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Voices on Reporting

10 October 2019

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Welcome



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Series of knowledge sharing calls



02

Covering current and emerging reporting issues



03

Scheduled towards the end of each month



04

Look out for our Accounting and Auditing Update, First Notes and Voices on Reporting publications



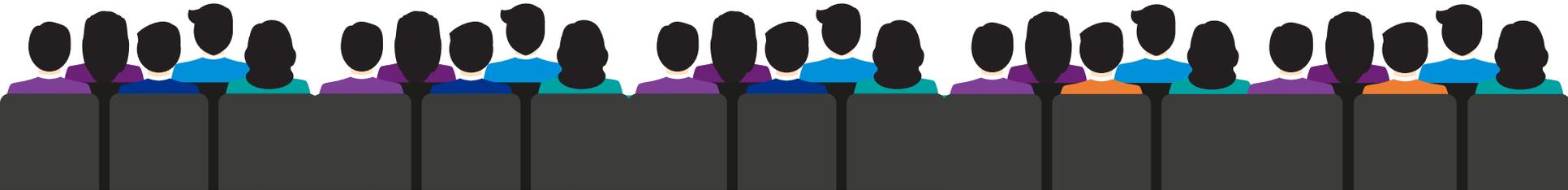
Speaker for the call



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KPMG in India



Agenda

- 1. Clarification on 'appointed date' and 'acquisition date' in a scheme of arrangement**

2. FAQ on presentation of dividend and DDT

3. Ind AS Transition Facilitation Group (ITFG) clarifications - Bulletin 21

4. The Taxation Laws (Amendment) Ordinance, 2019

5. Revised formats for compliance report on corporate governance

6. Disclosure of cash flow statement

Clarification on 'appointed date' and 'acquisition date' in a scheme of arrangement¹



Requirements under the 2013 Act



Section 232(6) of the 2013 Act provides that the scheme of compromise/arrangement should indicate an appointed date from which it would be deemed to be effective.

Requirements under Ind AS



Ind AS 103, *Business Combinations*, requires an acquirer to identify an 'acquisition date' which is the date on which it obtains control of an acquiree.



Issue under consideration

MCA received various queries on determination of 'appointed date' and 'acquisition date':

- Whether it is mandatory to indicate a specific calendar date as an 'appointed date' in a scheme of arrangement, and
- Whether acquisition date for the purpose of Ind AS 103 would be the appointed date as referred in Section 232(6) of the 2013 Act.

MCA clarification (cont.)



On 21 August 2019, MCA issued a clarification which provides that the provision of Section 232(6) of the 2013 Act is an enabling provision and.....

Specific calendar date as an appointed date

- The appointed date may precede the date of filing of the application for scheme of merger/amalgamation with NCLT.
- If the appointed date is ante-dated beyond a year from the date of filing of the scheme, then the company is required to provide the reasons for the chosen date and it should not be prejudicial to the public interest.



Appointed date can be based on occurrence of an event

- Identify the appointed date based on the occurrence of a trigger event which agreed upon by the parties is key to the proposed scheme.
- Such an event should be indicated in the scheme.
- If such a date is subsequent to the date of filing the order with the ROC under Section 232(5) of the 2013 Act, then the company is required to file intimation to the ROC within 30 days of such scheme coming into force.

The MCA also clarified that the appointed date identified in the scheme would be deemed to be the acquisition date and date of transfer of control for the purpose of conforming to accounting standards (including Ind AS 103).

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FAQ on presentation of dividend and DDT²



- Ind AS 12, *Income Taxes* has been amended from 1 April 2019 to provide that entities should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.
- Paragraph 65A of the amended Ind AS 12 provides that ‘when an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. In many jurisdictions, this amount is referred to as a withholding tax. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends’.
- Consequent to amendment to Ind AS 12, ICAI has issued a FAQ on the presentation of dividend and Dividend Distribution Tax (DDT) thereon under Ind AS.

Consider following two indicators to evaluate whether DDT is a portion of tax paid company on behalf of its shareholders



Dividend received with an imputed tax credit

- Dividend is received by the shareholders in India with an imputed tax credit
- Shareholders are not charged any further tax by the taxation authorities. Therefore, DDT would be covered under paragraph 65A of Ind AS 12.

Receipt of net/full amount of dividend declared and ‘grossing up’ of DDT

- Dividend is grossed up by the company for computation of DDT
- Shareholders receive a net amount of the dividend after deducting tax
- DDT in substance is a payment by the company on behalf of the shareholders and covered under paragraph 65A of Ind AS 12.

FAQ on presentation of dividend and DDT (cont.)



