KPMG

Voices on Reporting

Quarterly updates

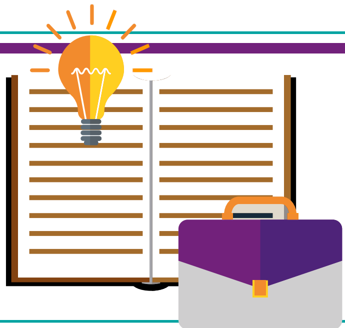
January 2017

Contents

Voices on Reporting, is a series of knowledge sharing calls, organised by KPMG in India, which covers current and emerging reporting challenges and is usually scheduled towards the end of each month.

In this newsletter, we aim to summarise important topics relating to the quarter ending 31 December 2016 from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Institute of Chartered Accountants of India (ICAI) and the Central Board of Direct Taxes.

We will continue to provide such a summary of important quarterly updates in future quarters and hope you find this summary useful and relevant.



Updates relating to the Companies Act, 2013

MCA notifies provisions relating to restructuring

On 7 December 2016, the Ministry of Corporate Affairs (MCA) issued a notification, whereby certain sections of the Companies Act, 2013 (2013 Act) were notified to come into force. These sections amongst others, relate to:

- Reduction of capital and variations of shareholders' right;
- Compromises, arrangements and amalgamations.

In addition to the above, certain winding-up sections were also notified by MCA. These sections came into force on 15 December 2016.

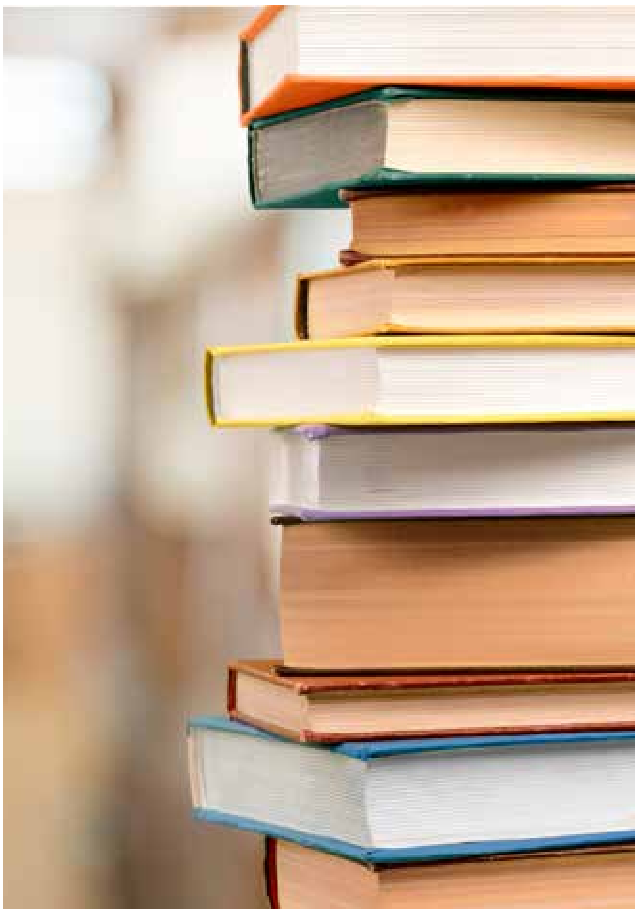
The MCA has also on 7 December 2016 notified the Companies (Transfer of Pending Proceedings), Rules 2016 (Transfer Rules) and also issued the Companies (Removal of Difficulties) Fourth Order, 2016 (Difficulties Order) to facilitate a smooth transition of the proceedings initiated under the Companies Act, 1956 (1956 Act) and pending before any district court or high courts to the National Company Law Tribunal (NCLT).

The rules in relation to compromises, arrangements and amalgamations also came into effect on 15 December 2016 along with the rules in relation to procedure for reduction of share capital of a company.

Following is an overview of some of the key provisions of the sections pertaining to reduction of share capital, variations of shareholders' right and compromises, arrangements and amalgamations.

Reduction of capital: NCLT assumes the jurisdiction of the high courts as the sanctioning authority in relation to capital reduction. It further provides that:

- Companies cannot undertake reduction of capital if the company is in arrears in the repayment of any deposits accepted by it or the interest payable thereon.
- NCLT to give notice of every capital reduction application to the Central Government (CG), Registrar of Companies (ROC), Securities and Exchange Board of India (SEBI) (in case of listed companies) and to the creditors of the company.
- CG and others may make representations within three months from the date of receipt of the notice, and if no representation has been received within the said period, it will be presumed that they have no objection to the reduction of capital.
- Notice to the creditors has been made mandatory in all cases, whether it involves repayment of capital or not.
- The company needs to file a certificate from its auditor to the effect that the accounting treatment for such reduction is in conformity with the prescribed accounting standards.



Variation of shareholders' right: As per Section 48 of the 2013 Act, in case share capital of the company is divided into different classes of shares, the rights attached to the shares of any class may be varied with the consent of not less than three-fourth of the issued shares of that class or by means of a special resolution passed at a separate meeting of the holders of shares of that class.

If the variation of rights of one class of shareholders affects the rights of any other class of shareholders, the consent of such other class of shareholders should also be obtained and provisions relating to variation of rights would apply to such consent.

Further, an application to the NCLT can be made for cancellation of variation, if the holders of not less than 10 per cent of the issued shares of a class did not consent to such variation or vote in favour of the special resolution for the variation.

Compromises, arrangements and amalgamations: NCLT is to assume jurisdiction of the high courts as the sanctioning authority in relation to compromises, arrangements and amalgamations. Further, the related sections provide that:

- All material facts such as the latest financial position of the company, latest auditor's report on the accounts of the company, pendency of any investigation or proceedings against the company, etc. should be disclosed in the affidavit to the NCLT.
- The scheme of arrangement should be approved by majority in number representing three-fourth in value of the creditors or members or class thereof present and voting either in person, by proxy, by postal ballot or electronic means.
- Power of the NCLT to dispense with the calling of a meeting of the creditors having at least 90 per cent value agreed and confirmed by way of an affidavit.
- Circulation of the notice convening the meeting has been widened and requirement of issue of such notice to all concerned statutory and other authorities has been included.
- A transferee company is not allowed to hold the shares in its own name or in the name of any trust.
- Scheme of arrangement would need to clearly indicate an appointed date from which date the scheme shall be effective.
- Sanction of buy-back, variation of rights, etc. being part of the scheme can be sanctioned only if in compliance with the specific provisions under the 2013 Act.
- Objection to scheme of compromise or arrangement can be made only by shareholders holding not less than 10 per cent of the shareholding or creditors owning not less than 5 per cent of the total outstanding debt as per the latest audited financial statement.
- Fast track restructuring for merger of two or more small companies or merger between a holding company and its wholly owned subsidiary company, without NCLT approval.
- Provisions relating to buy-out of minority shareholders by majority shareholders of a company holding 90 per cent or more of the issued equity share capital of the company by virtue of an amalgamation, share exchange, conversion of securities or for any other reason.

Transfer of pending proceedings

As per the Companies (Removal of Difficulties) Fourth Order, 2016, following matters should stand transferred to NCLT with effect from 15 December 2016:

- All proceedings under the 1956 Act, including proceedings relating to compromise, arrangements and reconstruction, other than proceedings relating to winding-up and those reserved for orders.
- All petitions relating to winding-up under Section 433(e) of the 1956 Act on the ground of inability to pay its debts pending before a high court, and where the petition has not been served on the respondent (the same should be disposed of in accordance with Insolvency and Bankruptcy Code, 2016). However, all cases where an opinion has been forwarded by the Board for Industrial and Financial Reconstruction for winding-up of a company to a high court and where no appeal is pending, shall continue to be dealt with by such high court in accordance with the provisions of the 1956 Act.
- All petitions relating to winding-up under Section 433(a) and (f) of the 1956 Act and where the petition has not been served on the respondent.

