

Nepal Financial Reporting Standard 1

First-time Adoption of Nepal Financial Reporting Standards

Objective

- 1 The objective of this NFRS is to ensure that an entity's *first NFRS financial statements*, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:
- (a) is transparent for users and comparable over all periods presented;
 - (b) provides a suitable starting point for accounting in accordance with *Nepal Financial Reporting Standards (NFRSs)*; and
 - (c) can be generated at a cost that does not exceed the benefits.

Scope

- 2 An entity shall apply this NFRS in:
- (a) its first NFRS financial statements; and
 - (b) each interim financial report, if any, that it presents in accordance with NAS 34 *Interim Financial Reporting* for part of the period covered by its first NFRS financial statements.
- 3 An entity's first NFRS financial statements are the first annual financial statements in which the entity adopts NFRSs, by an explicit and unreserved statement in those financial statements of compliance with NFRSs. Financial statements in accordance with NFRSs are an entity's first NFRS financial statements if, for example, the entity:
- (a) presented its most recent previous financial statements:
 - (i) in accordance with national requirements that are not consistent with NFRSs in all respects;
 - (ii) in conformity with NFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with NFRSs;
 - (iii) containing an explicit statement of compliance with some, but not all, NFRSs;
 - (iv) in accordance with national requirements inconsistent with NFRSs, using some individual NFRSs to account for items for which national requirements did not exist; or
 - (v) in accordance with national requirements, with a reconciliation of some amounts to the amounts determined in accordance with NFRSs;
 - (b) prepared financial statements in accordance with NFRSs for internal use only, without making them available to the entity's owners or any other external users;
 - (c) prepared a reporting package in accordance with NFRSs for consolidation purposes without preparing a complete set of financial statements as defined in NAS 1 *Presentation of Financial Statements* (as revised in 2008); or
 - (d) did not present financial statements for previous periods.
- 4 This NFRS applies when an entity first adopts NFRSs. It does not apply when, for example, an entity:
- (a) stops presenting financial statements in accordance with national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with NFRSs;
 - (b) presented financial statements in the previous year in accordance with national requirements and those financial statements contained an explicit and unreserved statement of compliance with NFRSs; or
 - (c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with NFRSs, even if the auditors qualified their audit report on those financial statements.

- 4A Notwithstanding the requirements in paragraphs 2 and 3, an entity that has applied NFRSs in a previous reporting period, but whose most recent previous annual financial statements did not contain an explicit and unreserved statement of compliance with NFRSs, must either apply this NFRS or else apply NFRSs retrospectively in accordance with NAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as if the entity had never stopped applying NFRSs.
- 4B When an entity does not elect to apply this NFRS in accordance with paragraph 4A, the entity shall nevertheless apply the disclosure requirements in paragraphs 23A–23B of NFRS 1, in addition to the disclosure requirements in NAS 8.
- 5 This NFRS does not apply to changes in accounting policies made by an entity that already applies NFRSs. Such changes are the subject of:
- requirements on changes in accounting policies in NAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
 - specific transitional requirements in other NFRSs.

Recognition and measurement

Opening NFRS statement of financial position

- 6 An entity shall prepare and present an *opening NFRS statement of financial position* at the *date of transition to NFRSs*. This is the starting point for its accounting in accordance with NFRSs.

Accounting policies

- 7 **An entity shall use the same accounting policies in its opening NFRS statement of financial position and throughout all periods presented in its first NFRS financial statements. Those accounting policies shall comply with each NFRS effective at the end of its *first NFRS reporting period*, except as specified in paragraphs 13–19 and Appendices B–E.**
- 8 An entity shall not apply different versions of NFRSs that were effective at earlier dates. An entity may apply a new NFRS that is not yet mandatory if that NFRS permits early application.

Example: Consistent application of latest version of NFRSs

Background

The end of entity A's first NFRS reporting period is 31 December 20X5. Entity A decides to present comparative information in those financial statements for one year only (see paragraph 21). Therefore, its date of transition to NFRSs is the beginning of business on 1 January 20X4 (or, equivalently, close of business on 31 December 20X3). Entity A presented financial statements in accordance with its *previous GAAP* annually to 31 December each year up to, and including, 31 December 20X4.

Application of requirements

Entity A is required to apply the NFRSs effective for periods ending on 31 December 20X5 in:

- preparing and presenting its opening NFRS statement of financial position at 1 January 20X4; and
- preparing and presenting its statement of financial position for 31 December 20X5 (including comparative amounts for 20X4), statement of comprehensive income, statement of changes in equity and statement of cash flows for the year to 31 December 20X5 (including comparative amounts for 20X4) and disclosures (including comparative information for 20X4).

If a new NFRS is not yet mandatory but permits early application, entity A is permitted, but not required, to apply that NFRS in its first NFRS financial statements.

- 9 The transitional provisions in other NFRSs apply to changes in accounting policies made by an entity that already uses NFRSs; they do not apply to a *first-time adopter's* transition to NFRSs, except as specified in Appendices B–E.

- 10 Except as described in paragraphs 13–19 and Appendices B–E, an entity shall, in its opening NFRS statement of financial position:
- (a) recognise all assets and liabilities whose recognition is required by NFRSs;
 - (b) not recognise items as assets or liabilities if NFRSs do not permit such recognition;
 - (c) reclassify items that it recognised in accordance with previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity in accordance with NFRSs; and
 - (d) apply NFRSs in measuring all recognised assets and liabilities.
- 11 The accounting policies that an entity uses in its opening NFRS statement of financial position may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to NFRSs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to NFRSs.
- 12 This NFRS establishes two categories of exceptions to the principle that an entity's opening NFRS statement of financial position shall comply with each NFRS:
- (a) paragraphs 14–17 and Appendix B prohibit retrospective application of some aspects of other NFRSs.
 - (b) Appendices C–E grant exemptions from some requirements of other NFRSs.

Exceptions to the retrospective application of other NFRSs

- 13 This NFRS prohibits retrospective application of some aspects of other NFRSs. These exceptions are set out in paragraphs 14–17 and Appendix B.