Clarification on presentation of dividend and DDT under Ind AS

Classification of financial instrument	Dividend/interest to be charged/recognised in	DDT paid on dividends to be charged/recognised in
Debt	Statement of profit and loss	Statement of profit and loss
Equity	Statement of changes in equity	Statement of changes in equity

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Determination of lease term

Guidance under Ind AS 116

In determining a lease term, and consequently whether a lease is a short-term lease, **only the enforceable rights of the lessee** to renew or extend the lease beyond the non-cancellable period should be considered.

Clarification

Where a lease agreement entered for a period of 12 months or less and does not grant a renewal or extension option to the lessee, then such an agreement would qualify as a short-term lease. The conclusion would not change even if there is a past practice of the lease being renewed upon expiry for further one year at a time with the mutual consent of the lessee and the lessor.





Accounting treatment of rent equalisation liability

The ITFG considered a situation to evaluate manner of dealing with the rent equalisation liability appearing in the balance sheet of an entity as at 31 March 2019 depending on the transition approach followed.

Scenario I: Ind AS 116 is applied retrospectively

- For each lease, the amount of the lease liability and the related right-of-use asset as at the beginning of the preceding period (i.e. 1 April 2018) would be determined as if Ind AS 116 had always been applied.
- The difference between the right-of-use asset (together with lease equalisation liability) and lease liability would be recognised in retained earnings (or other component of equity, as appropriate).
- The comparative amounts presented in the financial statements for the year ended 31 March 2020 would be restated.



ITFG clarification bulletin 21 (cont.)



Scenario II: Ind AS 116 applied using modified retrospective approach



Assumption I: The right-of-use asset is measured as if Ind AS 116 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application (paragraph C8(b)(i) of Ind AS 116)

- The difference as at the date of initial application between the right-of-use asset (together with lease equalisation liability) and lease liability would be recognised in retained earnings (or other component of equity, as appropriate).
- Comparatives would not be restated, and a third balance sheet would not be presented at the beginning of the preceding period (i.e. 1 April 2018).



Assumption II: The right-of-use asset is measured at an amount equal to the lease liability adjusted by the amount of any prepaid accrued lease payments relating to lease recognised in the balance sheet immediately before the date of initial application (paragraph C8(b)(ii) of Ind AS 116)

- Consider rent equalisation liability as 'accrued lease payments' and the amount of right-of-use asset would be determined by deducting the said liability from the amount of lease liability.
- Comparatives would not be restated, and a third balance sheet would not be presented at the beginning of the preceding period (i.e. 1 April 2018).



Treatment of foreign exchange differences relating to lease liability

ITFG discussed an issue whether optional exemption under Ind AS 101 is available on foreign exchange relating to lease liability and clarified following:

- Exemption provided under Ind AS 101 is available only in respect of long-term foreign currency monetary items recognised in the financial statements prepared as per the previous GAAP before adopting Ind AS.
- Exemption is not available in respect of a lease liability recognised by a lessee because of application of Ind AS 116, as such a lease liability was not recognised in the financial statements prepared as per the previous GAAP.
- Ind AS 101 specifically prohibits an entity from applying the exemptions contained in Ind AS 101 by analogy to other items.

Considering above, foreign exchange differences relating to the lease liability recognised by the company as per Ind AS 116 should be charged to statement of profit and loss.



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The Taxation Laws (Amendment) Ordinance, 2019⁴



Lower tax rates from FY 2019-20



Option of tax rate of 22 per cent

- Option available to **any domestic company** subject to the condition that it will **not avail certain specified deductions/incentives**.
- Effective tax rate would be 25.17 per cent inclusive of surcharge and cess.
- Not required to pay Minimum Alternate Tax (MAT).

Option of tax rate of 15 per cent

- Applicable to **new domestic manufacturing company incorporated on or after 1 October 2019** and commences its production on or before **31 March 2023**.
- **Not allowed to avail certain specified deductions/incentive**.
- Effective tax would be 17.16 per cent inclusive of surcharge and cess.
- Not required to pay MAT.

Key considerations



MAT credits

**Non-availability of specified
deductions/incentives for
lower tax rates**

Quarterly tax provisioning

**Impact on financial
statements for financial year
2019-20**

Deferred tax impact

Advance tax computations

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Revised formats for compliance report on corporate governance⁵



On 16 July 2019, SEBI issued revised formats for compliance report on corporate governance. The modifications to the formats have been made on the basis of the recent changes made to the Listing Regulations pursuant to Kotak Committee and other amendments.

Key additions to compliance report to be submitted on a quarterly basis

Composition of board of directors



- Whether regular chairperson has been appointed
- Whether chairperson is related to MD or CEO.

Composition of committees



- Whether **regular** chairperson has been appointed
- Date of appointment and cessation of the term of the committee members.

Meetings of board of directors and committees



- Whether the requirement of quorum has been met
- Number of directors and independent directors present in the meetings

The above details are to be furnished only for the current quarter's meetings.

The revised formats have been made effective from the quarter ending 30 September 2019.

Revised formats for corporate governance (cont.)