This step further helps towards operationalisation of the Insolvency and Bankruptcy Code, 2016 (Code). The CG has notified Section 33 to Section 54 of the Code relating to liquidation process for corporate persons, to be effective from 15 December 2016 and Section 59 of the Code relating to voluntary winding up, to be effective from 1 April 2017.

Notification of related Rules

Companies (Compromises, Arrangements and Amalgamations) Rules, 2016

The Rules, *inter alia*, provide detailed guidance in respect of the following:

- Application for order of a meeting of creditors/ class of creditors to be called by NCLT in respect of proposed compromise/arrangement by the company
- Disclosures to be made in the creditors responsibility statement and notice of the meeting
- Application for directions under Section 232 of the 2013 Act i.e. compromise/arrangement proposed in connection with a scheme for reconstruction or amalgamation of companies
- Powers of the NCLT to give directions
- Schedule of fees to be submitted with the application/petition.

NCLT (Procedure for reduction of share capital of company) Rules, 2016

Following are the key provisions comprised in these Rules:

- Procedure for filing an application to the NCLT to confirm reduction of share capital of a company along with the prescribed documents
- Power of the NCLT to issue a notice and give directions seeking representations and objections from CG, ROC, SEBI and creditors of the company
- Procedures with regard to representations and objections received
- Order of the NCLT confirming a reduction and approving the minutes including directions or terms and conditions as NCLT deems fit.

Key takeaways

- **Companies (Removal of Difficulties) Fourth Order, 2016:** While the order gives clarity on which of the proceedings get transferred to NCLT, further more clarity is needed on the process to be followed. For instance, if shareholders' approval has been obtained under the 1956 Act, can they now file with NCLT instead of a high court, or they will need to follow the new process under the 2013 Act before filing with NCLT, i.e. file with all relevant regulators, etc. before filing with NCLT.
- **Yearly statement:** The MCA should provide clarity about the time till when a yearly statement about implementation of scheme is required to be filed with the ROC.
- **Sections not notified:** Some of the important sections that are yet to be notified are:
  - Section 234 on merger or amalgamation of company with foreign company
  - Section 247 on valuation by registered valuers
  - Section 304 to 314 on voluntary winding up.

(Source: MCA notification no. S.O. 3677(E) dated 7 December 2016, notification no. G.S.R.1134(E) dated 14 December 2016 and notifications dated 15 December 2016, Companies (Removal of Difficulties) Fourth Order, 2016 issued by MCA dated 7 December 2016 and First Notes released by KPMG in India on 12 December 2016 and article on 'MCA's recent notifications: Easier restructuring' in the Accounting and Auditing Update (AAU) issue no. 05/2016)

MCA notifies amendment to Schedule II of Companies Act, 2013

Background

On 31 March 2014, MCA amended provisions relating to determination of useful lives of intangible assets prescribed in Schedule II to the 2013 Act (Schedule II).The amendment provides that for determining the useful lives of intangible assets, the provisions of the Accounting Standard (AS) applicable for the time being in force should apply, except in the case of intangible assets (toll roads) created under 'Build, Operate and Transfer' (BOT), 'Build, Own, Operate and Transfer (BOOT) or any other form of public-private partnership route in case of road projects.

The amendment permitted companies to apply revenue-based amortisation, based on the proportion of actual revenue for the year as compared to the total projected revenue from the intangible asset during the concession period for such 'toll road' intangible assets.

However, Ind AS 38, *Intangible Assets* specifies that an amortisation method based on revenue generated by an activity that includes the use of an intangible asset, is presumed to be inappropriate, except in very limited circumstances.

In order to transition to Ind AS, Ind AS 101, *First-time Adoption of Indian Accounting Standards* permits companies to apply a previously used amortisation method for such toll-road intangibles only to assets existing at the beginning of the first year of adoption of Ind AS (i.e. 1 April 2016 for companies that are within the first phase of the Ind AS implementation road map). For intangible assets recognised subsequently, Ind AS 38 applies.

There was inconsistency between guidance given in the Schedule II and in the Ind AS on accounting for intangible assets (toll roads) created under BOT, BOOT or any form of public-private partnership in case of road projects.

The ITFG noted the inconsistency between the guidance in Schedule II and in Ind AS. In its Bulletin 3 issued on 2 July 2016, the ITFG opined that the principles of Ind AS 38 should be followed for all service concession arrangements including toll roads that are recognised once Ind AS becomes applicable to an entity, based on a harmonious reading of the 2013 Act and Ind AS. Consequently, companies that transition to Ind AS should not apply revenue-based amortisation methods to toll road intangibles recognised after the beginning of the first year of adoption of Ind AS.

New development

The MCA, on 17 November 2016, issued a notification (G.S.R. 1075(E)) and on 9 December 2016 amended Schedule II replacing a part of the provision relating to intangible assets as follows:

'For intangible assets, the relevant Indian Accounting Standards (Ind AS) shall apply. Where a company is not required to comply with Ind AS, it shall comply with relevant Accounting Standards under Companies (Accounting Standards) Rules, 2006 (AS), except in the case of intangible assets (toll roads) created under 'Build, Operate and Transfer', 'Build, Own, Operate and Transfer' or any other form of public- private partnership route in case of road projects.'

The above amendment implies that:

- **Companies following Ind AS:** Companies following Ind AS would be unable to apply revenue-based amortisation method to toll road related intangible assets that are recognised after the beginning of the first year of adoption of Ind AS.
- **Companies following AS:** Companies that continue to follow AS are permitted to continue applying the exception in Schedule II and use a revenue-based amortisation method for their toll road intangibles.

(Source: MCA notifications G.S.R. 237(E) dated 31 March 2014, G.S.R 1075(E) dated 17 November 2016 and corrigendum dated 9 December 2016, IFRS Notes released by KPMG in India on 30 November 2016 and Regulatory updates section of AAU issue no. 05/2016)

Updates relating to SEBI regulations

Compliance by equity listed securities for the quarter ended 31 December 2016: A reminder

The Securities and Exchange Board of India (SEBI) through its circular (CIR/CFD/FAC/62/2016) dated 5 July 2016, provided certain relaxations to the equity listed companies along with prescribing revised formats of financial statements in accordance with Ind AS.

For the quarter ended 31 December 2016, no extension of timeline to submit financial results was given and are required to be submitted up to 14 February 2017. Additionally, the financial results for the said quarter is required to be prepared as per the format specified in SEBI circular (CIR/CFD/CMD/15/2015) dated 30 November 2015.

The table below provides the reporting requirements for the quarter ended 31 December 2016:

Reporting requirements	3 months ended	Preceding 3 months ended	Corresponding 3 months ended in the PY	YTD figures for current period ended	YTD figures for the PY ended	PY ended 31 March 2016	Audit/review of PY comparative period	Audit or review of period ended 31 March 2016	Disclosure of reserves (excluding revaluation reserves)
31 December 2016	✔	✔	✔	✔	✔	✘ **(Note a)**	✔	✘ **(Note a)**	**Optional**

(Source: KPMG in India's analysis, 2017)

Note:

a. The submission of Ind AS compliant financial results for the PY ended 31 March 2016 is not mandatory. However, if a company opts to provide Ind AS comparatives for the year ended 31 March 2016, then such comparatives would required to be audited/reviewed.