Estimates

- 14 **An entity's estimates in accordance with NFRSs at the date of transition to NFRSs shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.**
- 15 An entity may receive information after the date of transition to NFRSs about estimates that it had made under previous GAAP. In accordance with paragraph 14, an entity shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with NAS 10 *Events after the Reporting Period*. For example, assume that an entity's date of transition to NFRSs is 1 January 20X4 and new information on 15 July 20X4 requires the revision of an estimate made in accordance with previous GAAP at 31 December 20X3. The entity shall not reflect that new information in its opening NFRS statement of financial position (unless the estimates need adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the entity shall reflect that new information in profit or loss (or, if appropriate, other comprehensive income) for the year ended 31 December 20X4.
- 16 An entity may need to make estimates in accordance with NFRSs at the date of transition to NFRSs that were not required at that date under previous GAAP. To achieve consistency with NAS 10, those estimates in accordance with NFRSs shall reflect conditions that existed at the date of transition to NFRSs. In particular, estimates at the date of transition to NFRSs of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date.
- 17 Paragraphs 14–16 apply to the opening NFRS statement of financial position. They also apply to a comparative period presented in an entity's first NFRS financial statements, in which case the references to the date of transition to NFRSs are replaced by references to the end of that comparative period.

Exemptions from other NFRSs

- 18 An entity may elect to use one or more of the exemptions contained in Appendices C–E. An entity shall not apply these exemptions by analogy to other items.
- 19 [Deleted]

Presentation and disclosure

20 This NFRS does not provide exemptions from the presentation and disclosure requirements in other NFRSs.

Comparative information

21 An entity's first NFRS financial statements shall include at least three statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all statements presented.

Non-NFRS comparative information and historical summaries

22 Some entities present historical summaries of selected data for periods before the first period for which they present full comparative information in accordance with NFRSs. This NFRS does not require such summaries to comply with the recognition and measurement requirements of NFRSs. Furthermore, some entities present comparative information in accordance with previous GAAP as well as the comparative information required by NAS 1. In any financial statements containing historical summaries or comparative information in accordance with previous GAAP, an entity shall:

- (a) label the previous GAAP information prominently as not being prepared in accordance with NFRSs; and
- (b) disclose the nature of the main adjustments that would make it comply with NFRSs. An entity need not quantify those adjustments.

Explanation of transition to NFRSs

23 **An entity shall explain how the transition from previous GAAP to NFRSs affected its reported financial position, financial performance and cash flows.**

23A An entity that has applied NFRSs in a previous period, as described in paragraph 4A, shall disclose:

- (a) the reason it stopped applying NFRSs; and
- (b) the reason it is resuming the application of NFRSs.

23B When an entity, in accordance with paragraph 4A, does not elect to apply NFRS 1, the entity shall explain the reasons for electing to apply NFRSs as if it had never stopped applying NFRSs.

Reconciliations

24 To comply with paragraph 23, an entity's first NFRS financial statements shall include:

- (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with NFRSs for both of the following dates:
 - (i) the date of transition to NFRSs; and
 - (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.
- (b) a reconciliation to its total comprehensive income in accordance with NFRSs for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
- (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening NFRS statement of financial position, the disclosures that NAS 36 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to NFRSs.

25 The reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.

26 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.

- 27 NAS 8 does not apply to the changes in accounting policies an entity makes when it adopts NFRSs or to changes in those policies until after it presents its first NFRS financial statements. Therefore, NAS 8's requirements about changes in accounting policies do not apply in an entity's first NFRS financial statements.
- 27A If during the period covered by its first NFRS financial statements an entity changes its accounting policies or its use of the exemptions contained in this NFRS, it shall explain the changes between its first NFRS interim financial report and its first NFRS financial statements, in accordance with paragraph 23, and it shall update the reconciliations required by paragraph 24(a) and (b).
- 28 If an entity did not present financial statements for previous periods, its first NFRS financial statements shall disclose that fact.

Designation of financial assets or financial liabilities

- 29 An entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.
- 29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. The entity shall disclose the fair value of financial liabilities so designated at the date of designation and their classification and carrying amount in the previous financial statements.

Use of fair value as deemed cost

- 30 If an entity uses fair value in its opening NFRS statement of financial position as *deemed cost* for an item of property, plant and equipment, an investment property, an intangible asset or a right-of-use asset (see paragraphs D5 and D7), the entity's first NFRS financial statements shall disclose, for each line item in the opening NFRS statement of financial position:
- (a) the aggregate of those fair values; and
 - (b) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Use of deemed cost for investments in subsidiaries, joint ventures and associates

- 31 Similarly, if an entity uses a deemed cost in its opening NFRS statement of financial position for an investment in a subsidiary, joint venture or associate in its separate financial statements (see paragraph D15), the entity's first NFRS separate financial statements shall disclose:
- (a) the aggregate deemed cost of those investments for which deemed cost is their previous GAAP carrying amount;
 - (b) the aggregate deemed cost of those investments for which deemed cost is fair value; and
 - (c) the aggregate adjustment to the carrying amounts reported under previous GAAP.

Use of deemed cost for oil and gas assets

- 31A If an entity uses the exemption in paragraph D8A(b) for oil and gas assets, it shall disclose that fact and the basis on which carrying amounts determined under previous GAAP were allocated.

Use of deemed cost for operations subject to rate regulation

- 31B If an entity uses the exemption in paragraph D8B for operations subject to rate regulation, it shall disclose that fact and the basis on which carrying amounts were determined under previous GAAP.

Use of deemed cost after severe hyperinflation

- 31C If an entity elects to measure assets and liabilities at fair value and to use that fair value as the deemed cost in its opening NFRS statement of financial position because of severe hyperinflation (see paragraphs D26–D30), the entity's first NFRS financial statements shall disclose an explanation of how, and why, the entity had, and then ceased to have, a functional currency that has both of the following characteristics:

- (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
- (b) exchangeability between the currency and a relatively stable foreign currency does not exist.

