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In this publication, we have summarised important updates relevant to the quarter ended 30 September 2018 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).

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Updates relating to Ind AS

Ind AS Transition Facilitation Group (ITFG) issues Clarifications Bulletin 16

The Ind AS Transition Facilitation Group (ITFG) in its meeting considered certain issues received from the members of the ICAI, and issued its Clarifications Bulletin 16 on 5 September 2018 to provide clarifications on seven application issues relating to Indian Accounting Standards (Ind AS).

Some key clarifications provided in ITFG Bulletin 16 are as follows:

Ind AS 109, *Financial Instruments*

- **Accounting of financial guarantee:** The ITFG considered two issues relating to the accounting of financial guarantee and provided following clarifications in the given cases:

  a) **Financial guarantee provided by a subsidiary for a loan taken by its parent (Issue 1):** The ITFG considered a situation where a subsidiary (S Ltd.) had given a financial guarantee to a bank in respect of a loan obtained by its parent (P Ltd.) from the bank. S Ltd. did not charge any guarantee fee/commission from P Ltd.

  The loan had been accounted on amortised cost basis in the separate as well as Consolidated Financial Statements (CFS) of P Ltd.

  The issue considered relates to initial and subsequent accounting of such financial guarantee in the separate financial statements of S Ltd. and P Ltd. respectively.

  The ITFG considered the guidance in Ind AS 109, *Financial Instruments* (assuming the financial guarantee in the given case meets the definition of 'financial guarantee contract' under Ind AS 109).

  Accounting by subsidiary (S Ltd.) (issuer of the financial guarantee)

  As per paragraph B2.5 of Ind AS 109, the issuer is required to recognise a financial guarantee contract initially at fair value. Subsequently, the issuer should measure the financial guarantee contract at the higher of the following:

  i. The amount of loss allowance as per Ind AS 109 and

ii. The amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with Ind AS 115, *Revenue from Contracts with Customers*[1].

Therefore, an issuer of a financial guarantee would be required to recognise the financial guarantee contract initially at its fair value. As there is no specific guidance in Ind AS 109 or any other standard with respect to determination of fair value of such financial guarantee, ITFG suggested the following approaches for determining fair value based on the principles of Ind AS 113, *Fair Value Measurement*:

i. Fair value of the financial guarantee (at initial recognition) could be the amount that an unrelated, independent third party would have charged for issuing the financial guarantee.

ii. Estimate the fair value of the financial guarantee as the present value of the amount by which the interest (or other similar) cash flows in respect of the loan are lower than what they would have been if the loan was an unguaranteed loan.

iii. Estimate the fair value of the financial guarantee as the present value of the probability-weighted cash flows that may arise under the guarantee (i.e. the expected value of the liability).

Based on the above, ITFG in the extant case, clarified the following accounting treatment in the separate financial statements of S Ltd.:

- **Initial measurement:** S Ltd. is required to initially recognise a liability (i.e. deferred income as 'unearned financial guarantee commission') and the debit should be to an appropriate head under equity.

  The ITFG concluded that as S Ltd. has not charged the fair value of the guarantee but the same would have been charged for issuing a similar guarantee for a loan taken by an unrelated third party. Therefore, the economic substance of the arrangement in the given case is distribution made by S Ltd. to its parent (P Ltd.). Accordingly, the debit should be made to an appropriate head under 'equity'. It would not be appropriate to debit the fair value of the guarantee to profit or loss (as if it were a non-reciprocal distribution to a third party) as it would fail to properly reflect the existence of the parent-subsidiary relationship that would have caused S Ltd. not to charge the guarantee commission.

- **Subsequent measurement:** The application of Ind AS 115 would result in the amount of unearned financial guarantee commission being recognised initially as liability being amortised over the period of the guarantee. Consequently, the balance of the unearned financial guarantee commission would decline progressively over the period of the guarantee. Additionally, at each reporting date, S Ltd. would be required to compare the unamortised amount of the deferred income with the amount of loss allowance determined in respect of the guarantee. Accordingly, in case:

  i. Amount of loss allowance is lower than the unamortised amount of deferred income: Liability of S Ltd. (with respect to financial guarantee) would be represented by the unamortised amount of the financial guarantee commission.

  ii. Amount of loss allowance is higher than the unamortised amount of deferred income: S Ltd. would be required to recognise a further liability equal to the excess of the amount of the loss allowance over the amount of the unamortised unearned financial guarantee commission.

1. The reference as per Ind AS 18, *Revenue* is 'the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 18'.

Accounting by parent (P Ltd.) (beneficiary of the financial guarantee)

Ind AS 109 does not specifically address the accounting for financial guarantees by the beneficiary. In an arm's length transaction between unrelated parties, the beneficiary of the financial guarantee would recognise the guarantee fee or premium paid as an expense.

It is important to note that ITFG in its Bulletin 13 (issue 2) considered a similar situation where a director of a company had provided a financial guarantee for a term loan to a bank and the company did not pay premium or fees to its director for providing such financial guarantee. In that case, ITFG clarified that an entity is required to exercise judgement while assessing the substance of the transaction considering the relevant facts and circumstances (such as whether any benefits are being otherwise obtained for providing guarantee) based on which an appropriate accounting treatment (on the principles of Ind AS) should be determined.

In issue 2 of Bulletin 13, the financial guarantee was provided by a director of a company. However, in the present case, as per ITFG, the principle of attribution acquires significance in a parent - subsidiary relationship.

Therefore, in the given case, the beneficiary (i.e. P Ltd.) should also recognise the guarantee.

As stated above, in terms of economic substance, the provision of guarantee by S Ltd. without charging guarantee commission is analogous to a distribution by S Ltd. to P Ltd.

P Ltd. should debit the fair value of the guarantee to the carrying amount of the loan (which would have the effect of such fair value being included in determination of EIR on the loan) and credit the same in accordance with the requirements of Ind AS 27, *Separate Financial Statement.*

As per Ind AS 27, investment in a subsidiary should be accounted for at cost or in accordance with Ind AS 109 in the separate financial statements of the parent.

Accordingly:

If the investment in subsidiary has been accounted for at cost: Credit the distribution received to the statement of profit and loss. Impairment loss, if any, would be separately considered.

If the investment in subsidiary has been accounted for in accordance with Ind AS 109:

a) *If measured at Fair Value through Other Comprehensive Income (FVOCI):* Recognise distribution in the statement of profit and loss as per paragraph B5.7.1. of Ind AS 109, unless the distribution clearly represents a recovery of part of the cost of the investment

b) *If measured at Fair Value through Profit or Loss (FVTPL):* Credit the distribution received to the statement of profit and loss.

Further, paragraph 18 of Ind AS 24, *Related Party Disclosures* requires disclosures of related party transactions during the periods covered by the financial instruments, including details of any guarantees given or received by the company. Based on this, the parent (P Ltd.) would be required to make necessary disclosure of the financial guarantee provided by its subsidiary (S Ltd.).

b) Financial guarantee by a parent for a loan taken by its subsidiary that is repaid earlier than the scheduled term (Issue 7): The ITFG considered a situation where a parent (P Ltd.) provides a guarantee for a loan which was taken by its subsidiary (S Ltd.) in Financial Year (FY) 2012. The initial estimate of the loan would be repaid in 10 years, however, S Ltd. repaid the whole loan amount within six years i.e. in FY2018.

P Ltd. is in phase II of Ind AS implementation road map and accordingly, its date of transition is 1 April 2016. On the date of transition, P Ltd. recognised the financial guarantee obligation in its separate financial statements and corresponding impact in the 'investment in subsidiary' considering the terms of the guarantee.

The issue relates to the accounting treatment of the financial guarantee provided by P Ltd., when the underlying loan has been repaid earlier than the estimated due date.

As per ITFG, initial accounting of financial guarantee by P Ltd. on the date of transition is as per the requirements of Ind AS 109. For subsequent measurement, guidance should be drawn to the requirements of paragraph B2.5 of Ind AS 109 (as stated in issue 1 above).

In the given case, there is a change in the expected tenure of the contractual life of the loan which was earlier estimated for 10 years while the actual tenure came out to be six years. Therefore, as per ITFG, guidance given in Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* should be considered for the change in the estimate of expected life of the loan.

As per Ind AS 8, the effect of change in an accounting estimate, should be recognised prospectively by including it in profit or loss in the:

i. Period of the change: If the change affects that period only or

ii. Period of the change and future periods: If the change affects both.

Further, if a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it should be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

As per ITFG, the attribution debited to investment upon providing guarantee is in substance the consideration that the parent would have collected for providing similar guarantee to an unrelated third party. Generally, in case of prepayment of loan by an unrelated third party, the parent would not have refunded the consideration and would have recognised the entire unrecognised commission in the statement of profit and loss.

Therefore, the ITFG clarified that similar approach should be followed for guarantee given to the subsidiary.

Accordingly, in the given case, amount of financial guarantee obligation initially recognised at INR1,000 (for instance) would be amortised as income in each accounting period as per Ind AS 109 (paragraph 4.2.1(c)(ii)). At the end of year six, P Ltd. would have INR400 as the carrying value of financial guarantee in its financial statements. Since S Ltd. has repaid the loan and no obligation exists for P Ltd., therefore, P Ltd. should reverse the balance outstanding as guarantee obligation with corresponding recognition of revenue of INR400 in the statement of profit and loss.

- **Derecognition of financial liabilities (Issue 3):** The ITFG considered a situation where an entity (DG Ltd.) had taken a foreign letter of credit from a bank in FY2011-12 at a rate linked to LIBOR. DG Ltd. could not meet his repayment obligation on the due date. Accordingly, the bank crystallised the liability into Indian Rupees (INR) and the loan became its Non-Performing Asset (NPA). The bank assigned the loan to an Asset Reconstruction Company (ARC). ARC subsequently negotiated with DG Ltd. to arrive at the following settlement (entered into post implementation date of Ind AS by DG Ltd.):

  a) A hair cut by ARC for some portion of the loan

  b) Partial settlement of the loan by issue of fully paid-up equity shares at traded market price and

  c) The balance loan amount would be paid in installments over seven years at a revised interest rate, which was linked to the Marginal Cost of funds-based Lending Rate (MCLR).