(Source: SEBI circulars CIR/CFD/CMD/15/2015 dated 30 November 2015, CIR/CFD/FAC/62/2016 dated 5 July 2016 and IFRS Notes released by KPMG in India on 13 July 2016)

Corporate governance issues in compensation agreements

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) notified on 2 September 2015 provided a regulatory framework for continuous disclosures and other obligations related to listed entities, which *inter alia*, includes corporate governance, related party disclosures, etc.

The SEBI observed that certain Private Equity (PE) firms have entered into side agreements with top personnel and Key Managerial Personnel (KMPs) of a listed entity by which such PE firms (who were allotted shares on a preferential basis) would share a certain portion of the gains above a certain threshold limit made by them at the time of selling the shares and also subject to the conditions that the company achieves certain performance criteria and the employee continues with the company for a certain period.

Entering into such agreements without any prior approval of the shareholders seemed undesirable as it could lead to unfair trade practices. Therefore, SEBI on 4 October 2016 proposed to seek public comments on its consultative paper on corporate governance issues in compensation agreements in case of listed companies through an amendment in the Listing Regulations.

In its meeting held on 23 November 2016, SEBI approved the proposal to amend Listing Regulations and provided following revised norms for such disclosures and shareholder approvals:

a. No employee including KMP, director or promoter of a listed entity should enter into any agreement for himself or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing unless prior approval has been obtained from the Board as well as public shareholders.

b. All such agreements entered during the past three years from the date of notification should be informed to the stock exchanges for public dissemination including those which may not be currently valid.

c. Existing agreements entered into prior to the date of notification and which may continue to be valid beyond such date should be informed to the stock exchanges and approval should be obtained from public shareholders by way of an ordinary resolution in the forthcoming general meeting.

   The term 'public' carries the same meaning as defined under Rule 2(d) of the Securities Contracts (Regulation) Rules, 1957*.

   ('Public' means persons other than:*
   - *the promoter and promoter group,*
   - *subsidiaries and associates of the company.)*

Interested persons involved in the transactions should abstain from voting on the said resolution.

Recently, SEBI through a notification (SEBI/LAD/NRO/GN/2016-17/025) dated 4 January 2017 issued the SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2016 has made the corresponding amendments to the Listing Regulations.

Key takeaways

- The amendment is a welcome step as it is expected to curb the practice of entering into compensation agreements to incentivise promoters, directors and KMP of listed investee companies.
- Mandatory approval from shareholders through a resolution (excluding interested persons) can ensure legitimacy of such agreements.

(Source: SEBI's consultative paper dated 4 October 2016, press release PR No. 161/2016 dated 23 November 2016 and notification no. SEBI/LAD/NRO/GN/2016-17/025 dated 4 January 2017)

Ind AS updates

ITFG: Clarification Bulletins 5 and 6

The Ind AS Transition Facilitation Group (ITFG) formed by the ICAI held its fifth meeting on 19 September 2016 and sixth meeting on 29 November 2016 and issued Bulletin 5 and Bulletin 6 respectively to provide clarifications on the many issues relating to the application of Ind AS.

Overview of Clarification Bulletin 5

Application of Ind AS on meeting net worth criteria: A company existing before the mandatory application date of Ind AS (i.e. before 1 April 2016 or 1 April 2017, as the case may be) that meets the net worth criteria (i.e. has net worth greater than INR500 crore or INR250 crore, respectively) would be required to follow Ind AS from the implementation dates prescribed in the road map i.e. 1 April 2016 or 1 April 2017 respectively.

A company covered in the Ind AS road map will evaluate relationship with its holding/subsidiary/joint venture/associate company in accordance with the applicable Ind AS to assess if such related entities are also required to implement Ind AS. This principle should be applied irrespective of the position taken under previous GAAP.

The above principle was also clarified in the Bulletin 3 by the ITFG where it mentioned that a consistent approach should be followed while considering the definitions given in Ind AS both for the purpose of preparing financial statements and determining the relationship with another entity (i.e. subsidiary, associate, joint venture, etc.) for the purpose of applicability of Ind AS.

Classification of a liability as current/non-current: As per paragraph 69 of Ind AS 1, *Presentation of Financial Statements*, if an entity does not have an unconditional right to defer the settlement of a liability then it should be classified as current liability.

Accordingly, a refundable deposit (collected by a utility company from its customers) that is refundable on demand when the customer discontinues the service offered by an entity, would be classified as a current liability. This is because the timing of the refund (even if not expected to occur within 12 months) is not within the control of the entity.

Property, plant and equipment - application of deemed cost exemption: The ITFG provided guidance on the issues relating to Property, Plant and Equipment (PPE) when a first-time adopter at the date of transition has selected an option under Ind AS 101 to continue with the carrying value of all PPE measured as per previous GAAP as deemed cost. It laid out certain principles in the following situations:

a. ***Selective use:*** An entity cannot be selective to use the previous GAAP carrying value as deemed cost for some of the items of PPE and use fair value as deemed cost approach for the remaining items.

b. ***Loan processing fees capitalised as part of relevant fixed assets:*** An entity should apply Ind AS 109, *Financial Instruments* retrospectively for loans outstanding on the date of transition to Ind AS while measuring them at amortised cost. Loan processing fees would form part of the amortised cost measurement of the loan liability and related adjustment should be recognised in the retained earnings on the date of transition. However, the carrying value of PPE as per previous GAAP cannot be adjusted to reflect the Ind AS accounting treatment for loan processing fees.

c. ***Government grant deducted from the carrying amount of the related fixed asset:*** An entity should recognise the asset related government grants outstanding retrospectively on the date of transition as deferred income in accordance with Ind AS 20, *Accounting for Government Grants and Disclosures of Government Assistance* with a corresponding adjustments to retained earnings. The carrying value of PPE will not be adjusted due to application of other Ind AS.

d. ***Accounting of spares recorded as part of inventory if they meet the definition of PPE:*** Ind AS 16 should be applied retrospectively to determine the amount at which spare parts (recognised as part of inventory in previous GAAP) would be recognised in the first Ind AS financial statements. Depreciation on such spares should be provided when they are available for use.

Further, the exemption provided by paragraph D7AA of Ind AS 101 to continue the previous GAAP carrying values of all PPE at the date of transition as deemed cost under Ind AS cannot be used for spare parts that were not recognised as fixed assets, i.e. PPE, under the previous GAAP. While paragraph D7AA does not permit any further adjustments to be made to the previous GAAP carrying value on transition, it does not prevent recognition of an additional asset as PPE if so required by another Ind AS.

Therefore, spares that meet the definition of PPE should be capitalised on transition by retrospectively applying Ind AS 16.

An entity should apply Ind AS 16 retrospectively to determine the amount at which spare parts (recognised as part of inventory in previous GAAP) would be recognised in the first Ind AS financial statements. Deemed cost exemption to continue with the previous GAAP carrying values cannot be used for spare parts that were not recognised as PPE under previous GAAP.

Depreciation on such spares should be provided when they are available for use.

Further, PPE has been defined under Ind AS 16 as 'tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period'.

The term 'more than one period' in the definition should be construed to mean annual period as per the ITFG.

Straight-lining of lease payments: Paragraph 33 of Ind AS 17, *Leases*, requires operating lease payments to be expensed on a straight-line basis over the period of lease unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. However, if payments to the lessor vary because of factors other than general inflation, then lease payments should be straight-lined.