Interim financial reports

32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with NAS 34 for part of the period covered by its first NFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of NAS 34:

- (a) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
 - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under NFRSs at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with NFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.
- (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with NAS 34 for part of the period covered by its first NFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.
- (c) If an entity changes its accounting policies or its use of the exemptions contained in this NFRS, it shall explain the changes in each such interim financial report in accordance with paragraph 23 and update the reconciliations required by (a) and (b).

33 NAS 34 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, NAS 34 also requires an entity to disclose 'any events or transactions that are material to an understanding of the current interim period'. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information or include a cross-reference to another published document that includes it.

Effective date

34 An entity shall apply this NFRS if its first NFRS financial statements are for a period beginning on or after July 17, 2019. Earlier application is permitted.

Any consequential effect arising from the application of other related Standards becoming effective on the later date, shall be applied only when those Standards come into effect.

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Withdrawal of NFRS 1 (issued in 2013)

40 This NFRS supersedes NFRS 1 *First Time Adoption of Nepal Financial Reporting Standards* issued in 2013.

Exposure Draft of NFRS 2018

This appendix is an integral part of the NFRS.

date of transition to NFRSs	The beginning of the earliest period for which an entity presents full comparative information under NFRSs in its first NFRS financial statements .
deemed cost	An amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost.
fair value	<i>Fair value</i> is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See NFRS 13.)
first NFRS financial statements	The first annual financial statements in which an entity adopts Nepal Financial Reporting Standards (NFRSs) , by an explicit and unreserved statement of compliance with NFRSs.
first NFRS reporting period	The latest reporting period covered by an entity's first NFRS financial statements .
first-time adopter	An entity that presents its first NFRS financial statements .
Nepal Financial Reporting Standards (NFRSs)	Standards and Interpretations issued by the Accounting Standards Board (ASB). They comprise: <ul style="list-style-type: none"> (a) Nepal Financial Reporting Standards; (b) Nepal Accounting Standards; (c) IFRIC Interpretations; and (d) SIC Interpretations.
opening NFRS statement of financial position	An entity's statement of financial position at the date of transition to NFRSs .
previous GAAP	The basis of accounting that a first-time adopter used immediately before adopting NFRSs.

Appendix B

Exceptions to the retrospective application of other NFRSs

This appendix is an integral part of the NFRS.

- B1 An entity shall apply the following exceptions:
- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);
 - (b) hedge accounting (paragraphs B4–B6);
 - (c) non-controlling interests (paragraph B7);
 - (d) classification and measurement of financial assets (paragraphs B8–B8C);
 - (e) impairment of financial assets (paragraphs B8D–B8G);
 - (f) embedded derivatives (paragraph B9);
 - (g) government loans (paragraphs B10–B12); and
 - (h) insurance contracts (paragraph B13).

Derecognition of financial assets and financial liabilities

- B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in NFRS 9 prospectively for transactions occurring on or after the date of transition to NFRSs. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to NFRSs, it shall not recognise those assets and liabilities in accordance with NFRSs (unless they qualify for recognition as a result of a later transaction or event).
- B3 Despite paragraph B2, an entity may apply the derecognition requirements in NFRS 9 retrospectively from a date of the entity's choosing, provided that the information needed to apply NFRS 9 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

- B4 As required by NFRS 9, at the date of transition to NFRSs an entity shall:
- (a) measure all derivatives at fair value; and
 - (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.
- B5 An entity shall not reflect in its opening NFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with NFRS 9 (for example, many hedging relationships where the hedging instrument is a stand-alone written option or a net written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with NFRSs an individual item within that net position, or a net position if that meets the requirements in paragraph 6.6.1 of NFRS 9, provided that it does so no later than the date of transition to NFRSs.
- B6 If, before the date of transition to NFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in NFRS 9, the entity shall apply paragraphs 6.5.6 and 6.5.7 of NFRS 9 to discontinue hedge accounting. Transactions entered into before the date of transition to NFRSs shall not be retrospectively designated as hedges.

Non-controlling interests

- B7 A first-time adopter shall apply the following requirements of NFRS 10 prospectively from the date of transition to NFRSs:
- (a) the requirement in paragraph B94 that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;

- (b) the requirements in paragraphs 23 and B96 for accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and
- (c) the requirements in paragraphs B97–B99 for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of NFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

However, if a first-time adopter elects to apply NFRS 3 retrospectively to past business combinations, it shall also apply NFRS 10 in accordance with paragraph C1 of this NFRS.

Classification and measurement of financial instruments

- B8 An entity shall assess whether a financial asset meets the conditions in paragraph 4.1.2 of NFRS 9 or the conditions in paragraph 4.1.2A of NFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NFRSs.
- B8A If it is impracticable to assess a modified time value of money element in accordance with paragraphs B4.1.9B–B4.1.9D of NFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NFRSs, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to NFRSs without taking into account the requirements related to the modification of the time value of money element in paragraphs B4.1.9B–B4.1.9D of NFRS 9. (In this case, the entity shall also apply paragraph 42R of NFRS 7 but references to 'paragraph 7.2.4 of NFRS 9' shall be read to mean this paragraph and references to 'initial recognition of the financial asset' shall be read to mean 'at the date of transition to NFRSs'.)
- B8B If it is impracticable to assess whether the fair value of a prepayment feature is insignificant in accordance with paragraph B4.1.12(c) of NFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NFRSs, an entity shall assess the contractual cash flow characteristics of that financial asset on the basis of the facts and circumstances that existed at the date of transition to NFRSs without taking into account the exception for prepayment features in paragraph B4.1.12 of NFRS 9. (In this case, the entity shall also apply paragraph 42S of NFRS 7 but references to 'paragraph 7.2.5 of NFRS 9' shall be read to mean this paragraph and references to 'initial recognition of the financial asset' shall be read to mean 'at the date of transition to NFRSs'.)
- B8C If it is impracticable (as defined in NAS 8) for an entity to apply retrospectively the effective interest method in NFRS 9, the fair value of the financial asset or the financial liability at the date of transition to NFRSs shall be the new gross carrying amount of that financial asset or the new amortised cost of that financial liability at the date of transition to NFRSs.

