Draft for consultation

Accounting Technical Releases (Revised)

Comments by November 15, 2022

Accounting Standards Board

September 2022

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Introduction

The Institute has issued Accounting Technical Releases (TRs). The objectives of Institute's TRs have been to provide guidance on the:

a) Financial accounting and reporting matters that are not explained or covered by the accounting standards;

b) Accounting matters relating to a statutory provision; and

c) Applicability of the IASB pronouncements.

Over time, the Institute after detailed analysis also revised and withdrew the TRs. These TRs were revised and withdrawn in different periods, in consideration of either changed financial reporting requirements or changed underlying fact patterns

Currently issued TRs

Currently, following seven (7) TRs are effective and uploaded on the Institute's website. These are:

1. TR 5 IASB Standards – Council's Statement on Applicability
2. TR 6 Fixed Assets Inventory and Records
3. TR 8 Clarification Regarding Basis of Calculation of WPPF
4. TR 22 Book Value Per Share
5. TR 27 IAS 12, Income Taxes
6. TR 29 Carry-Over-Transactions
7. TR 32 Accounting Directors' Loan

Why ASB carried out the Comprehensive review of the above-noted TRs

The Accounting Standards Board (ASB/Board) of the Institute of Chartered Accountants of Pakistan (ICAP) has carried out a comprehensive review of the currently effective Accounting Technical Releases (TRs). ASB carried out this review with objective to:

a) update the TRs in accordance with the changed accounting and regulatory requirements;

b) improve the structure and drafting convention of the TRs; and

c) propose withdrawal of TRs (if required) in view of new guidances under the IFRS Accounting Standards.

What has been proposed by ASB in this document

The outcome of the ASB's comprehensive review is that it has reformatted and revised the following TRs in view of the changed accounting and regulatory requirements and related developments. The structure and drafting convention of TRs have also been improved and aligned to make them more understandable and easier to use.

- TR 5 - Council's statement on applicability of IFRS accounting standards and pronouncements issued by the IASB and Accounting Standards Board
- TR 6 - Fixed assets records

- TR 8 - Clarification regarding the basis of calculation of workers' profit participation fund
- TR 22 - Calculation of book value per share
- TR 32 - Accounting of related party loans

There will be no change in the identification number/sequencing of the TRs.

ASB, in addition to the structural changes and revisions to the above-noted TRs, has also proposed the withdrawal of following TRs:

- TR 27 - IAS 12, Income Taxes (Revised 2012)
- TR 29 - Carry over transactions

The Basis and explanations for the ASB's decision to withdraw the above-noted TRs are provided in this document.

The Next steps

ASB places a great importance on the members' and stakeholders' input. It welcomes your views and comments on the proposed revisions (in TR 5, TR 6, TR 8, TR 22 and TR 32) and withdrawal of the TR 27 and TR 29.

ASB will consider comments it receives and will decide whether to proceed with the proposed changes and withdrawal of the TRs.

Please email your comments by November 15, 2022 to dtscomments@icap.org.pk

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Council's statement on applicability of IFRS accounting standards and pronouncements issued by the IASB and Accounting Standards Board

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Technical Release 5

Council's statement on applicability of IFRS accounting standards and pronouncements issued by the IASB and Accounting Standards Board

Objective

1. This technical release (TR) of the Institute of Chartered Accountants of Pakistan (the Institute/ ICAP) is related to the Institute's commitments under the Statement of Membership Obligation (SMO) 7 issued by the International Federation of Accountants (IFAC).

   The Institute is a member body of IFAC. Under SMO 7, *International Financial Reporting Standards and Other Pronouncements issued by IASB*, the Institute (as a member body of IFAC) is obligated to use its best endeavors to:

   (a) incorporate the requirements of the International Financial Reporting Standards (IFRS Accounting Standards) in the Pakistan accounting requirements;

   (b) assist with the implementation of IFRS Accounting Standards in Pakistan; and

   (c) encourage the use of IFRS for Small and Medium-sized Entities (IFRS for SMEs) for non-public interest entities in Pakistan.

   The IFRS Accounting Standards and IFRS for SMEs are developed and issued by the International Accounting Standards Board (IASB).

2. In Pakistan, the Accounting Standards Board provides support to stakeholders (including regulators and preparers of financial statements) in the adoption and implementation of IFRS Accounting Standards, IFRS for SMEs, and other financial reporting standards as applicable in Pakistan.

3. The objective of this TR is to direct the Institute's members when they are forming an opinion on the financial statements of an entity (as independent auditors of the entity), to ensure that the audited financial statements are prepared by entity's management in compliance with the financial reporting standards as applicable to the entity, and where applicable the financial statements are in compliance with the:

   (a) requirements of the IFRS Accounting Standards and other pronouncements issued by the IASB; and

   (b) pronouncements and accounting opinions issued by the Accounting Standards Board.

Council's Directive

4. The Institute through this TR directs the members of the Institute, that when forming an opinion on the financial statements of a company/entity, they shall ensure that the financial statements prepared by management of the entity, where applicable, comply with the:

   (a) IFRS Accounting Standards, IFRS for SMEs, and other pronouncements issued by the IASB; and

   (b) opinions and pronouncements issued by the Accounting Standards Board.

5. This TR shall be applicable to any changes in the above-noted standards, opinions and pronouncements in the future unless otherwise specified by the Council.

6. A non-compliance with this TR shall be deemed to be professional misconduct in terms of clause (3) of Part 4 of Schedule I to the Chartered Accountants Ordinance, 1961.

Categorization of entities

7. For the purposes of this TR, entities are categorized as:

(a) a company/entity registered under the Companies Act, 2017 (the Companies Act) or specialized law, and regulated by the Securities and Exchange Commission of Pakistan (SECP) or State Bank of Pakistan (SBP);

(b) a regulatory body or public utility entity, not regulated by the SECP or SBP;

(c) employee retirement fund; and

(d) other entity that does not fall in the above categories (a), (b) and (c).

Entities registered under the Companies Act and/or specialized law, and regulated by the SECP and SBP, include, listed companies, public sector companies, specialized entities (insurance companies, non-banking finance companies, mutual funds, modarabas, banks, micro-finance banks, development finance institutions) and other public and private companies etc.

Regulatory bodies, in general, are established by the government through the legislature. Different terms can be used for such bodies (For example, regulatory body/authority/ agency).