The ITFG clarified that judgement would be required to be made as per the facts and circumstances of each case to determine whether the payments to the lessor are structured to increase in line with expected general inflation. A careful evaluation of lease agreements is required to ascertain the real intention behind the escalation clause and attributes of escalation in lease payments. Accordingly, if the actual increase or decrease in the rate of inflation is not materially different as compared to the expected rate of inflation/escalation rate under the lease agreement, the lease payments are not required to be straight-lined. The purpose of such escalation should to be compensate for the expected general inflation rate to avoid straight-lining of lease rentals.

Accounting of share in profit in case of joint venture: A company having joint control over a Limited Liability Partnership (LLP) should account for its investment in the joint venture in its separate financial statements as per paragraph 10 of Ind AS 27, *Separate Financial Statements* i.e. either at cost or in accordance with Ind AS 109.

Accordingly, the ITFG clarified that the amount of profit share from such LLP would not be adjusted to the carrying amount of the investment in the separate financial statements of a company having joint control over the LLP. Rather, it should be recognised as income in the statement of profit and loss as and when the right to receive the profit share is established.

Overview of Clarification Bulletin 6

Net worth criteria and listing criteria: As per Rule 4(2) of the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS Rules), net worth for determining the applicability of Ind AS should be calculated in accordance with the stand-alone financial statements of the company as on 31 March 2014 or the first audited financial statements for an accounting period which ends after that date. However, net worth for companies which were not in existence as on 31 March 2014 should be calculated on the basis of the first audited financial statements ending after that date, in respect of which it meets the threshold specified for Ind AS applicability.

The ITFG considered a situation where a company meets the net worth criteria on 31 March 2014 but the net worth falls below the specified threshold on later reporting dates. Based on the above guidance, ITFG clarified that the net worth of a company should be calculated in accordance with the stand-alone financial statements of the company as on 31 March 2014. Once a company meets the net worth threshold criteria it is then required to comply with the Ind AS road map, irrespective of the fact that its net worth falls below the criteria specified at a later date.

The ITFG in its Bulletin 3 issued on 2 July 2016 provided guidance with respect to the listing criteria for Ind AS applicability. In Bulletin 3, ITFG stated that if a company ceases to meet the listing criteria in the Ind AS road map, immediately before the mandatory Ind AS application date, then it would not be required to comply with Ind AS even if it met the criteria on a prior date. However, ITFG has clarified in Bulletin 6 that this guidance (given in Bulletin 3) applies only to the listing criteria and not to the net worth criteria.

Associate companies covered under Section 8 of the 2013 Act: An associate company (of a company falling under Ind AS road map) formed with charitable objects, etc. (Section 8 of the 2013 Act) is also required to comply with Ind AS:

- Companies with charitable objects are also required to comply with the provisions of the 2013 Act unless any exemption is specifically provided.
- Companies with charitable objects are not exempt from the requirements of Sections 133 (CG to prescribe AS) and 129 (financial statement) of the 2013 Act.

Consequently, Section 8 companies would be covered in the Ind AS road map if they meet the specified criteria individually, or are subsidiary, associate or joint venture company of an entity covered by the road map.

Date of applicability of Ind AS for an unlisted NBFC and its subsidiary: As per Rule 4(1)(iv)(b) of Ind AS Rules, Non-Banking Financial Companies (NBFCs) with net worth less than INR500 crore are required to apply Ind AS from 1 April 2019. Further, the holding, subsidiary, joint venture or associate company of such an NBFC, other than those covered by the corporate Ind AS road map are also required to apply Ind AS from 1 April 2019 onwards.

The ITFG considered a scenario where a subsidiary of an NBFC falling within Phase II of the corporate road map, is required to comply with Ind AS from 1 April 2017 onwards, but the NBFC parent is required to implement Ind AS from 1 April 2019 onwards.

The ITFG clarified that in accordance with the explanation to Rule 4(1)(iv), the subsidiary would be required to provide relevant financial statement data in accordance with:

- **NBFC parent's accounting policies:** for preparation of Consolidated Financial Statement (CFS) under the AS Rules, and
- **Ind AS in its individual financial statements:** from the accounting period commencing 1 April 2017 onwards.

This requirement is illustrated in the table below:

NBFC parent with subsidiary within Ind AS road map (Phase II)

Financial year	NBFC parent		Subsidiary/associate/joint venture	
	Stand-alone	Consolidated	Stand-alone	For consolidation
2017-18	Indian GAAP	Indian GAAP	Ind AS	Indian GAAP
2018-19	Indian GAAP	Indian GAAP	Ind AS	Indian GAAP
2019-20	Ind AS	Ind AS	Ind AS	Ind AS

(Source: KPMG in India's analysis, 2017)

Following table depicts the requirements in case a parent entity that falls within the corporate Ind AS road map has an NBFC subsidiary, associate or joint venture:

NBFC subsidiary with parent entity within Ind AS road map (Phase I)

Financial year	NBFC subsidiary/associate/joint venture		Parent company	
	Stand-alone	For consolidation	Stand-alone	Consolidated
2016-17	Indian GAAP	Ind AS	Ind AS	Ind AS
2017-18	Indian GAAP	Ind AS	Ind AS	Ind AS
2018-19	Ind AS	Ind AS	Ind AS	Ind AS

(Source: KPMG in India's analysis, 2017)

Inclusion of capital reserve for computation of net worth: As per Section 2(57) of the 2013 Act, 'net worth' means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet but does not include the following:

- Reserves created out of revaluation of assets
- Write-back of depreciation, and
- Write-back of amalgamation.

The ITFG considered a situation where a company has received a government grant in the nature of promoter's contribution and included this in the capital reserve. The amount of grant was accounted as per AS 12, *Accounting for Government Grants.*

Based on the above definition, the ITFG has clarified that the capital reserve in the nature of promoter's contribution is a capital contribution by promoters. Further, AS 12 also states that government grants in the nature of promoter's contribution should be recognised in the shareholders' funds. Therefore, in this context, the capital reserve should be included in the computation of net worth. However, such an amount should be included only for the purpose of determining Ind AS applicability based on the net worth criteria and should not be applied by analogy for determining net worth under other provisions of the 2013 Act.

For further detailed analysis on the ITFG clarifications, refer to the KPMG in India's IFRS Notes on 'ITFG issues Clarifications Bulletin 5' dated 13 October 2016 and 'ITFG issues Clarifications Bulletin 6' dated 2 December 2016.

(Source: ICAI - ITFG Bulletins 5 and 6 dated 19 September 2016 and 29 November 2016 and IFRS Notes released by KPMG in India on 13 October 2016 and 2 December 2016)

FAQs on elaboration of terms in Ind AS 109 and presentation of Dividend Distribution Tax (DDT)

On 3 November 2016, the Accounting Standards Board (ASB) of the ICAI issued certain clarifications in the form of Frequently Asked Questions (FAQs) on the following topics:

Elaboration of terms 'infrequent number of sales' or 'insignificant in value' used in Ind AS 109

Paragraph 4.1.1(a) of Ind AS 109 requires an entity to classify financial assets on the basis of an entity's business model for managing the financial assets. It provides guidance to determine if the business model of an entity is to hold financial assets to collect contractual cash flows ('held to collect' business model). In order to determine the business model, it is necessary to consider the following:

a. Frequency of sales,

b. Value and timing of sales in prior periods,

c. Reasons for sales, and

d. Expectations about future sales activity.

