might result in system changes of the bank. Developing a new chart of accounts that captures

[11] After Income Tax 2031 was replaced by Income Tax 2058, there was no required amendment in Bonus Act 2030. The Bonus Act still refers to repealed Income Tax Act 2058 and as a result most of the companies (including NRB directives) ignore the provision of Bonus Act 2030 while calculating bonus for employees.

all required information and takes into consideration the financial statement format as required by NFRS can be challenging.

The banks should develop a data input system that enables the impairment assessment. This will also require deciding on the source of information, templates and forms for information gathering and persons involved in impairment assessment.

The credit risk management function of the bank should be further strengthened by aligning with the information gathering and impairment assessment process and using the information for BASEL reportings and internal MIS.

Certain information need for impairment assessment such as computation of discounted future cash flows may require changes in the system of the bank.

# 5. Moving Forward

Understanding the difference between current NRB directives and accounting practices and the requirements for full compliance with NFRS is an important first step towards preparing for implementation of NFRS. A full compliance is not an easy task and cannot be achieved simply by adopting a checklist approach to presentation and disclosure. This publication is only meant to serve as a start point of this journey to understand NFRS requirements and where we differ.

**Standard format for Financial Statement**

NFRS do not prescribe a standard form for presentation of financial statement and leaves it to the judgement by the management to decide on what is the best presentation to communicate entity's performance and development to the public. However, considering the IFRS compliant Financial Statements across the globe and considering the existing NFRS and NRB Directives, there will be minimal change in line items of Income Statement and we will be having more changes in Balance Sheet presentation. The tentative structure of Balance Sheet and its comparison with existing structure has been given below:

| Balance Sheet- as per NRB Directive 4 |
|---|
| **Capital & Liabilities** |
| 1. Share Capital |
| 2. Reserves & Surplus |
| 3. Debentures & Bonds |
| 4. Borrowings |
| 5. Deposits |
| 6. Bills Payable |
| 7. Proposed Dividend |
| 8. Income Tax Liabilities |
| 9. Other Liabilities |
| |
| **Total** |
| **Assets** |
| 1. Cash Balance |
| 2. Balance with Nepal Rastra Bank |
| 3. Balance with Banks/Financial Institutions |
| 4. Money at Call and Short Notice |
| 5. Investment |
| 6. Loans, Advances and Bills Purchased |
| 7. Fixed Assets |
| 8. Non Banking Assets |
| 9. Other Assets |
| |

| Balance Sheet- as per NFRS | |
|---|---|
| **Liabilities** | |
| 1 | Resources of central banks |
| 2 | Resources of other financial institutions |
| 3 | Clients' resources and other loans |
| 4 | Debt securities and other borrow ings |
| 5 | Provisions |
| 6 | Other Liabilities |
| **Total Liabilities** | |
| **Shareholders' Equity** | |
| 1 | Share Capital |
| 2 | Retained Earnings (Acumulated Profit/Loss) |
| 3 | General/Statutory Reserve Fund |
| 4 | Share Premium |
| 5 | Other Reserves |
| 6 | Net profit for the period |
| **Total Equity** | |
| **Assets** | |
| 1 | Cash and deposits at central banks |
| 2 | Deposits in financial institutions repayable on demand |
| 3 | Financial assets held for trading |
| 4 | Financial assets available for sale |
| 5 | Loans and advances to other financial institutions |
| 6 | Loans and advances to clients |
| 7 | Financial assets held to maturity |
| 8 | Other tangible assets |
| 9 | Intangible assets |
| 10 | Deferred tax assets |
| 11 | Other assets |
| **Total Assets** | |

However, there could be questions such as:

- What information should be presented in the balance sheet itself and what in notes?
- Is presentation of assets and liabilities based on liquidity more reliable and more relevant or whether current or non-current classification should be followed?
- Should cash flow be presented using direct or indirect method?
- Should information on risk management system be prepared as part of notes to accounts or considered as additional reporting requirement?
- Whether a separate financial statement should be prepared for the parent company or just a consolidated financial statement would suffice?

The tentative structure of Income Statement and its comparison with existing structure has been given below:

**Income Statement as per NRB Directives 4**

| | |
|---|---|
| 1 | Interest Income |
| 2 | Less Interest Expenses |
| 3 | Net Interest Income |
| 4 | Commission and Discount |
| 5 | Other Operating Income |
| 6 | Exchange Fluctuation Gain |
| 7 | Total Operating Income |
| 8 | Employee Expenses |
| 9 | Other Operating Expense |
| 10 | Exchange Fluctuation Loss |
| 11 | Operating Profit before Loss Provision |
| 12 | Provision for Possible Losses |
| 13 | Operating Profit before Loss Provision |
| 14 | Non Operating Income/Expenses |
| 15 | Provision for Possible Losses Written Back |
| 16 | Profit from Regular Activities |
| 17 | Income/Expenses from Extraordinary Activities |
| 18 | Net Profit after including all activities |
| 19 | Provisions for Staff Bonus |
| 20 | Provision for Income Tax (a+b+c) |
| 21 | This year provision |
| 22 | Provision upto last year |
| 23 | Deferred Tax Income/(Expenses) |
| 24 | Net Profit/(Loss) |

**Income Statement as per IFRS**

| | |
|---|---|
| 1 | Interest Income |
| 2 | Interest Expense |
| 3 | Net Interest Income |
| 4 | Fee and Commission Income |
| 5 | Fee and Commission Expense |
| 6 | Net Fee and Commission Income |
| 7 | Net Trading Income |
| 8 | Net Income from other financial instrument through profit or loss |
| 9 | Other Revenue |
| 10 | Revenue |
| 11 | Other Income |
| 12 | Net Impairment loss on financial assets |
| 13 | Personnel Expenses |
| 14 | Operating Lease expenses |
| 15 | Depreciation and amortisation |
| 16 | Other Expenses |
| 17 | Profit before tax |
| 18 | Income tax expense |
| 19 | Profit for the year |

| | |
|---|---|
| **20** | **Other Comprehensive Income** |
| 21 | *Items that may be reclassified subsequently to profit or loss:* |
| 22 | Investments available for sale: |
| 23 | Fair value gains less losses |
| 24 | Reclassification adjustments for losses/(gains) included in profit or loss |
| 25 | Effect of translation of the financial statements of foreign operations |
| 26 | Net Change in hedge of net investment in foreign operations |
| 27 | Income tax on items that may be reclassified to profit or loss |
| 28 | *Items that will not be reclassified to profit or loss:* |
| 29 | Revaluation of premises |
| 30 | Income tax on items that will not be reclassified to profit or loss |
| 31 | Other comprehensive gain/loss for the year |
| 32 | Total comprehensive gain/loss for the year |