Entities that are neither companies, specialized entities, regulatory bodies or public utility entities, ordinarily include not-for-profit organizations, trusts and societies. Such entities are ordinarily registered under the Trust Act or the Societies Registration Act.

Financial reporting standards as applicable in Pakistan

8. Under the Companies Act, the financial reporting standards as applicable in Pakistan include the:

- IFRS Standards issued by IASB (for companies opting for unreserved compliance with IFRS Standards);
- IFRS Standards issued by IASB and notified by SECP;
- IFRS for SMEs issued by IASB and notified by SECP;
- Revised AFRS for SSEs developed by the Institute and notified by SECP, under the Companies Act;
- Accounting Standard for NPOs developed by the Institute and notified by SECP;
- Islamic Financial Accounting Standards; and
- Accounting Standards developed by the Accounting Standards Board and notified by SECP.

Financial reporting framework of an entity registered under the Companies Act or specialized laws, and regulated by the SECP

9. The member of the Institute, when forming an opinion on the statutory financial statements of a company/entity regulated by the SECP or SBP, shall ensure that the financial statements of the company/entity comply with the financial reporting standards applicable to such entity under the Companies Act and/or specialized law.

   The Companies Act or specialized law applicable to the entity may also prescribe specific accounting and financial reporting requirements.

10. It is emphasized that the financial reporting standards as applicable in Pakistan do not override the statutory provisions of the Companies Act and the specialized laws applicable to entities (such as Banking Companies Ordinance 1962, Insurance Ordinance 2000, Modaraba Companies and Modaraba (Floatation and Control) Ordinance 1980, Non-Banking Finance Companies and Notified Entities Regulations 2008). Compliance with the financial reporting standards as applicable in Pakistan shall be mandatory in so far as such standards are not inconsistent with the statutory provisions, directives, or pronouncements issued under the statutory laws.

11. Where there is any departure from or inconsistency with the requirements of the financial reporting standards as applicable to the entity, the member of the institute while forming an opinion on the financial statements of the entity shall modify the opinion in the auditor's report in accordance with International Standards on Auditing as applicable in Pakistan.

Financial reporting framework of the regulatory body or public utility entity that are not regulated by the SECP or SBP

12. The member of the Institute, when forming an opinion on the financial statements of a regulatory body or public utility entity shall ensure that the financial statements comply with the financial reporting framework prescribed in the statute under which the regulatory body or public utility entity has been established.

13. Where the statutes under which a regulatory agency or public utility entity are established do not prescribe a financial reporting framework, the Institute recommends that:

    (a) the regulatory body or public utility is classified as a 'large-sized' or 'medium-sized' entity.

    The large-sized entity is determined in accordance with the criteria provided in the third schedule of the Companies Act (i.e. the criteria provided for the large-sized company).

    A regulatory body or public utility that do not meet the criteria of a large-sized entity are classified as medium-sized entities.

    (b) large-sized regulatory body or public utility entity prepare its financial statements in accordance with IFRS Accounting Standards; and

    (c) medium-sized regulatory body or public utility entity prepare its financial statements in accordance with IFRS for SMEs. However, such an entity can also opt to prepare financial statements in accordance with the IFRS Accounting Standards.

Financial reporting framework of employee retirement fund

14. The member of the Institute, when forming an opinion on the financial statements of an employee retirement fund (provident fund, gratuity, compensated absences, pension fund),

shall ensure that the financial statements comply with the financial reporting framework prescribed in the statute under which the employee retirement fund has been established.

15. Where the statute under which a employee retirement fund is established does not prescribe any financial reporting framework, the Institute recommends that the financial statements of employee retirement fund are prepared in accordance with IFRS Accounting Standards.

Financial reporting framework of other entities

16. The member of the Institute, when forming an opinion on the financial statements of an entity that is not a:

    (a) company/entity registered under the Companies Act or specialized law, and regulated by the SECP or SBP;

    (b) regulatory body;

    (c) public utility entity; or

    (d) employee retirement fund

    shall ensure that the financial statements of such an entity comply with the financial reporting framework prescribed in the statute under which the entity has been established.

17. Where the statute under which the entity is established does not prescribe any financial reporting framework, the Institute recommends that such entity should refer to the third schedule of the Companies Act for determining the classification of the entity and appropriate financial reporting standards (in accordance with the size of the entity). However, such an entity can also apply the old AFRS for Small Sized Entities (issued by the Institute in 2006) or another financial reporting framework that meets the needs of users of entity's financial statements.

Compliance with the opinions and other pronouncements of Accounting Standards Board

18. The member of the Institute, when forming an opinion on the financial statements of an entity prepared in accordance with the financial reporting standards as applicable in Pakistan shall ensure that those financial statements also comply with the relevant pronouncements and accounting opinions issued by the Accounting Standards Board.

Effective date and transition

19. This revised TR 5 supersedes current effective TR 5, *IASB Standards – Council's Statement on Applicability (Revised 2016).*

20. This TR is applicable to the financial statements for the period ending on or after December 31, 2022.

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Technical Release 6

Fixed assets records

Objective

1. Corporate law requires the companies to maintain proper books of accounts with respect to fixed assets of the company. But no guidance was available for companies as to how fixed assets records to be maintained.

2. The fixed assets generally, comprise a significant part of a company's assets, and besides the management of the company various stakeholders (such as lenders, potential investors, shareholders, etc.) need information about fixed assets.

3. This technical release (TR) has been issued with an objective to provide guidance on the manner in which proper books of accounts for fixed assets should be maintained under corporate law.

Record and physical verification of fixed assets

Itemized record of fixed assets

4. Adequate itemized record of fixed assets should be maintained which at a minimum must indicate the following particulars:

   (a) a detailed description of the item
   (b) the original cost of item
   (c) date of acquisition of item
   (d) classification of the item
   (e) the location and/or the custodian of the item
   (f) the rate of depreciation
   (g) accumulated depreciation of item
   (h) the depreciation charge for the period
   (i) the department/cost center/product to which the depreciation is charged
   (j) date of revaluation (if any) of item
   (k) revalued amount (if any) of the items
   (l) depreciation on revalued amount
   (m) accumulated depreciation on the revalued amount

Physical verification of fixed assets

5. An entity shall carry out physical verification of its fixed assets at a regular interval.

6. The data of physical verifications shall be reconciled with the fixed assets records, and the record shall be adjusted accordingly.

