

# TRU Flash Alert

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## Carve-outs in NFRS: Alternative Treatments

### Background

Banks and Financial Institutions in Nepal are regulated by the Nepal Rastra Bank (NRB). Financial statements, before adoption of NFRS were prepared as prescribed by the NRB in its Directive 2074. With mandatory requirement to prepare financials as per NFRS, BFIs in Nepal faced difficulties and in some case found it impracticable to comply with some of the provisions of NFRS.

In this connection, the Institute of Chartered Accountants of Nepal (ICAN) has resolved that seven Carve-outs in NFRS with Alternative Treatment and effective period shall be provided to the Banks and Financial Institutions regulated by NRB on the specific recommendation of Accounting Standard Board (ASB) Nepal. However, other entities may also use these carve-outs with necessary disclosures.

The carve outs have been provided specially focussing the Banking sector in Nepal and to bring ease and practicality in preparation of NFRS based financial statements for the first time. Major carve out provided has been illustrated in the following sections of this alert.

### Optional / Mandatory

*The carve-outs except No. 5 **Incurred Loss Model to measure the Impairment Loss on Loan and Advances**, are optional, if an entity opts to use these carve-out that should be disclosed in the financial statements with its monetary impact as far as practicable.*

Carve out Number	Para	NFRS/ NAS	Optional or not
1	Para 19	NFRS 10: Consolidated Financial Statements	Optional
2	Para 33	NAS 17: Lease	Optional
3	Para 35	NAS 28: Investments in Associates and Joint Ventures	Optional
4	Para 2	NAS 34: Interim Financial Reporting	Optional
5	Para 58	NAS 39: Financial Instruments: Recognition and Measurement	Not Optional
6	Para 9: Definitions relating to recognition and measurement	NAS 39: Financial Instruments: Recognition and Measurement	Optional
7	Para AG93: Interest income after impairment recognition	NAS 39: Financial Instruments: Recognition and Measurement	Optional

1. NFRS 10: Consolidated Financial Statements

*Preparation of consolidated financial statement using uniform accounting policies*

Para	NFRS/ NAS Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
<b>Para 19</b>	A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.	A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances <b><i>unless it is impracticable to do so.</i></b>	FY 2017-18 FY 2018-19 FY 2019-20

2. NAS 17: Lease

*Operating lease in the financial statements of Lessees*

Para	NFRS/ NAS Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
<b>Para 33</b>	Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit	Lease payments under an operating lease shall be recognized as an expense on a straight-line basis over the lease term <b><i>unless either:</i></b> <b><i>(a) Another systematic basis is more representative of the time pattern of the user's benefit even if the payments to the lessors are not on that basis; or</i></b> <b><i>(b) The payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.</i></b>	FY 2017-18

3. NAS 28: Investments in Associates and Joint Ventures

*Accounting for Investment in Associates as per equity method using uniform accounting policies*

Para	NFRS/ NAS Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
<b>Para 35</b>	The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.	The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances <b><i>unless, in case of an associate, it is impracticable to do so.</i></b>	FY 2017-18 FY 2018-19 FY 2019-20

4. NAS 34: Interim Financial Reporting

*Impracticable to restate the corresponding previous interim period information*

Para	NFRS/ NAS Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
<b>Para 2</b>	If an entity's interim financial report is described as complying with NFRSs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard.	If an entity's interim financial report is described as complying with NFRSs, it must comply with all of the requirements of this Standard. Paragraph 19 requires certain disclosures in that regard. <b><i>However, an entity shall not require to restate its corresponding previous interim period balance if it is impracticable to restate.</i></b>	FY 2017-18 FY 2018-19

5. NAS 39: Financial Instruments: Recognition and Measurement

*Incurred Loss Model to measure the Impairment Loss on Loan and Advances*

Para	NFRS/ NAS Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
<b>Para 58</b>	An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.	An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss <b><i>unless the entity is bank or financial institutions registered as per Bank and Financial Institutions Act, 2073. Such entities shall measure impairment loss on loan and advances as the higher of amount derived as per norms prescribed by Nepal Rastra Bank for loan loss provision and amount determined as per paragraph 63; and shall apply paragraph 63 to measure the impairment loss on financial assets other than loan and advances. The entity shall disclose the impairment loss as per this carve-out and the amount of impairment loss determined as per paragraph 63.</i></b>	FY 2017-18 FY 2018-19 FY 2019-20

**Not Optional**

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

6. NAS 39: Financial Instruments: Recognition and Measurement

*Impracticability to determine transaction cost of all previous years which is the part of effective interest rate*

Para	NFRS/ NAS Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
<p><b>Para 9</b></p> <p><b><i>Definitions relating to recognition and measurement</i></b></p>	<p>The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see NAS 18 Revenue), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments)</p>	<p>The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received, <b><i>unless it is immaterial or impracticable to determine reliably</i></b>, between parties to the contract that are an integral part of the effective interest rate (see NAS 18 Revenue), transaction costs and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).</p>	<p>FY 2017-18 FY 2018-19</p>

7. **NAS 39: Financial Instruments: Recognition and Measurement**

*Impracticability to determine interest income on amortized cost*

Para	NFRS/ NAS Existing Provision	Carve-out : Alternative Treatment	Period of Carve-out
<b>Para AG93</b> <b>Interest income</b> <b>after impairment</b> <b>recognition</b>	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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment.	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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. <b>Interest income shall be calculated by applying effective interest rate to the gross carrying amount of a financial asset unless the financial asset is written off either partially or fully.</b>	FY 2017-18 FY 2018-19 FY 2019-20

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