KPMG

Voices on Reporting

Quarterly updates

October 2017

Contents

In this newsletter, we aim to summarise important topics relating to the quarter ended 30 September 2017 from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Institute of Chartered Accountants of India (ICAI) and the Central Board of Direct Taxes (CBDT).

Updates relating to Ind AS

ITFG clarifications bulletins

The Ind AS Transition Facilitation Group (ITFG) formed by ICAI issues clarifications' bulletin to provide guidance on issues arising due to applicability and/or implementation of Ind AS. Till date, ITFG has issued 11 bulletins.

In the last quarter, ITFG issued two clarification bulletins; bulletin 10 on 6 July 2017 and bulletin 11 on 1 August 2017 to provide guidance on certain issues relating to the application of Ind AS.

Overview of bulletin 10 and bulletin 11

Applicability of Ind AS

a. **Computation of net worth of a company to assess applicability of Ind AS (Bulletin 11 – Issue 1):** The Companies (Indian Accounting Standards) Rules, 2015 (Ind AS Rules) have specified the criteria for applicability of Ind AS to certain classes of companies. One of the criteria for determining the applicability of Ind AS is based on the net worth of a company. However, the Ind AS Rules have not defined net worth, but give reference to the definition of net worth in the Companies Act, 2013 (2013 Act) for calculating net worth for the purposes of Ind AS road map applicability.

   As per the 2013 Act, net worth is the aggregate of paid-up share capital, all reserves created out of profits and securities premium. This is net of accumulated losses and miscellaneous and deferred expenditure, to the extent not written off. The definition specifically excludes reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

   In view of the above guidance, ITFG clarified that the Employee Stock Options Plans (ESOP) reserve created as per the previous GAAP in India, in accordance with the *Guidance Note on Accounting for Employee Share-based Payments* (the Guidance Note), is a transitional account. On fulfilment of the ESOP conditions, it will ultimately be transferred to another equity account, such as share capital, securities premium and/or general reserve, as would be recommended in the Guidance Note.

   Accordingly, for the purpose of determining whether Ind AS is applicable to a company, the ESOP reserve should be included while calculating the net worth of the company.

   The ITFG has reiterated that this clarification is only for the purpose of Ind AS applicability and should not be applied by analogy for determining net worth under the provisions of the 2013 Act.

b. **Applicability of Ind AS to non-corporate entities (Bulletin 11 – Issue 7):** The ITFG considered a situation where a company (A Ltd.) which was a first time adopter of Ind AS, had incorporated a partnership firm (M/s A & B Associates) with another company (B Ltd.). The ITFG analysed whether Ind AS would be applicable to M/s A & B Associates by virtue of the fact that Ind AS was applicable to A Ltd.

   The ITFG clarified that according to the Ind AS road map issued by MCA, Ind AS is applicable to corporates only, and non-corporates cannot apply it voluntarily. However, where a relevant regulator specifically provides for implementation of Ind AS, non-corporate entities would be required to apply the same. In the current case, Ind AS would not be applicable to M/s A & B Associates and hence, it would not prepare Ind AS financial statements. However, if M/s A & B Associates qualifies as a subsidiary/joint venture/associate of A Ltd., then M/s A & B Associates would be required to provide information as per Ind AS financial statements for the purpose of consolidation.

Ind AS 101, *First-time Adoption of Indian Accounting Standards*

a. **Accounting for interest-free loans provided by a holding company in its stand-alone financial statements (Bulletin 10 – Issue 1):** The ITFG considered a situation where the holding company had given an interest-free loan to its subsidiary before the date of transition to Ind AS. On transition to Ind AS, the subsidiary in its stand-alone financial statements accounted for the present value of the loan amount as a financial liability, and the difference between this amount and the carrying value of the loan as per previous Generally Accepted Accounting Practice (GAAP) was recognised as 'equity'. The holding company has elected to measure the investment in subsidiary at its previous GAAP carrying amount in accordance with paragraph D14 and D15 of Ind AS 101 on transition to Ind AS. The issue considered by ITFG was the accounting treatment for the difference between the carrying value of the loan under previous GAAP and its present value in the stand-alone financial statements of the holding company under Ind AS.

   The ITFG clarified that in accordance with paragraph 10 of Ind AS 101, on transition to Ind AS, an entity is required to recognise all assets and liabilities whose recognition is required by Ind AS. Although the entity may have exercised the option to measure its investment in its subsidiary at the previous GAAP carrying amount on the date of transition to Ind AS, this differential amount be recognised as a part of its 'investment in subsidiary' and will be added to the amount measured at cost.

b. **Applicability of deemed cost exemption on assets classified as held for sale (Bulletin 10 – Issue 4):** The ITFG considered a situation where a company (company X), prior to the date of transition to Ind AS, classified a group of assets as held for sale in accordance with AS 10, *Property, Plant and Equipment* and stated it at the lower of its net book value and net realisable value under previous GAAP. On transition to Ind AS, these assets did not fulfil the criteria for being classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations,* accordingly, these were classified as Property, Plant and Equipment (PPE) under Ind AS.

   The issue under consideration was whether company X can avail of the deemed cost exemption under paragraph D7AA of Ind AS 101, to continue with the previous GAAP carrying value of these assets as the deemed cost on transition to Ind AS.

   The assets classified as held for sale in accordance with previous GAAP were presented separately from other fixed assets in the previous GAAP financial statements. However, they were not eliminated from the financial statements (as elimination would be warranted only on their disposal or when no future economic benefits were expected from their use or disposal).

   The ITFG noted that paragraph D7AA of Ind AS 101 allowed entities to avail the deemed cost exemption for all PPE recognised in the financial statements at the date of transition to Ind AS, irrespective of whether these assets are disclosed separately. Accordingly, it clarified that in the current case, company X can avail the deemed cost exemption for assets which were disclosed separately as held for sale as per previous GAAP, but on transition did not meet the criteria of assets held for sale under Ind AS 105.

c. **Measurement of investments in subsidiaries, joint ventures and associates at the end of the first Ind AS financial reporting period (Bulletin 11 – Issue 4):** The ITFG clarified that if an entity has elected to measure a particular category of investment (e.g. its investment in its subsidiaries) at deemed cost on the date of transition, then it is required to carry such investment at that amount in its first Ind AS financial statements prepared as at the end of the reporting period. However, for investments made in other categories where it has not selected the deemed cost exemption (e.g. investments in associates or joint ventures), such an entity would have an option to account for those investments either at cost or in accordance with Ind AS 109.

Ind AS 16, *Property, Plant and Equipment*

a. **Treatment of enabling assets in the financial statements of an entity (Bulletin 11 – Issue 8):** The ITFG in its second bulletin opined that expenses incurred on construction of assets on land not owned by an entity could be capitalised based on the principles of Ind AS 16, after consideration of facts and circumstances of each case.

In its 11th bulletin, it reiterated that expenses incurred to construct assets, not owned by the entity, in order to facilitate the construction of and the operations of its project (enabling assets) can be capitalised. This is because enabling assets assist the entity in obtaining future economic benefits from its project (irrespective of the fact that these assets are not owned by the entity). The ITFG further clarified the following:

- *Capitalisation and presentation of enabling assets:* Since the entity cannot restrict others from using the enabling assets, it cannot capitalise them individually. However, it may capitalise and present them as a part of the overall cost of the project provided they meet the recognition criteria of Ind AS 16.
- *Depreciation of enabling assets:* Entities may adopt component accounting and depreciate the enabling assets as follows:
  - Useful life is different: If the components have a useful life which is different from the useful life of the PPE to which they relate, then they should be depreciated separately over their useful life (which cannot exceed the useful life of the asset to which they relate.)
  - Useful life and depreciation method is same: If the components have a useful life and depreciation method that are same as the useful life and depreciation method of the PPE, then they may be grouped with the related PPE and depreciated as a single component.
  - Directly attributable costs: Where the components have been included in the cost of PPE as a directly attributable cost, then they should be depreciated over the useful life of the PPE.

Ind AS 18, *Revenue*

a. **Classification of expenses for providing free third party goods (Bulletin 10 – Issue 6):** The ITFG considered a situation where a company (company X) participated in a customer loyalty programme operated by a third party. The members of the programme earned points for purchases made in company X's stores and could redeem the points for goods supplied by the third party. Company X fulfils its obligation to the programme members once they have been granted points on making purchases in its stores, and the obligation to supply the redeemed goods would lie with a third party. As on 31 March 2017, the estimated fair value of the total award points granted by company X amounted to INR20,000 and it owed the third party INR17,000.

The ITFG considered the accounting treatment and classification of expenses incurred for providing free third party goods to its customers (i.e. INR17,000 in this case).

The ITFG clarified that to determine the accounting treatment and the classification of the amounts, Appendix B, *Customer Loyalty Programmes* of Ind AS 18, *Revenue,* requires company X to assess whether it is acting as an agent of the third party or as the principal in the transaction.

- **If company X is acting as an agent:** The difference between the consideration allocated to the award credits and the amount payable to the third party for supplying awards (in this case INR3,000) should be recognised as commission income. This net amount will be recognised as revenue when the third party becomes obliged to supply the awards and entitled to receive consideration for doing so.
- **If company X is acting as a principal:** It shall measure its revenue as the gross consideration allocated to the award credits (i.e. INR20,000) and recognise the revenue when it fulfils its obligations in respect of the awards. The costs incurred for providing free third party goods (i.e. INR17,000) will be charged to the statement of profit and loss as the costs of goods sold.

Ind AS 109, *Financial Instruments*

a. **Accounting for processing fees paid relating to undisbursed term loans (Bulletin 10 – Issue 2):** The ITFG considered a situation where a company, covered in Phase I of the Ind AS implementation road map, had obtained a six year term loan from a bank in April 2010 and had paid the processing fees at the time of sanction of the loan. The term loan was disbursed in different tranches from April 2010 to April 2016. On the date of transition to Ind AS (1 April 2015), the company calculated the net present value of the term loan disbursed upto 31 March 2015, by using the Effective Interest Rate (EIR) and proportionately adjusted the processing fees in the EIR of the loan. The ITFG considered the accounting treatment of processing fees pertaining to the undisbursed term loan amount.

   The ITFG clarified that the accounting treatment of processing fees relating to the undisbursed term loan would be dependent upon the probability of that portion of the loan being drawn down in the future. Where an entity has evidence that it is probable that the undisbursed portion of the loan would be drawn in the future, the processing fees would be accounted for as a transaction cost under Ind AS 109, and would be considered to be an integral part of the EIR of the term loan. The fees would be deducted from the carrying value of the loan when it is drawn, and the EIR of the loan would be adjusted to that effect. Accordingly, the fees would be amortised over the period of the loan. However, if it is not probable that the undisbursed portion of the loan would be drawn down in the future, the fees should be recognised as an expense on a straight-line basis over the term of the loan.

   In the current case, ITFG assumed that the undisbursed portion of the loan would be drawn down in the future. Accordingly, ITFG opined that the entire amount of processing fees paid by the company would be included while computing the EIR of the loan on the date of transition to Ind AS.