Effective date and transition

7. This revised TR 6 supersedes current effective TR 6, *Fixed Assets Inventory and Records (Revised 2012).*

8. This TR is applicable to the financial statements for the period ending on or after December 31, 2022.

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Technical Release 8

Clarification regarding the basis of calculation of workers' profit participation fund

Objective

1. The objective of this technical release (TR) is to clarify the calculation mechanism of the Workers' Profit Participation Fund (WPPF) as per the Companies Profits (Worker's Participation) Act, 1968 (the WPPF Act) or the Provincial WPPF Acts.

Calculation of WPPF

2. An entity is required to calculate and make a contribution to the Workers' Profit Participation Fund in accordance with the statutory provisions of the WPPF Act and/or the Provincial WPPF Acts.

   In accordance with the WPPF Act, the yearly contribution to WPPF shall be calculated by a company as five percent (5%) of profit during the year, as per the audited accounts/financial statements. The same calculation basis is provided in the Provincial WPPF Acts.

3. In view of the above provision of the WPPF Act and Provincial WPPF Acts, contribution to the WPPF shall be calculated before charging it against the profit of the year.

   For illustration purposes an example is given hereunder:

Profit for the year - before tax	Rs. 250.00
WPPF @ 5% of profit for the year	Rs. 12.50

4. This TR provides clarification on the calculation of WPPF under the prevalent provisions of the WPPF Act or the provincial WPPF Acts. Companies shall consider the applicable provisions of the WPPF Act or the provincial WPPF Acts, as a revision in the statutory provisions may require a changed basis/mechanism for the calculation of WPPF.

5. This TR does not pertain to the interaction and/or applicability of the WPPF Act and the provisional WPPF Acts/laws.

Effective date and transition

6. This revised TR 8 supersedes current effective TR 8, *Clarification Regarding Basis of Calculation of WPPF*

7. This TR is applicable to the financial statements for the period ending on or after December 31, 2022.

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Technical release 22

Calculation of book value per share

Objective

1. Companies compute and report the book value (also known as break-up value) of their ordinary shares either voluntarily or in compliance with the regulatory requirements or contractual terms. The method of computation of the book value of an ordinary share, however, is generally not prescribed under the applicable regulatory framework or the contractual terms. This leads to the varied practices and policies for computing the book value of ordinary shares.

2. The objective of this technical release (TR) is to establish standardized principles for the computation of book value of ordinary shares by companies.

Calculation of book value per ordinary share

Applicability of this technical release

3. The book value shall be calculated in accordance with this TR, where the method of computation of the book value of an ordinary share has not been prescribed by the statutory provisions or contractual terms applicable to an entity.

   Where the method of computation of the book value of an ordinary share has been prescribed by the statute or contractual terms, then the book value shall be determined in accordance with the applicable statute or contractual terms.

Computation of book value per ordinary share

4. The book value per ordinary share shall be calculated by dividing the equity attributable to ordinary shareholders (the numerator) by the number of ordinary shares in issue at the reporting date ((the denominator).

5. Book value of an ordinary share in a company represents the amount such share is valued on the basis of the carrying value of net assets as reported in the statement of financial position prepared in accordance with the financial reporting standards as applicable in Pakistan.

   The Conceptual Framework for Financial Reporting (the Conceptual Framework), sets out the fundamental concepts for financial reporting that guide development of IFRS Accounting Standards. The Conceptual Framework provides that:

   (a) an asset is a present economic resource controlled by the entity as a result of past events.

   (b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.

   (c) equity is the residual interest in the assets of the entity after deducting all its liabilities.

Equity attributable to ordinary shareholders

6. For the purpose of calculating the book value per share, the amounts attributable to ordinary shareholders are calculated as the sum of the individual components of equity attributable to ordinary shares. Such components of equity include:

   a) paid-up capital attributable to ordinary shares;

b) revenue reserves and retained earnings, (less accumulated losses if any) attributable to ordinary shares;

c) capital reserves attributable to ordinary shares;

d) any surplus or deficit on revaluation of investments attributable to ordinary shares, which is reported outside equity under the financial reporting requirements of laws governing the entity; and

e) any other component of equity attributable to ordinary shareholders (such as advances/deposits for issuance of ordinary shares which have been advanced by the existing ordinary shareholder(s) and such advance has been classified as equity in accordance with the financial reporting standards as applicable to the entity).

The equity attributable to ordinary shares excludes the components of equity not attributable to ordinary shares. Such components of equity include:

a) loans from related parties classified as equity under IAS 32, *Financial Instruments: Presentation*;

b) components of equity attributable to preference shares classified as equity under IAS 32; or

c) components of equity attributable to compound financial instruments under IAS 32.

7. An entity may have more than one class of ordinary shares. In such a case, the book value per ordinary share shall be calculated as the sum of the individual components of equity attributable to such ordinary shares.

8. Where the independent auditor has issued a qualified auditor's report on the financial statement of the company, and the qualification has been quantified in monetary terms, then for calculation of the book value per share the amounts of auditor's qualifications shall be deducted from or added to the equity as the case may be. This fact shall also be mentioned in the statement of book value per share prepared by the company.

Where the qualified auditor's report on the financial statement of the company, does not quantify the qualification then this fact shall be mentioned in the auditor's certificate for book value per share.

Number of ordinary shares in issue

9. The ordinary share as defined in IAS 33, Earnings Per Share, is an equity instrument that is subordinate to all other classes of equity instruments.

Ordinary shares participate in profit for the period only after other types of shares such as preference shares have participated. An entity may have more than one class of ordinary shares. Ordinary shares of the same class have the same rights to receive dividends.

10. The number of ordinary shares in issue at the reporting date excludes any treasury shares held by the company.

Effective date and transition

11. This revised TR 22 supersedes current effective TR 22, *Book Value Per Share (Revised – 2002).*

12. This TR is applicable to the financial statements for the period ending on or after December 31, 2022.

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Technical Release 32

Accounting of related party loans

Objective

1. Related parties may have borrowing and lending relationships. Sometimes they are under the formal contractual lending agreements. In a related party financing arrangement, the relationship between parties is similar to the lender and borrower.

   However, related-party financing arrangements often have non-commercial terms / non-arm's length terms. They may:

   - have no formal contractual agreements
   - are interest-free or carry below-market interest,
   - have no stated maturity.