Format of financial statements as per Directives No. 4 (of Unified Directives 2071) issued by Nepal Rastra Bank is a statutory form for mandatory compliance, thus leaving no area for judgement on format and contents. This eases comparison and ensures consistency. So, a key step for NFRS implementation would be to develop a financial statement format for bank and financial institutions that not just comply with NFRS requirement but also meets the prudential reporting requirements of NRB. The format need to be carefully developed to appropriately reflect the activities of bank. With a standard format for banks, variations on presentation and disclosure across different banks can be avoided.

**Use of Judgement**

There are significant judgement require in preparation of financial statements. For e.g. impairment of individual financial assets involves management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management should make judgement about the financial situation of the debtor and the net realizable value of the underlying collateral, if any.

IFRS requires increased use of judgement and use of assumptions. The regulatory review done by NRB should acknowledge the inherent judgements in the application of IFRS and its impact.

While assessing collective loan impairment of particular type of loans, management should apply judgement whether the analysis of historical data and the result there on should be adjusted to better reflect the economic conditions of the loan portfolio. A benchmarking should be there so that the historical loss rates are regularly compared with the actual loss experience.

Banking systems today use accounting software that uses limited judgement, especially due to the fact that loan loss provision are at prescribed rate. It could be a significant challenge to incorporate the revised accounting models into the financial reporting system.

**1st time adoption of NFRS**

Current information system of the banks may not be able to generate information for retrospective application of NFRS as required by NFRS 1. Some banks, such as government owned banks, may not be able to generate historical data for calculating impairment loss as required under incurred loss model.

**Use of Fair Value**

Fair value concept has limited use in the current accounting system of the bank. But under NFRS, there may be significant increase in the use of fair value measurement. For example, all financial assets and liabilities will need to be initially measured at fair value. It will be the responsibility of the bank to prove that the values taken are fair value. The bank should develop fair valuation methodology and practice or re-examine the current practice to ensure they are up to date. Fair value estimation requires judgement and staffs should be trained for that.

**Volatile Income Statement and Capital ratio**

IAS 39 on Financial Instruments is one of the most complex accounting standard in itself, and is now being replaced by IFRS 09 with effect from 1st January 2018, after years of continuous debate and improvements. Substantially all the assets and liabilities of banks comprise financial instruments and would be governed by provisions of these standards. As such, this will pose significant complexity and application challenges and also may result in volatility in the income statement.

The capital and capital adequacy ratio might get impacted by higher impairment charges and also by the use of fair value that might increase volatility in capital reported. Though reduction in loan loss provision is possible due to recoverability through collaterals,

As banks have been using prescribed loan loss provision rates, it is possible that the credit impairment charges actually reduce under NFRS when loans are fully backed by collaterals that are good enough for loans to be recovered.

**Annex 1- Disclosure Requirements**

| NFRS | NFRS Name | Disclosures |
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| NFRS 2 | Share Based Payments | a. the nature and extent of share-based payment arrangements that existed during the period;<br>b. how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined; and<br>c. the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position. |
| NFRS 3 | Business Combination | An acquirer is required to disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either during the current reporting period or after the end of the period but before the financial statements are authorised for issue.<br>An acquirer is required to disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:<br>- during the current reporting period or<br>- after the end of the period but before the financial statements are authorized for issue.<br>Among the disclosures required to meet the foregoing objective are the following: [NFRS 3.B64-B66]<br>• name and a description of the acquiree<br>• acquisition date<br>• percentage of voting equity interests acquired<br>• primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree<br>• description of the factors that make up the goodwill recognised<br>• qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations, intangible assets that do not qualify for separate recognition<br>• acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration<br>• details of contingent consideration arrangements and indemnification assets<br>• details of acquired receivables<br>• the amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed<br>• details of contingent liabilities recognised<br>• total amount of goodwill that is expected to be deductible for tax purposes<br>• details about any transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the business combination |

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| | | • information about a bargain purchase<br>• information about the measurement of non-controlling interests<br>• details about a business combination achieved in stages<br>• information about the acquiree's revenue and profit or loss<br>• information about a business combination whose acquisition date is after the end of the reporting period but before the financial statements are authorised for issue |
| NFRS 4 | Insurance Contract | **Explanation of recognized amounts**<br>An insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts. [NFRS 4.36-37]. This requires the insurer to disclose:<br>a. its accounting policies for insurance contracts and related assets, liabilities, income and expense.<br>b. the recognised assets, liabilities, income and expense (and, if it presents its statement of cash flows using the direct method, cash flows) arising from insurance contracts. Furthermore, if the insurer is a cedant, it shall disclose:<br>i. gains and losses recognised in profit or loss on buying reinsurance; and<br>ii. if the cedant defers and amortises gains and losses arising on buying reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period.<br><br>c. the process used to determine the assumptions that have the greatest effect on the measurement of the recognised amounts described in (b). When practicable, an insurer shall also give quantified disclosure of those assumptions.<br>d. the effect of changes in assumptions used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements.<br>e. reconciliations of changes in insurance liabilities, reinsurance assets and, if any, related deferred acquisition costs<br><br>Nature and extent of risks arising from insurance contracts<br><br>The insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts. For this, an insurer shall disclose:<br>a. its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.<br>b. information about insurance risk (both before and after risk mitigation by reinsurance), including information about:<br>i. sensitivity to insurance risk. This requires following disclosures:<br>• a sensitivity analysis that shows how profit or loss |

