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Voices on Reporting

3 April 2020

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Welcome



01

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 webinar

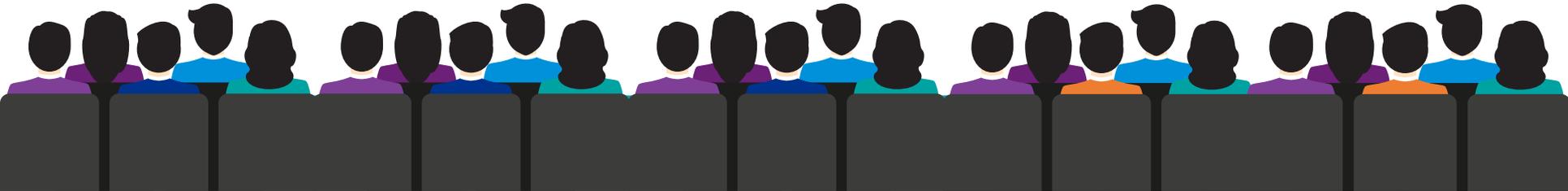


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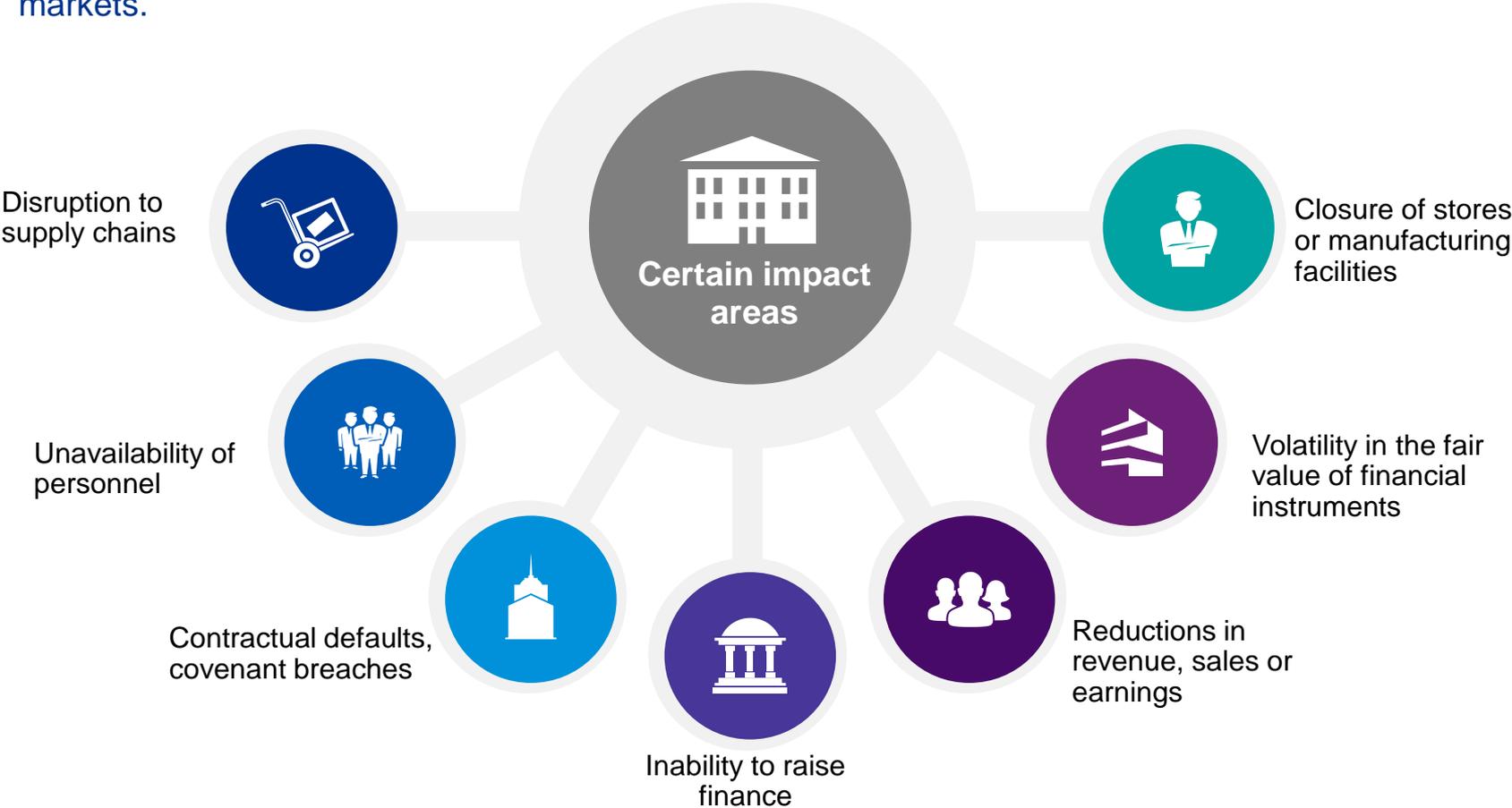
COVID-19: Potential financial reporting impacts