2. The accounting of financing arrangements between related parties, due to non-commercial terms involves complexities and divergent practices. The varied practices and views necessitated a need to establish standardized practices for accounting of the related party financing arrangements (i.e. loans).

3. The objective of this technical release (TR) is to provide guidance on the application of IFRS Accounting Standards to the financing arrangements between related parties.

4. The TR discusses the recognition and subsequent measurement of following types of financing arrangements between related parties, in accordance with the Conceptual Framework for Financial Reporting and IFRS Accounting Standards.

   (a) financing that is interest-free or carries below-market interest and has a fixed-term repayment;

   (b) financing that is interest-free or carries below-market-interest and is repayable on demand;

   (c) financing that is repayable at the discretion of the related party that has obtained the financing; and

   (d) financing that does not have written contractual terms or ongoing interest charges.

   The TR also discusses the accounting of subsequent changes in the terms of the financing arrangement between related parties.

Discussion of relevant IFRS Accounting Standards

5. Under IFRS Standards, an issuer of a financial instrument should classify a financial instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the contractual arrangement's substance and the definitions of a financial liability, a financial asset and an equity instrument.

6. Generally, loan obtained by an entity is a financial liability. While, entity providing the loan classifies it as a financial asset.

Under IFRS Accounting Standards the financial assets and financial liabilities are accounted for in accordance with the IFRS 9, *Financial Instruments,* IAS 32, *Financial Instruments: Presentation* and IAS 39, *Financial Instruments: Disclosures.*

IFRS 9 requires all financial instruments to be measured on initial recognition at fair value.

If a loan is made on normal commercial terms (both in terms of principal and interest), no specific accounting issues arise and the fair value at inception will usually equal the loan amount. This will normally be the transaction price in a transaction between unrelated parties.

However, the financing between related parties may involve non-commercial terms. In accordance with the Conceptual Framework for Financial Reporting and IFRS Accounting Standards, the non-commercial terms of related party financing may result in their accounting as equity or as a financial liability.

7. ‘Contract’ or ‘contractual’ refers to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law.

   Contracts, and thus financial instruments, may take a variety of forms and need not be in writing.

Relevant definitions of IFRS Accounting Standards

8. The definitions of a financial asset, financial liability, equity instrument and fair value under the IFRS Accounting Standards (provided in paragraph 11 of IAS 32) are as under:

   Financial asset *is any asset that is:*

   (a) cash

   (b) an equity instrument of another entity

   (c) a contractual right

      (i) *to receive cash or another financial asset from another entity; or*

      (ii) *to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or*

   (d) a contract that will or may be settled in the entity's own equity instruments and is:

      (i) *a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or*

      (ii) *a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity’s own equity instruments do not include puttable financial instruments classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the entity’s own equity instruments.*

Financial Liability *is any liability that is:*

(a) a contractual obligation i.e. to deliver cash or another financial asset to another entity; or

(b) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(c) a contract that will or may be settled in the entity's own equity instruments and is:

- *a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or*
- *a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrant to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non derivative equity instruments. Also, for these purposes the entity's own equity instruments do not include puttable financial instruments that are classified as equity instruments, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.*

An equity instrument *is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.*

Fair value *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.*

9. The Conceptual Framework for Financial Reporting defines equity, income, expenses and equity claim as under:

Equity *is the residual interest in in the assets of the entity after deducting all its liabilities.*

Income *is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.*

Expenses *are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.*

Equity claim *is a claim on the residual interest in the assets of the entity after deducting all its liabilities.*

Where the accounting of a transaction loan is not directly addressed by a IFRS Accounting Standard, reference should be made to the Conceptual Framework for Financial Reporting in determining the appropriate accounting.

Distinction between equity and liability

10. The fundamental principle of IAS 32 is that a financial instrument should be classified as either a financial liability or an equity instrument according to the substance of the contract, not its legal form, and the definitions of financial liability and equity instrument.

Paragraph 16 of IAS 32 states that a financial instrument is an equity instrument rather than a financial liability, if, and only if, both the following conditions below are met.

(a) The instrument includes no contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

(i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

(ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for this purpose, the issuer's own equity instruments do not include puttable instruments and obligations arising on liquidation that are classified as equity or instruments that are contracts for the future receipt or delivery of the issuer's own equity instruments.

The overriding criterion is that if an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the contract is not an equity instrument.

Contributions are non-reciprocal in nature. In essence, they are a gift. They can be assets or services given or liabilities forgiven, without the transferee being obliged to give anything of benefit in exchange. Where a company receives consideration from one or more shareholders without a contractual obligation to repay it (a gift or a 'capital contribution'), this is an increase in equity. Typically, such amounts are recorded in a separate reserve. Under IAS 1, capital contributions are presented in the statement of changes in equity as a transaction with owners in their capacity as owners.

Initial recognition, measurement and disclosure of a related-party financing

Initial recognition and subsequent measurement of financial asset and financial liability

11. IFRS 9 in paragraph 5.1.1 requires that at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph B5.1.2A. This requires that the best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

If an entity determines that the fair value at initial recognition differs from the transaction price, the entity shall account for that instrument at that date as follows:

(a) at the measurement required by paragraph 5.1.1 if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) in all other cases, at the measurement required by paragraph 5.1.1, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing asset or liability.

12. However, the accounting of related party loan carrying 'below-market interest' is not directly addressed by IFRS 9. For determining the appropriate accounting of such related party arrangement, reference is made to the Conceptual Framework for Financial Reporting.

Contributions from owners in their capacity as owners of the entity are distinguished from transfers that arise from trading activities in the normal course of business.

Therefore, it is important to determine the capacity in which a related party provides funds to another related party. This determination is relevant to the proper classification of related-party loans as a 'financial liability' or 'equity'. In a related-party financing arrangement the borrower should assess the facts and circumstances to determine whether the lender is carrying out the transaction in its capacity as owner of the borrower.

13. After initial recognition:

(a) a borrowing entity shall measure all financial liabilities at amortized cost using the effective interest method. There are certain exceptions that are explained in IFRS 9 Para 4.2.1.

(b) a lending entity will ordinarily measure the related party loan (financial asset) at amortised cost (in accordance with paragraph 4.1.2 of IFRS 9 a debt instrument that meets the business model test and cash flow characteristic test must be measured at amortised cost net of any write down for impairment) unless the asset is designated at FVTPL under the fair value option.