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| | | and equity would have been affected if changes in the relevant risk variable that were reasonably possible at the end of the reporting period had occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of NFRS 7.<br><br>• qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.<br><br>ii. concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (eg type of insured event, geographical area, or currency).<br>iii. actual claims compared with previous estimates (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.<br><br>c. information about credit risk, liquidity risk and market risk that paragraphs 31–42 of NFRS 7 would require if the insurance contracts were within the scope of IFRS 7. However:<br><br>i. an insurer need not provide the maturity analyses required by paragraph 39(a) and (b) of NFRS 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.<br>ii. if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 40(a) of NFRS 7. Such an insurer shall also provide the disclosures required by paragraph 41 of NFRS 7 |

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| | | d. information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value |
| NFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).<br><br>The entity shall disclose:<br>a. a single amount in the statement of comprehensive income comprising the total of:<br>i. the post-tax profit or loss of discontinued operations and<br>ii. the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.<br><br>b. an analysis of the single amount in (a) into:<br>i. the revenue, expenses and pre-tax profit or loss of discontinued operations;<br>ii. the related income tax expense as required by paragraph 81(h) of NAS 12; and<br>iii. the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.<br>c. the net cash flows attributable to the operating, investing and financing activities of discontinued operations<br>d. the amount of income from continuing operations and from discontinued operations attributable to owners of the parent.<br><br>An entity shall disclose the following information in the notes in the period in which a non-current asset (or disposal group) has been either classified as held for sale or sold:<br>a. a description of the non-current asset (or disposal group);<br>b. a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of that disposal;<br>c. the gain or loss recognised in accordance with paragraphs 20–22 and, if not separately presented in the statement of comprehensive income, the caption in the statement of comprehensive income that includes that gain or loss;<br>d. if applicable, the reportable segment in which the non-current asset (or disposal group) is presented in accordance with NFRS 8 Operating Segments |

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| NFRS 6 | Exploration for and Evaluation of Mineral Resources | An entity treats exploration and evaluation assets as a separate class of assets and make the disclosures required by either NAS 16 *Property, Plant and Equipment* or NAS 38 *Intangible Assets* consistent with how the assets are classified. [NFRS 6.25]<br>IFRS 6 requires disclosure of information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources, including: [NFRS 6.23–24]<br>1. its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets<br>2. the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources. |
| NFRS 7 | Financial Instruments-Disclosures | Significance of Financial Instruments in Terms of The Financial Position and Performance<br><br>1. Statement of Financial Position<br>• Total carrying value of each category of financial assets and liabilities on face of the statement of financial position or in the notes<br>• Information on fair value of loans and receivables<br>• Financial liabilities designated as at fair value through profit and loss<br>• Financial assets reclassified<br>• Financial assets that do not qualify for derecognition<br>• Details of financial assets pledged as collateral & collateral held<br>• Reconciliation of allowance account for credit losses.<br>• Compound financial instruments with embedded derivatives<br>• Details of defaults and breaches of loans payable.<br><br>2. Statement of comprehensive income<br>• Gain or loss for each category of financial assets and liabilities in the statement of comprehensive income or in the notes<br>• Total interest income and interest expense (effective interest method)<br>• Fee income and expense<br>• Interest on impaired financial assets<br>• Amount of impairment loss for each financial asset.<br><br>3. Fair Value Disclosures<br>• Significant transfers of financial instruments between each category and reasons why<br>• For Financial instruments for which Inputs that are not based |

on observable market data, a reconciliation between opening and closing balances, incorporating; gains/losses, purchases/sales/settlements, transfers and if changing one or more inputs to a reasonably possible alternative would result in a significant change in FV, disclose this fact

- Amount of gains/losses and where they are included in profit and loss

4. Other Disclosures
   - All relevant accounting policies, also including measurement basis.
   - Description of hedge, description and fair value of hedged instrument and type of risk hedged
   - Details of cash flow hedges, fair value hedges and hedge of net investment in foreign operations.
   - Fair value for each class of financial asset and liability
   - Disclose method and relevant assumptions to calculate fair value
   - Disclose if fair value cannot be determined.

Nature and Extent of Risks Arising from Financial Instruments and How the Risks are Managed

1. Qualitative disclosure
   - Exposure to risk and how it arises
   - Objectives, policies and processes for managing risk and method used to measure risk

2. Quantitative disclosure
   - Summary of quantitative data about exposure to risk based on information given to key management
   - Concentrations of risks

   a. Liquidity Risk
   - Maturity analysis for financial liabilities that shows the remaining contractual maturities –Appendix B10A –B11F
   - Time bands and increment are based on the entities' judgement
   - How liquidity risk is managed

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   b. Credit Risk
   - Maximum exposure to credit risk without taking into account collateral
   - Collateral held as security and other credit enhancements
   - Information of financial assets that are either past due (when a counterparty has failed to make a payment when contractually due) or impaired
   - Information about collateral and other credit enhancements obtained.

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| | | c. Market Risk<br>• A sensitivity analysis (including methods and assumptions used) for each type of market risk exposed, showing impact on profit or loss and equity<br>or<br>• If a sensitivity analysis is prepared by an entity, showing interdependencies between risk variables and it is used to manage financial risks, it can be used in place of the above sensitivity analysis<br><br>3. Transfer of Financial Assets<br>Information for transferred assets that are and that are not derecognised in their entirety:<br>• Information to understand the relationship between financial assets and associated liabilities that are not derecognised in their entirety<br>• Information to evaluate the nature and risk associated with the entities continuing involvement in derecognised assets (NFRS 7.42A-G). |
| NFRS 8 | Segment Reporting | • General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues<br>• Judgements made by management in applying the aggregation criteria to allow two or more operating segments to be aggregated<br>• information about the profit or loss for each reportable segment, including certain specified revenues* and expenses* such as revenue from external customers and from transactions with other segments, interest revenue and expense, depreciation and amortisation, income tax expense or income and material non-cash items<br>• a measure of total assets* and total liabilities* for each reportable segment, and the amount of investments in associates and joint ventures and the amounts of additions to certain non-current assets ('capital expenditure')<br>• an explanation of the measurements of segment profit or loss, segment assets and segment liabilities, including certain minimum disclosures, e.g. how transactions between segments are measured, the nature of measurement differences between segment information and other information included in the financial statements, and asymmetrical allocations to reportable segments<br>• reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets*, segment liabilities* and other material items to corresponding items in the entity's financial statements<br>• some entity-wide disclosures that are required even when an entity has only one reportable segment, including information about each product and service or groups of products and |