Impairment of financial assets

- B8D An entity shall apply the impairment requirements in Section 5.5 of NFRS 9 retrospectively subject to paragraphs B8E–B8G and E1–E2.
- B8E At the date of transition to NFRSs, an entity shall use reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognised (or for loan commitments and financial guarantee contracts the date that the entity became a party to the irrevocable commitment in accordance with paragraph 5.5.6 of NFRS 9) and compare that to the credit risk at the date of transition to NFRSs (also see paragraphs B7.2.2–B7.2.3 of NFRS 9).
- B8F When determining whether there has been a significant increase in credit risk since initial recognition, an entity may apply:
- (a) the requirements in paragraph 5.5.10 and B5.5.22–B5.5.24 of NFRS 9; and
 - (b) the rebuttable presumption in paragraph 5.5.11 of NFRS 9 for contractual payments that are more than 30 days past due if an entity will apply the impairment requirements by identifying significant increases in credit risk since initial recognition for those financial instruments on the basis of past due information.
- B8G If, at the date of transition to NFRSs, determining whether there has been a significant increase in credit risk since the initial recognition of a financial instrument would require undue cost or effort, an entity shall recognise a loss allowance at an amount equal to lifetime expected credit losses at each reporting date until that financial instrument is derecognised (unless that financial instrument is low credit risk at a reporting date, in which case paragraph B8F(a) applies).

Embedded derivatives

- B9 A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph B4.3.11 of NFRS 9.

Government loans

- B10 A first-time adopter shall classify all government loans received as a financial liability or an equity instrument in accordance with NAS 32 *Financial Instruments: Presentation*. Except as permitted by paragraph B11, a first-time adopter shall apply the requirements in NFRS 9 *Financial Instruments* and NAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to NFRSs and shall not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant. Consequently, if a first-time adopter did not, under its previous GAAP, recognise and measure a government loan at a below-market rate of interest on a basis consistent with NFRS requirements, it shall use its previous GAAP carrying amount of the loan at the date of transition to NFRSs as the carrying amount of the loan in the opening NFRS statement of financial position. An entity shall apply NFRS 9 to the measurement of such loans after the date of transition to NFRSs.
- B11 Despite paragraph B10, an entity may apply the requirements in NFRS 9 and NAS 20 retrospectively to any government loan originated before the date of transition to NFRSs, provided that the information needed to do so had been obtained at the time of initially accounting for that loan.
- B12 The requirements and guidance in paragraphs B10 and B11 do not preclude an entity from being able to use the exemptions described in paragraphs D19–D19C relating to the designation of previously recognised financial instruments at fair value through profit or loss.

Insurance contracts

- B13 An entity shall apply the transition provisions in paragraphs C1–C24 and C28 in Appendix C of NFRS 17 to contracts within the scope of NFRS 17. The references in those paragraphs in NFRS 17 to the transition date shall be read as the date of transition to NFRSs.

Appendix C

Exemptions for business combinations

This appendix is an integral part of the NFRS. An entity shall apply the following requirements to business combinations that the entity recognised before the date of transition to NFRSs. This Appendix should only be applied to business combinations within the scope of NFRS 3 Business Combinations.

- C1 A first-time adopter may elect not to apply NFRS 3 retrospectively to past business combinations (business combinations that occurred before the date of transition to NFRSs). However, if a first-time adopter restates any business combination to comply with NFRS 3, it shall restate all later business combinations and shall also apply NFRS 10 from that same date. For example, if a first-time adopter elects to restate a business combination that occurred on 30 June 20X6, it shall restate all business combinations that occurred between 30 June 20X6 and the date of transition to NFRSs, and it shall also apply NFRS 10 from 30 June 20X6.
- C2 An entity need not apply NAS 21 *The Effects of Changes in Foreign Exchange Rates* retrospectively to fair value adjustments and goodwill arising in business combinations that occurred before the date of transition to NFRSs. If the entity does not apply NAS 21 retrospectively to those fair value adjustments and goodwill, it shall treat them as assets and liabilities of the entity rather than as assets and liabilities of the acquiree. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate applied in accordance with previous GAAP.
- C3 An entity may apply NAS 21 retrospectively to fair value adjustments and goodwill arising in either:
- (a) all business combinations that occurred before the date of transition to NFRSs; or
 - (b) all business combinations that the entity elects to restate to comply with NFRS 3, as permitted by paragraph C1 above.
- C4 If a first-time adopter does not apply NFRS 3 retrospectively to a past business combination, this has the following consequences for that business combination:
- (a) The first-time adopter shall keep the same classification (as an acquisition by the legal acquirer, a reverse acquisition by the legal acquiree, or a uniting of interests) as in its previous GAAP financial statements.
 - (b) The first-time adopter shall recognise all its assets and liabilities at the date of transition to NFRSs that were acquired or assumed in a past business combination, other than:
 - (i) some financial assets and financial liabilities derecognised in accordance with previous GAAP (see paragraph B2); and
 - (ii) assets, including goodwill, and liabilities that were not recognised in the acquirer's consolidated statement of financial position in accordance with previous GAAP and also would not qualify for recognition in accordance with NFRSs in the separate statement of financial position of the acquiree (see (f)–(i) below).

The first-time adopter shall recognise any resulting change by adjusting retained earnings (or, if appropriate, another category of equity), unless the change results from the recognition of an intangible asset that was previously subsumed within goodwill (see (g)(i) below).
 - (c) The first-time adopter shall exclude from its opening NFRS statement of financial position any item recognised in accordance with previous GAAP that does not qualify for recognition as an asset or liability under NFRSs. The first-time adopter shall account for the resulting change as follows:
 - (i) the first-time adopter may have classified a past business combination as an acquisition and recognised as an intangible asset an item that does not qualify for recognition as an asset in accordance with NAS 38 *Intangible Assets*. It shall reclassify that item (and, if any, the related deferred tax and non-controlling interests) as part of goodwill (unless it deducted goodwill directly from equity in accordance with previous GAAP, see (g)(i) and (i) below).
 - (ii) the first-time adopter shall recognise all other resulting changes in retained earnings.¹

¹ Such changes include reclassifications from or to intangible assets if goodwill was not recognised in accordance with previous GAAP as an asset. This arises if, in accordance with previous GAAP, the entity (a) deducted goodwill directly from equity or (b) did not treat the business combination as an acquisition.