Ind AS 12, *Income Taxes*

a. **Recognition of Deferred Tax Asset (DTA) on tax deductible goodwill of subsidiary, not recognised in the CFS (Bulletin 10 – Issue 3):** The ITFG considered a transaction where, while preparing its Consolidated Financial Statements (CFS), an entity, as a result of a consolidation adjustment, eliminated goodwill recognised in the separate financial statements of its subsidiary (a company formed as a result of amalgamation of its other subsidiaries). This goodwill was tax deductible in the books of the amalgamated entity.

   In this context, ITFG clarified that:

   - Tax base should be determined by reference to the tax returns of each entity in the group. Accordingly, a DTA on the tax base of goodwill should be recognised in accordance with Ind AS 12, irrespective of the fact that no goodwill was recognised in the CFS of the entity.
   - The initial recognition exemption would not apply in this case, since the amalgamation of the subsidiaries did not result in the initial recognition of an asset or liability in the CFS of the entity.

b. **Applicability of Accounting Standard Interpretations (ASIs) issued under previous GAAP to situations of tax holiday under Ind AS (Bulletin 11 – Issue 2):** Under previous GAAP, ASIs were issued to deal with certain practical difficulties arising out of application of the AS. Therefore, ASI 3, *Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the Income Tax Act, 1961* and ASI 6, *Accounting for Taxes on Income in the context of Section 115JB of the Income Tax Act, 1961* were issued by ICAI to provide guidance on applicability of AS 22, *Accounting for Taxes on Income* in situations of tax holiday under Section 80-IA and 80-IB of the Income Tax Act, 1961 (IT Act).

   The ASI 3 clarified that deferred taxes in respect of timing differences which reverse during the tax holiday period should not be recognised to the extent the company's gross total income is subject to the deduction during the tax holiday period. However, timing differences which reverse after the tax holiday period should be recognised in the year in which the timing differences originate.

   The ITFG clarified that ASI 3 has become part of AS 22, by way of an explanation to paragraph 13. Additionally, ASI are not effective in the context of Ind AS. Under Ind AS, to determine the treatment of deferred taxes in the tax holiday period, the principles enunciated in Ind AS 12 are required to be applied. Accordingly, under Ind AS, deferred taxes in respect of temporary differences that reverse during the tax holiday period should not be recognised in the financial statements to the extent the entity's gross total income is subject to deduction during the tax holiday period as per the requirement of Section 80-IA/80-IB of the IT Act.

Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

a. **Consolidation of financial statements of a subsidiary following a different method of depreciation (Bulletin 11 – Issue 6):** The ITFG considered a situation where a subsidiary company (PQR Ltd.) had adopted the Straight-Line Method (SLM) of depreciation, whereas its parent (MNC Ltd.) had adopted the Written-Down Value (WDV) method of depreciation. The issue analysed by ITFG was, how the PPE be depreciated in the CFS of MNC Ltd.

   Ind AS 8 states that the depreciation method used by an entity should reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. A change in such a method would be accounted for as a change in an accounting estimate of the entity.

   In view of the above, ITFG clarified that selection of the method of depreciation is an accounting estimate, and not an accounting policy. Though Ind AS 110, *Consolidated Financial Statements* requires members of a group to use uniform accounting policies for like transactions and other events in similar circumstances, this requirement is not applicable for accounting estimates made while preparing financial statements. Accordingly, a subsidiary can have a different method of estimating depreciation for PPE, if its expected pattern of consumption is different. The method once selected in the stand-alone financial statements of the subsidiary should not be changed while preparing the CFS.

   Accordingly, in the given case, PPE of PQR Ltd. (subsidiary company) may be depreciated using SLM and PPE of parent company (MNC Ltd.) may be depreciated using WDV method, if such method closely reflects the pattern of consumption of future economic benefits embodied in the respective assets.

Ind AS 24, *Related Party Disclosures*

a. **Disclosure of sitting fees paid to independent and non-executive directors (Bulletin 11 – Issue 9):** As per Ind AS 24, Key Management Personnel (KMP) includes all directors (executive or otherwise) of an entity who have direct or indirect authority and responsibility for planning, directing and controlling the activities of the entity. It further requires entities to disclose the compensation of the KMP, including short-term employee benefits in the financial statements of the entity.

   Ind AS 19, *Employee Benefits* defines short-term employee benefits as those items that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees/directors render the related services, and includes wages, salaries, social security contributions, paid annual and sick leaves, profit-sharing and bonus and other non-monetary benefits.

   In the above context, independent and non-executive directors would be considered as KMP under Ind AS. Therefore, sitting fees paid to the directors will be required to be disclosed as per Ind AS 24, since they will fall under the definition of 'short-term employee benefits'.

Ind AS 33, *Earnings per Share*

a. **Consideration of amounts debited to FCMITDA for computation of basic earnings per share (Bulletin 10 – Issue 5):** The ITFG considered a situation where a company (MNC Ltd.) has availed of the option under paragraph D13AA of Ind AS 101 to continue applying the accounting treatment permitted by paragraph 46/46A of AS 11, *The Effects of Changes in Foreign Exchange Rates.* Accordingly, in the case considered by ITFG, the company has continued to capitalise foreign exchange gains or losses on long-term foreign currency monetary items recognised prior to the first Ind AS financial reporting period. Such exchange gains/losses have been accumulated in a reserve (Foreign Currency Monetary Item Translation Difference Account (FCMITDA)).

   The ITFG considered whether the amounts debited to FCMITDA would be required to be reduced from profit or loss from continuing operations for the purpose of calculating basic Earnings Per Share (EPS) in accordance with Ind AS 33.

   Ind AS 33 refers to items of income and expense which are required by Ind AS to be recognised in the statement of profit and loss, but have been debited or credited to securities premium/other reserves. It requires such items of income and expense to be added to/deducted from profit or loss from continuing operations for computing the basic EPS.

   In this context, ITFG clarified that accumulation of exchange differences arising from translation of long-term foreign currency monetary items in FCMITDA is permitted under the optional exemption available in Ind AS 101. Therefore, this accounting treatment is in accordance with Ind AS and such exchange differences are not required to be reduced from profit or loss from continuing operations for the purpose of computing basic EPS.

b. **Calculation of EPS by a subsidiary company that is not wholly owned by its parent (Bulletin 11 – Issue 3):** Paragraph 9 of Ind AS 33, *inter alia,* states that an entity shall calculate basic EPS amounts for profit or loss attributable to ordinary equity holders of the parent entity. The ITFG clarified that the requirements of paragraph 9 of Ind AS 33 have been provided with respect to the calculation of EPS in the CFS of an entity. Accordingly, a subsidiary company, which is not fully owned (the subsidiary company), should calculate and present its basic EPS as below:

- **Separate financial statements:** In case of separate financial statements, 'parent entity' mentioned in paragraph 9 would imply the legal entity of which separate financial statements are being prepared. Accordingly, when an entity presents its EPS in its separate financial statements, then the EPS would be calculated based on the profit or loss attributable to its equity shareholders.
- **CFS:** For the purpose of calculating EPS based on CFS, an entity would consider profit or loss attributable to the ordinary equity holders of the parent entity and if presented, profit or loss from continuing operations attributable to those equity holders. Profit or loss attributable to the parent entity refers to profit or loss of the consolidated entity after adjusting profit attributable to non-controlling interests.

Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

a. **Accounting treatment of exemption from duties and taxes under Export Promotion Capital Goods (EPCG) scheme (Bulletin 11 – Issue 5):** The ITFG considered a situation where a company (MNC Ltd.) was exempt from payment of custom duty on import of capital goods, provided it fulfilled certain conditions related to export of goods under the EPCG scheme of the government of India. The issues under consideration were, whether the exemption from payment of custom duty could be considered as a government grant, in accordance with Ind AS 20 and if it were so considered, would the grant be related to an asset or related to income.

The ITFG analysed the accounting treatment to be provided to the government grant in either case.

Government grant

The ITFG clarified that the exemption of custom duty under the EPCG scheme would be considered as a government grant since it was an assistance provided by the government in return for compliance with certain conditions relating to the operating activities of the company and could be reliably measured.

Classification and accounting of government grant

The ITFG noted that the classification of a grant as related to an 'asset' or 'income' would require exercise of judgement and careful examination of the facts, objectives and conditions attached to the scheme of the government. MNC Ltd. would be required to ascertain the purpose of the grant and the costs which it intends to compensate.

The ITFG reiterated the guidance provided in Ind AS 20 as follows:

- **Grant related to assets:** Where the entity concludes that the grant is related to assets, it will present it in the balance sheet as deferred income. The deferred income will be recognised in the statement of profit and loss on a systematic basis over the useful life of the asset.
- **Grant related to income:** Where the entity concludes that the grant is related to income, it will present the grant in the statement of profit and loss, either separately or under a general heading such as 'other income'. Alternatively, it may be deducted in reporting the related expenses.

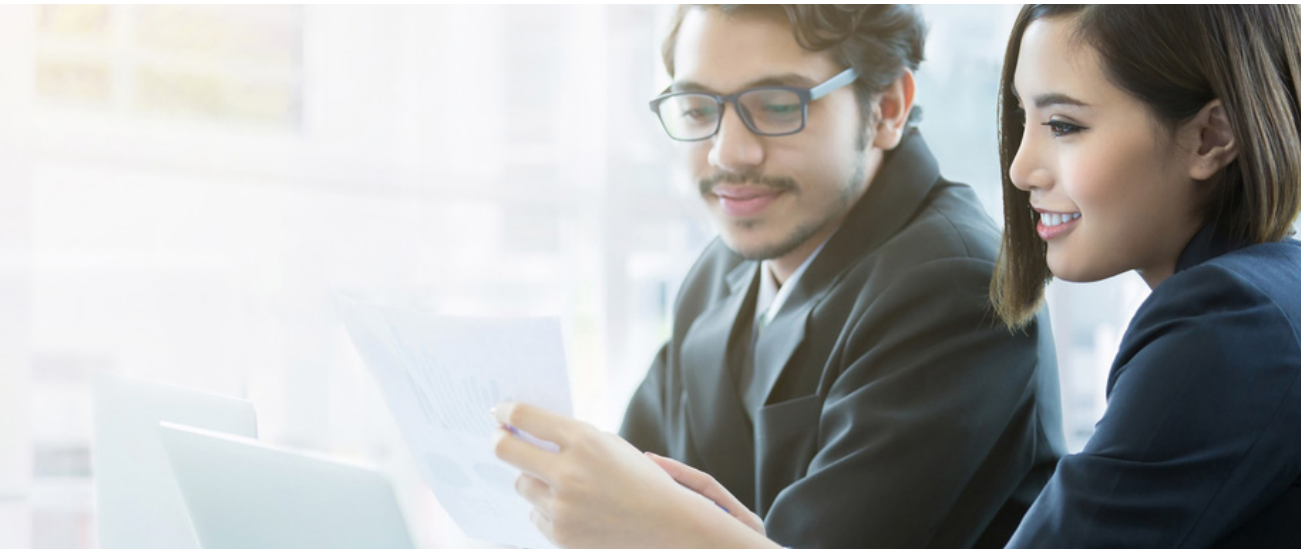
Based on the evaluation of the company in this case, the accounting and presentation of the grant would be as below:

- **Export of goods is a primary condition:** If the grant received is to compensate the import cost of assets, and is subject to an export obligation as prescribed in the EPCG scheme, then the recognition of the grant would be linked to fulfilment of the associated export obligations.
- **Export of goods is a subsidiary condition:** If the grant received is to compensate the import cost of the asset, and it can be reasonably concluded that conditions relating to export of goods are subsidiary conditions, then it is appropriate to recognise such grants in the statement of profit and loss over the life of the underlying asset.