<table>
<tr><td></td><td></td><td>services<ul><li>analyses of revenues and certain non-current assets by geographical area – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments</li><li>information about transactions with major customers</li></ul></td></tr>
<tr><td>NFRS 9</td><td>Financial Instrument</td><td>Please refer to disclosure requirement based on NFRS 07.</td></tr>
<tr><td>NFRS 10</td><td>Consolidated Financial Statement</td><td>Relevant disclosure requirement given by NFRS 12.</td></tr>
<tr><td>NFRS 11</td><td>Joint Arrangements</td><td>Relevant disclosure requirement given by NFRS 12.</td></tr>
<tr><td>NFRS 12</td><td>Disclosure of Interests in Other Entities</td><td>Significant judgements and assumptions<br>An entity discloses information about significant judgements and assumptions it has made (and changes in those judgements and assumptions) in determining: [NFRS 12:7]<ul><li>that it controls another entity</li><li>that it has joint control of an arrangement or significant influence over another entity</li><li>the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.</li></ul>Interests in subsidiaries<br>An entity shall disclose information that enables users of its consolidated financial statements to: [NFRS 12:10]<ul><li>understand the composition of the group</li><li>understand the interest that non-controlling interests have in the group's activities and cash flows</li><li>evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group</li><li>evaluate the nature of, and changes in, the risks associated with its interests in consolidated structured entities</li><li>evaluate the consequences of changes in its ownership interest in a subsidiary that do not result in a loss of control</li><li>evaluate the consequences of losing control of a subsidiary during the reporting period.</li></ul>Interests in unconsolidated subsidiaries<br><br>Where an entity is an investment entity, NFRS 12 requires additional disclosure, including:<ul><li>the fact the entity is an investment entity [NFRS 12:19A]</li><li>information about significant judgements and assumptions it has made in determining that it is an investment entity, and specifically where the entity does not have one or more of the 'typical characteristics' of an investment entity [NFRS</li></ul></td></tr>
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| | | 12:9A]<br>• details of subsidiaries that have not been consolidated (name, place of business, ownership interests held) [NFRS 12:19B]<br>• details of the relationship and certain transactions between the investment entity and the subsidiary (e.g. restrictions on transfer of funds, commitments, support arrangements, contractual arrangements) [NFRS 12: 19D-19G]<br>• information where an entity becomes, or ceases to be, an investment entity [NFRS 12:9B]<br><br>**Interests in joint arrangements and associates**<br>An entity shall disclose information that enables users of its financial statements to evaluate: [NFRS 12:20]<br>• the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates<br>• the nature of, and changes in, the risks associated with its interests in joint ventures and associates.<br><br>**Interests in unconsolidated structured entities**<br>An entity shall disclose information that enables users of its financial statements to: [NFRS 12:24]<br>• understand the nature and extent of its interests in unconsolidated structured entities<br>• evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities. |
| NFRS 13 | Fair Value Measurement | IFRS 13 requires an entity to disclose information that helps users of its financial statements assess both of the following: [NFRS 13:91]<br>• for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements<br>• for fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income for the period. |
| NAS 1 | Presentation of Financial Statements | Prescribes Information to be presented either in the statement of financial position or in the notes.<br>Complete set of financial statements to be prepared:<br>(a) a statement of financial position as at the end of the period;<br>(b) a statement of comprehensive income for the period;<br>(c) a statement of changes in equity for the period;<br>(d) a statement of cash flows for the period;<br>(e) notes, comprising a summary of significant accounting policies and other explanatory information; and<br>(f) a statement of financial position as at the beginning of the earliest |

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| | | comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. |
| NAS 02 | Inventories | • Accounting policy for inventories<br>• Carrying amount, generally classified as merchandise, supplies, materials, work in progress, and finished goods. The classifications depend on what is appropriate for the entity<br>• Carrying amount of any inventories carried at fair value less costs to sell<br>• Amount of any write-down of inventories recognised as an expense in the period<br>• Amount of any reversal of a write-down to NRV and the circumstances that led to such reversal<br>• Carrying amount of inventories pledged as security for liabilities<br>• cost of inventories recognised as expense (cost of goods sold). |
| NAS 07 | Cash Flow Statement | All entities that prepare financial statements in conformity with NFRSs are required to present a statement of cash flows.<br>Cash flows must be analysed between operating, investing and financing activities. |
| NAS 08 | Accounting Policies, Changes in Accounting Estimates and Errors | **Disclosure relating to Changes in Accounting Policy**<br>Disclosures relating to changes in accounting policy caused by a new standard or interpretation include: [NAS 8.28]<br>• the title of the standard or interpretation causing the change<br>• the nature of the change in accounting policy<br>• a description of the transitional provisions, including those that might have an effect on future periods<br>• for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:<br>  o for each financial statement line item affected, and<br>  o for basic and diluted earnings per share (only if the entity is applying NAS 33)<br>• the amount of the adjustment relating to periods before those presented, to the extent practicable<br>• if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.<br><br>Disclosures relating to voluntary changes in accounting policy include: [NAS 8.29]<br>• the nature of the change in accounting policy<br>• the reasons why applying the new accounting policy provides reliable and more relevant information<br>• for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:<br>  o for each financial statement line item affected, and<br>  o for basic and diluted earnings per share (only if the entity is applying NAS 33) |