  The issue relates to whether the above arrangement is a modification of debt from the perspective of DG Ltd.

Since the arrangement between ARC and DG Ltd. towards outstanding loan has been entered during the year when Ind AS is applicable to DG Ltd., therefore, as per ITFG, the loan taken by DG Ltd. would be classified as a financial liability under Ind AS 32, *Financial Instruments: Presentation*.

The ITFG considered the guidance given in Ind AS 109 relating to extinguishment of a liability and modification of debt. As per paragraphs 3.3.1 and B3.3.1 of Ind AS 109, an entity should remove a financial liability (or a part of a financial liability) from its balance sheet only when it is extinguished - i.e. when the obligation specified in the contract has been discharged, cancelled or expired.

A financial liability (or part of it) is extinguished when the debtor either:

a) Discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services or

b) Is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (If the debtor has given a guarantee this condition could still be met.)

When there is a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) then it should be accounted for as an extinguishment of the original financial liability and the entity should recognise a new financial liability.

Based on the above, ITFG, in the given case, clarified that DG Ltd. would be required to assess whether change of the lender (assignment of loan) from bank to the ARC is a legal release from the primary liability to the bank.

Accordingly, if DG Ltd. concludes that:

– **Change of lender results in legal release from primary liability:** It should derecognise entire amount of the existing loan and the new arrangement with ARC would be accounted for as a new loan. The difference between the carrying amount of the financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) would be recognised in the statement of profit and loss.

– **Change of lender does not result in legal release from primary liability:** It should consider whether there is a substantial modification of terms of the existing financial liability or a part of it.

As per Paragraph B3.3.6 of Appendix B to Ind AS 109 (quantitative test), the terms of a financial liability are considered to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

However, if modification of terms fails to meet the quantitative threshold, then it could not be concluded that the modification is not substantial. Therefore, in such a case, a qualitative analysis would be required to determine whether modifications of the terms that are not captured by the quantitative analysis are substantial.

The ITFG concluded that there are no additional factors requiring a qualitative analysis. Therefore, if the quantitative threshold of 10 per cent is met, then modification of terms should be considered to be substantial and vice-versa.

In this case, a part of the loan has been settled by way of issue of equity shares of DG Ltd. Therefore, fair value of the equity shares should be accounted for in accordance with Appendix D of Ind AS 109, *Extinguishing Financial Liabilities with Equity Instruments* and paragraph 3.3.4 of Ind AS 109.

With respect to the balance portion, the modifications relate to terms that are captured by the quantitative test (i.e. the haircut, rescheduling of repayment, and change in interest rate). Accordingly, if the modification of balance loan is considered to be substantial, then DG Ltd. should derecognise the balance loan and recognise the new modified loan. Any difference between the carrying amount of the original loan and new modified loan would be recognised in the statement of profit and loss.

Ind AS 103, *Business Combinations*

- **Business combination under common control (Issue 5):** The ITFG considered a situation where a parent (Company B) demerges one of its businesses under the order of the High Court (HC) and sold it to its subsidiary (Company A) in FY2016-17. Company A and company B are covered in phase II of the Ind AS implementation road map.

  Company A acquired the assets and liabilities of the demerged business at their fair values and issued its consideration (calculated on the basis of the fair value of the business of company B) (as required under previous Indian Generally Accepted Accounting Principles (IGAAP)).

  As per the facts of the case, the acquisition of business by company A from company B is a common control business combination[2] within the meaning of Appendix C to Ind AS 103 (since company A is covered under the Ind AS road map and needs to apply Ind AS 103 on the date of transition).

  The issue relates to whether company A is required to apply Ind AS 103 on the acquisition of business from company B.

  As per the facts of the case, demerger of the business of company B occurred in FY2016-17 and company A accounted for the assets and liabilities acquired under previous IGAAP at their respective fair values as at the date of demerger. Therefore, ITFG clarified that for FY2016-17, Ind AS is not applicable for company A and company B.

  For company A, the Ind AS financial statements would be those for the FY2017-18 wherein the comparative amounts would be presented for FY2016-17 under Ind AS. As the demerger occurred after the date of transition to Ind AS and would be covered under Ind AS 101, *First-time Adoption of Indian Accounting Standards.*

  The ITFG considered following two scenarios for the given case:

  – **Scenario A: Accounting treatment of demerger not prescribed in the court-approved scheme:** Ind AS 101 provides certain exemptions to the business combinations entered prior to the date of transition which, *inter alia*, includes exemption from application of Ind AS 103 retrospectively to past business combinations i.e. an entity could apply Ind AS 103 prospectively from the date of transition. However, in this case, the demerger transaction is considered to occur on or after the date of transition to Ind AS. Therefore, it would be accounted for as per relevant requirements under Ind AS, irrespective of its accounting under previous IGAAP.

    In the given case, if the court approved scheme does not prescribe any accounting treatment for the demerger in the books of company A, then the demerger occurred after the date of transition to Ind AS by company A would qualify as a common control business combination. Therefore, company A would be required to account for the demerger as per Appendix C to Ind AS 103 i.e. under 'pooling of interest method' in the financial statements for the FY2016-17. Accordingly, company A in its financial statements, would be required to recognise assets and liabilities acquired from company B at their respective book values as appearing in the books of company B. Therefore, while presenting the comparative amounts in the Ind AS financial statements for FY2017-18,

2. *Common control business combination* means a business combination involving entities or businesses in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

company A would be required to restate the amount of assets and liabilities recognised under previous GAAP for FY2016-17 following pooling of interest method.

Assuming the acquirer and the acquiree were under common control as on 1 April 2016, ITFG clarified that the financial information in the financial statements in respect of prior periods should be restated as if the business combination had occurred from the beginning of the preceding period (i.e. 1 April 2016) in the financial statements, irrespective of the actual date of the combination.

– **Scenario B: Accounting treatment of demerger prescribed in the court-approved scheme:** The ITFG considered the announcement of the council of ICAI with respect to disclosures to be made in cases where a court/tribunal makes an order sanctioning an accounting treatment which is different from that prescribed by an Accounting Standard (AS)[3]. The announcement, *inter alia*, provides that if an item in the financial statements of a company is treated differently pursuant to an order made by the court/tribunal, as compared to the treatment required by an AS, following disclosures should be made in the financial statements of the year in which different treatment has been given:

  a) A description of the accounting treatment made along with the reason that the same has been adopted because of the court/tribunal order

  b) Description of the difference between the accounting treatment prescribed in the AS and that followed by the company

  c) The financial impact, if any, arising due to such a difference.

If the court approved scheme provided an accounting treatment of the demerger then, based on the ICAI clarification, in the present case the accounting treatment of a transaction as required under an order of a court/tribunal (or other similar authority) overrides the accounting treatment that would otherwise be required to be followed in respect of the transaction. Therefore, it is mandatory for the respective company to follow the treatment as per the order of the court/tribunal.

Accordingly, in the given case, if the court approved scheme of demerger prescribed the accounting treatment for the demerger in the books of company A (for instance, recognition of assets and liabilities acquired at their respective fair values as at the date of demerger), then company A would be required to follow the treatment prescribed in the scheme in its financial statements for the FY2016-17. Further, if the effect of such treatment has to be carried over in subsequent years, then also the same treatment of court approved scheme would be followed in the subsequent years subject to compliance of auditing standards.

Therefore, ITFG in the present case concluded that company A would be required to follow the accounting requirements of Ind AS which are not in conflict with the provisions of the court scheme.

3. ICAI Journal - The Chartered Accountant issued in the month of December 2004.

Ind AS 17, *Leases*

- **Classification of a long-term lease of land (Issue 6):** The ITFG considered a situation where an entity (A Ltd.) entered into a long-term lease arrangement (i.e. for 99 years) for a land in a textile park. As per the terms of the arrangement, A Ltd. would be required to pay an annual lease rent at the rate of INR1 per square meter without any upfront payment. Additionally, A Ltd. made a lump sum payment of INR150 crore towards use of common infrastructure facilities of the park during the period of lease. The following additional information relating to the arrangement has been provided:

  a) No initial amount has been paid towards such lease

  b) A Ltd. does not have an option to purchase the land at a price that is sufficiently lower than the fair value at the date option is exercisable

  c) The renewal of the lease is based on the mutual acceptance at the end of lease term

  d) Lessor has not agreed to renew lease on expiry of lease term.

  The issue relates to whether the above lease transactions would be classified as an operating lease or finance lease as per Ind AS. Also, whether the infrastructure usage rights should be classified under intangible assets or should be considered as part of land lease.

  In accordance with the guidance in Ind AS 17, *Leases*, the ITFG in its bulletin 7 (issue 5) clarified that classification of a lease under Ind AS 17, requires exercise of judgement in the context of facts and circumstances of each case. An entity could consider the following factors that would be relevant for classification of a long-term lease of land:

  a) A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset.

  b) One of the indicators of a finance lease is that 'at the inception of the lease the present value of the Minimum Lease Payments (MLPs) amounts to at least substantially all of the fair value of the leased asset.

  c) The lease term is for the major part of the economic life of the asset even if title is not transferred. Land generally has an indefinite economic life and it is expected that the value of land generally appreciates. Therefore, this could indicate that the lease is an operating lease.

  d) Other indicators to consider in an overall context of whether substantially all risks and rewards have been transferred include the company's ability to renew the lease for another term at substantially below market rent, option to purchase the land at a price significantly below fair value, etc.

  As per ITFG, in the present case, A Ltd. has the right of use of both land and common infrastructure facilities under the agreement even though the right of use of land is exclusive whereas the right of use of common infrastructure facilities is non-exclusive. Additionally, common infrastructure facilities such as access to roads would be essential for A Ltd. to be able to utilise its rights in relation to land.

  Therefore, the right of use of both land and common infrastructure facilities could be viewed as a single set of rights unless the terms of the agreement such as tenure, renewal option, etc. in respect of the two are different (which does not seem to be the case).

  If in case, the textile park provide services in the form of common infrastructure facilities, then, as per Ind AS 17, the upfront payment has to be split between MLP towards lease of land and prepayment for future services (as cost of services are excluded from MLP).