Key additions to the compliance report to be submitted at the end of FY (for the whole of FY)

Disclosures on website



- Schedule of analyst or institutional investor meets and presentations made to analysts or institutional investors simultaneously with submission to stock exchange
- Credit rating or revision in credit rating for all its outstanding instruments
- Separate audited financial statements of each subsidiary in respect of a relevant FY
- Materiality policy
- Dividend distribution policy (if applicable).

Annual affirmations



- Disclosure of related party transactions on consolidated basis
- Compliance with norms relating to maximum number of directorships
- Declaration from independent directors
- Compliance with the number of meetings required for NRC¹, SRC² and RMC³ i.e. met at least once a year
- Requisite quorum has been maintained for the Board meetings and NRC.

¹Nomination and Remuneration Committee

²Stakeholders Relationship Committee

³Risk Management Committee

Revised formats for corporate governance (cont.)



Additions to the compliance report to be submitted at the end of six months after the end of FY

A listed entity is additionally required to affirm whether the chairperson of the SRC was present at the Annual General Meeting (AGM) to answer queries of the security holders.



Sign-off of the compliance report on corporate governance

Currently, the above reports can be signed either by the compliance officer or the CEO. In addition the compliance report may also be signed by the Chief Financial Officer (CFO) of the listed entity.

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Disclosure of cash flow statement⁶



Quarterly financial disclosures – Effective from 1 April 2019

A listed entity is required to submit, as part of stand-alone and consolidated financial results for half-year, submit statement of cash flows, by way of a note.



Q&A



Sources



1. MCA circular 9/2019 dated 21 August 2019 .
2. FAQ on presentation of dividend and dividend distribution tax issued by ICAI on 17 September 2019
3. ICAI-ITFG clarification bulletin 21 dated 17 September 2019
4. The Taxation Laws (Amendment) Ordinance, 2019 issued by the Ministry of Law and Justice dated 20 September 2019
5. SEBI circular no. SEBI/HO/CFD/CMD1/CIR/P/2019/78 dated 16 July 2019.
6. SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018 dated 9 May 2018



Glossary



- SEBI - The Securities and Exchange Board of India
- 2013 Act - The Companies Act, 2013
- AS - Accounting Standard
- GAAP - Generally Accepted Accounting Principles
- ICAI - The Institute of Chartered Accountants of India
- Ind AS - Indian Accounting Standards
- MCA - The Ministry of Corporate Affairs
- NBFCs - Non-Banking Financial Companies
- MAT - Minimum Alternate Tax
- ITFG - Ind AS Transition Facilitation Group
- DDT – Dividend Distribution Tax
- ROC – Registrar of Companies
- NCLT – National Company Law Tribunal
- FAQ – Frequently Asked Questions
- FY – Financial Year
- IT Act – The Income-tax Act, 1961
- MD – Managing Director
- CEO – Chief Executive Officer
- AGM – Annual General Meeting
- CFO – Chief Financial Officer
- NRC – Nomination and Remuneration Committee
- SRC – Stakeholders Relationship Committee
- RMC - Risk Management Committee



Links to previous recordings of VOR



Month	Topics	Link
April 2019	<ul style="list-style-type: none">• Key updates relating to the Companies Act, 2013 issued by MCA• Supreme Court ruling on applicability of Provident Fund (PF) contribution on allowances• SEBI amendments pursuant to Kotak Committee applicable from 1 April 2019• Ind AS 116, <i>Leases</i> and amendments to other Ind ASs• New/revised Standards on Auditing (SAs).	Click here
May 2019 (special session)	<ul style="list-style-type: none">• Uncertainty over income tax treatments and new standard on leases impact on life sciences sector	Click here
July 2019	<ul style="list-style-type: none">• Brief overview of Ind AS 116, <i>Leases</i> transition options and considerations• Prudential framework for resolution of stressed assets• Over of the new guidance relating to uncertainty over income tax treatments• Important Ind AS implementation issues provided in the Ind AS Technical Facilitation Group (ITFG) Bulletin 19 and 20	Click here
August 2019 (special session)	<ul style="list-style-type: none">• Prevention of insider trading and safeguarding of UPSI• Issuance of Differential Voting Rights (DVR) shares• Revised formats for compliance report on corporate governance	Click here
August 2019	<ul style="list-style-type: none">• Ind AS 116, <i>Leases</i> - - Impact on the technology sector	Click here

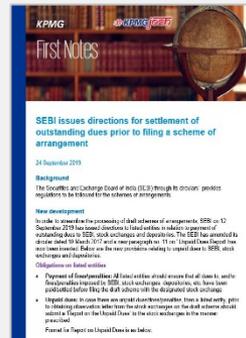
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Our publications

Accounting and Auditing Update



First Notes



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New issue of:

- Accounting and Auditing Update
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Thank you

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