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| | | • the amount of the adjustment relating to periods before those presented, to the extent practicable<br>• if retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.<br><br>**Disclosures relating to changes in accounting estimates**<br>Disclose:<br>• the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods<br>• if the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact. [NAS 8.39-40]<br><br>**Disclosures relating to prior period errors**<br>Disclosures relating to prior period errors include: [NAS 8.49]<br>• the nature of the prior period error<br>• for each prior period presented, to the extent practicable, the amount of the correction:<br>– for each financial statement line item affected, and<br>– for basic and diluted earnings per share (only if the entity is applying NAS 33)<br>• the amount of the correction at the beginning of the earliest prior period presented<br>• if retrospective restatement is impracticable, an explanation and description of how the error has been corrected. |
| NAS 10 | Events After the Balance Sheet Date | Non-adjusting events should be disclosed if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. The required disclosure is<br>a. the nature of the event and<br>b. an estimate of its financial effect or a statement that a reasonable estimate of the effect cannot be made. [NAS 10.21]<br><br>A company should update disclosures that relate to conditions that existed at the end of the reporting period to reflect any new information that it receives after the reporting period about those conditions. [NAS 10.19]<br>Companies must disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise must disclose that fact. [NAS 10.17] |
| NAS 11 | Construction Contracts | **Disclosure requirement includes:**<br>• amount of contract revenue recognised; [NAS 11.39(a)]<br>• method used to determine revenue; [NAS 11.39(b)]<br>• method used to determine stage of completion; [NAS 11.39(c)] and |

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| | | • for contracts in progress at balance sheet date: [NAS 11.40]<br>– aggregate costs incurred and recognised profit<br>– amount of advances received<br>– amount of retentions |
| NAS 12 | Income Taxes | The major disclosures are [NAS 12.80]:<br>• major components of tax expense (tax income) [NAS 12.79] Examples include:<br>o current tax expense (income)<br>o any adjustments of taxes of prior periods<br>o amount of deferred tax expense (income) relating to the origination and reversal of temporary differences<br>o amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes<br>o amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary difference of a prior period<br>o write down, or reversal of a previous write down, of a deferred tax asset<br>o amount of tax expense (income) relating to changes in accounting policies and corrections of errors.<br><br>NAS 12.81 requires the following disclosures:<br>• aggregate current and deferred tax relating to items recognised directly in equity<br>• tax relating to each component of other comprehensive income<br>• explanation of the relationship between tax expense (income) and the tax that would be expected by applying the current tax rate to accounting profit or loss (this can be presented as a reconciliation of amounts of tax or a reconciliation of the rate of tax)<br>• changes in tax rates<br>• amounts and other details of deductible temporary differences, unused tax losses, and unused tax credits<br>• temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements<br>• for each type of temporary difference and unused tax loss and credit, the amount of deferred tax assets or liabilities recognised in the statement of financial position and the amount of deferred tax income or expense recognised in profit or loss<br>• tax relating to discontinued operations<br>• tax consequences of dividends declared after the end of the reporting period<br>• information about the impacts of business combinations on an acquirer's deferred tax assets<br>• recognition of deferred tax assets of an acquiree after the acquisition date. |

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| | | Other required disclosures:<br>• details of deferred tax assets [NAS 12.82]<br>• tax consequences of future dividend payments. [NAS 12.82A] |
| NAS 16 | Property, Plant & Equipment | ***Information about each class of property, plant and equipment***<br>For each class of property, plant, and equipment, disclose: [NAS 16.73]<br>• basis for measuring carrying amount<br>• depreciation method(s) used<br>• useful lives or depreciation rates<br>• gross carrying amount and accumulated depreciation and impairment losses<br>• reconciliation of the carrying amount at the beginning and the end of the period, showing:<br>  o additions<br>  o disposals<br>  o acquisitions through business combinations<br>  o revaluation increases or decreases<br>  o impairment losses<br>  o reversals of impairment losses<br>  o depreciation<br>  o net foreign exchange differences on translation<br>  o other movements<br>***Additional disclosures***<br>The following disclosures are also required: [NAS 16.74]<br>• restrictions on title and items pledged as security for liabilities<br>• expenditures to construct property, plant, and equipment during the period<br>• contractual commitments to acquire property, plant, and equipment<br>• compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in profit or loss.<br>NAS 16 also encourages, but does not require, a number of additional disclosures. [NAS 16.79]<br>***Revalued property, plant and equipment***<br>If property, plant, and equipment is stated at revalued amounts, certain additional disclosures are required: [NAS 16.77]<br>• the effective date of the revaluation<br>• whether an independent valuer was involved<br>• for each revalued class of property, the carrying amount that would have been recognised had the assets been carried under the cost model<br>• the revaluation surplus, including changes during the period and any restrictions on the distribution of the balance to shareholders. |
| NAS 17 | Leases | **Disclosure: lessees – finance leases [NAS 17.31]**<br>• carrying amount of asset<br>• reconciliation between total minimum lease payments and |

their present value

- amounts of minimum lease payments at balance sheet date and the present value thereof, for:
    - the next year
    - years 2 through 5 combined
    - beyond five years
- contingent rent recognised as an expense
- total future minimum sublease income under non-cancellable subleases
- general description of significant leasing arrangements, including contingent rent provisions, renewal or purchase options, and restrictions imposed on dividends, borrowings, or further leasing

**Disclosure: lessees – operating leases [NAS 17.35]**

- amounts of minimum lease payments at balance sheet date under non-cancellable operating leases for:
    - the next year
    - years 2 through 5 combined
    - beyond five years
- total future minimum sublease income under non-cancellable subleases
- lease and sublease payments recognised in income for the period
- contingent rent recognised as an expense
- general description of significant leasing arrangements, including contingent rent provisions, renewal or purchase options, and restrictions imposed on dividends, borrowings, or further leasing

**Disclosure: lessors – finance leases [NAS 17.47]**

- reconciliation between gross investment in the lease and the present value of minimum lease payments;
- gross investment and present value of minimum lease payments receivable for:
    - the next year
    - years 2 through 5 combined
    - beyond five years
- unearned finance income
- unguaranteed residual values
- accumulated allowance for uncollectible lease payments receivable
- contingent rent recognised in income
- general description of significant leasing arrangements

**Disclosure: lessors – operating leases [NAS 17.56]**

- amounts of minimum lease payments at balance sheet date under non-cancellable operating leases in the aggregate and for:
    - the next year
    - years 2 through 5 combined
    - beyond five years
- contingent rent recognised as in income
- general description of significant leasing arrangements