For impairment, the related party loans carried at amortised cost are within the scope of IFRS 9 excepted credit loss requirements.

IFRS 9 in paragraph B5.5.38 notes that the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk.

IFRS 9 in paragraph B5.5.41 requires the lender to measure the expected credit loss at a probability-weighted amount that reflects the possibility that a credit loss occurs, and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is low.

In accordance with the general approach of IFRS 9 ECL, at each reporting date the lender shall determine whether the loan is in Stage 1, Stage 2 or Stage 3 and recognise 12-month ECL or Lifetime ECL, accordingly. Related party loans are not eligible for the IFRS 9 simplified ECL approach.

Initial recognition and subsequent measurement of equity

14. IFRS Accounting Standards do not specify requirements for the initial recognition and measurement of equity.

    In many instances, equity is recorded at the proceeds of the issue (i.e. equity transaction), net of transaction costs.

    Equity is not subsequently re-measured.

Disclosure of related party loans

15. Related party loans meet the definition of related party transactions under IAS 24, *Related Party Disclosures*. The disclosures required by paragraphs 12 – 22 of IAS 24 must be given in sufficient detail to enable the effect of the loans on the financial statements to be understood. Where there are significant uncertainties, such as the expected terms of a loan, the disclosures should refer to this fact.

    Further, the disclosure requirements of fourth and fifth schedule of the Companies Act, 2017 shall also be considered.

Application of IFRS Accounting Standards on related-party financing

16. Application of requirements of the IFRS Accounting Standards and Conceptual Framework for Financial Reporting are discussed in context of the following types of arrangements between related parties:

    (a) financing that is interest-free or carries below-market-interest and has a fixed-term repayment

    (b) financing that is interest-free or carries below-market-interest and is repayable on demand;

    (c) financing that is repayable at the discretion of the related party that has obtained the financing; and

    (d) financing that does not have written contractual terms or ongoing interest charges.

Related party financing that is interest-free or carries below-market-interest and has fixed-term repayment

17. A related party might provide financing to an entity that bears no interest (i.e. interest-free) or carries a below-market interest rate. The contractual terms of the financing, however, include a fixed date for repayment of the loan amount.

18. For the borrowing entity, the contractual obligation to repay the loan at a fixed date means that it is obligated to deliver cash. The loan is primarily a financial liability. The interest-free or below-market interest rate element of the loan, however, would require specific accounting considerations.

19. For the lending entity, the contractual obligation to receive the loaned amount at a fixed date means that it has a right to receive cash. The loan is primarily a financial asset. The interest-free or below-market interest rate element of the loan, however, would require specific accounting considerations.

Initial recognition

20. In accordance with IFRS 9:

(a) the borrower shall initially recognize the financial liability at its fair value

(b) the lender shall initially recognise the financial asset at its fair value.

Determining the fair value of the loan

21. Due to repayment terms (i.e. whether the loan is repayable in the short-term or repayable in the long-term) and interest-free/below-market interest element, the fair value of the loan would be different from the cash received by the reporting entity.

22. The fair value of the loan that is contractually repayable in the short term would be different from a loan that is contractually repayable in the long term.

(a) Fair value of the loan that is contractually repayable in the short term

A loan may have a contractually specified short-term repayment date (i.e. loan is repayable within 12 months of the cash received).

In accordance with IFRS 9, the fair value at initial recognition will be generally equal to the transaction price (i.e. amount of cash received under the contractual terms of the loan).

The loan shall be initially recognized at the transaction price (i.e. cash received by the borrower under the contractual terms).

(b) Fair value of the loan that is contractually re-payable in the long term

A loan may have a contractually specified long-term repayment date (i.e. loan is repayable after 12 months of the cash received).

The interest-free element of the loan requires accounting consideration, as the consideration received (say the amount) is not the financial instrument's fair value. The financial instrument comprises two portions:

- below market element - the difference between the fair value and face value of the loan; and
- residual loan element / the loan

On initial recognition, the fair value is measured as the present value of future cash flows (i.e. re-payments) discounted at an appropriate market rate of interest for a similar loan at the date of initial recognition. This represents the amount of financial liability at the date of initial recognition.

Given that there is no active market for related-party loans, fair value will usually need to be estimated. In accordance with IFRS 9 (paragraph B5.1.1) the appropriate way to do this is to determine the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

Difference between the cash received and the fair value of the loan

23. The difference between the cash received and the fair value of the loan (determined above) would reflect the below-market or interest-free element.

In accordance with IFRS 9, this difference is recognized in the statement of profit or loss. However, due nature of the related party's relationship between the related parties, the accounting of this difference amount would require consideration.

The accounting for the below-market element of a related-party loan in the separate or individual financial statements of the entities is not addressed by a specific standard. As a result, the accounting for such transactions by applying the principles set out in the Conceptual Framework for Financial Reporting, in particular its definitions of assets, liabilities and equity.

(a) Related party is the parent company, shareholder, or director of the reporting entity

Where the related party providing the loan is the parent company, shareholder or director (acting in the capacity of shareholder) of the borrowing entity:

- the borrowing entity shall recognize the difference between the cash received and the fair value of the loan as an equity contribution from the parent company, shareholder or director. This is to reflect the economic substance of the transaction, i.e. the interest-free element is a capital contribution.

- the lending entity shall recognise the difference as investment in the borrowing entity (for example, as a component of the overall investment in the subsidiary)

(b) Related party other than the parent company, shareholder, or director of the reporting entity

Where the related party providing the loan is other than the parent company, shareholder, or director of the reporting entity, the reporting entity is required to consider specific facts and circumstances of the loan transaction.

Such scenarios, may include where:

- a subsidiary provides financing to the parent
- a subsidiary provides financing to another subsidiary
- an associated company provides financing to a related party
- a related party of the shareholder / director provides financing to the entity

If based on management judgment the facts and circumstances indicate that the:

(i) interest-free loan or below-market loan has been provided by a subsidiary to the parent, difference between loan amount and fair value should be recorded

- by the subsidiary as a distribution (in the statement of changes in equity); and

- by the parent as an income (in the statement of profit or loss)

(ii) interest-free loan or below-market loan has been provided by a related party or an unrelated party under the instructions of the parent company or shareholder of the reporting entity, then the difference between the cash received and the fair value of the loan shall be recognized by the borrowing entity as equity contribution.