The application guidance of Ind AS 109 states that sales of assets before maturity may be consistent with a 'held to collect' business model if those sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent). This is reiterated in the Basis of Conclusions to IFRS 9, *Financial Instruments,* which provides an example of a situation where a change in the regulatory treatment of a particular type of financial asset may cause an entity to undertake a significant rebalancing of its portfolio in a reporting period. Such an instance is considered consistent with a 'held to collect' business model.

However, neither the terms 'infrequent number of sales' or 'insignificant in value' have been defined nor any threshold for value or number has been specified in the standard. The ASB considered the following issues and provided its response against each of them:

- ***Interpretation of terms 'infrequent number of sales' or 'insignificant in value':*** No rule of thumb in terms of indicative percentage can be provided to determine 'infrequent number of sales' or 'insignificant in value', since it may not be applicable in all cases considering the differing quantum, configuration and nature of financial assets in different entities. An entity's management may, therefore, exercise judgement in determining the situations in which sales of financial assets occurring before the maturity date may not be considered inconsistent with the 'held to collect' business model. In doing so, it may specify certain guiding criteria - for example, sale of a security initially rated as AAA and subsequently rated as BB may not be considered inconsistent with the entity's business model as the intent is for the entity to rebalance its portfolio rather than waiting till the maturity date.
- ***Relation between the terms 'immaterial' and 'insignificant':*** The ASB clarified that the term 'materiality' is already present in Ind AS which also does not lay down any criteria based on indicative fixed percentages. The term 'insignificant' has not been defined and can be interpreted to mean 'less than material' or almost 'negligible'.

Presentation of dividend and DDT under Ind AS

Ind AS 32, *Financial Instruments: Presentation* requires an issuer to classify financial instruments as a financial liability or an equity instrument based on their contractual terms. Instruments that have features of both, a liability and an equity instrument, are classified as compound financial instruments under Ind AS 32.

The ASB considered the presentation requirements for dividend and DDT on financial instruments classified as equity or as compound instruments by the issuer and provided following response against each of them:

- ***Dividend:*** As per paragraph 35 of Ind AS 32, 'interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss. Distributions to holders of an equity instrument should be recognised by the entity directly in equity.'

  Further paragraph 36 of Ind AS 32 states that 'the classification of a financial instrument as a financial liability or an equity instrument determines whether interest, dividends, losses and gains relating to the instrument are recognised as income or expense in the statement of profit and loss. Thus, dividend payments on shares wholly recognised as liabilities are recognised as expenses in the same way as interest on a bond.'

  Therefore, based on the above, the ASB has clarified that dividends on each category of financial instruments should be presented as follows:

  a. *Financial instrument classified as debt:* Charge dividend/interest paid on it to the statement of profit and loss.

b. *Financial instrument classified as equity:* Recognise dividend/interest paid on it in the statement of changes in equity.

c. *Compound financial instrument:* Charge dividend or interest allocated to debt portion to the statement of profit and loss and recognise the portion of dividend or interest pertaining to equity in the statement of changes in equity.

- ***DDT:*** The ASB is of the view that in India, the rate of income tax for a company on its taxable income does not change if the company distributes dividend. The DDT is a tax that is computed on the basis of the amount of dividend distributed to shareholders rather than based on the amount of profits earned and it arises at the point of time when profits are distributed. In India, dividends are not taxable in the hands of shareholders as DDT is paid by the company that paid the dividend. According to ASB, had there been no DDT mechanism, dividend would have been taxable in the hands of recipients (though recently dividend exceeding specified limit has been made taxable).

  Therefore, with respect to the presentation of DDT, the ASB is of the view that the relevant guidance is in paragraph 61A of Ind AS 12, *Income Taxes* which states that 'current tax and deferred tax should be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss. Therefore, current tax and deferred tax that relates to items that are recognised, in the same or a different period:

  a. other comprehensive income, should be recognised in other comprehensive income.

  b. directly in equity, should be recognised directly in equity.'

  Accordingly, the ASB has clarified that the presentation of DDT paid on dividends should be consistent with the presentation of the transaction that creates those income tax consequences, as follows:

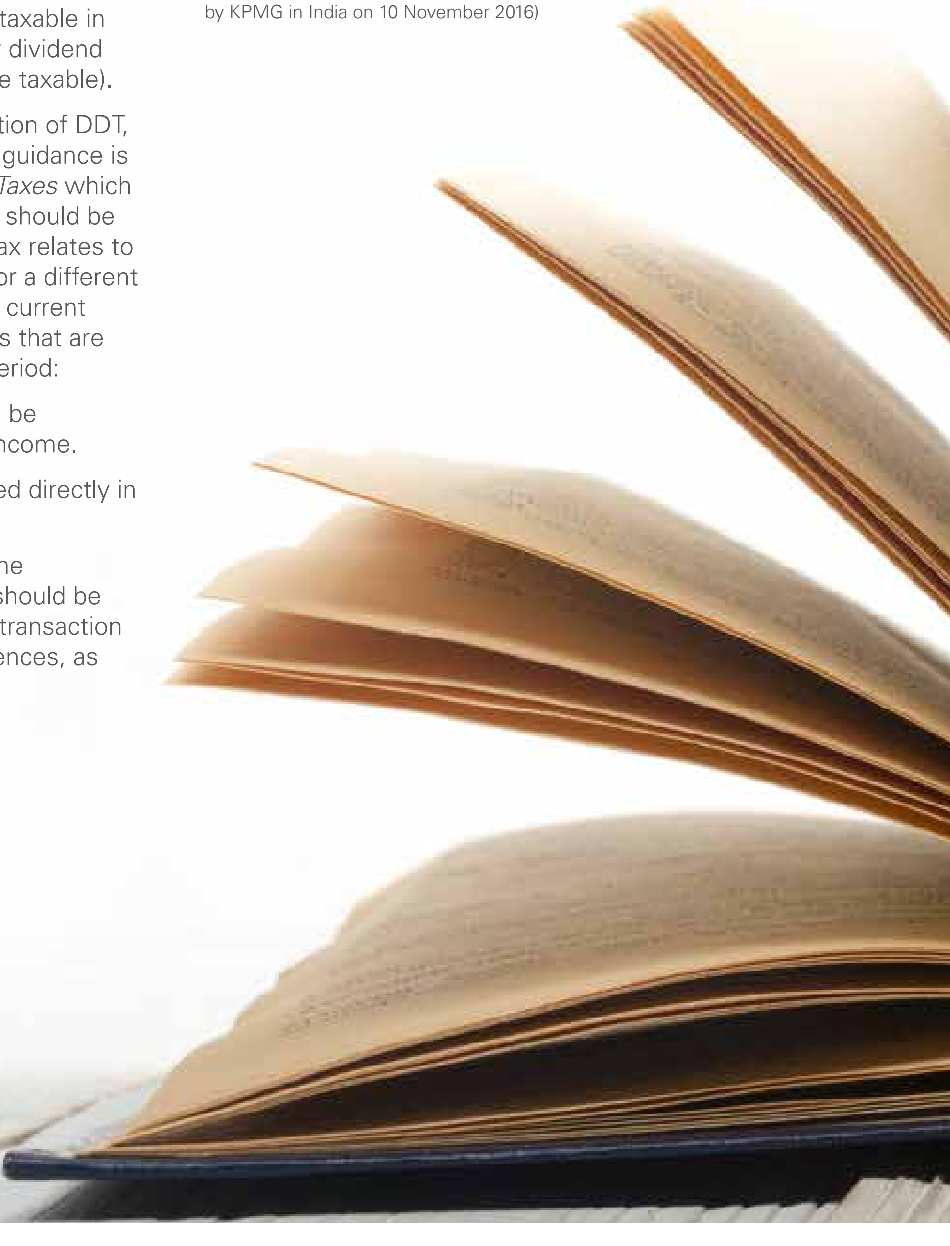
  a. *Dividend charged to statement of profit and loss:* Charge DDT to the statement of profit and loss.

  b. *Dividend recognised in statement of changes in equity:* Recognise DDT in the statement of changes in equity.

  c. *Dividend on compound financial instruments:* Recognise the portion of DDT related to dividend/interest on the debt component in the statement of profit and loss and the portion of DDT related to the equity component in the statement of changes in equity.

