18 January 2012

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Dear Sir / Madam,

Re: Exposure Draft Government Loans (proposed amendments to IFRS 1)

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft of Proposed Amendments to IFRS 1 *Government Loans* ('the ED'). This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of the definitive IFRS on the issues.

We are supportive of what the proposals are trying to achieve. However, we believe that the Board should provide guidance on the recognition and measurement of all government loans existing at the date of transition, and not just on those that were recognised as liabilities under previous GAAP.

Our detailed comments are set out in the Appendix to this letter.

If you wish to discuss our comments further, please do not hesitate to contact Giorgio Alessio Acunzo or me.

Yours sincerely,

Françoise Flores
EFRAG, Chairman

Appendix

EFRAG's detailed comments on the amendments proposed

Question 1

The Board proposes to amend IFRS 1 so that first-time adopters would be required to apply paragraph 10A of IAS 20 prospectively to loans entered into on or after the date of transition to IFRSs, unless the information needed to apply these requirements to a government loan as a result of past transaction was obtained at the time of initially accounting for that loan. Do you agree? Why or why not?

EFRAG's response

We are supportive of what these proposals are trying to achieve. However we believe that the Board should provide additional guidance on the recognition and measurement of all government loans existing at the date of transition.

1 As EFRAG has previously stated in the comment letters on other amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the objective of IFRS 1 is to ensure that an entity's first IFRS financial statements contain high quality information that:

(a) is transparent for users and comparable between the periods presented;

(b) provides a suitable starting point for accounting in accordance with IFRS; and

(c) can be generated at a cost that does not exceed the benefits.

2 EFRAG agrees with the Board that the requirement to apply paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20) retrospectively may lead to an entity applying hindsight if it must derive a fair value that need significant unobservable inputs. In addition, retrospective application of any requirement would bring with it a certain level of costs that would be avoided under the proposals.

3 While we are supportive of what the proposals are trying to achieve, we believe that the Board has not adequately addressed the accounting for government loans that were not recognised as liabilities under previous GAAP (e.g. government loans in the form of redeemable shares and government loans to be repaid out of future profits).

4 EFRAG believes that, as drafted, paragraph B10 of the ED would permit a first-time adopter not to recognise a liability for a government loan under IFRSs, if it had not accounted for the government loan as a liability under its previous GAAP. We believe this is inappropriate and recommend that the IASB modify the proposal to ensure that all government loans existing at the date of transition are recognised as liabilities. In addition, the Board should provide guidance on measurement to ensure that such liabilities would not be recognised at nil, if that were the carrying amount under previous GAAP.

5 Finally EFRAG believes that the reference in paragraph B10 to IFRS 9 *Financial Instrument* should be deleted, because paragraph 10A of IAS 20 already refers to IFRS 9 and is superfluous. Additionally, the first sentence of paragraph B10 could be misinterpreted to imply that the exemption from retrospective application applies to all

loans recognised under IFRS 9 and not just those that are recognised as a result of paragraph 10A of IAS 20. Accordingly, the reference to IFRS 9 should also be deleted in paragraph B11 of the proposed amendments.

Question 2

Do you have any other comments on the proposals?

EFRAG's response

We believe that the Board should require entities to apply the option for the retrospective application consistently.

6 Paragraph B11 of the ED proposes that an entity *may* retrospectively apply paragraph 10A of IAS 20 'provided that the information needed to apply these requirements to that government loan was obtained at the time of initially accounting for that loan'.

7 EFRAG supports the option for retrospective application as it increases the relevance and the comparability of financial information, but we believe the Board should require entities that elect to use this option apply it consistently to all government loans for which the information needed is available.