As per ITFG, the amount allocated to MLPs towards lease of land has to be considered for the purpose of determining classification of lease between operating or finance lease.

From a presentation perspective:

a) *If the two rights have been accounted as a single item:* Relevant line item in the balance sheet should bring out clearly that it relates to right of use of both land and common infrastructure facilities.

b) *If the two rights have been accounted separately (due to differences in terms and underlying benefits relating to the two rights):* Accounting for each right should be based on the particular terms and underlying benefits associated with it.

Others

- **Treatment of income tax related interest and penalties under Ind AS vis-à-vis IFRS (Issue 2):** As per Ind AS 12, *Income Taxes*, current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

  The Guidance Note on Division II - Ind AS Schedule III to the Companies Act, 2013 (guidance note) provides that any interest on shortfall in payment of advance income tax is in the nature of finance cost and hence, should not be clubbed with the current tax. Rather, it should be classified as interest expense under 'finance costs'.

  Similarly, any penalties levied under income tax laws should not be classified as current tax. Penalties which are compensatory in nature should be treated as interest and disclosed under finance costs. Other tax penalties should be classified under 'other expenses'.

  The ITFG considered the accounting of interest and penalties related to income-taxes under Ind AS.

  Based, on the guidance given above (Ind AS 12 and the guidance note), the ITFG clarified that an entity's obligation for current tax arises because it earns taxable profit during a period. However, an entity's obligation for interest or penalties, arises because of its failure to comply with one or more of the requirements of income-tax law (e.g. failure to deposit income-tax). Therefore, it concluded that the obligations for current tax and those for interest or penalties arise due to reasons that are fundamentally different in nature and Ind AS 1, *Presentation of Financial Statements,* requires an entity to separately present items of a dissimilar nature or function unless they are immaterial except when required by law. Therefore, interest or penalties related to income tax cannot be clubbed with current tax.

  Additionally, the ITFG highlighted that similarity in a particular jurisdiction in the bases of computation of amount of current tax and interest/penalties for non-compliance is not a sufficient ground for clubbing these items, which are different in terms of their nature.

  The ITFG also considered the treatment of such interest and penalties under International Financial Reporting Standards (IFRS). IFRS Interpretations Committee (IFRIC)[4] in its meeting held on 12 September 2017 decided that entities do not have an accounting policy choice between applying International Accounting Standard (IAS) 12, *Income Taxes* and IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* to interest and penalties. Therefore, if an entity considers a particular amount payable or receivable for interest and penalties to be an income tax, then the entity should apply IAS 12 to that amount. However, if an entity does not apply IAS 12 to a particular amount payable or receivable for interest and penalties, it should apply IAS 37 to that amount.

4. IFRIC is the interpretative body of the International Accounting Standards Board (IASB). IFRIC works with the IASB in supporting the application of IFRS standards.

Based on the IFRIC agenda, the ITFG highlighted that:

– An entity should consider whether an amount of interest or a penalty is in the scope of IAS 12 i.e. an entity should consider whether the interest or penalty is a tax and whether that tax is based on taxable profits.

  In cases, where it is difficult to identify whether an amount payable to (or receivable from) a tax authority includes interest or penalties (for instance, single demand issued by a tax authority for unpaid taxes), entire amount would qualify within the meaning of IAS 12.

– An entity should determine whether a particular amount payable or receivable for interest and penalties is in the scope of IAS 12 (or Ind AS 12) after considering the tax laws applicable in its individual jurisdiction i.e. an entity should consider whether tax laws in the jurisdiction and other facts and circumstances indicate that this amount is based on a taxable profit (i.e. a 'net' amount).

The ITFG pointed out that interest and penalty payable under Section 234A/B/C of the Indian Income-tax Act, 1961 (IT Act) would not qualify as income-taxes within the meaning of IAS 12 (or Ind AS 12). Therefore, the related amount would be recognised as interest. Similarly, other interest and penalties under the IT Act would not qualify as income-taxes as per ITFG.

- **Classification of investments made in units of money-market mutual funds as cash equivalents (Issue 4):** As per Ind AS 7, *Statement of Cash Flows*, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Further, Ind AS 7 prescribes the following three cumulative conditions that are to be met for an investment to be classified as a 'cash equivalent':

  i. The investment must be for meeting short-term cash commitments

  ii. It must be highly liquid, i.e. readily convertible to cash

  iii. The amount that would be realised from the investment must be known, with no more than an insignificant risk of change in value of the investment.

  The ITFG considered whether investments made by an entity in units of money-market mutual funds (i.e. those investing in money-market instruments such as treasury bills, certificates of deposit and commercial paper) that are traded in an active market or are puttable by the holder to the fund at Net Asset Value (NAV) at any time could be classified as cash equivalents under Ind AS.

  The ITFG considered the above mentioned three cumulative conditions to determine whether investment in units of money-market mutual funds could be categorised as a cash equivalent. The assessment of each condition is as follows:

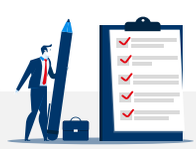
  a) **Investment must be for meeting short-term cash commitments:** As per ITFG, whether an investment has been held for meeting short-term cash commitments depends on the management's intent which could be evidenced from documentary sources such as investment policy, investment manuals, etc. It could also be corroborated by the actual experience of buying and selling those investments. However, such investments should be held only as a means of settling liabilities, and not as an investment or for any other purposes. Therefore, this condition requires an assessment of facts and circumstances of each case.

  b) **Investment must be highly liquid:** As per ITFG, units of a money market mutual fund that are traded in an active market or that can be put back by the holder at any time to the fund at their NAV could meet the condition of the investment being highly liquid.

c) **Amount that would be realised from the investment must be known, with no more than an insignificant risk of change in value of the investment:** This condition requires that the amount of cash that would be received should be known at the time of initial investment. Additionally, an entity would have to ensure that the investment is subject to insignificant risk of changes in value for it to be classified as cash equivalent.

As per ITFG, units of money-market funds would not be able to meet the last condition as their value keeps changing primarily due to changes in interest rates. Therefore, the amount of cash that would be received from redemption or sale of the units could not be known at the time of the initial investment and the value of such units could be subject to a more insignificant risk of change during the period of their holding. However, as per ITFG there could be situations wherein this last condition could be met for instance, units of money-market mutual funds have been acquired for a very brief period before the end of tenure of a mutual fund and the maturity amounts of the mutual funds are pre-determined and known. In such a case, it could be argued that the redemption amount of the units is known and subject only to an insignificant change in value.

Key takeaway



The ITFG clarifications are expected to resolve various practical implementation issues faced by companies transitioning to Ind AS. The companies should consider the interpretations provided by the ITFG in their implementation efforts. However, it should be noted that some of the issues would require consideration of facts and circumstances and the exercise of judgement while analysing each individual situation.

(Source: ICAI-ITFG clarifications bulletin 16 dated 5 September 2018)

Amendments to certain Ind AS

The MCA through its notification dated 20 September 2018 has issued amendments to Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance.* These are as follows:

- **Accounting for non-monetary government grants:** A government grant could take the form of a transfer of a non-monetary asset (such as land or other resources) for the use of the entity. In such a case, an entity should firstly assess the fair value of the non-monetary asset and account for the grant and the related asset at that fair value.

  Amendment

  The amendment to Ind AS 20 permits an alternate method for accounting for such non-monetary grants i.e. it permits an entity to record both the asset and the grant at a nominal amount rather than at fair value.

- **Presentation of grants related to assets:** Currently under Ind AS 20, government grants related to assets (including non-monetary grants at fair value) are required to be presented in the balance sheet by setting up the grant as deferred income which should be recognised in the statement of profit and loss on a systematic basis over the useful life of the asset (gross presentation).

  Amendment

  In addition to the above manner of presentation of the government grants related to assets, the amendment to Ind AS 20 permits another method of presentation of such grants. It permits the amount of grant to be deducted while calculating the carrying amount of the asset (net presentation). Additionally, the grant would be recognised in the statement of profit and loss over the useful life of a depreciable asset as a reduced depreciation expense.

- **Repayment of government grants:** Currently under Ind AS 20, a government grant that becomes repayable is required to be accounted for as a change in accounting estimate as per Ind AS 8. Further, repayment of grant related to an asset should be recognised by reducing the deferred income balance by the amount repayable.

  Amendment

  As per the amendment, the repayment of grant related to an asset should be recognised by increasing the carrying amount of the related asset, if the grant was previously deducted from the carrying amount of the asset. Additionally, it clarifies that the cumulative additional depreciation which would have been recognised in the profit or loss to date in the absence of the grant should be recognised immediately in the profit or loss.

  Further, the amendment envisages that circumstances giving rise to repayment of a grant related to an asset may require consideration of a possible impairment in the new carrying amount of the asset.

Effective date: The amendments have been made effective from 1 April 2018 to be applied retrospectively as per Ind AS 8.

Related amendments to other Ind ASs

The MCA has issued amendments to the following Ind AS relating to government grants:

- **Ind AS 12, *Income Taxes:*** Currently, Deferred Tax Asset (DTA) on initial recognition of an asset arises when a non-taxable government grant related to an asset is set up as deferred income in which case the difference between the deferred income and its tax base of nil is a deductible temporary difference.

  As per the amendment to Ind AS 12, DTA on initial recognition of an asset could also arise when a non-taxable government grant related to an asset is deducted in arriving at the carrying amount of the asset but for the tax purposes, is not deducted from the asset's depreciable amount. In such a case, the carrying amount of the asset is less than its tax base and hence it gives rise to a deductible temporary difference.

  Whichever method of presentation an entity adopts, the entity does not recognise the resulting DTA, either on initial recognition or subsequently as per Ind AS 12.

- **Ind AS 16, *Property, Plant and Equipment:*** The amendment to Ind AS 16 provides an option of reducing the carrying amount of an item of property, plant and equipment by the amount of government grant received in respect of such an item in accordance with Ind AS 20.

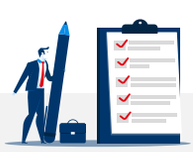
- **Ind AS 38, *Intangible Assets:*** Currently, Ind AS 38 allows only fair value for recognising the intangible asset acquired by way of a government grant.