Key takeaways

- The ITFG clarifications are expected to resolve various practical implementation issues faced by several companies that have transitioned or are transitioning to Ind AS. Such companies should consider the interpretations provided by ITFG while transitioning to Ind AS. However, it should be noted that some of the issues require the application of judgement based on consideration of facts and circumstances while analysing each individual situation.
- In particular, listed companies that have already transitioned to Ind AS in Phase I and which have published their annual financial results for the FY2016-17 may be required to evaluate the impact of such clarifications going forward as well as on their Ind AS financial statements for FY2016-17.

(Source: ICAI – ITFG Bulletin 10 and Bulletin 11 dated 6 July 2017 and 1 August 2017 and KPMG in India's IFRS Notes dated 12 July 2017 and 21 August 2017)



Guidance Note on Division II - Ind AS Schedule III to the 2013 Act

Background

The Schedule III to the 2013 Act became applicable to all companies for the preparation of financial statements for financial years beginning on or from 1 April 2014. The Schedule III provides general instructions for preparation of the balance sheet and the statement of profit and loss of a company.

The MCA through a notification dated 16 February 2015 issued the Ind AS Rules which laid down a road map for entities (other than insurance entities, banking entities and Non-Banking Financial Companies (NBFCs) (corporate road map) for implementation of Ind AS (converged with International Financial Reporting Standards (IFRS)) in a phased manner.

The MCA amended Schedule III to the 2013 Act on 6 April 2016, to include general instructions for preparation of financial statements of a company whose financial statements are required to comply with Ind AS. The amendment divided Schedule III into two parts i.e. Division I and II:

- Division I is applicable to a company whose financial statements are required to comply with the AS
- Division II is applicable to a company whose financial statements are drawn up in compliance with Ind AS (Ind AS Schedule III).

The ICAI on 27 July 2017 issued the GN on Division II - Ind AS Schedule III to the 2013 Act. The primary focus of the GN is to provide guidance in the preparation and presentation of financial statements in accordance with various aspects of Ind AS Schedule III, for entities adopting Ind AS. It provides guidance on the following:

- Each of the line item of the balance sheet and statement of profit and loss
- Major differences in Division I and Division II of the Schedule III to the 2013 Act
- Illustrative format for stand-alone financial statement and CFS
- Illustrations to provide guidance on application of the principles provided in the GN.

Overview of the main principles of the GN

- **Current and non-current classification:** The GN observed that classification of financial assets as current/non-current would not be based on their classification under Ind AS 109, although it may be one of the factors that entities should consider. It requires the presentation of investments as 'current' or 'non-current' based on whether the investments are intended to be sold within 12 months of the balance sheet date/realisable within the operating cycle.

  Accordingly, this guidance may be relevant for classification of items such as derivatives that are measured at Fair Value Through Profit and Loss (FVTPL), but are not held for trading purposes; or investments/financial assets that are not held for trading, but specifically designated at FVTPL.

- **Presentation of land and building:** Ind AS 16 allows grouping of land and building under the same class for revaluation purposes. The GN, however, requires companies to present land and building separately in the financial statements as per Ind AS Schedule III.

- **Investments:** The GN has provided the following clarifications with respect to investments:

  – The GN suggests that companies may disclose investments first by category, further classify them by their nature and then provide additional details as required for each investment. The GN, however, allows companies to select the manner of presentation for investments, by changing the order of grouping.

  – Ind AS Schedule III has revised certain disclosure requirements to investments made in subsidiaries, associates, joint ventures, structure entities and equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI). These disclosure requirements include the list of names of bodies corporate in whom investments have been made along with the nature and extent of investment made. The GN clarifies that information about the nature and extent of investments made would include the number of instruments held, their face value, and whether they are fully or partly paid.

  – Ind AS Schedule III requires disclosure of the aggregate amount of investments and their market value. For quoted investments, the market value would generally mean the 'fair value' at each reporting date. Where a company determines that quoted price does not represent fair value, the market value of

quoted investments should be disclosed based on the quoted price, which may differ from the investment's fair value.

- Expected credit losses on investments measured at amortised cost are to be presented as an adjustment to the amortised cost. Loss allowances on investments in debt instruments measured at FVOCI are charged to profit or loss, with a corresponding impact in Other Comprehensive Income (OCI). This is because such investments should be presented at fair value in the balance sheet.
- Impairment in value of investments may either be presented in totality for all investments or separately for each class of investments.
- Where a company elects to measure its interest in a subsidiary, associate or joint venture in accordance with Ind AS 109 in its stand-alone financial statements, it should present such investments either on the face of the balance sheet under the head 'Investments', or group under 'Financial Assets' in the notes. In its CFS, investments in associates and joint ventures should be shown as a separate line item, separately from financial assets.
- Where a company has invested in a structured entity, it should provide a brief description of the nature of contracts along with the rights held in such companies as evidenced by such contracts.

- **Non-current and current trade receivables and loans:** Trade receivables and loans should be disclosed as 'doubtful' to the extent of credit losses expected on such trade receivables and loans. The balance amount of trade receivables and loans should be disclosed as 'good.'
- **Other non-current assets:** The GN prescribes that bank deposits with remaining maturity of more than 12 months should be disclosed as a part of 'other financial assets'.
- **Cash and bank balances:** The bank overdraft in the balance sheet, should be included as 'borrowings' under financial liabilities.
- **Other current financial liabilities:** The GN prescribes that interest accrued on financial liabilities should form part of the financial liability's carrying amount whether they are measured at amortised cost or at fair value. Accordingly, a company may not present 'Interest Accrued' separately from the related financial liability.
- **Revenue from operations:** The GN clarifies that revenue should be presented net of Goods and Services Tax (GST).
- **Interest income:** Interest income on financial assets measured at amortised cost and financial assets at FVOCI, calculated using EIR should be presented in separate line items under 'Other income'. Interest income on financial assets measured at FVTPL is included as a part of fair value changes. A company should disclose as its accounting policy whether it presents interest income on financial assets at FVTPL as part of fair value changes or separately.
- **Fair value gains or losses:** The GN clarifies that fair value gains or losses (net) on financial assets at FVTPL should be presented under 'other non-operating income'.
- **Finance cost:** Ind AS 107 requires total interest expense, calculated using EIR for financial liabilities not measured at FVTPL, to be shown separately. These are disclosed as a separate line item under 'finance costs'. Additionally, the GN specifies the following types of finance charges should be shown under this head:
  - Interest cost on financial liabilities measured at amortised cost
  - Unwinding of the discount that results in an increase in financial liabilities
  - Increases in carrying amount of provisions/ decommissioning liabilities
  - Finance charges on finance leases that are in the nature of interest expense
  - Net interest on net defined benefit liability which reflects the change in net defined liability that arises from the passage of time (entity has choice of presenting this in employee benefit costs).
- **Deferred tax:** Minimum Alternate Tax (MAT) credit entitlement should be grouped with DTA (net) in the balance sheet and a separate note should be provided specifying the nature and amount of MAT credit included in the deferred tax.
- **OCI:** The GN lists down additional components of OCI that may be presented in line with Ind AS 1 (that are not included in the Ind AS Schedule III).

- **Additional information:** Fair value gains or losses on financial assets measured at FVTPL should be disclosed as a part of 'net gain on financial assets measured at FVTPL' in the statement of profit and loss. However, net gain or loss on sale of investments should be presented separately by way of a note.
- **Additional line items:** Where items presented under the non-current head of the balance sheet do not have a corresponding 'current' head under the format given in Ind AS Schedule III, an additional line item may be used to classify the current portion of such items under the 'current' category.
- **CFS:** The GN provides certain exemptions/ modifications to the reporting requirements in the CFS:
  - *Materiality from CFS perspective:* A materiality threshold of 10 per cent of the balance sheet item should be considered while providing the following disclosures:
    - Period and amount of continuing default in repayment of borrowings and interest
    - Loans and advances due to directors or other officers of the company or any of them either severally or jointly with any other persons, or amounts due by firms or private companies respectively in which any director is a partner or a director or a member (directors or officers)
    - Debts due by directors or officers of the company
    - In respect of an issue of securities made for a specific purpose, the whole or part of the amount that has not been used for the specific purpose.
  - *Share application money pending allotment shall be classified into equity or liability in accordance with relevant Ind AS:* The GN mentions that a separate disclosure should be given for such monies due outside the group in respect of entities which are consolidated.
  - *Additional disclosures:* The GN mentions that certain disclosures such as payment to auditors, expenses incurred on corporate social responsibility, disclosures on Micro, Small and Medium Enterprises Development Act have no relevance at CFS level and may be dispensed with.

Key takeaways

- The GN is a thorough guide for companies that are required to follow Ind AS Schedule III when presenting their Ind AS financial statements. It brings together presentation and disclosure guidance from the 2013 Act and the relevant Ind AS.
- The issuance of the GN is expected to provide further clarity to companies that are required to present their annual financial statements in accordance with the requirements of Ind AS Schedule III.

(Source: GN issued by the ICAI dated 27 July 2017 and KPMG in India's IFRS Notes dated 21 August 2017)

SEBI relaxations for equity listed entities covered under Phase II of the corporate road map for quarter ended 30 September 2017

The SEBI through its circular (CIR/CFD/FAC/62/2016) dated 5 July 2016 provided certain relaxations to the equity listed companies including the following:

- **Extended timeline for submission of quarterly financial results:** Companies may submit financial results for the quarter ended 30 September 2017 up to 14 December 2017 (earlier up to 14 November 2017).
- **Format for financial results:** The format of a balance sheet for the half-yearly ended 30 September 2017 should be as per the format for a balance sheet (excluding notes and detailed sub-classifications) as prescribed in Schedule III to the 2013 Act.
- **Consolidated financial results:** Equity listed companies could also opt to present quarterly/ Year-To-Date (YTD) CFS in the second quarter of the Financial Year (FY) and this option should not change during the remaining part of the FY.

The table below provides the reporting requirements for the quarter ended 30 September 2017:

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 2017	Audit/review of PY comparative period	Audit or review of period ended 31 March 2017	Disclosure of reserves (excluding revaluation reserves)
30 September 2017	√	√	√	√	√	x (Note a)	x (Note b)	x (Note a)	Optional

(Source: KPMG in India's analysis, 2017 based on SEBI circular dated 5 July 2016)

Notes:

a. Companies may voluntarily provide Ind AS comparatives for the year ended 31 March 2017. However, these are not required to be audited or reviewed. Companies should disclose the fact that the financial results have not been audited/reviewed.

b. Ind AS quarterly financial results for the comparative period are not required to be audited or reviewed. Companies should disclose the fact that the financial results have not been audited/reviewed.

Reconciliations: Following reconciliations are also required to be presented:

a. Reconciliation of equity for the Previous Year (PY) ended 31 March 2017: Reconciliation of its equity for the PY ended 31 March 2017 should be provided in case the listed entity intends to provide the same while submitting the unaudited/audited Ind AS compliant half-yearly balance sheet for the period ended 30 September 2017.

b. Reconciliation of net profit/loss: Reconciliation of its net profit/loss for the quarter ended 30 September 2017 should be provided for the corresponding quarter of the PY.