(iii) interest-free loan or below-market loan has been provided by a related party or an unrelated party without instructions or influence of the parent company or shareholder of the reporting entity, then the difference between the cash received and the fair value of the loan shall be recognized by the reporting entity in the statement of profit or loss.

Subsequent measurement

24. The subsequent measurement of financial liability and financial asset by the related parties to the financing arrangement shall be in accordance with IFRS 9.

25. The borrowing entity, shall

(a) measure the loan (ordinarily) at amortised cost in accordance with IFRS 9.

(a) calculate interest (expense) on the loan using the effective interest method.

The interest is recognized in the statement of profit or loss and represents the unwinding of the difference between the present value on initial recognition and the cash received.

26. For the lending related party, the financial asset (financing recognised initially) meets both conditions (business model test and SSPI test) for amortized cost classification:

(a) the loan is held within the business model whose aim is to collect contractual cash flows, and

(b) the contractual cash flows arise solely from payments of principal and interest (interest payments can be zero and this condition is still met).

27. The lender holding a related party loam shall

(b) measure the loan at amortized cost in accordance with IFRS 9.

For amortised cost, calculate the impairment under the IFRS 9 excepted credit loss model.

(i) For a low credit risk related party loan, the lender at the reporting date could choose to assume that there has not been a significant increase in credit risk since the loan was first recognised. This allows the lender to calculate a 12-month expected credit loss under stage 1.

A loan has low credit risk if the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and adverse changes in economic and business conditions in the longer term might, but will not necessarily, reduce the ability of the borrower to fulfil its obligations

(ii) For loans that are in stage 2 or 3, a lifetime expected credit loss shall be recognised. In measuring the expected credit loss, all reasonable and supportable information that is available without undue cost or effort should be considered. This includes both internal and external information, and information about past events, current conditions and forecasts of future economic conditions.

(c) calculate interest (income) on the loan using the effective interest method.

The interest is recognized in the statement of profit or loss and represents the unwinding of the difference between the present value on initial recognition and the cash received.

Related party financing repayable on demand

28. Related parties might provide financing that is repayable on the demand of the lending party.

    Loans which are repayable on demand have a contractual period of less than one day.

    Such financing may carry market-based interest rate. However, due to related party relationship financing may carry below-market interest or zero interest.

Initial recognition

29. The borrower is contractually obligated to repay the principal and interest (if any).

    For a borrower, the financing is a 'financial liability' in accordance with IAS 32 and IFRS 9. The financing repayable on demand shall be initially recognized at fair value.

    A loan that is due on-demand is not discounted.

    The fair value at initial recognition will be equal to the transaction price (i.e. amount of cash received under the contractual terms of the loan). This amount reflects the fact that the lender has the contractual right to demand repayment immediately after the loan was advanced. On the other hand, the borrower is contractually obligated to pay the loan at any time, on the demand of the lender. For the borrower, this contractual term makes the loan a current liability. This is the case even if there is no expectation that the lender will demand payment within twelve months of the borrower's reporting date.

30. The interest (if any) on the financing is recognized in accordance with the IFRS Accounting Standards applicable to the borrowing costs.

    The loan shall not be discounted and there would be no specific accounting of interest-free or below-market interest elements.

31. The lender can demand the payment at any time.

    For a lender, the financing is a 'financial asset' in accordance with IAS 32 and IFRS 9. The financed amount shall be initially recognized at fair value (i.e. the amount of cash paid under the contractual terms of the loan).

Subsequent measurement

32. The borrower shall subsequently measure the loan at amortized cost.

Impairment

33. In the case of loans repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded (that is typically one day or less). Therefore, the impairment provision would be based on the assumption that the loan is demanded at the reporting date, and it would reflect the losses (if any) that would result from this.

34. For a related party loan repayable on demand, there are likely to be two mutually exclusive scenarios: either the borrower can pay today if demanded (that is, it has sufficient highly liquid resources); or it cannot.

(a) If the borrower has sufficient available liquid assets (that is, cash and cash equivalents which can be accessed immediately) to repay the outstanding loan if the loan was demanded today, the probability of default would be close to 0%.

(b) If the borrower does not have sufficient highly liquid assets to repay the loan if demanded at the reporting date, the probability of default is likely to be higher and might even be close to 100%; this is because, if the loan was called at the reporting date, the borrower would be unable to make repayment. However, the probability of default forms only one part of the expected credit loss calculation.

In such a case, the lender shall determine what its recovery scenarios are, to understand the loss given default if the loan is demanded. The assessment should consider the expected manner of recovery and recovery period of the related party loan (the lender's 'recovery scenarios').

Few examples of recovery scenarios could be as under, however, this list is indicative and not exhaustive:

- If, at the reporting date, the borrower would be unable to immediately repay the loan if demanded by the lender, the lender might expect that it would maximize recovery of the loan by allowing the borrower time to pay (that is, to continue trading or to sell its assets over a period of time), instead of forcing the borrower to liquidate or sell some or all of its assets to repay the loan immediately.
- A borrower might, in the past, have paid any excess cash to its parent/shareholder by way of dividend, which could prevent it from having sufficient available liquid assets to repay its related party loan if repayment was demanded. In this case, management of the group might determine that it would maximize recovery of the loan by the borrower ceasing to make such dividend payments in reporting periods where it would not otherwise have sufficient available liquid assets to repay its related party loan.
- The lender's recovery strategy to recover the loan may involve an immediate sale of the borrower's assets. Lender will need to consider the net realizable value of those assets (less any proceeds needed to repay the more senior external or internal debt before repaying the related party loan) and whether this covers the outstanding balance of the loan. If it does, the expected credit loss will be limited to the effect of discounting the amount due on the loan (at the loan's effective interest rate) over the period until cash is realized. If the time period to realize cash is short or the effective interest rate is low, the effect of discounting might be immaterial.

However, in cases where, under different recovery scenarios, the lender is not able to fully recover the related party loan if a demand for payment is made today, expected credit losses might not be immaterial.

Related party financing repayable at the discretion of the borrower

35. A related party might provide financing to an entity, and allow the entity to repay the advanced amount at its discretion. The financing may contain market-based interest, or it could be interest-free or carries a below-market interest rate.

Initial recognition

36. The financing from a related party that is repayable at the discretion of the receiving entity is not a liability.

In accordance with the Conceptual Framework of Financial Reporting, the first criterion for liability is that the entity has an obligation. An obligation is 'a duty or responsibility that an entity has no practical ability to avoid'.