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| NAS 18 | Revenue | **Disclosure [NAS 18.35]**<br>• accounting policy for recognising revenue<br>• amount of each of the following types of revenue:<br>  o sale of goods<br>  o rendering of services<br>  o interest<br>  o royalties<br>  o dividends<br>  o within each of the above categories, the amount of revenue from exchanges of goods or services |
| NAS 19 | Employee Benefits | *Disclosures about defined benefit plans*<br>NAS 19 sets the following disclosure objectives in relation to defined benefit plans [NAS 19-135]:<br>• an explanation of the characteristics of an entity's defined benefit plans, and the associated risks<br>• identification and explanation of the amounts arising in the financial statements from defined benefit plans<br>• a description of how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.<br>Extensive specific disclosures in relation to meeting each the above objectives are specified, e.g. a reconciliation from the opening balance to the closing balance of the net defined benefit liability or asset, disaggregation of the fair value of plan assets into classes, and sensitivity analysis of each significant actuarial assumption. [NAS 19.136-147]<br>Additional disclosures are required in relation to multi-employer plans and defined benefit plans sharing risk between entities under common control. [NAS 19(2011).148-150]. |
| NAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | • accounting policy adopted for grants, including method of balance sheet presentation<br>• nature and extent of grants recognised in the financial statements<br>• unfulfilled conditions and contingencies attaching to recognised grants |
| NAS 21 | The Effects of Changes in Foreign Exchange Rates | • The amount of exchange differences recognised in profit or loss (excluding differences arising on financial instruments measured at fair value through profit or loss in accordance with NAS 39) [NAS 21.52(a)]<br>• Net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period [NAS 21.52(b)]<br>• When the presentation currency is different from the functional currency, disclose that fact together with the |

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| | | functional currency and the reason for using a different presentation currency [NAS 21.53]<br>• A change in the functional currency of either the reporting entity or a significant foreign operation and the reason therefor [NAS 21.54]<br><br>In case of convenience translation, disclosures needed are: [NAS 21.57]<br>• Clearly identify the information as supplementary information to distinguish it from the information that complies with NFRS<br>• Disclose the currency in which the supplementary information is displayed<br>• Disclose the entity's functional currency and the method of translation used to determine the supplementary information |
| NAS 23 | Borrowing Cost | • amount of borrowing cost capitalised during the period<br>• capitalisation rate used |
| NAS 24 | Related Party Disclosures | **Relationships between parents and subsidiaries.** Regardless of whether there have been transactions between a parent and a subsidiary, an entity must disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so must also be disclosed. [NAS 24.16]<br><br>**Management compensation.** Disclose key management personnel compensation in total and for each of the following categories: [NAS 24.17]<br>• short-term employee benefits<br>• post-employment benefits<br>• other long-term benefits<br>• termination benefits<br>• share-based payment benefits<br>Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity. [NAS 24.9]<br>If an entity obtains key management personnel services from a management entity, the entity is not required to disclose the compensation paid or payable by the management entity to the management entity's employees or directors. Instead the entity discloses the amounts incurred by the entity for the provision of key management personnel services that are provided by the separate management entity*. [NAS 24.17A, 18A]<br><br>**Related party transactions.** If there have been transactions between related parties, disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These |

<table>
<tr><td></td><td></td><td>disclosure would be made separately for each category of related parties and would include: [NAS 24.18-19]<ul><li>the amount of the transactions</li><li>the amount of outstanding balances, including terms and conditions and guarantees</li><li>provisions for doubtful debts related to the amount of outstanding balances</li><li>expense recognised during the period in respect of bad or doubtful debts due from related parties</li></ul>A statement that related party transactions were made on terms equivalent to those that prevail in arm's length transactions should be made only if such terms can be substantiated. [NAS 24.21]</td></tr>
<tr><td>NAS 26</td><td>Accounting and Reporting by Retirement Benefit Plans</td><td>a. Statement of net assets available for benefit, showing: [NAS 26.35(a)]<ul><li>assets at the end of the period</li><li>basis of valuation</li><li>details of any single investment exceeding 5% of net assets or 5% of any category of investment</li><li>details of investment in the employer</li><li>liabilities other than the actuarial present value of plan benefits</li></ul>b. Statement of changes in net assets available for benefits, showing: [NAS 26.35(b)]<ul><li>employer contributions</li><li>employee contributions</li><li>investment income</li><li>other income</li><li>benefits paid</li><li>administrative expenses</li><li>other expenses</li><li>income taxes</li><li>profit or loss on disposal of investments</li><li>changes in fair value of investments</li><li>transfers to/from other plans</li></ul>c. Description of funding policy [NAS 26.35(c)]<br>d. Other details about the plan [NAS 26.36]<br>e. Summary of significant accounting policies [NAS 26.34(b)]<br>f. Description of the plan and of the effect of any changes in the plan during the period [NAS 26.34(c)]<br>g. Disclosures for defined benefit plans: [NAS 26.35(d) and (e)]<ul><li>actuarial present value of promised benefit obligations</li><li>description of actuarial assumptions</li><li>description of the method used to calculate the actuarial present value of promised benefit obligations</li></ul></td></tr>
<tr><td>NAS 27</td><td>Consolidated and separate financial statements</td><td>When a parent, in accordance with paragraph 4(a) of NFRS 10, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements: [NAS 27(2011).16]</td></tr>
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| | | • the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation if different) of the entity whose consolidated financial statements that comply with NFRS have been produced for public use; and the address where those consolidated financial statements are obtainable,<br>• a list of significant investments in subsidiaries, jointly controlled entities, and associates, including the name, principal place of business (and country of incorporation if different), proportion of ownership interest and, if different, proportion of voting rights, and<br>• a description of the method used to account for the foregoing investments.<br>When an investment entity that is a parent prepares separate financial statements as its only financial statements, it shall disclose that fact. The investment entity shall also present the disclosures relating to investment entities required by NFRS 12. [NAS 27.16A]<br><br>When a parent (other than a parent covered by the above circumstances) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with NFRS 10, NFRS 11 or NAS 28 to which they relate. The parent or investor shall also disclose in its separate financial statements: [NAS 27.17]<br>• the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law,<br>• a list of significant investments in subsidiaries, jointly controlled entities, and associates, including the name, principal place of business (and country of incorporation if different), proportion of ownership interest and, if different, proportion of voting rights, and<br>• a description of the method used to account for the foregoing investments. |
| NAS 28 | Investments in Associates and Joint Ventures | No disclosure requirements. |
| NAS 32 | Financial Statements-Presentation | Covered by NFRS 07. |
| NAS 33 | Earning per Share | • The amounts used as the numerators in calculating basic and diluted EPS, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period<br>• The weighted average number of ordinary shares used as the denominator in calculating basic and diluted EPS, and a |