SEBI relaxations for debt listed entities covered under phase II of the corporate road map for quarter ended 30 September 2017

The SEBI through its circular (CIR/IMD/DF1/69/2016) dated 10 August 2016 provided certain relaxations for the first year of adoption of Ind AS, to the entities which have listed their debt securities and/or non-cumulative redeemable preference shares (debt listed entities). These are described in the table below.

For the half-year ended 30 September 2017, following are the relaxations:

Particulars	6 months ended (dd/mm/yyyy)	Corresponding 6 months in the PY (dd/mm/yyyy)	YTD figures for current period (dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/ unaudited*	Audited/ unaudited*	Audited/ unaudited*	Audited/ unaudited*
Compliance with Ind AS, if applicable	√	√	N.A.	√
Filing of comparative financial results		√	N.A.	X
Limited review or audit of financial results		X[1] Limited review or audit is not mandatory. However, adequate disclosure required.	N.A.	X[1] If submitted, then limited review or audit is not mandatory. However, adequate disclosure required.
Submission date extended	14 December 2017 (earlier 14 November 2017)			

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

**Clearly specify whether the figures are audited or unaudited.*

Note:

1. Where the comparative half-yearly results and/or annual results are not subjected to limited review or audit, the listed company should provide adequate disclosure about the fact that:
   a. The said comparative results have not been subjected to limited review or audit, and
   b. Management has exercised necessary due diligence to ensure that the comparative results provide a true and fair view of its affairs.

For the half-year ended 30 September 2017, following are the relaxations (cont.):

Particulars	6 months ended (dd/mm/yyyy)	Corresponding 6 months in the PY (dd/mm/yyyy)	YTD figures for current period (dd/mm/yyyy)	Previous accounting year ended (dd/mm/yyyy)
	Audited/ unaudited*	**Audited/ unaudited***	**Audited/ unaudited***	**Audited/ unaudited***
Equity reconciliation for the PY		x		x[2] If submitted, equity reconciliation is required.
Net profit/loss reconciliation		√		x

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

**Clearly specify whether the figures are audited or unaudited.*

Note:

2. Reconciliation of equity for the PY, i.e. year ended 31 March 2017, should be provided while submitting the annual financial results for the first year of adoption, i.e. year ending 31 March 2018.

   Reconciliation of equity for the PY should also be provided in case the company opts to furnish financial results for the PY along with financial results for the first half-year, i.e. half-year ended 30 September 2017.

Key takeaways

- Listed entities covered under phase II of the corporate road map should take cognizance of the relaxations provided by SEBI while filing Ind AS financial results for the quarter ended 30 September 2017.
- The SEBI relaxations for the first two quarters regarding comparative information to be neither audited nor reviewed by the auditors comes with a caution and places emphasis on the management of listed companies to exercise due diligence to ensure that the financial results provide a true and fair view of its affairs. Therefore, it appears that the relaxation in its true sense does not relax the responsibility of the management that the comparatives for the YTD 31 December quarter should not include significant adjustments to the quarter ended 30 June 2017 and 30 September 2017.

(Source: SEBI circular no. CIR/CFD/FAC/62/2016 dated 5 July 2016, SEBI circular no. CIR/IMD/DF1/69/2016 dated 10 August 2016, KPMG in India's IFRS Notes dated 19 August 2016 and KPMG in India's IFRS Notes dated 13 July 2016)

MCA clarifies Ind AS applicability norms for 'payments banks and small banks'

Ind AS road map for corporates and banks – A reminder

The MCA through its notification dated 16 February 2015 laid down the road map for implementation of Ind AS by companies other than banking companies, insurance companies and NBFCs.

On 11 February 2016, RBI issued a circular (RBI/2015-16/315) which requires holding, subsidiary, joint venture or associate companies of scheduled commercial banks (excluding regional rural banks) to comply with Ind AS for accounting periods beginning from 1 April 2018 onwards, with comparatives for periods ending on or after 31 March 2018.

New development

The MCA through a circular dated 13 September 2017 clarified that in case a holding company covered under the corporate road map of Ind AS has payments bank or small finance bank as its subsidiary, then the holding company should continue to follow the corporate road map. However, the payments bank or the small finance bank should follow the banking sector road map as prescribed by RBI.

Therefore, according to the clarification, in case of a holding company covered under Phase II of the corporate road map has a subsidiary as a payments bank or a small finance bank, then they have to comply with the following:

- **Holding company:** Follow Ind AS from 1 April 2017 with comparatives for the period ending on or after 31 March 2017.
- **Payments bank or small finance bank (subsidiary company):** Follow Ind AS from 1 April 2018 with comparatives for the period ending on or after 31 March 2018.

  However, such a subsidiary company would need to provide the Ind AS financial data to its holding company for the purpose of consolidation.

  Also refer to KPMG in India's IFRS Notes on 'MCA clarifies Ind AS applicability norms for 'payments banks and small banks' dated 18 September 2017.

Key takeaways

- It is to be noted that payments banks and small finance banks would get the status of a scheduled bank once they commence their operations and are found suitable as per Section 42(6)(a) of the Reserve Bank of India Act, 1934 as per the guidelines issued by the RBI.
- Payments banks or small finance banks which are subsidiaries of a company covered under corporate road map would need to comply with Ind AS with effect from 1 April 2018. However, they still need to prepare financial information as per Ind AS for the purpose of consolidation. Therefore, these banks should also start initiating the process of preparation of their books of account as per Ind AS and identify the challenges that could be resolved in a timely manner.

(Source: MCA general circular no. 10/2017 dated 13 September 2017 and KPMG in India's IFRS Notes dated 18 September 2017)

CBDT issues Frequently Asked Questions (FAQs) on computation of book profit for levy of MAT and proposes amendment to Section 115JB

Background

The Finance Act, 2017 notified on 31 March 2017, with the intent of providing a framework (i) to bring the adjustments being recorded on the transition date to the opening reserves into the ambit of book profits; and (ii) for computation of book profit for companies following Ind AS, introduced following two new concepts:

- **The transition amount:** Amount or aggregate of the amount adjusted in other equity (excluding capital reserve and securities premium reserve) on the date of adoption of Ind AS but excluding certain exclusions specified.
- **Minimum Alternate Tax (MAT) computation formulae for Ind AS compliant companies:** MAT would be calculated using the profits as per the statement of profit and loss before OCI, as the starting point. Certain adjustments also to be made to the book profits for MAT computation.

New development

The CBDT received a number of queries on various aspects of computation of MAT under Ind AS. These matters were referred to an expert committee. Accordingly, on 25 July 2017, CBDT issued clarifications in the form of FAQs on issues relating to the levy of MAT for Ind AS compliant companies along with the proposed amendment in the IT Act.

Overview of the FAQs

- **Starting point for computing book profits for Ind AS compliant companies:** Starting point would be profit before OCI item number XIII in Part 2 (statement of profit and loss) of Division II of Schedule III to the 2013 Act.

  OCI item number XV in Part 2 (statement of profit and loss) of Division II of Schedule III to the 2013 Act should not be considered as the starting point for computing book profits.

- **Appropriate manner of computation of transition amount on convergence date:** Amounts as on the start of the opening date of the first year of adoption should be considered for the purposes of computation of transition amount. For a company adopting Ind AS from 1 April 2016, first-time adoption adjustments as of 31 March 2016 should be considered for computation of MAT liability for PY2016-17 (AY2017-18) i.e.
  - Start of business on 1 April 2016, or
  - Equivalently, close of business on 31 March 2016 and thereafter.

Items not requiring adjustments to book profits (affects both transition amount and post Ind AS transition amount)

- **Mark to Market gains/losses on financial instruments at FVTPL:** Marked-To-Market (MTM) gains recognised through the statement of profit and loss on FVTPL classified financial instruments are included in book profits for MAT computation.

  Therefore, MTM losses on such instruments through statement of profit and loss would not require any adjustments as provided under clause (i) of Explanation 1 to Section 115JB(2) of the IT Act.

  However, in case there is a provision for dimunition/impairment in value of assets other than FVTPL financial instruments, the existing adjustment of clause (i) of Explanation 1 to Section 115JB(2) of the IT Act would be required.

Items not requiring adjustments to book profits (affects only transition amount computation)

- **Treatment of proposed dividend (including Dividend Distribution Tax (DDT)) on transition:** On transition to Ind AS, amount of proposed dividend for FY2015-16 recognised in the statement of profit and loss has to be reversed and credited to retained earnings.

  However, adjustment of the proposed dividend (including DDT) would not form part of the transition amount as clarified by the CBDT.

- **Deferred tax adjustments on the transition date:** Deferred taxes adjustments recorded on the transition date of Ind AS should be ignored for the purpose of computing transition amount.
- **Bad and doubtful debts:** Adjustments relating to provision for diminution in the value of assets should not be considered for computation of transition amount. However, MTM gains/losses in value of assets forming part of FVTPL financial instruments would form part of the transition amount.

- **Reclassification of capital reserves or securities premium reserve under Ind AS:** Capital reserves or securities premium reserve existing as on the convergence date (as per the Indian GAAP) which are reclassified to retained earnings/other reserves under Ind AS and vice-versa should not be considered for the purpose of computation of transition amount.

  Amount of revaluation reserve should continue to be considered as a revaluation reserve for the purposes of computation of book profit and should also include transfer to any other reserves by whatever name called or capitalised.

- **Changes to share application money:** Share application money pending allotment which is reclassified to 'other equity' on transition date should not be considered for the purpose of computing transition amount.

Items to be included in profit/transition amount

- **Interest/dividend on preference shares (liability):** For the purpose of computation of MAT, profit/transition amount should be increased by dividend/interest on preference share (including DDT) whether presented (in the statement of profit and loss) as dividend or interest.

- **Equity component of financial instruments:** Items such as equity component of financial instruments like non-convertible debentures, interest free loans, etc. would be included in the transition amount.

- **Service concession arrangement adjustments:** Such adjustments would be included in the transition amount and also on an ongoing basis.

Other clarifications

- **Revaluation of fair value model of PPE:** Book profit of the PY in which the items of PPE are retired, disposed, realised or otherwise transferred should be increased or decreased, as the case may be, by the revaluation amount after adjustment of the depreciation on the revaluation amount relatable to such asset.

- **Deduction of brought forward losses and unabsorbed depreciation:** Existing clause (iii) of explanation to Section 115JB(2) of the IT Act provides for deduction of lower of the amount of loss brought forward or unabsorbed depreciation as per books of account for computation of book profits.

  If transition adjustments wipe off the losses as per the books of account, then the deduction of lower of depreciation or brought forward losses would be allowed for AY2017-18 based on the position as on 31 March 2016. For the subsequent periods, position as per Ind AS books of account would be considered for computing lower of loss brought forward or unabsorbed depreciation.

- **Accounting period other than March 2017:** Companies following accounting year other than March 2017 and are required to transition to Ind AS, would be required to follow Indian GAAP for the pre-convergence period and Ind AS for the balance period. For example, a company following December year end will be required to prepare accounts for MAT purposes under Indian GAAP for nine months up to December 2016 and Ind AS for three months thereafter.

The transition amount will be calculated with reference to 1 January 2017.

Proposed amendment to Section 115JB of the IT Act

Additionally, the CBDT proposed an amendment to Section 115JB(2A) of the IT Act through a press release dated 25 July 2017. It has been proposed that the book profits post transition to Ind AS should also be adjusted with certain adjustments debited or credited in other equity.