  The amendment to Ind AS 38 provides an entity the option to recognise both asset and the grant initially at fair value or at a nominal amount plus any expenditure that is directly attributable to preparing the asset for its intended use.

  Additionally, the revaluation model could be applied to an intangible asset that was received by way of a government grant and recognised at a nominal amount.

Effective date: The amendments to the above Ind ASs have been made effective from 1 April 2018.

Key takeaways



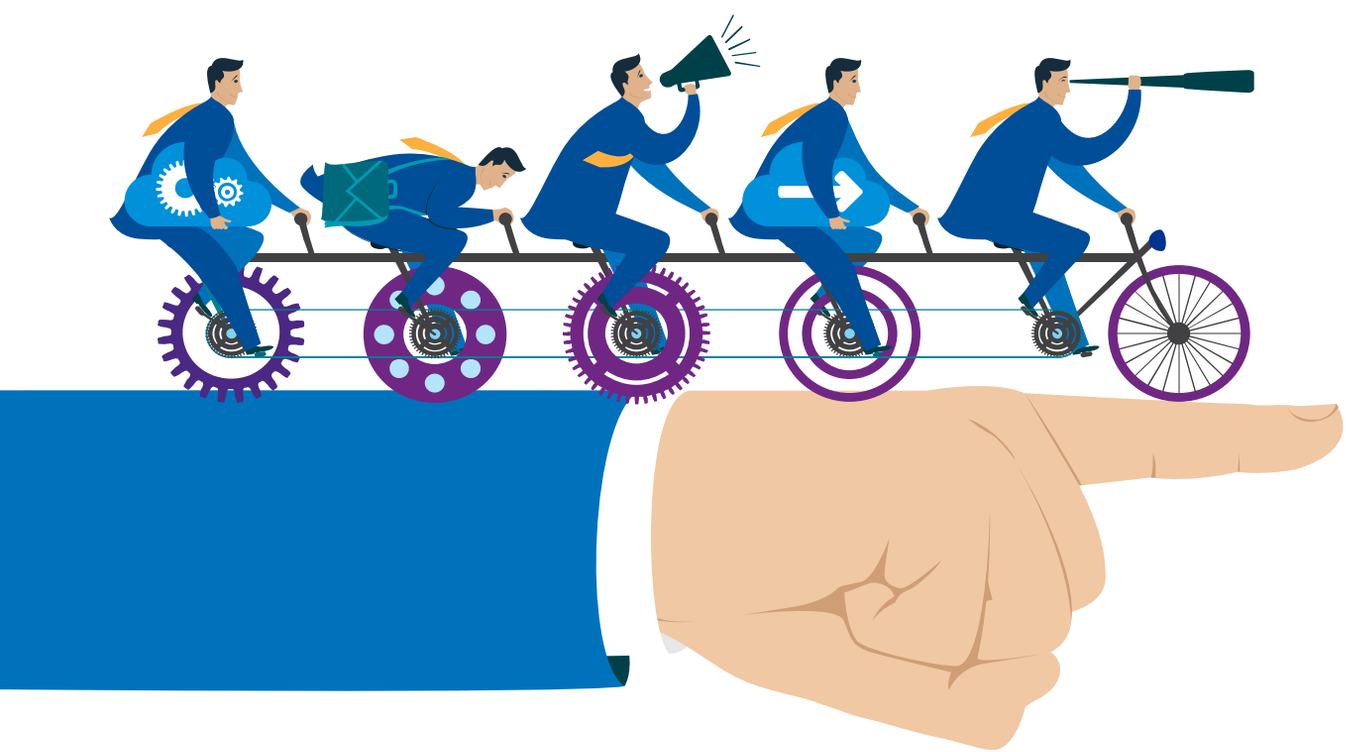
- The amendments to Ind ASs are in line with the requirements of IFRS issued by the IASB.
- The amendment related to alternate presentation of government grants related to assets as a deduction from the carrying amount of the asset is an important amendment.

Key takeaways (cont.)

This would reverse a carve-out in Ind AS 20 that eliminated this accounting policy choice and fully align the accounting treatment for government grants with IFRS.

- Entities in India should consider these amendments as these are expected to provide them with an additional accounting policy choice for the recognition and measurement of asset related grants.
- An entity should choose an accounting policy, to be applied consistently, to present such non-monetary grants either as income or as a reduction in the related expense.

(Source: MCA notification dated 20 September 2018)



Updates relating to the Companies Act, 2013

The MCA notified certain provisions of the Companies (Amendment) Act, 2017 and modified related rules under the Companies Act, 2013

On 3 January 2018, the Companies (Amendment) Act, 2017 received the assent of the President of India. The various provisions of the Companies (Amendment) Act, 2017 would come into force on the date of their notification in the official gazette by the Central Government (CG). Different dates could be appointed for different provisions of the Companies (Amendment) Act, 2017.

Recently, the Ministry of Corporate Affairs (MCA) through its notifications dated 5 July 2018, 27 June 2018, 12 September 2018 and 19 September 2018 notified certain sections of the Companies (Amendment) Act, 2017. Additionally, MCA issued amendments to certain related rules under the Companies Act, 2013 (2013 Act).

Key amendments effective from 31 July 2018

Financial statements, board's report, etc. (Section 134 and Companies (Accounts) Rules)

- **Approval of financial statements and CFS:** As per the Companies (Amendment) Act, 2017, financial statements (including CFS) of a company should be signed by its chairperson (where authorised by the board), by two directors out of which one should be Managing Director (MD) (if appointed) and the Chief Executive Officer (CEO) (earlier required only if CEO is a director), the Chief Financial Officer (CFO) and the company secretary.
- **Attachments to the board's report:** There are certain amendments to the attachments to the board's report which are as follows:
  - For the annual return under Section 92(3) of the 2013 Act, its web address, if any, would be included in the board's report instead of the extract of the annual report.
  - If the disclosures required under Section 134(3) of the 2013 Act have been included in the financial statements then the board's report would refer to those disclosures instead of repeating them.

Financial statements, board's report, etc. (Section 134 and Companies (Accounts) Rules) (cont.)

– If the policy on 'directors' appointment and remuneration under Section 178(3) of the 2013 Act' and policy on 'corporate social responsibility' is available on the company's website then the company could provide only salient features of these policies and any changes therein in the board's report along with the web address where such polices are available.

Additionally, MCA made an amendment to the Companies (Accounts) Rules relating to matters to be included in the board's report. As per the amendments, the board's report of every company (except one person company or small company) should also include the following:

a) A disclosure, as to whether maintenance of cost records as specified by the CG (under Section 148(1) of the 2013 Act), is required by the company and accordingly, such accounts and records are made and maintained.

b) A statement that the company has complied with provisions relating to the constitution of Internal Complaints Committee under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013.

- **Abridged board's report:** The CG may prescribe an abridged board's report, for the purpose of compliance with Section 134 of the 2013 Act by one person company or small company.

Key amendments effective from 7 August 2018

Private placement[5] (Section 42 and Allotment Rules)

The Companies (Amendment) Act, 2017 has revised the process of issue of securities through private placement. Key features of the revised process are as follows:

- **Identified persons:** As per the revised norms, a private placement should be made only to a select group of persons who have been identified by the Board of Directors (BoD) (i.e. identified persons). The number of identified persons should not exceed 200 in a FY.

  The limit of 200 persons would not include any offer or invitation to the following:

  a) Qualified Institutional Buyers (QIBs)[6] or

  b) Employees of the company under a scheme of employees stock option as per Section 62(1)(b) of the 2013 Act.

  Further, if a company (listed or unlisted) makes an offer to allot/invites subscription, or allots/enters into an agreement to allot, securities to more than the prescribed number of persons (i.e. 200 persons), the same would be deemed to be an offer to the public[7].

- **Special resolution or board resolution:** An offer/invitation for issue of securities through private placement to be previously approved by the shareholders of the company by passing a special resolution.

  However, where the proposed amount to be raised through such offer or invitation does not exceed the limit specified in Section 180(1)(c) of the 2013 Act, an approval through a board resolution under Section 179(3)(c) of the 2013 Act would be sufficient.

- **No right of renunciation:** As per the revised norms, the private placement offer and application form would not carry any right of renunciation.

5. *Private placement* means any offer or invitation to subscribe or issue of securities to a select group of persons by a company (other than by way of public offer) through private placement offer-cum-application, which satisfies the conditions specified in Section 42 of the 2013 Act.

6. *QIB* means the QIB as defined in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations), as amended from time to time, made under the SEBI Act, 1992.

7. This would hold good even if the company has/has not received the payment for the securities or whether the company intends to list its securities or not on any recognised stock exchange in or outside India.

Key amendments effective from 15 August 2018

Prohibition on acceptance of deposits (Section 73 and Deposit Rules)

- The Companies (Amendment) Act, 2017 changes the requirement for maintaining a deposit repayment reserve account in a scheduled bank to **20 per cent of the amount of deposits maturing during the following FY** (earlier not less than 15 per cent of the amount of its deposits maturing during a FY and the FY next following was required).
- The requirement to provide a deposit insurance in respect of the amount of deposits accepted by the company has been removed.
- Companies which have made good on a default committed in the past would be allowed to accept deposits after five years from the date of the default remediation.
- Amendments to the Companies (Acceptance of Deposit) Rules, 2014 (Deposit Rules) requires that a certificate of the statutory auditor of the company should be attached in Form DPT-1 (circular or circular in the form of advertisement inviting deposits). The certificate should state the fact that the company had made good the default and a period of five years has lapsed since the date of the default remediation.

  (Emphasis added to highlight the change)

Repayment of deposits (Section 74(1)(b))

The Companies (Amendment) Act, 2017 has modified the timeline for repayment of deposits accepted by the company before the commencement of the 2013 Act and aligned the Deposit Rules with that of the 2013 Act.

As per the amendment, deposits accepted by the company before the commencement of the 2013 Act should be repaid **within three years** from the date of commencement of the 2013 Act or on or **before expiry of the period for which the deposits were accepted**, whichever is earlier.

However, renewal of any such deposits should be done in accordance with the provisions of acceptance of deposits under the 2013 Act (i.e. Chapter V of the 2013 Act) and the Deposit Rules.