For further detailed analysis on the FAQs, refer to the KPMG in India's IFRS Notes on 'ICAI issues FAQs on elaboration of terms used in Ind AS 109 and presentation of dividend distribution tax' dated 10 November 2016.

(Source: FAQs by ICAI dated 3 November 2016 and IFRS Notes released by KPMG in India on 10 November 2016)



Other regulatory updates

Relaxation in prudential norms related to advances

Due to demonetisation, several representations were made to the Reserve Bank of India (RBI) that small borrowers may need some more time to repay their loan dues. Taking these representations into consideration, RBI through a circular dated 21 November 2016 decided to provide an additional 60 days beyond what is applicable for the concerned Regulated Entity (RE) for recognition of a loan account as sub-standard in certain specified cases.

New development

Recently, on 28 December 2016, RBI reviewed the earlier policy and decided as follows:

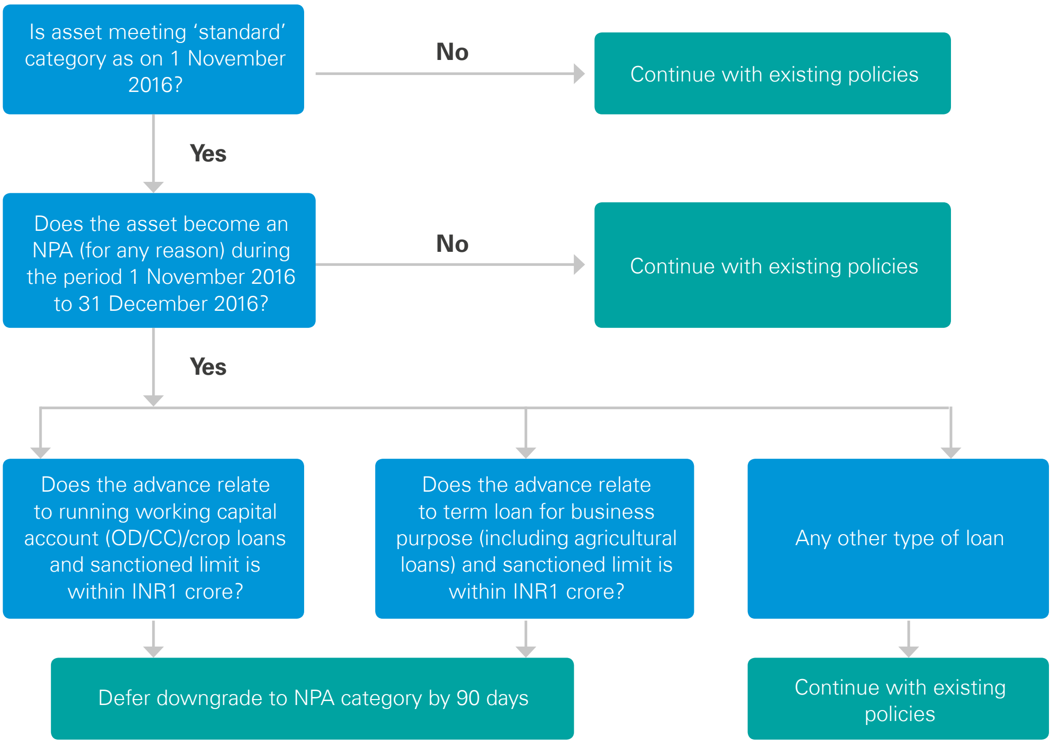
- If the amount becomes payable between 1 November 2016 and 31 December 2016, an additional 30 days may be provided in addition to the 60 days vide the abovementioned circular for the categories of advances mentioned in the box below.
- Permit all REs to defer the down grade of an advance that was standard as on 1 November 2016 but would have become a Non-Performing Asset (NPA) for any reason during the period 1 November 2016 to 31 December 2016, by 90 days from the date of such downgrade in the categories of advances mentioned in the box below.

Advances of the following nature:

- Running working capital accounts (OD/CC)/ crop loans, with any bank, the sanctioned limit whereof is INR1 crore or less;
- Term loans for business purposes, secured or otherwise, the original sanctioned amount whereof is INR1 crore or less, on the books of any bank or any NBFC, including NBFC-MFI. This would include agriculture loans.

- The additional time would only apply to defer the classification of an existing standard asset as substandard and not for delaying the migration of an account across sub-categories of NPA.
- Dues payable after 1 January 2017 will be covered by the extant instructions for the respective REs.

The flow chart below describes the requirements of the RBI circular:



(Source: KPMG in India's analysis, 2017 based on RBI prudential norms on income recognition, asset classification and provision relating to advances dated 28 December 2016)

Key takeaways

- The interim relaxation is only available to the RE i.e. banks, NBFCs, etc. This circular does not affect the contractual obligations of the borrowers.
- The relaxation covers only certain kind of advances that would have become an NPA during the period 1 November 2016 to 31 December 2016.
- It is not clear right now whether for subsequent quarters this extension of 90 days would be available. The RBI may provide clarity in this regard.

(Source: RBI circular no. DBR.No.BP.BC.49/21.04.048/2016-17 dated 28 December 2016 and circular no. RBI/2016-17/143, DBR.No.BP. BC.37/21.04.048/2016-17 dated 21 November 2016)

RBI issues NBFCs Auditor's Report Directions, 2016

On 29 September 2016, RBI issued NBFCs Auditor's Report Directions, 2016 (Auditor's report directions, 2016) to every auditor of an NBFC and directed matters to be reported under the given reports:

a. **Additional auditor's report to the board:** As per the auditor's report directions, 2016, every auditor of an NBFC is required to report separately on the matters specified in the report directed to the board. This report is in addition to the report made by auditors under Section 143 of the 2013 Act on the accounts of the NBFCs and the same is termed as 'Additional Auditor's Report'. There are a number of matters specified in the additional auditor's report, such as:

   - Validity of certificate of registration obtained
   - Public deposits accepted
   - Any violation of any restriction of public deposits
   - Return on deposits within stipulated period
   - Compliance with prudential norms.

   Additionally, an auditor is required to state the reasons for an unfavourable/qualified statement (if any) in respect of the matters reported. If he/she is unable to express any opinion, his/her report should indicate such facts together with the reasons therefor.

b. **Auditor's exception report to RBI:** An auditor is required to make a report comprising any unfavourable/qualified statement issued with respect to any of the matters stated in the additional auditor's report or about the non-compliance with the following:

   - The provisions of Chapter III B of the RBI Act - (Provisions relating to non-banking institutions receiving deposits and financial institutions),
   - NBFCs Acceptance of Public Deposits (Reserve Bank) Directions, 2016 (NBFCs deposit directions), or
   - NBFC - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Such an exception report is to be submitted to the concerned regional office of the department of non-banking supervision of RBI under whose jurisdiction the registered office of the company is located as per Schedule I to the NBFCs deposit directions.

These directions replace the erstwhile circular and came into force with effect from 29 September 2016. The additional auditor's report would be applicable for the statutory reporting for periods ending 31 March 2017.