- (d) NFRSs require subsequent measurement of some assets and liabilities on a basis that is not based on original cost, such as fair value. The first-time adopter shall measure these assets and liabilities on that basis in its opening NFRS statement of financial position, even if they were acquired or assumed in a past business combination. It shall recognise any resulting change in the carrying amount by adjusting retained earnings (or, if appropriate, another category of equity), rather than goodwill.
- (e) Immediately after the business combination, the carrying amount in accordance with previous GAAP of assets acquired and liabilities assumed in that business combination shall be their deemed cost in accordance with NFRSs at that date. If NFRSs require a cost-based measurement of those assets and liabilities at a later date, that deemed cost shall be the basis for cost-based depreciation or amortisation from the date of the business combination.
- (f) If an asset acquired, or liability assumed, in a past business combination was not recognised in accordance with previous GAAP, it does not have a deemed cost of zero in the opening NFRS statement of financial position. Instead, the acquirer shall recognise and measure it in its consolidated statement of financial position on the basis that NFRSs would require in the statement of financial position of the acquiree. To illustrate: if the acquirer had not, in accordance with its previous GAAP, capitalised leases acquired in a past business combination in which the acquiree was a lessee, it shall capitalise those leases in its consolidated financial statements, as NFRS 16 *Leases* would require the acquiree to do in its NFRS statement of financial position. Similarly, if the acquirer had not, in accordance with its previous GAAP, recognised a contingent liability that still exists at the date of transition to NFRSs, the acquirer shall recognise that contingent liability at that date unless NAS 37 *Provisions, Contingent Liabilities and Contingent Assets* would prohibit its recognition in the financial statements of the acquiree. Conversely, if an asset or liability was subsumed in goodwill in accordance with previous GAAP but would have been recognised separately under NFRS 3, that asset or liability remains in goodwill unless NFRSs would require its recognition in the financial statements of the acquiree.
- (g) The carrying amount of goodwill in the opening NFRS statement of financial position shall be its carrying amount in accordance with previous GAAP at the date of transition to NFRSs, after the following two adjustments:
- (i) If required by (c)(i) above, the first-time adopter shall increase the carrying amount of goodwill when it reclassifies an item that it recognised as an intangible asset in accordance with previous GAAP. Similarly, if (f) above requires the first-time adopter to recognise an intangible asset that was subsumed in recognised goodwill in accordance with previous GAAP, the first-time adopter shall decrease the carrying amount of goodwill accordingly (and, if applicable, adjust deferred tax and non-controlling interests).
 - (ii) Regardless of whether there is any indication that the goodwill may be impaired, the first-time adopter shall apply NAS 36 in testing the goodwill for impairment at the date of transition to NFRSs and in recognising any resulting impairment loss in retained earnings (or, if so required by NAS 36, in revaluation surplus). The impairment test shall be based on conditions at the date of transition to NFRSs.
- (h) No other adjustments shall be made to the carrying amount of goodwill at the date of transition to NFRSs. For example, the first-time adopter shall not restate the carrying amount of goodwill:
- (i) to exclude in-process research and development acquired in that business combination (unless the related intangible asset would qualify for recognition in accordance with NAS 38 in the statement of financial position of the acquiree);
 - (ii) to adjust previous amortisation of goodwill;
 - (iii) to reverse adjustments to goodwill that NFRS 3 would not permit, but were made in accordance with previous GAAP because of adjustments to assets and liabilities between the date of the business combination and the date of transition to NFRSs.
- (i) If the first-time adopter recognised goodwill in accordance with previous GAAP as a deduction from equity:
- (i) it shall not recognise that goodwill in its opening NFRS statement of financial position. Furthermore, it shall not reclassify that goodwill to profit or loss if it disposes of the subsidiary or if the investment in the subsidiary becomes impaired.
 - (ii) adjustments resulting from the subsequent resolution of a contingency affecting the purchase consideration shall be recognised in retained earnings.

- (j) In accordance with its previous GAAP, the first-time adopter may not have consolidated a subsidiary acquired in a past business combination (for example, because the parent did not regard it as a subsidiary in accordance with previous GAAP or did not prepare consolidated financial statements). The first-time adopter shall adjust the carrying amounts of the subsidiary's assets and liabilities to the amounts that NFRSs would require in the subsidiary's statement of financial position. The deemed cost of goodwill equals the difference at the date of transition to NFRSs between:
 - (i) the parent's interest in those adjusted carrying amounts; and
 - (ii) the cost in the parent's separate financial statements of its investment in the subsidiary.
- (k) The measurement of non-controlling interests and deferred tax follows from the measurement of other assets and liabilities. Therefore, the above adjustments to recognised assets and liabilities affect non-controlling interests and deferred tax.

C5 The exemption for past business combinations also applies to past acquisitions of investments in associates, interests in joint ventures and interests in joint operations in which the activity of the joint operation constitutes a business, as defined in NFRS 3. Furthermore, the date selected for paragraph C1 applies equally for all such acquisitions.

Appendix D Exemptions from other NFRSs

This appendix is an integral part of the NFRS.