(Emphasis added to highlight the change)

Key amendments effective from 12 September 2018

Appointment and remuneration of managerial personnel (Section 196, 197 and Managerial Rules)

- **Appointment of managerial personnel (Section 196):** Where a special resolution has not been passed for appointment of a person who has attained the age of 70 years as MD, WTD, or manager, then such an appointment could be made subject to the following:
  - Votes cast in favour of the motion exceed the votes, if any, cast against the motion and
  - The CG is satisfied (on an application made by the BoD) that such appointment is most beneficial to the company.

  Additionally, Schedule V to the 2013 Act has been amended to provide that a person would not be eligible for appointment as a MD, WTD or a manager if he/she has been sentenced to imprisonment for any period, or to a fine exceeding INR1,000 for the conviction of an offence under the following Acts:

  a) The Insolvency and Bankruptcy Code, 2016

  b) The Goods and Services Tax Act, 2017

  c) The Fugitive Economic Offenders Act, 2018.

Appointment and remuneration of managerial personnel (Section 196, 197 and Managerial Rules) (cont.)

- **Managerial Remuneration (MR) (Section 197):** The Companies (Amendment) Act, 2017 clarifies the following with respect to payment of MR:

  Remuneration payable by companies with profits

  – The company in a general meeting may authorise the payment of remuneration exceeding 11 per cent of the net profits of the company, subject to Schedule V. The requirement for a government approval has been removed. (First proviso to Section 197(1))

  – Approval of the shareholders **by a special resolution** would be required to pay MR in excess of the maximum amount of remuneration prescribed when there are one or more than one MD, WTD or manager in the company. (Second proviso to Section 197(1))

  – Additionally, in case a company has defaulted in payment of dues to any bank/public financial institution/non-convertible debenture holders/secured creditor, then prior approval of such bank/public financial institution/non-convertible debenture holders/secured creditor should be obtained before obtaining the approval in the general meeting. (New provision)

  Remuneration payable by companies with inadequate or no profits

  – The Companies (Amendment) Act, 2017 clarified that the **remuneration in excess of the limits specified in the Schedule V to the 2013 Act** can be paid by passing a special resolution. (Earlier limits specified could be doubled by passing a special resolution).

  – Rule 7(2) of the Companies (Appointment and Managerial Personnel) Rules, 2014 (Managerial Rules) which required that a listed company/subsidiary of a listed company should obtain approval of CG for payment of MR in excess of limits specified in Schedule V has been removed. Therefore, now CG approval is not required for payment of remuneration in excess of Schedule V in case of a listed company/subsidiary of a listed company.

  – Additionally, in case a company has defaulted in payment of dues to any bank/public financial institution/non-convertible debenture holders/secured creditor, then prior approval of such bank/public financial institution/non-convertible debenture holders/secured creditor should be obtained before obtaining the approval in the general meeting. (New provision)

  Norms for excess remuneration and refund

  – In case any director draws or receives remuneration in excess of the specified threshold, then he/she should refund the amount **within two years or such lesser period** as may be allowed by the company. (Earlier the 2013 Act did not specify the time period within which sums should be refunded). (Section 197(9))

  – Company is not allowed to waive the recovery of any sum refundable unless **approved by the special resolution within two years from the date the sum becomes refundable.** (Earlier the 2013 Act referred to 'unless permitted by the CG'). (Section 197(10))

  Additionally, in case a company has defaulted in payment of dues to any bank/public financial institution/non-convertible debenture holders/secured creditor, then prior approval of such bank/public financial institution/non-convertible debenture holders/secured creditor should be obtained before obtaining the approval of such waiver. (New provision)

  (Emphasis added to highlight the changes)

Appointment and remuneration of managerial personnel (Section 196, 197 and Managerial Rules) (cont.)

Reporting by an auditor

– An auditor would be required to make a statement as to whether the remuneration paid by the company to its directors is in accordance with the prescribed provisions and would also be required to state whether remuneration paid to any director is an excess of the limit specified under Section 197. (Section 197(16))

Calculation of profits (Section 198)

The 2013 Act contains a list of items to be excluded for calculating net profits for MR.

Now, the Companies (Amendment) Act, 2017 adds another exclusion and clarifies that while calculating net profits of the company for the purpose of determining MR payable, any amount representing unrealised gains, notional gains or revaluation of assets have to be excluded from net profits.

Further, the Companies (Amendment) Act, 2017 clarifies that any amount representing profits by way of premium on shares or debentures of the company, which are issued or sold by an investment company should not be excluded from the net profits.

Key amendments effective from 19 September 2018

Corporate Social Responsibility (CSR) (Section 135 and CSR Rules)

Following changes have been made to the provisions relating to CSR:

- For determining the threshold of the specified net worth, turnover, or net profit to constitute a CSR committee, the words 'any FY' have been replaced by the words 'immediately preceding FY'.
- Composition of the CSR committee for 'companies not required to appoint independent directors' has been changed to 'two or more directors'.
- An explanation has been inserted which provides powers to the MCA to prescribe any exclusions from the net profit calculated in accordance with the provisions of Section 198 of the 2013 Act.
- Section 135(3)(a) and the Companies (CSR Policy) Rules, 2014 (CSR Rules) has been modified to refer to 'in areas or subjects specified in Schedule VII to the 2013 Act' within which CSR activities could be undertaken by a eligible company. Accordingly, the amendment has given discretion to a company to spend the amount earmarked for CSR in areas and subjects related to the broad heads given under Schedule VII to the 2013 Act.

(Source: KPMG in India's analysis, 2018 based on the provisions of the Companies (Amendment) Act, 2017 notified and related amendments to the Rules. Also refer to KPMG in India's First Notes on 'MCA notified certain provisions of the Companies (Amendment) Act, 2017 and modified certain rules under the Companies Act, 2013' dated 2 August 2018.)

Key takeaways

With the recent notifications, the Companies (Amendment) Act, 2017 is largely effective as out of 93 sections, MCA has notified 91 sections till 19 September 2018.

Some of the key changes notified are as follows:

Appointment and remuneration of managerial personnel

- **Government approval not required for MR in excess of specified limits:** Currently, total MR payable by a public company with profits should not exceed 11 per cent of the net profits of the company for that FY computed in the specified manner. However, a company with the approval of the shareholders and the CG could authorise the payment of remuneration in excess of the specified limit.

  The Companies (Amendment) Act, 2017 removed the requirement of a government approval for payment of the MR in excess of the specified limits. Hence, such a company could pay MR in excess of 11 per cent by passing a special resolution in a general meeting. This would ease the procedure with regard to payment of MR by companies.

  Additionally, the Companies (Amendment) Act, 2017 has provided a significant relief to the companies with inadequate or no profits as they could now pay MR in excess of the limits specified in Section II (Part A) of the Schedule V (based on effective capital) by passing a special resolution. Earlier they were only allowed to pay up to two times the amount specified, subject to passing of a special resolution.

- **Calculation of net profits for MR:** The Companies (Amendment) Act, 2017 excludes from net profits 'any amount representing unrealised gains, notional gains or revaluation of assets'. This exclusion will have a significant impact on the companies following Ind AS. Ind AS requires certain adjustments e.g. fair value gains or losses on financial instruments measured at FVTPL in the statement of profit and loss. There could also be adjustment in the 'Other Comprehensive Income' due to fair value gains or losses on investments classified as FVOCI. The adjustments due to financial instruments at FVOCI do not get recycle through the statement of profit and loss. Therefore, it is not clear whether the fair value losses on financial instrument at FVTPL could be included in the computation of net profits in the year they are realised and also how the impact of fair value changes on financial instruments at FVOCI would be taken into account in the computation of net profits. Additionally, it is important to note that all notional losses and unrealised losses would be included in the computation of net profits of MR.

Financial statements and board's report

- **Board's report:** The Companies (Amendment) Act, 2017 makes it mandatory for a CEO (even if he is not a director) to sign the financial statements. Further, the Companies (Amendment) Act, 2017 clarified that the disclosures made in the financial statements and website of the company could be referred to in the board's report to avoid duplication of disclosures.

Others

- **Sections not yet notified:** The provisions relating to inspection, inquiry and investigation are still pending to be notified.

(Source: MCA notification no. S.O. 3299(E), S.O. 3300(E) dated 5 July 2018, notification no. G.S.R. 725(E) and S.O. 3838(E) dated 31 July 2018, notification no. S.O. 3921(E) dated 7 August 2018, notifications dated 12 September 2018 and 19 September 2018 and KPMG in India's First Notes dated 2 August 2018)

Issue of securities in dematerialised form by unlisted public companies

On 10 September 2018, MCA issued the Companies (Prospectus and Allotment of Securities) Third Amendment Rules, 2018 and amended the provisions relating to issue of securities by unlisted public companies. The amendment is effective from 2 October 2018.

Currently, Rule 9 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 (Prospectus Rules) provides that every public company making a public offer of any convertible securities should hold such securities only in dematerialised form. Further, entire holding of convertible securities of the company held by the promoters in physical form up to the date of the initial public offer should be converted into dematerialised form before such offer is made and thereafter such promoter shareholding should be held only in dematerialised form.

The amendment to the Rules have inserted a new sub-rule which provides that every unlisted public company should:

a) Issue the securities only in dematerialised form and

b) Facilitate dematerialisation of all its existing securities

in accordance with the provisions of the Depositories Act, 1996 and regulations made there under.

Further, every holder of securities of an unlisted public company:

a) Who intends to transfer such securities on or after 2 October 2018, should get such securities dematerialised before the transfer or

b) Who subscribes to any securities of an unlisted public company (whether by way of private placement or bonus shares or rights offer) on or after 2 October 2018 should ensure that all his/her existing securities are held in dematerialised form before such subscription.

Key takeaway

The amendment is expected to enhance transparency in the issue and further transfer of shares.

(Source: MCA notification dated 10 September 2018)

MCA issues report of the committee to review the offences under the Companies Act, 2013

The government of India had formed a committee to review the offences under the 2013 Act. On 27 August 2018, the committee submitted its report.