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| | | reconciliation of these denominators to each other<br>• Instruments (including contingently issuable shares) that could potentially dilute basic EPS in the future, but were not included in the calculation of diluted EPS because they are antidilutive for the period(s) presented<br>• A description of those ordinary share transactions or potential ordinary share transactions that occur after the balance sheet date and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if those transactions had occurred before the end of the reporting period. Examples include issues and redemptions of ordinary shares issued for cash, warrants and options, conversions, and exercises [NAS 34.71] |
| NAS 34 | Interim Financial Reporting | Accounting Standard Board encourages publicly-traded entities to provide interim financial reports that conform to the recognition, measurement, and disclosure principles set out in NAS 34, at least as of the end of the first half of their financial year, such reports to be made available not later than 60 days after the end of the interim period.<br><br>The minimum components specified for an interim financial report are: [NAS 34.8]<br>• a condensed balance sheet (statement of financial position)<br>• either (a) a condensed statement of comprehensive income or (b) a condensed statement of comprehensive income and a condensed income statement<br>• a condensed statement of changes in equity<br>• a condensed statement of cash flows<br>• selected explanatory notes<br>If a complete set of financial statements is published in the interim report, those financial statements should be in full compliance with NFRSs. [NAS 34.9]<br>If the financial statements are condensed, they should include, at a minimum, each of the headings and sub-totals included in the most recent annual financial statements and the explanatory notes required by NAS 34. Additional line-items or notes should be included if their omission would make the interim financial information misleading. [NAS 34.10]<br>If the annual financial statements were consolidated (group) statements, the interim statements should be group statements as well. [NAS 34.14]<br>The periods to be covered by the interim financial statements are as follows: [NAS 34.20]<br>• balance sheet (statement of financial position) as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year<br>• statement of comprehensive income (and income statement, if presented) for the current interim period and cumulatively |

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| | | for the current financial year to date, with comparative statements for the comparable interim periods (current and year-to-date) of the immediately preceding financial year<br>• statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year<br>• statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year<br>If the company's business is highly seasonal, NAS 34 encourages disclosure of financial information for the latest 12 months, and comparative information for the prior 12-month period, in addition to the interim period financial statements. [NAS 34.21]<br><br>**Note disclosures**<br>The explanatory notes required are designed to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the last annual reporting date. NAS 34 states a presumption that anyone who reads an entity's interim report will also have access to its most recent annual report. Consequently, NAS 34 avoids repeating annual disclosures in interim condensed reports. [NAS 34.15] |
| NAS 36 | Impairment of Assets | Disclosure by class of assets: [NAS 36.126]<br>• impairment losses recognised in profit or loss<br>• impairment losses reversed in profit or loss<br>• which line item(s) of the statement of comprehensive income<br>• impairment losses on revalued assets recognised in other comprehensive income<br>• impairment losses on revalued assets reversed in other comprehensive income<br>Disclosure by reportable segment: [NAS 36.129]<br>• impairment losses recognised<br>• impairment losses reversed<br>Other disclosures:<br>If an individual impairment loss (reversal) is material disclose: [NAS 36.130]<br>• events and circumstances resulting in the impairment loss<br>• amount of the loss or reversal<br>• individual asset: nature and segment to which it relates<br>• cash generating unit: description, amount of impairment loss (reversal) by class of assets and segment<br>• if recoverable amount is fair value less costs of disposal, the level of the fair value hierarchy (from NFRS 13 *Fair Value Measurement*) within which the fair value measurement is categorised, the valuation techniques used to measure fair value less costs of disposal and the key assumptions used in |

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| | | the measurement of fair value measurements categorised within 'Level 2' and 'Level 3' of the fair value hierarchy*<br>• if recoverable amount has been determined on the basis of value in use, or on the basis of fair value less costs of disposal using a present value technique*, disclose the discount rate<br><br>If impairment losses recognised (reversed) are material in aggregate to the financial statements as a whole, disclose: [NAS 36.131]<br>• main classes of assets affected<br>• main events and circumstances<br>Disclose detailed information about the estimates used to measure recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives. [NAS 36.134-35] |
| NAS 37 | Provisions, Contingent Liabilities and Contingent Assets | Reconciliation for each class of provision: [NAS 37.84]<br>• opening balance<br>• additions<br>• used (amounts charged against the provision)<br>• unused amounts reversed<br>• unwinding of the discount, or changes in discount rate<br>• closing balance<br>A prior year reconciliation is not required. [NAS 37.84]<br>For each class of provision, a brief description of: [NAS 37.85]<br>• nature<br>• timing<br>• uncertainties<br>• assumptions<br>• reimbursement, if any. |
| NAS 38 | Intangible Assets | For each class of intangible asset, disclose: [NAS 38.118 and 38.122]<br>• useful life or amortisation rate<br>• amortisation method<br>• gross carrying amount<br>• accumulated amortisation and impairment losses<br>• line items in the income statement in which amortisation is included<br>• reconciliation of the carrying amount at the beginning and the end of the period showing:<br>  o additions (business combinations separately)<br>  o assets held for sale<br>  o retirements and other disposals<br>  o revaluations<br>  o impairments<br>  o reversals of impairments<br>  o amortisation<br>  o foreign exchange differences<br>  o other changes<br>• basis for determining that an intangible has an indefinite life |