For further details on the requirements of additional auditor's report, refer to the KPMG in India's First Notes on 'RBI issues NBFCs Auditor's Report Directions 2016' dated 12 October 2016.

Key takeaway

This circular enhances the reporting requirements for auditors in the additional auditor's report and exception report (where applicable) that are expected to be relevant to the board and RBI respectively.

(Source: RBI notification no. RBI/DNBS/2016-17/48 dated 29 September 2016 and First Notes released by KPMG in India on 12 October 2016)

Income Computation and Disclosure Standards (ICDS): A reminder

The Ministry of Finance (MoF) had on 31 March 2015 notified 10 ICDS which were applicable from PY2015-16 (i.e. Assessment Year (AY) 2016-17). However, various representations were received by the MoF and accordingly, on 6 July 2016 deferred these ICDS by one year and made them applicable from PY2016-17 (i.e. AY2017-18).

New development

Further, on 29 September 2016, the Central Board of Direct Taxes (CBDT) notified revised ICDS which are applicable to all assessees other than an individual or a Hindu Undivided Family who is not required to get his/her accounts of the PY audited in accordance with the provisions of Section 44AB of the Income Tax Act, 1961. Such assessees need to follow the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head 'Profits and gains of business or profession' or 'Income from other sources'. The revised ICDS apply from AY2017-18.

Corresponding to revised ICDS, amendments have also been made in the Tax Audit Report Form No. 3CD and a new clause to provide details of adjustments with respect to ICDS and disclosures as per ICDS has been added.

The following table highlights the key requirements of revised ICDS:

ICDS	Description
ICDS II: Valuation of inventories	• Standard cost method for measuring inventory has been allowed along with related additional disclosures. • Requirement for determining cost of services with reference to a service provider has been removed.
ICDS IV: Revenue recognition	• Following exception to percentage-of-completion method for revenue recognition in case of service transactions have been provided: – When services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight-line basis over the specific period, and – Revenue from service contracts with duration of not more than 90 days may be recognised when the rendering of services under that contract is completed or substantially completed. • The revised ICDS exempts accrual of interest on refund of any outstanding tax, duty or cess i.e. interest would be recognised in the PY in which it is received.
ICDS V: Tangible fixed assets	• Requirement to separately indicate tangible fixed assets owned jointly by an entity in the tangible fixed assets register has been removed.
ICDS VI: The Effects of Changes in Foreign Exchange Rates	• A new paragraph has been added with regards to a non-monetary item that is a foreign currency inventory (carried at net realisable value). Such inventory should be reported using the exchange rate that existed when such net realisable value was determined. • Classification requirement for a foreign operation, into integral and non-integral operation, has been removed.
ICDS VIII: Securities	• Following two parts have been introduced in this standard. They are as follows: – Part A deals with the securities held as stock-in-trade. – Part B deals with the securities held by a scheduled bank or public financial institutions formed under Central/State Act or so declared under the 2013 Act/1956 Act.

ICDS	Description
ICDS IX: Borrowing costs	• The previously issued ICDS did not define a qualifying asset. Therefore, borrowing cost, may need to be capitalised even if an asset may not take a substantial period of time to complete. The revised ICDS updates the definition of a qualifying asset for the purposes of general borrowing cost capitalisation only (and not specific borrowing cost capitalisation). It specifies that qualifying asset should be such an asset that necessarily requires a period of 12 months or more for its acquisition, construction or production.
Transitional provisions	• The overarching principles of the transitional provisions are that no income would escape taxation nor would it suffer double taxation as a result of the transition of this new framework.
• **ICDS on construction contracts and services**	• Contract revenue and contract costs related to construction contracts that commenced prior to the applicability of ICDS but were not completed by 31 March 2016, should be recognised based on the method followed by an entity prior to the applicability of the ICDS. • Similar transition guidance is available for service contracts.
• **Other ICDS**	• Revised ICDS have incorporated transitional provisions for most of the ICDS. As per the transitional provisions, the impacted assessees would have to execute a retrospective catch up at the date of transition in certain cases. Whereas in certain other cases, the provisions apply only on a prospective basis. With the deferment of the ICDS, the transition date for this assessment is 1 April 2016 for all the ICDS.

Key takeaways

- The revised ICDS have brought consistency with the existing accounting practices prescribed under Ind AS and accounting standards on certain issues, diversity still exists between accounting standards and ICDS.
- Net profit as per financial statements need to be adjusted for specific requirements of ICDS for determining taxable income.
- Companies are required to perform impact assessment on tax liabilities.
- Companies that have already adopted ICDS may need to re-perform impact assessment of revised ICDS.
- The amendments to Form 3CD provide sufficient time to the taxpayers who are required to file Tax Audit Report to analyse the requirement and prepare accordingly.

(Source: CBDT notification no. 86/2016, 87/2016 and 88/2016 dated 29 September 2016 and KPMG in India's First Notes dated 5 October 2016)

Guidance Notes (GN) issued by the ICAI during the quarter ended December 2016

Topic	Description
Guidance Note on Combined and Carve-Out Financial Statements	• The GN applies in the preparation and presentation of combined/ carve-out financial statements. • However, the GN is not applicable to the general purpose financial statements, since the combined/carve-out financial statements are 'special purpose financial statements'. • The preparation of combined/carve-out financial statements would involve areas of judgement based on the purpose for which the financial statements are prepared. • The procedures for preparing combined financial statements of the combining entities is the same as that for CFS as per the applicable AS. Additionally, the GN provides specific guidance on impairment, taxation, transaction costs, exceptional items, capital, cash flow statements and disclosures.
Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)	• The purpose of this GN is to provide guidance on engagements which require a 'professional accountant in public practice' to issue reports other than those which are issued in audits or reviews of historical financial information. • It caters to the reports or certificates in support of statements or other information provided by an entity, such as reports or certificates to fulfil a contractual reporting obligation, required by those charged with governance of an entity, or required by laws and regulations. • It can also be applied on the reports or certificates related to historical non-financial information that a practitioner may be called upon to issue from time to time. • The GN specifies that a practitioner would either provide a reasonable assurance or limited assurance. • It provides specific guidance when an assurance report is prescribed by a law or regulation. Additionally, it describes various types of assurance reports which a practitioner can issue based on his/her opinion/conclusion of work performed by him/her.
Guidance Note on Audit of Consolidated Financial Statements (Revised 2016)	• The GN provide guidance on the specific issues and audit procedures to be applied in an audit of CFS and supersedes the Guidance Note on Audit of CFS, issued by the ICAI in 2003. • It can also be used while auditing CFS prepared for special purpose, to the extent applicable. • It does not deal with the accounting matters arising on consolidation of financial statements.
Guidance Note on Report under Section 92E of the Income-tax Act, 1961 (Transfer Pricing)	• The objective of this GN is to provide guidance to accountants in discharging their responsibilities under Section 92E of the Income-tax Act,1961 (IT Act). • It intends to: – Assist in understanding the respective responsibilities of the assessee enterprise and the accountant – Guide the accountant as to the nature and scope of information to be obtained by him from the assessee enterprise to enable him to conduct the examination – Provide guidance on the verification procedures to be adopted by the accountant for giving the report and the prescribed particulars in the annexure thereto, and – Explain the circumstances where a disclosure or qualification or disclaimer may be required from the accountant while giving his report.