- D1 An entity may elect to use one or more of the following exemptions:
- (a) share-based payment transactions (paragraphs D2 and D3);
 - (b) [deleted]
 - (c) deemed cost (paragraphs D5–D8B);
 - (d) leases (paragraphs D9 and D9B–D9E);
 - (e) [deleted]
 - (f) cumulative translation differences (paragraphs D12 and D13);
 - (g) investments in subsidiaries, joint ventures and associates (paragraphs D14–D15A);
 - (h) assets and liabilities of subsidiaries, associates and joint ventures (paragraphs D16 and D17);
 - (i) compound financial instruments (paragraph D18);
 - (j) designation of previously recognised financial instruments (paragraphs D19–D19C);
 - (k) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph D20);
 - (l) decommissioning liabilities included in the cost of property, plant and equipment (paragraphs D21 and D21A);
 - (m) financial assets or intangible assets accounted for in accordance with IFRIC 12 *Service Concession Arrangements* (paragraph D22);
 - (n) borrowing costs (paragraph D23);
 - (o) transfers of assets from customers (paragraph D24);
 - (p) extinguishing financial liabilities with equity instruments (paragraph D25);
 - (q) severe hyperinflation (paragraphs D26–D30);
 - (r) joint arrangements (paragraph D31);
 - (s) stripping costs in the production phase of a surface mine (paragraph D32);
 - (t) designation of contracts to buy or sell a non-financial item (paragraph D33);
 - (u) revenue (paragraphs D34 and D35); and
 - (v) foreign currency transactions and advance consideration (paragraph D36).

An entity shall not apply these exemptions by analogy to other items.

Share-based payment transactions

- D2 A first-time adopter is encouraged, but not required, to apply NFRS 2 *Share-based Payment* to equity instruments that were granted on or before the date of transition to NFRS. A first-time adopter is also encouraged, but not required, to apply NFRS 2 to equity instruments that were granted after date of transition to NFRS and vested before the later of (a) the date of transition to NFRSs and (b) effective date. However, if a first-time adopter elects to apply NFRS 2 to such equity instruments, it may do so only if the entity has disclosed publicly the fair value of those equity instruments, determined at the measurement date, as defined in NFRS 2. For all grants of equity instruments to which NFRS 2 has not been applied (eg equity instruments granted on or before date of transition), a first-time adopter shall nevertheless disclose the information required by paragraphs 44 and 45 of NFRS 2. If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which NFRS 2 has not been applied, the entity is not required to apply paragraphs 26–29 of NFRS 2 if the modification occurred before the date of transition to NFRSs.
- D3 A first-time adopter is encouraged, but not required, to apply NFRS 2 to liabilities arising from share-based payment transactions that were settled before the date of transition to NFRSs. A first-time adopter is also encouraged, but not required, to apply NFRS 2 to liabilities that were settled before the effective date. For liabilities to which NFRS 2 is applied, a first-time adopter is not required to restate comparative information

to the extent that the information relates to a period or date that is earlier than the date of transition to NFRSs.

D4 [Deleted]

Deemed cost

D5 An entity may elect to measure an item of property, plant and equipment at the date of transition to NFRSs at its fair value and use that fair value as its deemed cost at that date.

D6 A first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to NFRSs as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:

- (a) fair value; or
- (b) cost or depreciated cost in accordance with NFRSs, adjusted to reflect, for example, changes in a general or specific price index.

D7 The elections in paragraphs D5 and D6 are also available for:

- (a) investment property, if an entity elects to use the cost model in NAS 40 *Investment Property*;
- (aa) right-of-use assets (NFRS 16 *Leases*); and
- (b) intangible assets that meet:
 - (i) the recognition criteria in NAS 38 (including reliable measurement of original cost); and
 - (ii) the criteria in NAS 38 for revaluation (including the existence of an active market).

An entity shall not use these elections for other assets or for liabilities.

D8 A first-time adopter may have established a deemed cost in accordance with previous GAAP for some or all of its assets and liabilities by measuring them at their fair value at one particular date because of an event such as a privatisation or initial public offering.

- (a) If the measurement date is *at or before* the date of transition to NFRSs, the entity may use such event-driven fair value measurements as deemed cost for NFRSs at the date of that measurement.
- (b) If the measurement date is *after* the date of transition to NFRSs, but during the period covered by the first NFRS financial statements, the event-driven fair value measurements may be used as deemed cost when the event occurs. An entity shall recognise the resulting adjustments directly in retained earnings (or if appropriate, another category of equity) at the measurement date. At the date of transition to NFRSs, the entity shall either establish the deemed cost by applying the criteria in paragraphs D5–D7 or measure assets and liabilities in accordance with the other requirements in this NFRS.

D8A Under some national accounting requirements exploration and development costs for oil and gas properties in the development or production phases are accounted for in cost centres that include all properties in a large geographical area. A first-time adopter using such accounting under previous GAAP may elect to measure oil and gas assets at the date of transition to NFRSs on the following basis:

- (a) exploration and evaluation assets at the amount determined under the entity's previous GAAP; and
- (b) assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

The entity shall test exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to NFRSs in accordance with NFRS 6 *Exploration for and Evaluation of Mineral Resources* or NAS 36 respectively and, if necessary, reduce the amount determined in accordance with (a) or (b) above. For the purposes of this paragraph, oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

D8B Some entities hold items of property, plant and equipment, right-of-use assets or intangible assets that are used, or were previously used, in operations subject to rate regulation. The carrying amount of such items might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with NFRSs. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to NFRSs as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to NFRSs, an entity shall test

for impairment in accordance with NAS 36 each item for which this exemption is used. For the purposes of this paragraph, operations are subject to rate regulation if they are governed by a framework for establishing the prices that can be charged to customers for goods or services and that framework is subject to oversight and/or approval by a rate regulator (as defined in NFRS 14 *Regulatory Deferral Accounts*).