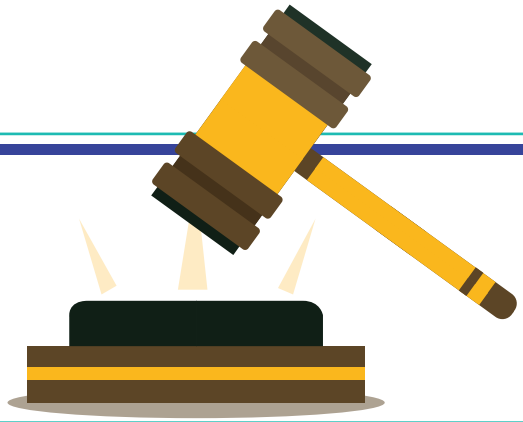
The Finance Act, 2017 had brought such adjustments in relation to Ind AS transition amount. However, there was no such provision in the IT Act for adjustment of such transactions on an ongoing basis. Therefore, to have parity between the transition adjustment and ongoing adjustments on account of items adjusted to other equity, the amendment is required to be made with effect from 1 April 2017 i.e. the effective date of the amendment made by the Finance Act, 2017.

Also refer to our IFRS Notes on 'CBDT issues FAQs on computation of book profit for levy of MAT and proposes amendment to Section 115JB' dated 26 July 2017.

Key takeaways

- The CBDT has continued to positively consider the concerns of the stakeholders. It continues with its efforts to simplify MAT implications rather than providing a complex formula which could create permanent differences and reconciliations of first-time adoption matters.
- Companies should assess the impact of the clarifications while computing MAT liability.

(Source: CBDT circular no. 24/2017 and press release dated 25 July 2017 and KPMG in India's IFRS Notes dated 26 July 2017)



Updates relating to the Companies Act, 2013

MCA notified provisions relating to the restriction on layers of subsidiaries under the 2013 Act

Background

Subsidiary - current requirements of the 2013 Act

Section 2(87) of the 2013 Act defines the terms 'subsidiary' or a 'subsidiary company' in relation to any other company (i.e. the holding company). It also contains a proviso which provides that specified class or classes of holding companies should not create more than a prescribed number of layers[1] of subsidiaries. This proviso was not effective till now.

Investment company – current requirements of the 2013 Act

Section 186(1) of the 2013 Act provides that a company is not allowed to make investment through more than two layers of investment companies. However, the restriction of two layers of investment companies is not applicable in the following cases:

a) A company acquires any other company incorporated in a country outside India if such other company has investment subsidiaries beyond two layers as per the laws of such country

b) A subsidiary company having any investment subsidiary for the purposes of meeting the requirements under any law or under any rule or regulation framed under any law for the time being in force.

As per the explanation to Section 186(1), an investment company means a company whose principal business is the acquisition of shares, debentures or other securities.

These provisions (proviso to Section 2(87) and Section 186(1)) are aimed at monitoring the misuse of multiple layers of subsidiaries for diversion of funds/siphoning off funds and to ensure minority investor protection.

New development

On 20 September 2017, MCA issued notifications with regard to the following:

- Application date of proviso to Section 2(87) of the 2013 Act with effect from 20 September 2017
- Issue of Companies (Restriction on number of layers) Rules, 2017 (Restriction on layers Rules).

Overview of the notified provisions

- **Restriction on layers of subsidiaries by holding companies (proviso to Section 2(87)):** A holding company can create up to two layers of subsidiaries only. However, one layer which consists of one or more wholly-owned subsidiary or subsidiaries would not be taken into account for computing the number of layers.

  The restriction regarding layers of the companies would not affect a holding company from acquiring a subsidiary incorporated in a country outside India, if such subsidiary has subsidiaries as per the laws of such country.

  The proviso to Section 2(87) is applicable from 20 September 2017.

- **Restriction on layers of investment companies (Section 186(1)):** The requirement for making an investment through not more than two layers of investment companies would continue to apply. The Section currently allows a holding company to acquire a subsidiary incorporated in a country outside India, if such subsidiary has subsidiaries as per the laws of such country. However, an investment company being a subsidiary of a holding company (covered under the proviso to Section 2(87)), would also be counted for the purpose of layer requirements.

1 Layer in relation to a holding company means its subsidiary or subsidiaries.

- **Exemption from restrictions:** The above mentioned restrictions under both 'proviso to Section 2(87) and Section 186(1)' would not be applicable to the following class of companies:
  a) A banking company
  b) A systemically important NBFC registered with the RBI
  c) An insurance company
  d) A government company.
- **Actions required by holding companies:** The requirement for making an investment through not more than two layers of investment companies would continue to apply. The Section currently allows a holding company to acquire a subsidiary incorporated in a country outside India, if such subsidiary has subsidiaries as per the laws of such country. However, an investment company being a subsidiary of a holding company (covered under the proviso to Section 2(87)), would also be counted for the purpose of layer requirements.
  a) *Filing of return with the ROC:* The Restriction on layers Rules do not require holding companies to reduce the number of layers that they currently have if in excess of two. However, a return in Form CRL-1 (format specified in the annexure to the Restriction on layers Rules) comprising details of the layers of subsidiaries is required to be filed with the Registrar of Companies (ROC) within a period of 150 days from the date of publication of these rules in the official gazette (i.e. 17 February 2018).
  b) *No subsequent addition to the layer:* A holding company with layers of subsidiaries in excess of two should not add any additional layer of subsidiaries subsequent to the date of commencement of Restriction on layers Rules (i.e. 20 September 2017).
  c) *Reduction in the number of layers:* In case a holding company reduces one or more layers after the commencement of the Restriction on layers Rules (i.e. after 20 September 2017), then the number of layers should not be more than the number of layers it has post such reduction or two layers, whichever is more.
- **Penal provisions:** On contravention of any of the above mentioned provisions, every officer of the company who is in default would be punishable with a fine up to INR10,000 which could be extended to INR1,000 for every day after the first during which such contravention continues.

Key takeaways

- **Challenge to companies with multiple layers:** The notified provisions would be challenging for companies that plan to grow both organically and inorganically through multiple layers of companies. Further, these requirements are likely to cause inflexibility while companies organise their management structures.
- **Implication on Merger and Acquisition (M&A) transactions in India:** The Restriction on layers Rules specifically exempts a holding company from acquiring a subsidiary incorporated in a country outside India, if such subsidiary has subsidiaries as per the laws of such country. However, it does not contain any exemption for number of layers of subsidiaries for M&A transactions between Indian companies. There could be various situations that a group could be organised in various layers of subsidiaries and if it considers to acquire another group (with various layers of subsidiaries) then:
  a) The purchaser would not be able to add a new subsidiary, it would be required to purchase through existing set of companies
  b) The selling company would have to create a flatter structure in order to facilitate the acquisition.

  This could pose a significant challenge to M&A activity within the Indian companies including taxes and stamp duties on such transactions.
- **Regulatory requirement to form subsidiaries or special purpose entities or businesses formed as a conglomerate:** The provisions could also pose challenges to companies that are required to form various layers of subsidiaries or special purpose entities by certain regulations like infrastructure companies or real estate companies to claim certain concessions from the government. Additionally, large conglomerate business houses that operate through different verticals with step-up holding and step-down subsidiary companies would also need to consider the implications of the notified provisions.

(Source: MCA notifications no. S.O. 3086(E) and G.S.R. 1176(E) dated 20 September 2017 and KPMG in India's First Notes dated 3 October 2017)

Certain relaxations/exemption to private companies provided by MCA

The MCA through its notifications dated 5 June 2015 and 13 June 2017 provided certain exceptions/ modifications/adaptations to the provisions of the 2013 Act for private companies. These exceptions/ modifications/adaptations would be available to the companies which have not defaulted in filing of its financial statements under Section 137 or annual returns under Section 92 of the 2013 Act with the ROC.

The notification, *inter alia,* included the following:

- **Exemption from the requirements of Section 143(3)(i) (i.e. reporting on Internal Financial Control (IFC))** for specified class of private companies.

  Amendment

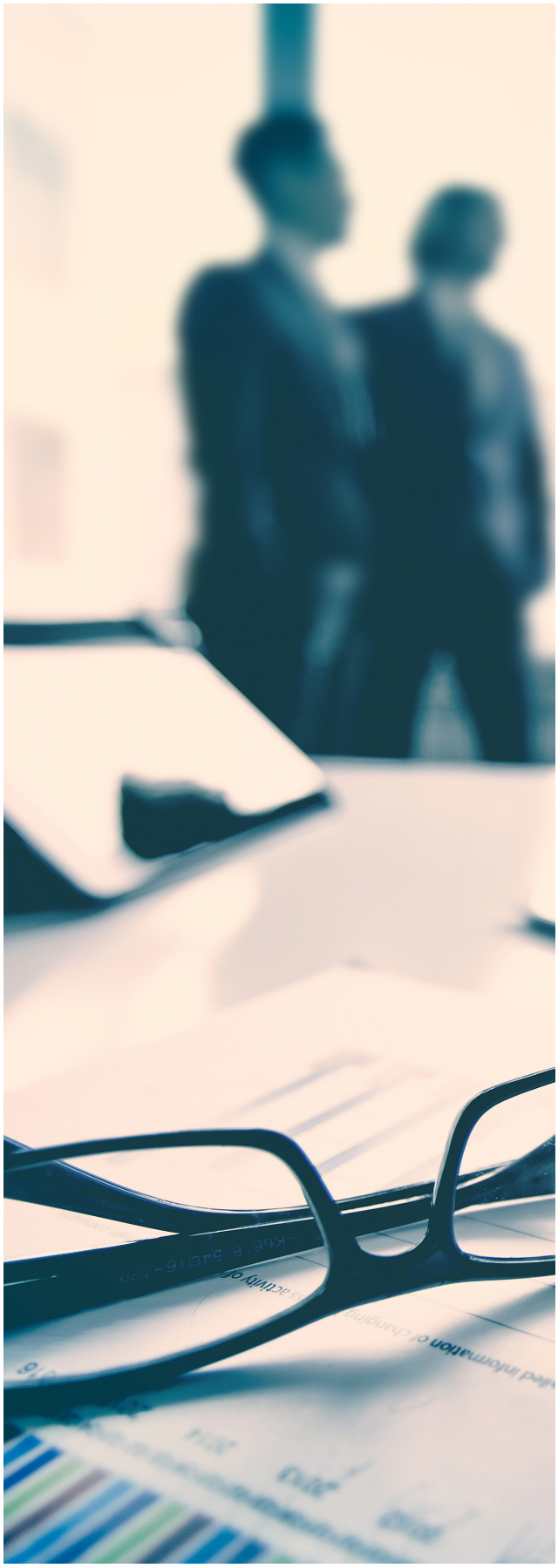
  Criteria of private companies: The MCA through a corrigendum dated 13 July 2017 revised the eligibility criteria for availing an exemption from the requirements of Section 143(3)(i) of the 2013 Act. Accordingly, an auditor of a private company is not required to report on the adequacy and effectiveness of the IFC in the auditor's report provided such a private company meets either of the given conditions:

  a) It is a one person company or a small company, or

  b) It has a turnover of less than INR50 crore as per the latest audited financial statements **and** (earlier it was mentioned as 'or') the borrowings of such a company from banks or financial institutions or anybody corporate at any point of time during the FY is less than INR25 crore.