Topic	Description
Guidance Note on Accounting for Oil and Gas Producing Activities	• The GN provide guidance on the accounting principles contained in Ind AS to accounting for costs incurred on activities relating to acquisition of interests in properties, exploration, development and production of oil and gas. • The GN also deals with other accounting aspects such as accounting for abandonment costs and impairment of assets that are peculiar to the entities carrying on oil and gas producing activities. • The GN does not address accounting and reporting issues relating to the transporting, refining and marketing of oil and gas and also does not apply to accounting for: – activities relating to the production of natural resources other than oil and gas, and – the production of geothermal resources or the extraction of hydrocarbons as a by-product of the production of geothermal and associated resources.

(Source: Guidance Notes issued by the ICAI during the quarter ended 31 December 2016)

Expert Advisory Committee (EAC) opinions issued by ICAI during the quarter ended December 2016

Topic	Month
Accounting treatment of exchange variation arising on loan taken by foreign operations of the company held through a wholly owned foreign subsidiary company for the purposes of CFS as per AS 11, *The Effects of Changes in Foreign Exchange Rates*	October 2016
Accounting treatment of unutilised spare parts to be used on renovation and modernisation of power plant	November 2016
Recognition of deferred tax asset/liability in respect of depreciation on held-to-maturity category investments as per AS 22, *Accounting for Taxes on Income*	December 2016

(Source: The ICAI Journal: The Chartered Accountant for the months of October, November and December 2016)

Glossary

1956 Act	The Companies Act, 1956
2013 Act	The Companies Act, 2013
AS	Accounting Standard
AS Rules	Companies (Accounting Standards) Rules, 2006
ASB	Accounting Standard Board
AY	Assessment Year
BOOT	Build, Own, Operate and Transfer
BOT	Build, Operate and Transfer
CBDT	Central Board of Direct Taxes
CC	Cash Credit
CFS	Consolidated Financial Statements
CG	Central Government
DDT	Dividend Distribution Tax
EAC	Expert Advisory Committee
FAQs	Frequently Asked Questions
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
GN	Guidance Note
ICAI	The Institute of Chartered Accountants of India
ICDS	Income Computation and Disclosure Standards
Ind AS	Indian Accounting Standards
Ind AS Rules	Companies (Indian Accounting Standards) Rules, 2015
ITFG	Ind AS Transition Facilitation Group
KMP	Key Managerial Personnel
Listing Regulations	SEBI(Listing Obligations and Disclosure Requirements) Regulations, 2015
LLP	Limited Liability Partnership
MCA	The Ministry of Corporate Affairs
MoF	The Ministry of Finance
NBFC	Non-Banking Financial Company
NBFC-MFI	Non- Banking Financial Company (Micro Finance Institution)
NCLT	National Company Law Tribunal
NCLAT	National Company Law Appellate Tribunal
NPA	Non-Performing Asset
OD	Overdraft
PE	Private Equity
PPE	Property, Plant and Equipment
PY	Previous Year
RBI	The Reserve Bank of India
RE	Regulated Entity
ROC	Registrar of Companies
SEBI	The Securities and Exchange Board of India

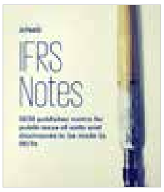
KPMG in India's IFRS institute

Visit KPMG in India's IFRS institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.

IFRS Notes

SEBI publishes norms for public issue of units and disclosures to be made by REITs



16 January 2017

The Securities and Exchange Board of India (SEBI) (Real Estate Investment Trusts) Regulations, 2014 (REIT Regulations) notified on 26 September 2014, provided a regulatory framework for registration and regulation of Real Estate Investment Trusts (REITs) in India. The REIT Regulations, inter alia, prescribe conditions for making a public offer, initial and continuous disclosures, investment conditions, unit-holder approval requirements, related party disclosures, etc.

Recently, SEBI issued the following circulars providing detailed requirements for REIT with respect to:

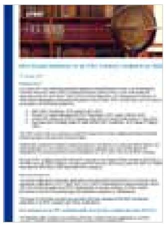
i. Public issue of units of REITs (CIR/IMD/DF/136/2016 dated 19 December 2016)

ii. Disclosure of financial information in an offer document of a REIT (CIR/IMD/DF/141/2016 dated 26 December 2016), and

iii. Disclosure of financial and non-financial information to be submitted to the stock exchanges and required compliances on a continuous basis by a REIT (CIR/IMD/DF/146/2016 dated 29 December 2016).

Our issue of IFRS Notes provides an insight into the requirements of the above mentioned SEBI circulars.

Missed an issue of Accounting and Auditing Update or First Notes?



MCA issued relaxation for an IFSC company located in an SEZ

17 January 2017

On 8 April 2015, the central government allowed the establishment of Units in an International Financial Services Centre (IFSC) in Special Economic Zones (SEZs). Such Units would be approved under the SEZ Rules, 2006, and Insurance Regulatory and Development Authority of India (IRDA) (Regulation of Insurance Business in SEZ) Rules, 2015. Further such an IFSC would be subject to the following regulations:

i. IRDA IFSC Guidelines, 2015 (dated 6 April 2015)

ii. Foreign Exchange Management IFSC Regulations, 2015 (dated 2 March 2015)

iii. Scheme for setting up of IFSC Banking Units (IBU) by Indian Banks (dated 1 April 2015)

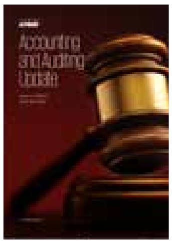
iv. Securities and Exchange Board of India (SEBI) IFSC Guidelines, 2015 (dated 27 March 2015).

Additionally, during the monsoon Parliament session, the Ministry of Corporate Affairs (MCA) laid draft notifications in the Parliament, and proposed exceptions from, and modifications and adaptations of various provisions of the Companies Act, 2013 (2013 Act) for an IFSC company.

Such an IFSC company would be licensed to operate by the Reserve Bank of India or the SEBI or the IRDA from an IFSC located in an approved multi services SEZ set-up under the SEZ Act, 2005 read with the SEZ Rules, 2006 (specified IFSC company).

The above notifications have been approved by the Parliament and the MCA on 4 January 2017 issued two notifications (G.S.R. 08(E) and G.S.R. 09(E)) mentioning that certain provisions of the 2013 Act should not apply to an IFSC unlisted public or private company. Further, certain provisions of the 2013 Act would apply with specified exceptions or modifications.

Our issue of First Notes provides an overview of the key sections of the 2013 Act that are applicable to an IFSC company with these modifications.



Accounting and Auditing Update

Issue no. 5/2016 – December 2016

This month the Accounting and Auditing Update focuses on the recent updates from the regulators in India and emerging new trends in the field of accounting and auditing. This edition includes a detailed analysis on the recently notified sections of the Companies Act, 2013 relating to restructuring, amalgamation and winding-up of companies. The notification of these sections was much awaited and our article discusses the key provisions of the recently notified sections along with our comments.

This publication also carries an article on the revised guidance note on reports or certificates for special purposes issued by the Institute of Chartered Accountants of India. The article provides an overview of the key elements of the guidance note and highlights additional considerations for management of entities and practitioners.

Ind AS 110, *Consolidated Financial Statements* provides wider definition of control in comparison to Accounting Standards. The revised definition is expected to impact the current structures and give rise to certain practical issues while preparing consolidated financial statements. Our article highlights some of these issues and explains the accounting under Ind AS with the help of examples.

Additionally, this publication carries an article on low-interest and interest-free loans under Ind AS 109, *Financial Instruments*. The article on this topic explains the accounting with the help of illustrative examples and a detailed flowchart. Our publication also carries a regular synopsis of regulatory updates.

Feedback/queries can be sent to
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