Leases

- D9 A first-time adopter may assess whether a contract existing at the date of transition to NFRSs contains a lease by applying paragraphs 9–11 of NFRS 16 to those contracts on the basis of facts and circumstances existing at that date.
- D9A [Deleted]
- D9B When a first-time adopter that is a lessee recognises lease liabilities and right-of-use assets, it may apply the following approach to all of its leases (subject to the practical expedients described in paragraph D9D):
- (a) measure a lease liability at the date of transition to NFRSs. A lessee following this approach shall measure that lease liability at the present value of the remaining lease payments (see paragraph D9E), discounted using the lessee's incremental borrowing rate (see paragraph D9E) at the date of transition to NFRSs.
 - (b) measure a right-of-use asset at the date of transition to NFRSs. The lessee shall choose, on a lease-by-lease basis, to measure that right-of-use asset at either:
 - (i) its carrying amount as if NFRS 16 had been applied since the commencement date of the lease (see paragraph D9E), but discounted using the lessee's incremental borrowing rate at the date of transition to NFRSs; or
 - (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of transition to NFRSs.
 - (c) apply NAS 36 to right-of-use assets at the date of transition to NFRSs.
- D9C Notwithstanding the requirements in paragraph D9B, a first-time adopter that is a lessee shall measure the right-of-use asset at fair value at the date of transition to NFRSs for leases that meet the definition of investment property in NAS 40 and are measured using the fair value model in NAS 40 from the date of transition to NFRSs.
- D9D A first-time adopter that is a lessee may do one or more of the following at the date of transition to NFRSs, applied on a lease-by-lease basis:
- (a) apply a single discount rate to a portfolio of leases with reasonably similar characteristics (for example, a similar remaining lease term for a similar class of underlying asset in a similar economic environment).
 - (b) elect not to apply the requirements in paragraph D9B to leases for which the lease term (see paragraph D9E) ends within 12 months of the date of transition to NFRSs. Instead, the entity shall account for (including disclosure of information about) these leases as if they were short-term leases accounted for in accordance with paragraph 6 of NFRS 16.
 - (c) elect not to apply the requirements in paragraph D9B to leases for which the underlying asset is of low value (as described in paragraphs B3–B8 of NFRS 16). Instead, the entity shall account for (including disclosure of information about) these leases in accordance with paragraph 6 of NFRS 16.
 - (d) exclude initial direct costs (see paragraph D9E) from the measurement of the right-of-use asset at the date of transition to NFRSs.
 - (e) use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.
- D9E Lease payments, lessee, lessee's incremental borrowing rate, commencement date of the lease, initial direct costs and lease term are defined terms in NFRS 16 and are used in this Standard with the same meaning.
- D10– D11 [Deleted]

Cumulative translation differences

- D12 NAS 21 requires an entity:

- (a) to recognise some translation differences in other comprehensive income and accumulate these in a separate component of equity; and
 - (b) on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation (including, if applicable, gains and losses on related hedges) from equity to profit or loss as part of the gain or loss on disposal.
- D13 However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to NFRSs. If a first-time adopter uses this exemption:
- (a) the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to NFRSs; and
 - (b) the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to NFRSs and shall include later translation differences.

Investments in subsidiaries, joint ventures and associates

- D14 When an entity prepares separate financial statements, NAS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:
- (a) at cost;
 - (b) in accordance with NFRS 9; or
 - (c) using the equity method as described in NAS 28.
- D15 If a first-time adopter measures such an investment at cost in accordance with NAS 27, it shall measure that investment at one of the following amounts in its separate opening NFRS statement of financial position:
- (a) cost determined in accordance with NAS 27; or
 - (b) deemed cost. The deemed cost of such an investment shall be its:
 - (i) fair value at the entity's date of transition to NFRSs in its separate financial statements; or
 - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost.

- D15A If a first-time adopter accounts for such an investment using the equity method procedures as described in NAS 28:
- (a) the first-time adopter applies the exemption for past business combinations (Appendix C) to the acquisition of the investment.
 - (b) if the entity becomes a first-time adopter for its separate financial statements earlier than for its consolidated financial statements, and
 - (i) later than its parent, the entity shall apply paragraph D16 in its separate financial statements.
 - (ii) later than its subsidiary, the entity shall apply paragraph D17 in its separate financial statements.

Assets and liabilities of subsidiaries, associates and joint ventures

- D16 If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:
- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to NFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in NFRS 10, that is required to be measured at fair value through profit or loss); or
 - (b) the carrying amounts required by the rest of this NFRS, based on the subsidiary's date of transition to NFRSs. These carrying amounts could differ from those described in (a):

- (i) when the exemptions in this NFRS result in measurements that depend on the date of transition to NFRSs.
- (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in NAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

- D17 However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Notwithstanding this requirement, a non-investment entity parent shall not apply the exception to consolidation that is used by any investment entity subsidiaries. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

Compound financial instruments

- D18 NAS 32 *Financial Instruments: Presentation* requires an entity to split a compound financial instrument at inception into separate liability and equity components. If the liability component is no longer outstanding, retrospective application of NAS 32 involves separating two portions of equity. The first portion is in retained earnings and represents the cumulative interest accreted on the liability component. The other portion represents the original equity component. However, in accordance with this NFRS, a first-time adopter need not separate these two portions if the liability component is no longer outstanding at the date of transition to NFRSs.

Designation of previously recognised financial instruments

- D19 NFRS 9 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through profit or loss. Despite this requirement an entity is permitted to designate, at the date of transition to NFRSs, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of NFRS 9 at that date.
- D19A An entity may designate a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5 of NFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NFRSs.
- D19B An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5 of NFRS 9 on the basis of the facts and circumstances that exist at the date of transition to NFRSs.
- D19C For a financial liability that is designated as a financial liability at fair value through profit or loss, an entity shall determine whether the treatment in paragraph 5.7.7 of NFRS 9 would create an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of transition to NFRSs.

Fair value measurement of financial assets or financial liabilities at initial recognition

- D20 Despite the requirements of paragraphs 7 and 9, an entity may apply the requirements in paragraph B5.1.2A(b) of NFRS 9 prospectively to transactions entered into on or after the date of transition to NFRSs.

Decommissioning liabilities included in the cost of property, plant and equipment

- D21 IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to NFRSs. If a first-time adopter uses this exemption, it shall:
- (a) measure the liability as at the date of transition to NFRSs in accordance with NAS 37;
 - (b) to the extent that the liability is within the scope of IFRIC 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
 - (c) calculate the accumulated depreciation on that amount, as at the date of transition to NFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity in accordance with NFRSs.
- D21A An entity that uses the exemption in paragraph D8A(b) (for oil and gas assets in the development or production phases accounted for in cost centres that include all properties in a large geographical area under previous GAAP) shall, instead of applying paragraph D21 or IFRIC 1:
- (a) measure decommissioning, restoration and similar liabilities as at the date of transition to NFRSs in accordance with NAS 37; and
 - (b) recognise directly in retained earnings any difference between that amount and the carrying amount of those liabilities at the date of transition to NFRSs determined under the entity's previous GAAP.