  Applicability of exemption: The MCA, through its notification dated 25 July 2017, clarified that the exemption relating to IFC reporting would be applicable for audit reports in respect of financial statements pertaining to financial years commencing on or after 1 April 2016, which are made on or after the date of the notification i.e. 13 June 2017.

- **Exemption from acceptance of deposit norms:** Clauses (a) to (e) of the Section 73(2) of the 2013 Act deal with the conditions to be fulfilled by the companies for accepting deposits from the public or from its members. The MCA through its circular dated 13 June 2017 added more conditions for specified class of private companies.



Amendment

The MCA through its notification dated 19 September 2017 amended Companies (Acceptance of Deposits) Rules, 2014 (Deposit Rules) and provided exemption to the private companies and specified International Financial Services Centre (IFSC) public company[2] from complying with the provisions of the clauses (a) to (e) of the Section 73(2), if they meet both the criteria:

- They accept monies from their members not exceeding 100 per cent of aggregate of the paid-up share capital, free reserves and securities premium account and
- They file the details of monies accepted to the ROC in Form DPT-3.

Additional exemption has been provided to a private company if it meets any of the given criterion:

a) It is a start-up, for five years from the date of its incorporation

b) It fulfils all of the following conditions:

   i. The private company is not an associate or a subsidiary company of any other company

   ii. The borrowings of such a company from banks or financial institutions or any body corporate is less than twice of its paid up share capital or INR50 crore, whichever is less and

   iii. Such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under Section 73.

The private companies accepting deposits are required to file the details of monies so accepted to the ROC in Form DPT-3.

The MCA has also issued revised Form DPT-3 'Return of deposits' with the amended Deposit Rules. With respect to applicability/availability of the new Form DPT-3, MCA through its general circular (no. 11/2017) dated 27 September 2017 clarified that new Form DPT-3 would be made available for e-filing after the month of November 2017 and till the time new e-form is made available, the existing e-form could be used.

Key takeaways

- **Exemption from reporting on IFC:** The clarification would resolve the ambiguity around audit of IFC and applicability of the exemption for private companies.
- **Exemption from acceptance of deposit norms:** The additional exemption provided to a company which is a start-up is intended to pave way for start-up companies to accept deposits without complying with the prescribed norms.

(Source: MCA notifications dated 13 June 2017 and 19 September 2017, corrigendum dated 13 July 2017, circular no. 8/2017 dated 25 July 2017 and circular no.11/2017 dated 27 September 2017 and KPMG in India's First Notes dated 23 June 2017)

2 A specified IFSC public company means an unlisted public company which is licensed to operate by the RBI or the SEBI or the Insurance Regulatory and Development Authority of India (IRDAI) from the IFSC located in an approved multi services Special Economic Zone (SEZ) set-up under the SEZ Act, 2005 (28 of 2005) read with the SEZ Rules, 2006.

MCA amended provisions relating to independent directors and committees of the board under the 2013 Act

Background

On 5 July 2017, the MCA amended certain provisions relating to independent directors and issued the following notifications:

- Companies (Appointment and Qualification of Directors) Amendment Rules, 2017
- Amendment to Schedule IV (Code for independent directors) of the 2013 Act

Applicability: The amendments became applicable from the date of publication of the notifications in the official gazette i.e. 5 July 2017.

Overview of the amendments

Companies (Appointment and Qualification of Directors) Amendment Rules, 2017

Existing requirements

As per Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014, *unlisted public companies* are required to appoint at least two independent directors, if they meet the prescribed criteria. Further, it provides that any intermittent vacancy of an independent director should be filled-up by the board at the earliest but not later of the following dates:

a) Immediate next board meeting or

b) Three months from the date of such vacancy.

Amendment

A new sub-rule has been added to the Rule 4, which provides that the provisions of Rule 4 will not be applicable to the following classes of unlisted public company:

a) A joint venture[3]

b) A wholly-owned subsidiary, and

c) A dormant company[4] as defined under Section 455 of the 2013 Act.

Companies (Meeting of Board and its Powers) Second Amendment Rules, 2017

In light of the above amendment to Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014, MCA on 13 July 2017 issued a notification to amend the requirements relating to Rule 6 of the Companies (Meeting of Board and its Powers) Rules, 2014 relating to committees of the board.

Current requirement

The board of directors of every listed company and unlisted public company meeting any of the following criteria is required to constitute an audit committee and a nomination and remuneration committee:

a) Paid-up capital of INR10 crore or more

b) Turnover of INR100 crore or more, or

c) Outstanding loans/debentures/deposits exceeding INR50 crore.

Amendment

As per the amendment, an audit committee and a remuneration committee is required to be constituted by every listed company and unlisted public companies. Accordingly, the following class of unlisted companies are exempted from the requirements of Rule 6:

a) A joint venture

a) A wholly-owned subsidiary and

b) A dormant company as defined under Section 455 of the 2013 Act.)

Amendment to Schedule IV - Code for independent directors

The Schedule IV to the 2013 Act includes a code for professional conduct of independent directors. It lays down the guidelines relating to the professional conduct, role and functions, duties of an independent director, their manner of appointment, reappointment, resignation or removal and an evaluation mechanism.

3 Joint venture would mean a joint arrangement, entered into in writing, whereby the parties that have joint control of the arrangement, have rights to the net assets of the arrangement. (MCA circular no.09/117 dated 5 September 2017)

4 A company which is formed and registered under the 2013 Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction or an inactive company may make an application to the ROC in such manner as may be prescribed for obtaining the status of a dormant company.

The table below provides an overview of the amendments made to certain paragraphs of Schedule IV to the 2013 Act:

Paragraph	Overview
Paragraph III (sub-paragraph 12)	**Duties of independent directors:** As per the amendment, independent directors should, *inter alia,* act **within their authority** (earlier 'within his authority' was mentioned) and assist in protecting the legitimate interests of the company, shareholders and its employees. *(Emphasis added to highlight the change)*
Paragraph VI (sub-paragraph 2)	**Resignation or removal:** As per the amendment, the new independent director should be appointed **within three months** (earlier within a period of not more than 180 days was given) from the date of such resignation or removal. *(Emphasis added to highlight the change)*
Paragraph VII (sub-paragraph 1)	**Separate meetings:** As per the amendment, at least one meeting of independent directors should be held in a **financial year** (earlier 'year' was mentioned), without the attendance of non-independent directors and members of management. *(Emphasis added to highlight the change)*
New note	**Certain exemptions given to government companies from the requirements of Schedule IV:** After paragraph VIII (evaluation mechanism) of the Schedule IV, a new note has been inserted which provides certain exemptions to a government company[5] as defined under Section 2(45) of the 2013 Act. These, *inter alia,* includes, manner of appointment of an independent director and provisions relating to performance evaluation of independent directors.

(Source: KPMG in India's analysis, 2017 based on the provisions of Schedule IV to the 2013 Act, MCA notification dated 5 July 2017 and MCA notification dated 13 July 2017.)

Others: The MCA has also issued a revised Form DIR-5 *'Application for surrender of Director Identification Number (DIN)'.*

Key takeaways

- Independent directors have been entrusted with various significant duties under the 2013 Act and accordingly, a separate code of conduct has been defined which is aimed at ensuring their professional conduct at all times. The MCA continues to monitor significant aspects related to the appointment and function of the independent directors and made certain amendments to the 2013 Act and the related Rules. Most of the amendments are in line with the recommendations made by the Company Law Committee (CLC) in its report dated 1 February 2016.
- A significant relaxation has been given to an unlisted company which is a joint venture, a wholly-owned subsidiary or a dormant company. Such companies are not required to appoint independent directors.
- The MCA has provided that independent directors should hold at least one meeting in a financial year (earlier 'year' was mentioned). The amendment seeks to provide clarity to the companies that one meeting is required in a financial year, so that every financial year has at least one meeting.
- The amendments to the Rules are in line with the recommendations made by CLC in its report dated February 2016 wherein the CLC noted that in case of joint venture companies, wholly-owned subsidiaries, and dormant companies that fall within the purview of Section 455 of the 2013 Act, there does not appear to be sufficient justifiable grounds to prescribe for independent directors. The independent directors are primarily appointed to protect the interests of dispersed minority shareholders. Accordingly, such companies are now excluded from the requirement of appointing an independent directors and constituting an audit committee and a nomination and remuneration committee.

(Source: MCA notifications dated 5 July 2017, circular no.09/ 117 dated 5 September 2017 and KPMG in India's First Notes dated 14 July 2017)

5 Government company means any company in which not less than 51 per cent of the paid-up share capital is held by the CG, or by any state government or governments, or partly by the CG and partly by one or more state governments, and includes a company which is a subsidiary company of such a government company.

MCA amended certain rules on holding board meeting of companies

The MCA, through its notification dated 13 July 2017 amended the Companies (Meetings of Board and its Powers) Rules (board meeting Rules).

The table below provides an overview of the amendments made to the board meeting Rules:

Rule	Overview of the amendment
Rule 3(3)(e) and Rule 3(11)(a)	**Meetings of board through video conferencing or other audio visual means:** Currently, a notice of meetings of the board (to be held through video conferencing or other audio visual means) is required to be sent to all directors in accordance with Section 173(3) of the 2013 Act. The director who desires to participate through the electronic mode should intimate his intention of participation at the beginning of the calendar year and such declaration should be valid for one calendar year. Additionally, the chairperson of the meeting should announce the summary of the decision taken on the agenda item along with names of the directors, if any, who dissented from the decision taken by majority. *Amendment* As per the amendment, any director who **intends** to participate in the meeting through electronic mode may intimate about such participation at the beginning of the calendar year and such declaration should be valid for **one year.** A proviso has also been added to the Rule which provides that such a declaration should not debar the director from participation in the meeting in person provided he should intimate the company sufficiently in advance of his intention to participate in person. Further, the chairperson of the meeting should announce the summary of the decision taken on the agenda item along with names of the directors, if any, who dissented from the decision taken by majority **and the draft minutes so recorded should be preserved by the company till the confirmation of the draft minutes in accordance with sub-rule (12).** *(Emphasis added to highlight the changes)*

(Source: KPMG in India's analysis, 2017 based on the provisions of board meeting Rules and MCA notification dated 13 July 2017)

(Source: MCA notification dated 13 July 2017)

Updates relating to SEBI regulations

SEBI decided to continue with the current definition of 'control' for the purpose of takeovers

Background

Regulation 2(e) of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (SEBI Takeover Regulations) defines control as follows:

'Control' includes the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

Additionally, it provides that a director or officer of a target company should not be considered to be in control over such target company, merely by virtue of holding such position.

The above definition of control is based on certain defined principles rather than rule-based and requires companies to apply judgement in determining control based on the facts and circumstances of each case.

Accordingly, SEBI in its meeting dated 12 March 2016, decided to explore adoption of bright-line tests for acquisition of control under the SEBI Takeover Regulations and on 14 March 2016 issued a Discussion Paper (DP) which provided the following two options to determine control:

- **Option 1 - Framework for protective rights:** The DP explained the term protective rights and explains that veto rights not amounting to acquisition of control may be protective in nature rather than participative i.e. such rights may provide the investor the ability to protect their investments or prevent dilution of their shareholding. At the same time, the investor should not have the power to exercise control over the day-to-day running of the business or the policy making process. Rights over decisions involving a significant change in the current business activity or that apply in exceptional circumstances would also be treated as protective rights.