The committee recommended that the existing rigour of the law should continue for serious offences, whereas for lapses that are essentially technical or procedural in nature, may be shifted to an in-house adjudication process. No change is suggested in respect of any of the non-compoundable offences.

The report aims to strengthen the in-house adjudication process by necessitating a concomitant order for making good the default at the time of levying penalty, to achieve better compliance.

Further, the report endeavours to declog the National Company Law Tribunal (NCLT) by recommending certain amendments, which include enlarging the jurisdiction of the regional director with enhanced pecuniary limits for compounding of offences under Section 441 of the 2013 Act. Also suggesting to vest the CG to approve the cases relating alteration in the FY of a company under Section 2(41) and for conversion of public companies into private companies.

The report also contains recommendations on certain matters related to corporate compliance and corporate governance. The key recommendations are as follows:

Independent Directors (IDs)

- The sitting fees and expenses incurred, as may be prescribed for participation in the meetings of board and committees should not be considered for the purpose of assessing pecuniary relationship of an ID.
- The sum total of pecuniary relationship of an ID with the company, its holding, subsidiary or associate company, or their promoters or directors (excluding sitting fees and expenses incurred for participation) during a year should not exceed 20 per cent of his/her total income. Additionally, professional or any services (other than board-related services) rendered by an ID to the company, its holding, subsidiary, associate company, or their promoters or directors should not account for more than 10 per cent of the total income as laid down under Section 149(6)(c).

Disqualification of a director

- A person should be subject to disqualification if he/she accepts directorships exceeding the maximum number of directorships provided in Section 165 of the 2013 Act.

(Source: Report of the Committee to review offences under the 2013 Act issued by the MCA in August 2018)

Updates relating to SEBI

SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

The Securities and Exchange Board of India (SEBI) through its notification dated 11 September 2018 has issued the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations, 2018).

The ICDR Regulations, 2018 has been made applicable from sixtieth day from the date of its publication in the official gazette (i.e. 10 November 2018).

Key changes introduced by the ICDR Regulations, 2018 vis-à-vis ICDR Regulations, 2009 are as follows:

Topic	Overview of the revised provisions
Financial disclosures	• Consolidated restated financial information required for three years (earlier for five years). • Audited separate financial statements of the issuer and material subsidiaries required to be disclosed on the website of the issuer. • Exemption from presentation of comparatives for stub period. • Disclose a list of related parties and all related party transactions of the consolidated entities (whether eliminated on consolidation or not) as disclosed in their separate financial statements. • Financial statements of all foreign consolidated entities to be audited, unless they are not material[8] to the CFS and the local regulation does not mandate audit. • In case issue proceeds would be utilised for a proposed acquisition of material business/entity, provide audited statements of balance sheets, profit and loss, cash flow for the latest three FYs and stub period (if available) of the business/entity proposed to be acquired. • Total unaudited information included in the CFS to not to exceed 20 per cent of the turnover, net worth or profits before tax of the CFS of the respective year.
Revised eligibility norms for rights issue	• The applicability threshold of ICDR Regulations, 2018 for rights issue increased from INR50 lakh to INR10 crore. • An issuer making a rights issue should announce a record date for the purpose of determining the shareholders eligible to apply for specified securities in the proposed rights issue for such period **as may be specified in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations).** • In case of rights issue through fast track route, in addition to other conditions, an issuer to ensure that there are no audit qualifications in the audited accounts in respect of FYs to be disclosed in the letter of offer. *(Emphasis added to highlight the change)*

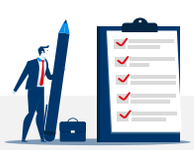
8. A consolidated entity should be considered 'material' if it contributes 10 per cent or more to the turnover, net worth, or profits before tax in the annual CFS of the respective year.

Topic	Overview of the revised provisions (cont.)
General conditions for making a public issue/rights issue	• Currently, an issuer is not eligible to make a public issue or rights issue of specified securities if any of its promoters, promoter group or directors or persons in control of the issuer are debarred from accessing the capital market by SEBI. The ICDR Regulations, 2018 further clarified that the above mentioned restrictions would not apply to the persons or entities who were debarred in the past and the period of debarment is completed as on the date of filling the draft offer document. • The ICDR Regulations, 2018 has omitted one of the condition for making an IPO. The omitted condition relates to 'aggregate of the proposed issue and all previous issues made in the same FY should not exceed five times the issuer's pre-issue net worth'. • All the specified securities held by promoters are required to be in dematerialised form prior to filing of the offer document.
Price and price band	• Currently, an issuer is required to announce the floor price or price band at least five working days before the opening of the bid in all the newspapers in which the pre issue advertisement was released. The time period for announcement of the price band has been reduced from five working days to two working days prior to the issue opening date.
Pledge of locked-in specified securities	• Currently, the specified securities held by the promoters and locked-in could be pledged as a collateral security for a loan granted by a scheduled commercial bank/public financial institution. The ICDR Regulations, 2018 has allowed promoters to hold the securities as a collateral for a loan granted by a systemically important Non-Banking Financial Company (NBFC). Further, it has been clarified that the loan should be granted to the issuer company or its subsidiary(ies).
Minimum subscription	• The provision relating to refund of application monies in case of non-receipt of minimum subscription has been amended to provide that such amount should be refunded not later than 15 days from the closure of the issue. (Earlier, in case of underwritten issue, amount was required to be refunded within 70 days).
Issue of warrants	• Currently, an issuer would be eligible to issue warrants in an IPO, subject to certain specified conditions. One of the condition requires that the price or formula for determination of exercise price of the warrants should be determined upfront and at least 25 per cent of the consideration amount based on the exercise price should be received upfront. It has been further clarified that 25 per cent consideration based on the cap price of the price band determined for the linked equity shares or convertible securities should also be received up front.

Topic	Overview of the revised provisions (cont.)
Extension of period for subscription	• Currently, a public issue would be kept open for a minimum period of three working days and maximum period of 10 working days and extension is allowed only in case of change in price band. Additionally, the ICDR Regulations, 2018 provides that in case of force majeure, banking strike, bandh, etc., the issuer could extend the issue period disclosed in the red herring prospectus (in case of book built issue) or the issue period disclosed in prospectus (in case of a fixed price issue) for a minimum period of three working days.
Minimum application value	• Currently, a person is not allowed to make an application in the net offer category for a number of specified securities that exceeds the total number of specified securities offered to the public. The ICDR Regulations, 2018 further clarifies that in case of non-institutional investors, the maximum application value should not exceed total number of specified securities offered in the issue less total number of specified securities offered in the issue to QIBs.
Release of subscription money	The ICDR Regulations, 2018 prescribe following new provisions with respect to release of subscription money: • In case the issuer fails to obtain listing or trading permission from the stock exchanges where the specified securities are to be listed, it should refund through verifiable means the entire monies within seven days of receipt of intimation from stock exchanges rejecting the application for listing of specified securities. • If any such money is not repaid within eight days after the issuer becomes liable to repay it, the issuer and every director of the company who is an officer in default should, on and from the expiry of the eighth day, be jointly and severally liable to repay that money with interest at the rate of 15 per cent per annum.

(Source: KPMG in India's analysis, 2018 based on the ICDR Regulations, 2018)

Key takeaways



The SEBI has streamlined and consolidated various provisions of the existing ICDR Regulations and various circulars and interpretations issued by SEBI. This would facilitate ease of reference to entities and other persons involved in the public issue.

The ICDR Regulations, 2018 would be applicable from 10 November 2018. Therefore, entities which are in the process of listing or planning an IPO should carefully consider the amendments and assess the consequential changes in the processes required to be in compliance with the new requirements.

(Source: SEBI notification no. SEBI/LAD-NRO/GN/2018/31 dated 11 September 2018)

Streamlining the process of public issue under the SEBI regulations for debt listed securities

The SEBI, through a circular dated 16 August 2018, provided certain guidelines to ease out the existing process of issuance of debt securities, Non-Convertible Redeemable Preference Shares (NCRPS) and Securitised Debt Instruments (SDIs) for both an issuer as well as an investor. The provisions of the circular would be applicable for all public issues of debt securities, NCRPS and SDIs opening on or after 1 October 2018.

Following are the key features of the guidelines:

- **Reduction in listing time:** Time taken for listing after the closure of the issue has been reduced from 12 working days to six working days.
- **Submission of application form:** The investors applying in the public issue are required to make use of only Application Supported by Blocked Amount (ASBA) facility for making payment.

  Additionally, an investor intending to subscribe to a public issue should submit a complete bid-cum application form to Self-Certified Syndicate Banks (SCSBs) with whom bank account to be blocked is to be maintained or any of the prescribed intermediaries such as syndicate member, depository participant, etc.

Key takeaway

Companies intending to raise capital by issue of debt securities/NCRPS/SDIs should carefully consider the revised process.

(Source: SEBI circular no. CIR/DDHS/P/121/2018 dated 16 August 2018)

SEBI clarification on transfer of securities in a dematerialised form

The SEBI through its notification dated 8 June 2018 amended Regulation 40 of the Listing Regulations. As per the amendment, a request for effecting transfer of securities would not be processed unless the securities are in dematerialised form with a depository. This has been made effective from 2 December 2018.

Recently, the SEBI through its press release dated 10 August 2018 provided further clarifications with respect to said amendment. Those are as follows:

- The amendment to Regulation 40 does not prohibit the investor from holding the shares in physical form. An investor has the option of holding shares in physical form even after the prescribed date (i.e. 2 December 2018).
- The above amendment would not be applicable for transmission (i.e. transfer of title of shares by way of inheritance/ succession) and transposition (i.e. rearrangement/interchanging of the order of the name of shareholders) cases.
- Any investor who is desirous of transferring shares (which are held in physical form) after the prescribed date can do so only after the shares are dematerialised.

(Source: SEBI notification no. SEBI/LAD-NRO/GN/2018/24 dated 8 June 2018 and press release no. 34/2018 dated 10 August 2018)

SEBI (Buy-Back of Securities) Regulations, 2018

The SEBI through its notification dated 11 September 2018, has issued the SEBI (Buy-Back of Securities) Regulations, 2018 (Buy-Back Regulations, 2018) and replaced the erstwhile SEBI (Buy-Back of Securities) Regulations, 1998. The Buy-Back Regulations, 2018 are effective with effect from 11 September 2018.