Financial assets or intangible assets accounted for in accordance with IFRIC 12

- D22 A first-time adopter may apply the transitional provisions in IFRIC 12.

Borrowing costs

- D23 A first-time adopter can elect to apply the requirements of NAS 23 from the date of transition or from an earlier date as permitted by paragraph 28 of NAS 23. From the date on which an entity that applies this exemption begins to apply NAS 23, the entity:
- (a) shall not restate the borrowing cost component that was capitalised under previous GAAP and that was included in the carrying amount of assets at that date; and
 - (b) shall account for borrowing costs incurred on or after that date in accordance with NAS 23, including those borrowing costs incurred on or after that date on qualifying assets already under construction.

- D24 [Deleted]

Extinguishing financial liabilities with equity instruments

- D25 A first-time adopter may apply the transitional provisions in IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.

Severe hyperinflation

- D26 If an entity has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of transition to NFRSs. This applies to entities that are adopting NFRSs for the first time, as well as entities that have previously applied NFRSs.
- D27 The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

- (a) a reliable general price index is not available to all entities with transactions and balances in the currency.
- (b) exchangeability between the currency and a relatively stable foreign currency does not exist.
- D28 The functional currency of an entity ceases to be subject to severe hyperinflation on the functional currency normalisation date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph D27, or when there is a change in the entity's functional currency to a currency that is not subject to severe hyperinflation.
- D29 When an entity's date of transition to NFRSs is on, or after, the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to NFRSs. The entity may use that fair value as the deemed cost of those assets and liabilities in the opening NFRS statement of financial position.
- D30 When the functional currency normalisation date falls within a 12-month comparative period, the comparative period may be less than 12 months, provided that a complete set of financial statements (as required by paragraph 10 of NAS 1) is provided for that shorter period.

Joint arrangements

- D31 A first-time adopter may apply the transition provisions in NFRS 11 with the following exceptions:
- (a) When applying the transition provisions in NFRS 11, a first-time adopter shall apply these provisions at the date of transition to NFRS.
- (b) When changing from proportionate consolidation to the equity method, a first-time adopter shall test for impairment the investment in accordance with NAS 36 as at the date of transition to NFRS, regardless of whether there is any indication that the investment may be impaired. Any resulting impairment shall be recognised as an adjustment to retained earnings at the date of transition to NFRS.

Stripping costs in the production phase of a surface mine

- D32 A first-time adopter may apply the transitional provisions set out in paragraphs A1 to A4 of IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. In that paragraph, reference to the effective date shall be interpreted as 17 July 2019 or the beginning of the first NFRS reporting period, whichever is later.

Designation of contracts to buy or sell a non-financial item

- D33 NFRS 9 permits some contracts to buy or sell a non-financial item to be designated at inception as measured at fair value through profit or loss (see paragraph 2.5 of NFRS 9). Despite this requirement an entity is permitted to designate, at the date of transition to NFRSs, contracts that already exist on that date as measured at fair value through profit or loss but only if they meet the requirements of paragraph 2.5 of NFRS 9 at that date and the entity designates all similar contracts.

Revenue

- D34 A first-time adopter may apply the transition provisions in paragraph C5 of NFRS 15. In those paragraphs references to the 'date of initial application' shall be interpreted as the beginning of the first NFRS reporting period. If a first-time adopter decides to apply those transition provisions, it shall also apply paragraph C6 of NFRS 15.
- D35 A first-time adopter is not required to restate contracts that were completed before the earliest period presented. A completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with previous GAAP.

Foreign currency transactions and advance consideration

- D36 A first-time adopter need not apply IFRIC 22 *Foreign Currency Transactions and Advance Consideration* to assets, expenses and income in the scope of that Interpretation initially recognised before the date of transition to NFRS Standards.

Appendix E

Short-term exemptions from NFRSs

This appendix is an integral part of the NFRS.

Exemption from the requirement to restate comparative information for NFRS 9

- E1 If an entity's first NFRS reporting period begins before 17 July 2019 and the entity applies NFRS 9, the comparative information in the entity's first NFRS financial statements need not comply with NFRS 7 *Financial Instruments: Disclosure* or the NFRS 9; to the extent that the disclosures required by NFRS 7 relate to items within the scope of NFRS 9. For such entities, references to the 'date of transition to NFRSs' shall mean, in the case of NFRS 7 and NFRS 9 only, the beginning of the first NFRS reporting period.
- E2 An entity that chooses to present comparative information that does not comply with NFRS 7 and the NFRS 9 in its first year of transition shall:
- (a) apply the requirements of its previous GAAP in place of the requirements of NFRS 9 to comparative information about items within the scope of NFRS 9.
 - (b) disclose this fact together with the basis used to prepare this information.
 - (c) treat any adjustment between the statement of financial position at the comparative period's reporting date (ie the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the *first NFRS reporting period* (ie the first period that includes information that complies with NFRS 7 and NFRS 9 as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)–(e) and (f)(i) of NAS 8. Paragraph 28(f)(i) applies only to amounts presented in the statement of financial position at the comparative period's reporting date.
 - (d) apply paragraph 17(c) of NAS 1 to provide additional disclosures when compliance with the specific requirements in NFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- E3–E7 [Deleted]

Uncertainty over income tax treatments

- E8 A first-time adopter whose date of transition to NFRSs is before 17 July 2019 may elect not to reflect the application of IFRIC 23 *Uncertainty over Income Tax Treatments* in comparative information in its first NFRS financial statements. An entity that makes that election shall recognise the cumulative effect of applying IFRIC 23 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of its first NFRS reporting period.