  The DP also provided an illustrative list of protective rights which would not amount to the acquisition of control.

- **Option 2 - Adopting a numerical threshold:** This approach proposed an amended definition of control. According to it, control would be defined as:

  a) The right or entitlement to exercise at least 25 per cent of voting rights of a company irrespective of whether such holdings gives de facto control and/or

  b) The right to appoint majority of the non-independent directors of a company.

  The DP also highlighted the advantages and disadvantages of the both the above given options.

New development

The SEBI through a press release (PR No. 56/2017) dated 8 September 2017 decided not to make any changes and to continue with the practice of ascertaining acquisition of control as per the extant definition in the SEBI Takeover Regulations.

Key takeaways

- **Subjective definition:** The SEBI's definition of control is subjective and continues to be subjective.
- **Determination of control under Ind AS:** The Ind AS definition of control is different from SEBI's definition. However, the definition of control under the Takeover Regulations and Ind AS are both principle-based and not rules based. The Ind AS definition of control lays emphasis on exercising judgement while assessing the facts and circumstances to determine control. Accordingly, companies should apply a holistic approach to analyse the facts and circumstances of each case to conclude whether the control principles are being met under Ind AS and the Takeover Regulations.
- **Consistent definition across statutes:** The definition of control under the SEBI Takeover Regulations is in line with the definition of control under the 2013 Act and other Indian laws.

(Source: SEBI press release no. PR No. 56/2017 dated 8 September 2017)

SEBI revised eligibility conditions for exemptions to listed companies merging with unlisted companies

Background

A listed entity that desires to undertake a scheme of arrangement with an unlisted entity under the requirements of the 2013 Act is required to obtain a no objection letter or an observation letter from the stock exchange. The stock exchange is required to forward the scheme and relevant documents to SEBI. Additionally, the stock exchange has to ensure that the draft scheme of arrangement is in compliance with the securities laws.

The Securities Contracts (Regulation) Rules, 1957 (SCRR), *inter alia,* lay down the rules for issuers for listing of securities on a recognised stock exchange. Specifically, Rule 19(2)(b) of the SCRR provides requirements for minimum offer and allotment to public in terms of an Initial Public Offer (IPO). It specifically requires that offer size should be 25 per cent of equity or debenture convertible into equity.

A listed company under a scheme of arrangement with an unlisted company can get an exemption from Rule 19(2)(b) by applying to SEBI under Rule 19(7) of the SCRR. The SEBI's circular (relating to relaxation under Rule 19(7)) issued on 10 March 2017 provides detailed conditions that have to be fulfilled by a company for taking an exemption from Rule 19(2)(b). These conditions are specified in Clause III(A)(1) (of SEBI circular dated 10 March 2017) and are as follows:

a) The equity shares sought to be listed are proposed to be allotted by the unlisted issuer (transferee entity) to the holders of securities of a listed entity (transferor entity) pursuant to a scheme of reconstruction or amalgamation (scheme) sanctioned by National Company Law Tribunal (NCLT) under Section 230-234 of the 2013 Act

b) At least 25 per cent of the post-scheme paid up share capital of the transferee entity shall comprise of shares allotted to the public shareholders in the transferor entity

c) The transferee entity will not issue/reissue any shares, not covered under the draft scheme of arrangement

d) As on date of application, there are no outstanding warrants/instruments/agreements which give right to any person to take the equity shares in the transferee entity at any future date. If there are such instruments stipulated in the draft scheme, the percentage referred to in para (b) above shall be computed after giving effect to the consequent increase of capital on account of compulsory conversions outstanding as well as on the assumption that the options outstanding, if any, to subscribe for additional capital will be exercised and

e) The shares of the transferee entity issued in lieu of the locked-in shares of the transferor entity will be subject to lock-in for the remaining period. *(Emphasis added)*

([1]Rule 19(2)(b) of the SCRR: The minimum offer and allotment to public in terms of an offer document shall be:

i. At least 25 per cent of each class or kind of equity shares or debenture convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is less than or equal to INR1,600 crore,

ii. At least such percentage of each class or kind of equity shares or debentures convertible into equity shares issued by the company equivalent to the value of INR400 crore, if the post issue capital of the company calculated at offer price is more than INR1,600 crore but less than or equal to INR4,000 crore,

iii. At least 10 per cent of each class or kind of equity shares or debentures convertible into equity shares issued by the company, if the post issue capital of the company calculated at offer price is above INR4,000 crore:

Provided that the company referred to in sub-clause (ii) or sub-clause (iii), shall increase its public shareholding to at least 25 per cent within a period of three years from the date of listing of the securities, in the manner specified by the SEBI:

Provided further that this clause shall not apply to a company whose draft offer document is pending with the SEBI on or before the commencement of the Securities Contracts (Regulation) Third Amendment Rules, 2014, if it satisfies the conditions prescribed in clause 19(2)(b) of the SCRR as existed prior to the date of such commencement.)

New development

The SEBI through its circular (CFD/DIL3/CIR/2017/105) dated 21 September 2017 provided relaxation to the entities that do not comply with the criterion of 25 per cent of share capital.

Accordingly, such an entity (which does not comply with the above requirement) may satisfy the following conditions:

a) The entity has a valuation in excess of INR1,600 crore as per the valuation report

b) The value of post-scheme shareholding of public shareholders of the listed entity in the transferee entity is not less than INR400 crore

c) At least 10 per cent of the post scheme paid-up share capital of the transferee entity comprise of shares allotted to the public shareholders of the transferor entity and

d) The entity should increase the public shareholding to at least 25 per cent within a period of one year from the date of listing of its securities and an undertaking to this effect is incorporated in the scheme.

All other conditions given in the 10 March 2017 circular remain unchanged.

Key takeaway

The revised norms have eased the eligibility requirements for entities seeking exemption from stringent conditions of Rule 19(2)(b) for a scheme of arrangement between listed and unlisted entities. On seeking exemption, they would have one year's time to increase public shareholding from 10 per cent to 25 per cent provided certain conditions are met.

(Source: SEBI circular no. CFD/DIL3/CIR/2017/105 dated 21 September 2017 and KPMG in India's First Notes dated 3 October 2017)

Disclosure of divergence in the asset classification and provisioning of banks

In order to ensure greater transparency and promote better discipline with respect to compliance with Income Recognition, Asset Classification and Provisioning (IRACP) norms, RBI through a notification dated 18 April 2017 had mandated disclosures in the notes to accounts to the financial statements of banks where such divergences exceed the given threshold:

a) The additional provisioning requirements assessed by RBI exceed 15 per cent of the published net profits after tax for the reference period or

b) The additional gross Non Performing Assets (NPAs) identified by the RBI exceed 15 per cent of the published incremental gross NPAs for the reference period, or both.

The disclosures, as above, should be made in the notes to accounts in the ensuing annual financial statements published immediately following communication of such divergence by banks. The first such disclosure with respect to the divergences observed by RBI for the financial year 2015-16 should be made in the notes to accounts of financial statements for the year ended 31 March 2017.

In line with the above RBI requirements, SEBI through its circular dated 18 July 2017 mandated listed banks to comply with the above mentioned requirements and provide the disclosures as an annexure to the annual financial results. Such disclosures along with the annual financial results should be filed immediately following communication of such divergence by RBI to the bank.

Key takeaway

Listed banks to provide disclosures regarding additional provisions and additional gross NPAs to both RBI and SEBI.

(Source: RBI notification no. RBI/2016-17/283 dated 18 April 2017 and SEBI circular no. CIR/CFD/CMD/80/2017 dated 18 July 2017)

SEBI defers disclosures of defaults of loan taken from banks by listed entities

Background

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) require listed entities to disclose delay or default in payment of interest/principal on debt securities such as listed non-convertible debentures, foreign currency convertible bonds, listed non-convertible redeemable preference shares, etc. The Listing Regulations do not require similar disclosures to be provided in case of defaults on loans from banks and financial institutions.

In order to bridge this gap in the availability of information to investors and other stakeholders, SEBI through its circular dated 4 August 2017 required specified listed entities to provide disclosures to the stock exchanges in case of defaults in repayment of interest/instalment obligations on loans taken from banks and financial institutions, debt securities (including commercial paper), etc.

The circular (dated 4 August 2017) prescribed following timelines for disclosures:

Sr. no.	Default	Timing of disclosures
1.	First instance of default	A listed entity is required to make the disclosure of defaults within one working day from the date of default in the prescribed manner.
2.	Outstanding amount under default as on the last day of the quarter	A listed entity is required to report the outstanding amount under default within seven days from the end of the quarter.

Additionally, the listed entities were required to separately disclose information pertaining to defaults to the concerned credit rating agencies in a timely manner.

New development

While the above mentioned circular was to be effective from 1 October 2017, SEBI through a press release dated 29 September 2017 has decided to defer the implementation of the circular until further notice.

(Source: SEBI circular no. CIR/CFD/CMD/93/2017 dated 4 August 2017, press release no. 59/2017 dated 29 September 2017 and KPMG in India's First Notes dated 16 August 2017)

Other regulatory updates

ICAI issues exposure draft of Ind AS 116, *Leases*

Background

Internationally, on 13 January 2016, the International Accounting Standards Board (IASB) issued IFRS 16, *Leases*. The new standard is expected to increase transparency and comparability of published financial information as analysts and investors would be able to see a company's own assessment of its lease liabilities, calculated using a prescribed methodology.

IFRS 16 is effective from 1 January 2019, with early application being permitted (as long as IFRS 15, *Revenue from Contracts with Customers* is also applied).

New development

On 18 July 2017, the Accounting Standards Board (ASB) of ICAI issued an Exposure Draft (ED) of Ind AS 116, *Leases*. The ED of Ind AS 116 is largely converged with IFRS 16.

Ind AS 116 is expected to replace Ind AS 17, *Leases* with effect from its proposed effective date, being annual periods beginning on or after 1 April 2019.

The ED sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective of the ED is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases will have on the financial position, financial performance and cash flows of the entity.

Overview of the ED on Ind AS 116

Following is an overview of the key requirements of Ind AS 116 vis-à-vis Ind AS 17:

- **Change in the definition of a lease:** Ind AS 17 defines lease as 'an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.'

  However, as per the ED, lease is 'a contract or part of a contract that conveys the right to use an asset (the underlying asset[6]) for a period of time in exchange for consideration'. The ED also provides additional guidance in areas such as:

  - How to identify asset that is being leased
  - Lessor's substitution rights
  - A customers right to obtain economic benefits from use
  - Customers to have the right to direct the use of an asset, etc.

- **Accounting by lessee:** The following changes have been made in the accounting by a lessee under the ED on Ind AS 116 as compared with Ind AS 17:

  - The ED introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee would be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. As a result there is likely to be an increase in reported assets and liabilities by lessees, with resultant impacts on key financial ratios and compliance with existing debt covenants.

    Ind AS 17 requires classification of leases as finance lease and operating lease, with an operating lease not being recognised on the balance sheet by a lessee.

[6] An underlying asset has been defined to mean an asset that is the subject of lease, for which the right to use that asset has been provided by a lessor or lessee.