The Buy-Back Regulations, 2018 would be applicable to buy-back of shares or other specified securities of a company in accordance with the applicable provisions of the 2013 Act.

Key revisions made by the Buy-Back Regulations, 2018 are as follows:

Topic	Overview of the key changes
New norms for buy-back of own shares	The Buy-Back Regulations, 2018 incorporates the provisions relating to buy-back of own securities as prescribed under Section 68 to 70 of the 2013 Act. Accordingly: – A company could buy-back its own shares or other specified securities out of the following: a) Free reserves b) Securities premium account or c) Proceeds of the issue of any shares or other specified securities. However, no such buy-back should be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. – Additionally, a company is not allowed to purchase (directly or indirectly) its own shares or other specified securities: a) Through any subsidiary company including its own subsidiary companies b) Through any investment company or group of investment companies or c) If a default, is made by the company, in the repayment of deposits accepted either before or after the commencement of the 2013 Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company. However, buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist. – A company is also required to maintain a register which should comprise details of the shares/securities so bought, the consideration paid for the shares or securities bought back, the date of cancellation of shares or securities, the date of extinguishing and physically destroying the shares or securities and such other particulars as may be prescribed in Section 68(9) of the 2013 Act.

Topic	Overview of the key changes (cont.)
New conditions prescribed for buy-back of securities	• The maximum limit of any buy-back has been prescribed up to 25 per cent of the total of paid-up capital and free reserves of the company. • The ratio of the aggregate of secured and unsecured debts owed by the company after buy-back should not be more than twice the paid-up capital and free reserves[9]. • All shares or other specified securities for buy-back should be fully paid-up securities. • Buy-back should be authorised by the company's articles and a special resolution should be passed at a general meeting of the company authorising the buy-back. However, in case where buy-back is 10 per cent or less of the total paid-up equity capital and free reserves of the company, it could be authorised by a board resolution. • The buy-back should be completed within a period of one year from the date of passing of the special resolution/board resolution.
Power of SEBI to relax strict enforcement of Buy-Back Regulations, 2018	• The SEBI has been empowered to grant relaxation from the strict enforcement of any requirement of the Buy-Back-Back Regulations, 2018 (except with provisions incorporated from the 2013 Act), if it satisfied that the requirement: – Is procedural in nature or – May cause undue hardship to investors.

(Source: KPMG in India's analysis, 2018 based on the provisions of the Buy-Back Regulations, 2018)

9. If a higher ratio of the debt to capital and free reserves has been notified by the 2013 Act, the same should prevail.

Other regulatory updates

ICAI clarifies applicability of disclosure norms relating to Specified Bank Notes (SBNs)

Background

On 30 March 2017, MCA had introduced a disclosure for Specified Bank Notes (SBNs) in the notes to account to balance sheet following demonetisation. Therefore, Schedule III of the 2013 Act was amended[10].

As per the amendment every company was required to disclose, in the notes to account to balance sheet, the details of SBNs[11] held and transacted during the period from 8 November 2016 to 30 December 2016 in the following format:

	SBNs	Other denomination notes	Total
Closing cash in hand as on 8 November 2016			
(+) Permitted receipts			
(-) Permitted payments			
(-) Amount deposited in banks			
Closing cash in hand as on 30 December 2016			

10. MCA notification no. G.S.R. 308(E) dated 30 March 2017.
11. For the purpose of this disclosure, the term 'SBN' should have the same meaning as provided in the notification S.O. 3407(E) of the Ministry of Finance, dated 8 November 2016. The notification defines SBN as 'bank notes of denominations of the existing series of the value of INR500 and INR1,000'.

Additionally, the auditor's report had to include the auditor's views and comments on the following matter:

- Whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in SBNs during the period from 8 November 2016 to 30 December 2016 and if so, whether these are in accordance with the books of accounts maintained by the company (Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules)[12].

The revised disclosures (as given above) have been made applicable to financial statements/auditor's report issued after 30 March 2017 and which include the period from 8 November 2016 to 30 December 2016.

New development

On 1 September 2018, ICAI through an announcement clarified that the above disclosure requirements relating to SBNs (in the notes to account as well as in the auditor's report) are not applicable for the FY2017-18 and subsequent years. Accordingly, consequent disclosures may be given in the financial statements/auditor's reports.

The announcement is on the basis of the decision taken by the Corporate Laws and Corporate Governance Committee of ICAI (the committee) at its forty-first meeting held on 6 June 2018. The committee considered that the disclosure requirement was event specific. Additionally, the required disclosures were for the period falling under FY2016-17 (i.e. 8 November 2016 to 30 December 2016), therefore, these were relevant for FY2016-17 only.

Key takeaway

Many companies have finalised their financial results for the FY2017-18 and have pointed out that requirement relating to SBN is not relevant for the FY2017-18.

(Source: MCA notifications no. G.S.R. 307(E) and G.S.R. 308(E) dated 30 March 2017, ICAI announcement dated 1 September 2018 and KPMG in India's First Notes dated 4 September 2018)

The CBDT amends the Tax Audit Report (Form 3CD)

The CBDT through its notification dated 20 July 2018 amended the Income-tax Rules, 1962 with respect to the Tax Audit Report (Form 3CD). This form is required to be certified by an auditor under Section 44AB of the IT Act. The amended Rules have been made applicable from 20 August 2018.

Additionally, on 22 August 2018, ICAI has issued an implementation guide on the amendments made to Form 3CD. The implementation guide provides detailed guidance and is expected to help tax payers and tax auditors to implement required changes.

The amendment provides for 15 changes in the Form 3CD i.e. six modifications in the existing clauses and nine new clauses have been inserted.

Key changes applicable from 20 August 2018

Newly inserted clauses

- **Clause 30B - Thin capitalisation norm:** This clause requires a tax auditor to furnish the working of interest disallowable under Section 94B[13] of the IT Act. As per the implementation guide, for EBITDA, figures as per the final audited separate accounts of the company should be considered, and not the figures as adjusted for the income tax computation after various allowances and disallowances.

  Additionally, regarding computing interest payments, the implementation guide clarifies that only interest and expenditure of similar nature which is deductible while computing income under the head 'Profits and Gains of Business or Profession' should be considered and not interest deductible under any other head of income or interest which is otherwise not deductible.

12. MCA notification no. G.S.R. 307(E) dated 30 March 2017
13. Section 94B of the IT Act restricts deduction of interest paid to non-resident Associated Enterprise (AE) including interest on loans guaranteed by them to 30 per cent of Earnings before Interest, Taxes and Depreciation (EBITDA).

- **Clause 29B - Reporting of gifts as per Section 56(2)(x) of the IT Act:** This clause requires a taxpayer to report the amount taxable as 'Income from Other sources' under Section 56(2)(x) of the IT Act on account of receipt of any sum of money, immovable property, or specified movable property without or inadequate consideration paid.
- **Clause 30A - Primary adjustments under Section 92CE(1) of the IT Act:** Under this clause, a taxpayer is required to disclose the nature and amount of primary adjustments made as per Section 92CE(1)[14] of the IT Act and imputed interest in case of non-repatriation.
- **Clause 36A - Disclosure relating to deemed dividend:** This clause requires reporting of date and amount of receipt of any income by the taxpayer which is taxable as deemed dividend under Section 2(22)(e) of the IT Act.
- **Clause 43 - Country-by-Country (CbyC) reporting:** This clause requires an Indian parent entity or Indian constituent entity (with Indian parent or foreign parent) to disclose certain details, if furnishing of CbyC is applicable to such international group as per Section 286(2) of the IT Act.

Key amendments made in the existing clauses

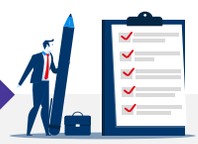
- **Clause 34(b) - Disclosure in relation to TDS/TCS returns:** Currently, Form 3CD requires details of Tax Deducted at Source (TDS)/Tax Collected at Source (TCS) returns which have not been filed within the due date. However, the amendment requires the taxpayer to furnish details of all TDS/TCS returns filed during the year irrespective of whether they were filed within time or on a belated basis.

  Further, the amendment also requires details of all transactions which are required to be reported in the returns but not furnished in TDS/TCS returns.

- **Minor amendments have been made to the following existing clauses of Form 3CD:**
  - Details of GST registration undertaken by the taxpayer
  - Investment allowance under Section 32AD and deemed profits thereon
  - Amount remaining unpaid to railways disallowable under Section 43B
  - Clarificatory amendments in the clause dealing with Section 269T on repayment of loans and deposits.

For a detailed overview of the changes made to the Form 3CD, please refer to KPMG in India's Tax Flash News 'CBDT amends the Tax Audit Report (Form 3CD)' dated 25 July 2018.

Key takeaways



- The new Form 3CD is expected to require extensive data collation by a taxpayer and settlement of interpretational issues with the tax auditor.
- It is important to note that reporting relating to General Anti-Avoidance Rules (GAAR) and Goods and Services Tax (GST) has been deferred till 31 March 2019. However, the reporting requirement under the other clauses has been made applicable from 20 August 2018.

(Source: CBDT notification no. G.S.R. 666(E) dated 20 July 2018, circular no. 6/2018 dated 17 August 2018, ICAI implementation guide w.r.t. notification no. 33/2018 dated 20 July 2018, KPMG in India's Tax Flash News dated 25 July 2018 and Accounting and Auditing Update (AAU) edition for the month of August 2018)

14. Section 92CE requires a taxpayer to make secondary adjustment to remove the imbalance between cash account and actual profit pursuant to primary adjustments made as per Section 92CE(1) of the IT Act.

QRB issued its report on audit quality review of top listed entities for the FY2017-2018

The Quality Review Board (QRB) was formed by the CG in 2007 to perform audit quality review function of the top listed and other public interest entities in India.

On 7 July 2018, the QRB issued the 'Report on Audit Quality Review' (2017-18) (the QRB report).

The report comprise of key findings of 64 reviews completed by the QRB till 31 March 2018 pertaining to financial statements for the year ended 31 March 2014 and 31 March 2015.