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| | | • description and carrying amount of individually material intangible assets<br>• certain special disclosures about intangible assets acquired by way of government grants<br>• information about intangible assets whose title is restricted<br>• contractual commitments to acquire intangible assets<br>Additional disclosures are required about:<br>• intangible assets carried at revalued amounts [NAS 38.124]<br>• the amount of research and development expenditure recognised as an expense in the current period [NAS 38.126] |
| NAS 39 | Financial Instruments: Recognition and Measurement | Disclosure covered by NFRS 7 |
| NAS 40 | Investment Property | *Both Fair Value Model and Cost Model* [NAS 40.75]<br>• whether the fair value or the cost model is used<br>• if the fair value model is used, whether property interests held under operating leases are classified and accounted for as investment property<br>• if classification is difficult, the criteria to distinguish investment property from owner-occupied property and from property held for sale<br>• the methods and significant assumptions applied in determining the fair value of investment property<br>• the extent to which the fair value of investment property is based on a valuation by a qualified independent valuer; if there has been no such valuation, that fact must be disclosed<br>• the amounts recognised in profit or loss for:<br>  o rental income from investment property<br>  o direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period<br>  o direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period<br>  o the cumulative change in fair value recognised in profit or loss on a sale from a pool of assets in which the cost model is used into a pool in which the fair value model is used<br>• restrictions on the realisability of investment property or the remittance of income and proceeds of disposal<br>• contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance or enhancements<br>*Additional Disclosures for the Fair Value Model* [NAS 40.76]<br>• a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing additions, disposals, fair value adjustments, net foreign |

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| | | exchange differences, transfers to and from inventories and owner-occupied property, and other changes [NAS 40.76]<br>• significant adjustments to an outside valuation (if any) [NAS 40.77]<br>• if an entity that otherwise uses the fair value model measures an item of investment property using the cost model, certain additional disclosures are required [NAS 40.78]<br>*Additional Disclosures for the Cost Model* [NAS 40.79]<br>• the depreciation methods used<br>• the useful lives or the depreciation rates used<br>• the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period<br>• a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing additions, disposals, depreciation, impairment recognised or reversed, foreign exchange differences, transfers to and from inventories and owner-occupied property, and other changes<br>• the fair value of investment property. If the fair value of an item of investment property cannot be measured reliably, additional disclosures are required, including, if possible, the range of estimates within which fair value is highly likely to lie |
| NAS 41 | Agriculture | Disclosure requirements in NAS 41 include:<br>• aggregate gain or loss from the initial recognition of biological assets and agricultural produce and the change in fair value less costs to sell during the period* [NAS 41.40]<br>• description of an entity's biological assets, by broad group [NAS 41.41]<br>• description of the nature of an entity's activities with each group of biological assets and non-financial measures or estimates of physical quantities of output during the period and assets on hand at the end of the period [NAS 41.46]<br>• information about biological assets whose title is restricted or that are pledged as security [NAS 41.49]<br>• commitments for development or acquisition of biological assets [NAS 41.49]<br>• financial risk management strategies [NAS 41.49]<br>• reconciliation of changes in the carrying amount of biological assets, showing separately changes in value, purchases, sales, harvesting, business combinations, and foreign exchange differences* [NAS 41.50]<br><br>Disclosure of a quantified description of each group of biological assets, distinguishing between consumable and bearer assets or between mature and immature assets, is encouraged but not required. [NAS 41.43]<br>If fair value cannot be measured reliably, additional required disclosures include: [NAS 41.54]<br>• description of the assets |

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| | | • an explanation of why fair value cannot be reliably measured<br>• if possible, a range within which fair value is highly likely to lie<br>• depreciation method<br>• useful lives or depreciation rates<br>• gross carrying amount and the accumulated depreciation, beginning and ending.<br>If the fair value of biological assets previously measured at cost subsequently becomes available, certain additional disclosures are required. [NAS 41.56]<br>Disclosures relating to government grants include the nature and extent of grants, unfulfilled conditions, and significant decreases expected in the level of grants. [NAS 41.57] |

# Annex 1- List of Accounting Standards

| Name |
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| NFRS 1 First-time Adoption of International Financial Reporting Standards |
| NFRS 2 Share-based Payment |
| NFRS 3 Business Combinations |
| NFRS 4 Insurance Contracts |
| NFRS 5 Non-current Assets Held for Sale and Discontinued Operations |
| NFRS 6 Exploration for and Evaluation of Mineral Resources |
| NFRS 7 Financial Instruments: Disclosures |
| NFRS 8 Operating Segments |
| NFRS 9 Financial Instruments |
| NFRS 10 Consolidated Financial Statements |
| NFRS 11 Joint Arrangements |
| NFRS 12 Disclosure of Interest in Other Entities |
| NFRS 13 Fair Value Measurement |
| NAS 1 Presentation of Financial Statements |
| NAS 2 Inventories |
| NAS 7 Statement of Cash Flows |
| NAS 8 Accounting Policies, Changes in Accounting Estimates and Errors |
| NAS 10 Events after the Reporting Period |
| NAS 11 Construction Contracts |
| NAS 12 Income Taxes |
| NAS 16 Property, Plant and Equipment |
| NAS 17 Leases |
| NAS 18 Revenue |
| NAS 19 Employee Benefits |
| NAS 20 Accounting for Government Grants and Disclosure of Government Assistance |
| NAS 21 The Effects of Changes in Foreign Exchange Rates |
| NAS 23 Borrowing Costs |
| NAS 24 Related Party Disclosures |
| NAS 26 Accounting and Reporting by Retirement Benefit Plans |
| NAS 27 Consolidated and Separate Financial Statements |
| NAS 28 Investments in Associates |
| NAS 32 Financial Instruments: Presentation |
| NAS 33 Earnings per Share |
| NAS 34 Interim Financial Reporting |
| NAS 36 Impairment of Assets |
| NAS 37 Provisions, Contingent Liabilities and Contingent Assets |
| NAS 38 Intangible Assets |
| NAS 39 Financial Instruments: Recognition and Measurement |
| NAS 40 Investment Property |
| NAS 41 Agriculture |