- Under the proposals in the ED, a lessee would be required to subsequently measure right-of-use assets similar to other non-financial assets (such as PPE) and lease liabilities similar to other financial liabilities. As a consequence, a lessee would recognise depreciation expense on the right-of-use asset and interest expense on the lease liability, and also classify lease payments into a principal portion and an interest portion and present them in the statement of cash flows by applying Ind AS 7, *Statement of Cash Flows*. This is expected to result in a front-loaded pattern of expenses for most leases despite constant rentals.

  Under Ind AS 17, for operating leases, lessee is required to recognise the lease payments as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit.

- The ED proposes detailed disclosure requirements for lessees as compared with Ind AS 17.

- **Accounting by lessor:** The accounting treatment for lessor in the ED is similar to the accounting requirements in Ind AS 17. A lessor would continue to classify its leases as operating leases or finance leases, and would account for those two types of leases differently.

  However, the ED proposes additional disclosure requirements for lessors as compared to Ind AS 17 such as disclosure of maturity analysis of lease payments, quantitative and qualitative explanation of significant changes in carrying amount of new investment in finance leases, etc.

- **Provision for lease modification:** The ED of Ind AS 116 contains specific provisions for lease modification for lessor and lessee.

  Lease modification by a lessee: A lessee should account for a lease modification as a separate lease if both the given conditions are met:

  a) The modification increases the scope of the lease by adding the right to use one or more underlying assets, and

  b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

  Further, for a lease modification that is not accounted for as a separate lease, the lessee should account for the remeasurement of the lease liability by:

  a) Decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee should recognise in the statement of profit and loss any gain or loss relating to the partial or full termination of the lease.

  b) Making a corresponding adjustment to the right-of-use asset for all other lease modifications.

  Lease modification by a lessor:

  Finance lease

  A lessor should account for a modification to a finance lease as a separate lease if both the given conditions are met:

  a) The modification increases the scope of the lease by adding the right to use one or more underlying assets, and

  b) The consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

  Further, for a finance lease that is not accounted for as a separate lease, a lessor should account for the modification in the following manner:

  a) If the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor should:

     i. Account for the lease modification as a new lease from the effective date of the modification, and

     ii. Measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

  b) Otherwise, the lessor should apply the requirements of Ind AS 109.

Operating lease

A lessor should account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Ind AS 17 does not specifically provide how to account for lease modification.

- **Presentation:** The ED includes specific presentation requirements for a lessee and a lessor with respect to right-to-use asset and lease liabilities.

Lessee

- *In the balance sheet:* A lessee should either present in the balance sheet, or disclose in the notes:

  a) Right-of-use assets separately from other assets

  b) Lease liabilities separately from other liabilities.

  However, right-of-use assets that meet the definition of investment property should be presented as an investment property.

- *In the statement of profit and loss:* Interest expense on the lease liability should be presented separately from the depreciation charge for the right-of-use asset.

- *In the statement of cash flows:* A lessee should classify:

  a) Cash payments for the principal portion of the lease liability within financing activities

  b) Cash payments for the interest portion of the lease liability within financing activities, applying the requirements in Ind AS 7 for interest paid, and

  c) Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Lessor

A lessor should present underlying assets subject to operating leases in its balance sheet according to the nature of the underlying asset.

Transition: The ED on Ind AS 116 proposes a range of transition options, with several practical expedients. Significantly, an entity would not be required to reassess whether a contract contains a lease at the date of initial application. Instead, it would be permitted to:

- Apply Ind AS 116 to contracts that were previously identified as leases applying Ind AS 17
- Not apply Ind AS 116 to contracts that were not previously identified as containing a lease applying Ind AS 17.

For a detailed overview of the proposals comprised in the ED, please refer to KPMG in India's IFRS Notes on 'ICAI issues exposure draft of Ind AS 116, Leases' dated 28 July 2017.

Key takeaways

- The issuance of the ED indicates that ICAI is committed to keep Ind AS updated with revisions made to IFRS and continue with its process of convergence with IFRS. The ED is largely converged with IFRS 16, except for a few minor differences.
- IFRS 16 is applicable internationally from 1 January 2019. Accordingly, Ind AS 116 has been proposed to be made effective from 1 April 2019.
- The new standard, once notified by MCA, is expected to affect a wide variety of sectors and entities, including airlines, retailers, power generation companies, companies that seek large volumes of equipment financing and other companies with large lease portfolios. The larger the lease portfolio, the greater the impact on key reporting metrics and financial ratios. The key change will be the increase in transparency and comparability. Additionally, certain types of arrangements may require detailed evaluation to determine if they meet the definition of leases as per Ind AS, for example, outsourcing contracts, third party manufacturing contracts, power purchase arrangements, etc.
- Companies should take note of the draft requirements and should start assessing the impact both on current and prospective leasing arrangements.

(Source: ICAI announcement dated 18 July 2017 and KPMG in India's IFRS Notes dated 28 July 2017)

ICAI publications released during the quarter ended 30 September 2017

Publications	Overview
Ind AS: An Overview (Revised 2017)	• Provides an overview of various aspects related to IFRS-converged Ind AS such as road map for the applicability of Ind AS, carve-outs from IFRS/IAS, changes in financial reporting under Ind AS compared to financial reporting under AS, summary of all the Ind AS etc. • Captures all the recent amendments to Ind AS notified by the MCA in March 2017.
Educational material on Ind AS 16, *Property, Plant and Equipment*	• Comprise of summary of key requirements of Ind AS 16 • Covers issues in the form of FAQs which are expected to be encountered frequently while implementing this standard.
Educational material on Ind AS 18, *Revenue* (Revised 2017)	• Comprise of summary of the requirements of Ind AS 18 • Covers issues in the form of FAQs to provide guidance for effective implementation of the standard.
Technical guide on ICDS	• Aims to guide the stakeholders about the significant changes and impact in computation of taxable income • Seeks to remove the ambiguity and provide guidance in implementation of ICDS in a more effective manner.

(Source: ICAI.org)

Expert Advisory Committee (EAC) opinions issued by ICAI during the quarter ended September 2017

Topic	Month
Capitalisation of interest cost	July 2017
Considering capital reserve for calculation of net worth of a company	August 2017
Accounting treatment of base stock and valuation of inventory booked by the customer	September 2017

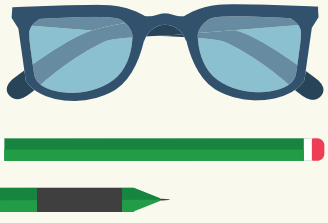
(Source: The ICAI Journal: The Chartered Accountant for the months of July, August and September 2017)

Glossary

2013 Act	The Companies Act, 2013
AS	Accounting Standard
ASB	Accounting Standards Board
ASIs	Accounting Standard Interpretations
CBDT	Central Board of Direct Taxes
CFS	Consolidated Financial Statements
CG	Central Government
CIN	Company Identification Number
CLC	Companies Law Committee
DIN	Director Identification Number
DTA	Deferred Tax Asset
ECB	External Commercial Borrowing
ED	Exposure Draft
EIR	Effective Interest Rate
EPCG	Export Promotion Capital Good
EPS	Earnings Per Share
ESOP	Employee Stock Option Plan
FAQs	Frequently Asked Questions
FCCB	Foreign Currency Convertible Bond
FCMITDA	Foreign Currency Monetary Item Translation Difference Account
FVTPL	Fair Value Through Profit or Loss
FY	Financial Year
GAAP	Generally Accepted Accounting Practices
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAI	The Institute of Chartered Accountants of India
ICDS	Income Computation and Disclosure Standards
IFC	Internal Financial Control
IFRS	International Financial Reporting Standard
Ind AS	Indian Accounting Standards
Ind AS Rules	Companies (Indian Accounting Standards) Rules, 2015
IPO	Initial Public Offer
IRACP	Income Recognition, Asset Classification and Provisioning
IT Act	Income Tax Act, 1961
ITFG	Ind AS Transition Facilitation Group
KMP	Key Managerial Personnel
Listing Regulations	SEBI(Listing Obligations and Disclosure Requirements) Regulations, 2015
LLPIN	Limited Liability Partnership Identification Number
MAT	Minimum Alternate Tax
MCA	Ministry of Corporate Affairs
MTN	Medium Term Note
NPA	Non-Performing Asset
OCI	Other Comprehensive Income
PAN	Permanent Account Number

Glossary

PPE	Property, Plant and Equipment
PY	Previous Year
RBI	Reserve Bank of India
ROC	Registrar of Companies
SCRR	Securities Contracts (Regulation) Rules, 1957
SEBI	Securities and Exchange Board of India
SEBI Takeover	SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
SLM	Straight Line Method
WDV	Written Down Value
YTD	Year-To-Date



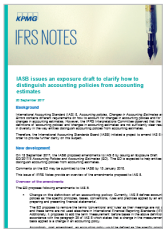
KPMG in India's IFRS institute

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

IASB issues an exposure draft to clarify how to distinguish accounting policies from accounting estimates



20 September 2017

International Accounting Standard (IAS) 8, *Accounting policies, Changes in Accounting Estimates and Errors* contains different requirements on how to account for changes in accounting policies and for changes in accounting estimates. However, the IFRS Interpretations Committee observed that the definitions of 'accounting policies' and 'changes in accounting estimates' are not sufficiently clear resulting in diversity in the way entities distinguish accounting policies from accounting estimates.

On 12 September 2017, the IASB proposed amendments to IAS 8 by issuing an Exposure Draft ED/2017/5 *Accounting Policies and Accounting Estimates* (ED). The ED is expected to help entities distinguish accounting policies from accounting estimates. Comments on the ED may be submitted to the IASB by 15 January 2018.

This issue of IFRS Notes provide an overview of the amendments proposed to IAS 8.

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

SEBI defers disclosures of loan defaults from banks by listed entities

4 October 2017

In order to bridge the gap in the availability of information to investors and other stakeholders, the Securities and Exchange Board of India (SEBI) through its circular dated 4 August 2017 (the circular) required specified listed entities to provide disclosures to the stock exchanges in case of defaults in repayment of interest/instalment obligations on loans from banks and financial institutions, debt securities (including commercial paper), etc.

While the above mentioned circular was to be effective from 1 October 2017, SEBI through a press release dated 29 September 2017 has decided to defer the implementation of the circular until further notice.

This issue of First Notes provide an overview of the SEBI press release issued on 1 October 2017.

Accounting and Auditing Update

Issue 14 | September 2017

In this edition of Accounting and Auditing Update (AAU), we highlight certain practical application areas associated with the accounting and presentation of NCI e.g. manner of attribution of profits and losses, impact of potential voting rights, sale/purchase of equity to/from NCI, etc. The article also captures the detailed disclosure requirements relating each material subsidiary e.g. presentation of summarised financial information, significant restrictions and judgements.

The Companies Act, 2013 (2013 Act) article provides an overview of the 2013 Act's requirements with respect to depreciation and also integrates the guidance provided in the application guide and guidance note on accounting of depreciation issued by the Institute of Chartered Accountants of India (ICAI).

This publication also carries an article on goodwill impairment accounting under Ind AS. Our publication also carries a regular synopsis of recent regulatory updates in India and internationally along with an article highlighting key clarifications provided by ICAI in its education material on Ind AS 16, *Property, Plant and Equipment.*

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