Key observations of the report

Compliance with AS: Some key learnings from the report with respect to compliance with the requirements of the respective AS are as follows:

AS	Key observations
AS 1, *Disclosure of Accounting Policies*	• Failure to disclose all the significant accounting policies adopted in the preparation and presentation of financial statements.
AS 3, *Cash Flow Statements*	• Failure to report separately major classes of gross cash receipts and gross cash payments arising from investing activities • Classification of fixed deposits with maturity of more than three months as cash and cash equivalents • Failure to report the effect of changes in exchange rates on cash and cash equivalents held in a foreign currency as a separate part of the reconciliation of the changes in cash and cash equivalents during the period • Failure to disclose dividend distribution tax as cash flow from financing activity.
AS 13, *Accounting for Investments*	• Failure to recognise decline, other than temporary, in the value of long term investments • Failure to separately disclose interest and dividend from long-term and current investments • Failure to separately disclose profit and loss on disposal of long-term and current investments.
AS 16, *Borrowing Costs*	• Failure to disclose amount of borrowing cost capitalised during the year • Failure to capitalise borrowing cost as part of cost of qualifying assets.
AS 20, *Earnings Per Share*	• Failure to present basic and diluted earnings per share on the face of the statement of profit or loss.
AS 22, *Accounting for Taxes on Income*	• Recognition of deferred tax assets despite the fact that there was no record of virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised • Failure to take deferred tax effect in respect of depreciation charged to retained earnings. • Failure to review the carrying amount of deferred tax assets at each balance sheet date in terms of para 26 of AS 22.

Other laws and regulations: The QRB report has reported following discrepancies with respect to other laws and regulations including 2013 Act:

- Failure to disclose the requirement of Schedule II to the 2013 Act
- Failure to disclose requirements of RBI circulars
- Failure to disclose the requirements of Schedule III of Banking Regulation Act, 1949
- Failure to disclose and report appropriately under various clauses of Companies Auditor Report Rules (CARO), 2016.

Key takeaway

Companies should carefully consider the review points/issues highlighted by the QRB as these are expected to help in better preparation and presentation of financial statements.

(Source: Report on Audit Quality Review (2017-18) of the Quality Review Board dated 7 July 2018 issued by the QRB)

Enforcement action framework in respect of statutory auditors for the lapses in the statutory audit of commercial banks

On 29 June 2018, the Reserve Bank of India (RBI) through its press release has provided an enforcement action framework to enable appropriate action by the RBI in respect of the banks' statutory auditors for any lapses observed in conducting a bank's statutory audit.

As per the framework, RBI may disapprove appointment of a statutory auditor in a commercial bank for a specified period. Further, RBI could also debar auditors whose appointment has been debarred by the other regulators/law-enforcement agencies/ government agencies. The lapses on the part of the statutory auditors that would be considered for invoking the enforcement framework would cover the following areas:

a) Lapses in carrying out audit assignments resulting in misstatement of a bank's financial statements

b) Wrong certifications given by the auditors with respect to list of certifications as advised by the RBI to banks

c) Wrong information given in the Long Form Audit Report (LFAR)

d) Issues related to misconduct by auditors in respect of their bank audit assignments and

e) Any other violations/lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the statutory auditors in relation to banks.

The quantum of enforcement action should be determined based on the materiality of lapses/violations by audit firms. Lapses/ violations that are determined to be **not material** would lead to the issuance of a cautionary advice to the auditors/audit firm.

In case of a violation determined to be **material,** the enforcement action could be RBI disapproving the auditor/audit firm for undertaking statutory audit assignments of banks for such periods as may be decided by the RBI.

(Source: RBI press release dated 29 June 2018)

ICAI publications relevant for the quarter ended 30 September 2018

Publications	Overview
Ind AS publications	
Ind AS: Disclosure checklist	• The publication provides a checklist of disclosures requirements under Ind AS applicable to entities preparing its financial statements voluntarily and mandatorily beginning on or after 1 April 2016, in accordance with Ind AS. • The checklist is based on the Ind AS that are effective as on 1 April 2018, and includes disclosures required under Ind AS 115, *Revenue from Contracts with Customers* (new revenue standard applicable from 1 April 2018).
Ind AS implementation: Impact analysis and industry experience	• It covers analysis of quantitative and qualitative aspects arising from implementation of Ind AS.
Educational Material on Ind AS 115, *Revenue from Contracts with Customers*	• The publication includes Frequently Asked Questions (FAQs) covering the issues which are expected to be encountered while implementing Ind AS 115.
Technical guides	
Technical guide on understanding income-tax return forms for AY2018-19	• The guide would help in understanding the significant changes, implications, procedural aspects concerned with filling various columns of the Income Tax Returns (ITRs).
Technical guide on Valuation (Revised 2018)	• The guide brings together the approaches, rules and principles involved in valuation as laid down by law, the statutory guidelines, and the decisions of courts as well as established valuation practices.
Implementation guides	
Implementation guide on amendments to Form 3CD	• The publication is with respect to the amendments made in Form 3CD through notification no.33/2018 dated 20 July 2018 and effective from 20 August 2018. • It is expected to provide guidance on implementing the changes in the best possible manner in the available time.
Implementation guide to SA 610 (Revised), *Using the Work of Internal Auditors*	• The aim of the implementation guide is to provide solutions to various practical problems faced by auditors in implementing SA 610 in real life audit situations.

Publications	Overview
Other publications	
Position paper on regulation of accountancy profession and oversight mechanism in India	• The publication unravels the journey of ICAI in building a strong and resilient financial system and the current model being followed.
Judicial pronouncements under Insolvency and Bankruptcy Code, 2016	• The publication has been jointly issued by ICAI and Indian Institute of Insolvency Professionals to help in understanding the Insolvency and Bankruptcy Code, 2016 (the Code). • The publication covers important case analysis based on the decisions by SC, HCs, NCLAT and NCLT on issues under the Code.
FAQs and Multiple Choice Questions (MCQs) on Goods and Services Tax (GST) **(September 2018)**	• The publication is a comprehensive coverage of GST in a question and answer format which enable stakeholders understand the GST laws.
Taxation of non-residents **(Revised 2018)**	• The publication provides guidance on taxation of non-residents as amended by the Finance Act, 2018.

(Source: ICAI.org)

Expert Advisory Committee (EAC) opinions issued by ICAI during the quarter ended September 2018

Topic	Month
Treatment of financial liability under Ind AS 32, *Financial Instruments: Presentation* and Ind AS 109, *Financial Instruments*	July 2018
Accounting of interest earned on advance fee as per Ind AS 18, *Revenue*	August 2018
Disclosure of impairment loss on long-term investments as an exceptional item	September 2018

(Source: The Chartered Accountant - ICAI journal for the months of July 2018, August 2018 and September 2018)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Glossary

2013 Act	The Companies Act, 2013
AS	Accounting Standard
AY	Assessment Year
BoD	Board of Directors
CARO	Companies Auditor Report Rules
CBDT	Central Board of Direct Taxes
CbyC	Country-by-Country
CG	Central Government
EAC	Expert Advisory Committee
EIR	Effective Interest Rate
FAQs	Frequently Asked Questions
FY	Financial Year
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or loss
GAAP	Generally Accepted Accounting Principles
GAAR	General Anti-Avoidance Rules
HC	High Court
ICAI	The Institute of Chartered Accountants of India
ITFG	Ind AS Transition Facilitation Group
Ind AS	Indian Accounting Standard
Listing Regulations	SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
MCA	The Ministry of Corporate Affairs
MCQs	Multiples Choice Questions
MR	Managerial Remuneration
NBFC	Non-Banking Financial Company
NCLT	National Company Law Tribunal
NCLAT	National Company Law Appellate Tribunal
NCRPS	Non-Convertible Redeemable Preference Shares
RBI	The Reserve Bank of India
SC	Supreme Court
SDIs	Securitised Debt Instruments
SEBI	The Securities and Exchange Board of India
TDS	Tax Deducted at Source
TCS	Tax Collected at Source
QRB	Quality Review Board

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

2018 Global Lease Accounting Survey

23 August 2018

The new standards on leases, International Financial Reporting Standard (IFRS) 16, *Leases* and Accounting Standard Codification (ASC), 842, *Leases* are applicable from 1 January 2019.

KPMG International has issued '2018 Global Lease Accounting Survey'. The survey results, upon completion, will provide valuable insights and information on the progress made in implementing the standards. We encourage to participate in the survey.

First Notes

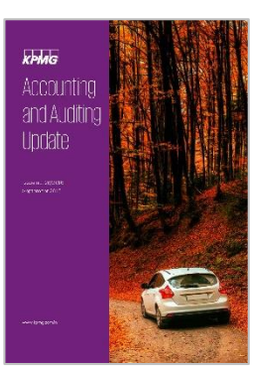
ICAI clarifies applicability of disclosure norms relating to Specified Bank Notes (SBNs)

4 September 2018

On 1 September 2018, the Institute of Chartered Accountants of India (ICAI) through an announcement clarified that the disclosure requirements relating to SBNs (in the notes to account as well as in the auditor's report) are not applicable for the Financial Year (FY) 2017-18 and subsequent years.

Accordingly, consequent disclosures may be given in the financial statements/auditor's reports. This issue of First Notes aims to provide an overview of the ICAI announcement.

Accounting and Auditing Update



Issue no. 26 | September 2018

In this edition of Accounting and Auditing Update (AAU), we focus on the automotive sector companies. Our article on Ind AS 115, *Revenue from Contracts with Customers*, highlights the significant impact areas (e.g. determination of performance obligations and variable consideration, etc.) where current guidance in Ind AS is expected to change due to implementation of Ind AS 115.

The three month period ended 30 June 2018 marks the first quarter of financial results as per Ind AS 115 published by the listed companies under Ind AS road map. Our article points out that the impact presented in the first quarter results (on the basis of the results complied) is quite insignificant and this could be due to a combination of factors such as the transition approach adopted by the companies or that their existing revenue recognition policies are in line with requirements under Ind AS 115.

The publication also casts lens on accounting for Property, Plant and Equipment (PPE). Our publication also carries a regular synopsis of some recent regulatory updates in India.

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