An intention to make a transfer or a high likelihood of a transfer, are not sufficient reasons for concluding that the entity has no practical ability to avoid a transfer. Rather, the entity shall consider the contractual terms and specific facts and circumstances to conclude that it has a practical ability to avoid re-payment of the financed amount.

When a receiving entity has the discretion to repay the financed amount then it has the practical ability to avoid repayment, and resultantly no obligation.

37. The financing that is repayable at the discretion of the borrower is recorded as equity at the transaction price (cash received). This reflects a contribution to equity.

The accounting treatment is independent of the nature of the relationship between the parties. Where, a related party (whether a shareholder or otherwise) provides a loan repayable at the discretion of the entity in all circumstances (other than on liquidation), the transaction in fact establishes a residual interest in the entity and therefore shall be accounted for as equity transaction.

Subsequent measurement

38. The amount recorded in equity (as a contribution) is subsequently not re-measured.

39. Where the entity after recording the amount in equity decides to repay the amount by delivering cash or any other financial asset, it shall record the settlement by directly debiting the equity. This reflects a distribution by the entity and will be an adjustment to the previously recognized equity.

Any amount paid in excess of the contributed amount is recognized in accordance with the IFRS Accounting Standards. Generally, the excess amount (if any) would be recognized in the statement of profit or loss.

Related party financing with no written contractual terms or ongoing interest charges

40. A related party might provide financing to the entity with no written terms for the repayment of the financing or any ongoing interest charges, that is, the financing is not documented in a written contract.

41. The entity needs to make an assessment of any implied contractual terms, in the absence of an explicit contract in order to determine whether the related party financing is a loan within the scope of IFRS 9 or is, in substance, a part of the investment/equity contribution within the scope of IAS 27 or IAS 28.

If the terms of the related party financing are currently not sufficiently clear (for example, it is not clear if or when the financing is repayable), management might wish to clarify the terms to make it easier to assess whether the related party financing is within the scope of IFRS 9 and, if required, to calculate an expected credit loss.

42. In the absence of any written or other evidence characterizing the financing as a loan or a capital contribution, the substance is likely to be regarded as an on-demand loan.

The accounting is the same as for a related party's loan that is interest-free/low interest and repayable on-demand, as the case may be.

Change in the terms of the related party financing

43. If the term(s) of the related-party loan are changed, care should be taken to consider how this change should be treated within the financial statements of both the lender and the borrower.

    (a) If the related party loan was previously accounted for as a debt instrument under IFRS 9 and, following the change in terms, it continues to be classed as a debt instrument, modification principles should be considered, to determine how the change impacts the carrying amount of the related-party financing.

    (b) If the related party loan was previously considered a debt instrument, but now meets the definition of an equity instrument the related party loan becomes part of the parent/lender's investment in the subsidiary/associate.

    For the borrower, the financial liability should be extinguished and a capital contribution recognized.

    For the lender, the financial asset in the form of financing (under IFRS 9) shall be recognised and an investment in subsidiary/associate shall be recognised (under IAS 27/28).

Effective date and transition

44. This revised TR 32 supersedes current effective TR 32, *Accounting Directors' Loan.*

45. This TR is applicable to the financial statements for the period ending on or after December 31, 2022.

Illustrative examples – Accounting of related party Loans

Example 1 – Interest-free loan by a parent to subsidiary repayable at fixed date

Parent company ('P') grants an interest-free loan of PKR 1,000 to its subsidiary company ('S') on July 1, 2020. S can obtain similar financing from market at an interest rate of 5 per cent per annum. How the loan would be classified and measured in the financial statements of S?

Classification

Under the contractual terms of the loan, S has a contractual obligation to deliver cash i.e. principal amount of PKR 1,000, after 3 years. Therefore, the loan meets the definition and classification criteria of a financial liability.

Recognition and measurement

Under IFRS 9, S is required to measure the financial liability initially at the fair value. Fair value of the loan from P would be the present value of the amount payable after 3 years, discounted using the market interest rate of 5 percent. Therefore, the loan from P would be measured at PKR 864 on July 01, 2020.

The difference between fair value and transaction price of loan amounting to PKR 136, in substance represents a capital contribution from P in its capacity as a shareholder of S. Therefore, PKR 136 would be recognised as a separate component of equity. The loan will be subsequently measured at amortised cost.

Extracts from financial statements

	2021	2022	2023
	……………………PKR..…………………		
Statement of Financial Position – Equity			
Capital contribution from P	136	136	136
Statement of Financial Position – Financial Liabilities			
Loan from P			
[2021: 1000/ $(1.05)^2$]	907		
[2022: 1000/ (1.05)]		952	
[2023: 1000]			1000

Statement of Profit or Loss			
Finance costs			
[2021: 864 X 0.05]	43		
[2022: 907 X 0.05]		45	
[2023: 952 X 0.05]			48

Example 2 – Interest-free loan by an unrelated party repayable on a fixed date

Company A grants an interest-free loan of PKR 1,000 to company B on July 1, 2020. B can obtain similar financing from market at an interest rate of 5 per cent per annum. How the loan would be classified and measured in the financial statements of B?

Classification

Under the contractual terms of the loan, B has a contractual obligation to deliver cash i.e. principal amount of PKR 1,000, after 3 years. Therefore, the loan meets the definition and classification criteria of a financial liability.

Recognition and measurement

Under IFRS 9, B is required to measure the financial liability initially at the fair value. Fair value of the loan from A would be the present value of the amount payable after 3 years, discounted using the market interest rate of 5 percent. Therefore, the loan from A would be measured at PKR 864 on July 01, 2020.

The difference between fair value and transaction price of loan amounting to PKR 136, in substance represents a gain for B, as there is no related party relationship between A and B. Therefore, PKR 136 would be recognised in the statement of profit or loss as finance income. The loan will be subsequently measured at amortised cost.

Extracts from financial statements

	2021	2022	2023
	……………………PKR..…………………		
Statement of Financial Position – Financial Liabilities			
Loan from P			
[2021: 1000/ $(1.05)^2$]	907		
[2022: 1000/ (1.05)]		952	
[2023: 1000]			1000
Statement of Profit or Loss			
Finance costs			
[2021: 864 X 0.05]	43		
[2022: 907 X 0.05]		45	

[2023: 952 X 0.05]			48
Finance income	136	-	-

Example 3 – Interest-free loan by an associated company repayable on a demand

Company A grants an interest-free loan of PKR 1,000 to an associated company, B on July 1, 2020. Contractual terms require B to repay the loan in full on demand from A at any time after disbursement.

How the loan would be classified and measured in the financial statements of B?

Classification

Under the contractual terms of the loan, B has a contractual obligation to deliver cash i.e. principal amount of PKR 1,000, at any time after disbursement. Therefore, the loan meets the definition and classification criteria of a financial liability.

Recognition and measurement

Under IFRS 9, B is required to measure the financial liability initially at the fair value. Fair value of the loan from P would be same as transaction price as the discounting from the first date when the amount could be required to be paid has no impact. Therefore, the loan from A would be measured at PKR 1000 on July 01, 2020.

The loan will be subsequently measured at amortised cost of PKR 1000.

Extracts from financial statements

	2021	**2022**	**2023**
	……………………**PKR..**…………………		
Statement of Financial Position – Financial Liabilities			
Loan from P	1000	1000	1000
Statement of Profit or Loss			
Finance costs	-	-	-

Example 3A – Interest-free loan by a parent company repayable on a demand

Facts are same as mentioned in example 2, except for the fact that company A is parent of Company B. How the loan would be classified and measured in the financial statements of B.

Classification, recognition and measurement

The nature of relationship between borrower and lender would not affect the classification, recognition and measurement of a loan repayable on demand. Therefore, accounting would be same as in Example 3.

Example 4 – Interest-free loan by a parent to subsidiary repayable at discretion of borrower

Parent company ('P') grants an interest-free loan of PKR 1,000 to its subsidiary company ('S') on July 1, 2020. Contractual terms allow S to repay the loan at any time at its discretion. How the loan would be classified and measured in the financial statements of S?

Classification

Under the contractual terms of the loan, S has no contractual obligation to deliver cash. The transaction in fact establishes a residual interest in the assets of S. Therefore, the loan does not meet the definition and classification criteria of a financial liability. Accordingly, it shall be recorded as a separate component of the equity.

Recognition and measurement

S shall measure the separate component of the equity at the transaction price of the loan i.e. PKR 1,000. It shall not be subsequently remeasured.

Extracts from financial statements

	2021	2022	2023
	……………………PKR..…………………		
Statement of Financial Position – Equity			
Loan from P	1,000	1,000	1,000

Example 4A – Interest-free loan by an unrelated company repayable at discretion of borrower

Facts are same as mentioned in example 2, except for the fact that P and S are not related parties. How the loan would be classified and measured in the financial statements of S.

Classification, recognition and measurement

The nature of relationship between borrower and lender would not affect the classification, recognition and measurement of a loan repayable at discretion of borrower. Therefore, accounting would be same as in Example 4.

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Technical Release 27
IAS 12, Income Taxes (Withdrawn)

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Technical Release 27

IAS 12, Income Taxes (Withdrawn)

Overview

1. TR 27 provides guidance on applicability of deferred taxation under IAS 12 *Income Taxes* where a company has brought forward tax losses or its sources of income are subject to deduction or collection of tax at source which is treated as full and final discharge of tax liability for the purposes of assessment under the Income Tax Ordinance, 2001.

Basis of withdrawal

2. ASB noted that alternative views exist on whether taxes under the Final Tax Regime (FTR) of the Income Tax Ordinance, 2001 should be scoped in

   - IAS 12or
   - IFRIC 21 *Levies* / IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

   Presently, TR 27 in principle includes taxes under FTR within the scope of IAS 12.

3. ASB deliberated on the matter in detail in its various meetings and decided to submit a written enquiry to the IFRS Interpretations Committee (IFRIC) for a clarification on the scope and applicability of IAS 12 requirements on taxes under FTR of the Income Tax Ordinance, 2001. IFRIC responded to the ASB's enquiry through its' technical staff.

4. IFRIC staff in response to ASB request for clarification noted that the scoping of taxes based on the gross amounts (turnover, tonnage quantity etc.) has already been deliberated and concluded by the IFRIC in its agenda decisions (in March 2006 and May 2009) and also through IFRIC 21.

   IFRIC through its agenda decisions has clarified that these taxes are not income taxes within the scope of IAS 12.

5. TR 27 in principle included taxes under the FTR within the scope of IAS 12. However, after considering the IFRIC agenda decisions and discussions with IFRIC staff it has now been clarified that FTR regime that are levied under the income tax law but are based on the gross amounts (such as turnover, receipts) are not 'income taxes' within the scope of IAS 12. Such taxes should be accounted for and reported as levies/expenses.

6. For the providing relevant and useful information to the users of financial statements, a disclosure be provided in the financial statements, aggregating the:

   (a) Income taxes presented in the statement of profit and loss under the 'income taxes'; and

   (b) FTR related taxes that are charged under the Income tax law but presented as levies/expenses.

7. ASB after considering the above has decided that TR 27 be withdrawn.

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Technical Release 29
Carry Over Transactions (Withdrawn)

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Technical Release 29

Carry Over Transactions (Withdrawn)

Overview

1. TR 29 was issued to provide proper accounting treatment of the Carry Over Transactions (COTs) for consistent application. The COTs were undertaken at the Karachi Stock Exchange (Guarantee) Limited under the Carry Over Transactions Regulations, 1993. Subsequently, COTs were discontinued in all the stock exchanges of Pakistan and were substituted by the Futures Market and Margin Trading System.

2. TR 29 clarified that COTs are Repo transactions as the substance of the transaction and not its legal form should be considered in determining its proper accounting treatment. Accordingly, COTs should be treated as a financing transaction in the books of accounts.

Basis of Withdrawal

3. ASB noted that TR 29 was issued in July 2002, providing guidance on the accounting of COTs as a Repo transaction. The accounting guidance under TR 29 was based on the IAS 39. With the recent issuance of new IFRS on the financial instruments (IFRS 9) guidance on identification and accounting of Repo transactions is now more explicit and detailed. Further, COTs (badla transactions) have been replaced with Futures Market and Margin Trading System in Pakistan Stock Exchange. Therefore, in the presence of detailed guidance in IFRS 9 and discontinuation of COTs, TR 29 is not relevant.

4. ASB and ICAP Council after considering and deliberating on the above have decided and approved the withdrawal of TR 29.