COVID-19: Business implications



The COVID-19 outbreak presents an alarming health crisis that the world is grappling with. This has led to a significant impact on the economies of various countries and international financial markets.



Key accounting considerations



Revenue

- Assess contract enforceability for new and existing contracts including renegotiation/ modification
- Consider if actions taken to respond to outbreak result in variable consideration e.g. incentives, discounts offered to customers
- Assess the impact of non-performance e.g. penalties, reduction in transaction price, force majeure claim, onerous provision
- Consider the impact of changes in market prices or expected costs on estimates while allocating the transaction price for new contracts
- Consider impairment of capitalised contract cost.



Valuation of inventory

- Consider the impact on Net Realisable Value (NRV) due to reduction in demand or supply chain disruptions
- Unallocated fixed overheads (abnormal loss) to be recognised in statement of profit and loss
- Assess whether additional costs incurred due to disruptions and delays can be capitalised or expensed as incurred.



Impairment of non-financial assets and goodwill

- Consider whether the impact of COVID-19 is an indicator of impairment
- Forecasts or budgets for future cash flows should be updated to reflect the impact of outbreak
- Determine the appropriateness of the discount rate used
- Require additional focus and attention while testing of impairment of goodwill and indefinite useful life of intangible assets as at reporting date.



Key accounting considerations (cont.)



Expected Credit Loss (ECL)

- ECL provisions expected to increase - consider the impact of COVID-19 appropriately while recognising ECLs e.g. recoverability of trade receivables
- Challenge to incorporate into measurement of ECLs the forward-looking information relating to the economic impact of COVID-19 that is available without undue cost or effort at the reporting date
- Consider portfolio segmentation.



Fair value measurement

- Consider whether valuation:
 - Reflects market participants' assumptions based on information available and market conditions at the measurement date; and
 - Incorporates the risk premiums that would arise from increased uncertainty
- Consider whether unobservable inputs have become significant, which would result in a Level 3 categorisation and require additional disclosures
- Consider expanding disclosures about the key assumptions, sensitivities and major sources of estimation uncertainty.



Hedge accounting

- Assess whether effectiveness of any hedges been impacted e.g. whether forecast transactions are still expected to occur
- Assess whether a contract still meets the own use exemption.



Key accounting considerations (cont.)



Onerous contracts and provisions

- Existing purchase or sale contracts may become loss-making
- Delay in fulfilment of contractual obligations may also result in penalties to be provided for
- Update projections for the onerous contracts test
- Consider provision required for restructuring costs, if the specified criteria are met.



Leases

- Consider the impact on lease term
- Consider rent concession or revised terms should be accounted as variable lease payments or lease modifications
- Lessor should consider for impairment due to decrease in demand for assets or steep decline in rentals
- Impairment consideration of Right-of-use asset for lessee.



Going concern

- Consider whether the current events cast significant impact on the company's ability to continue as a going concern specifically whether the entity still has sufficient liquidity to continue to meet its obligations as they fall due
- Consider plans to manage costs, strategy to manage funding requirement, different scenarios and its impact on cashflows while making aforesaid assessment
- Consider all relevant information available up to the date the financial statements are approved for issue.





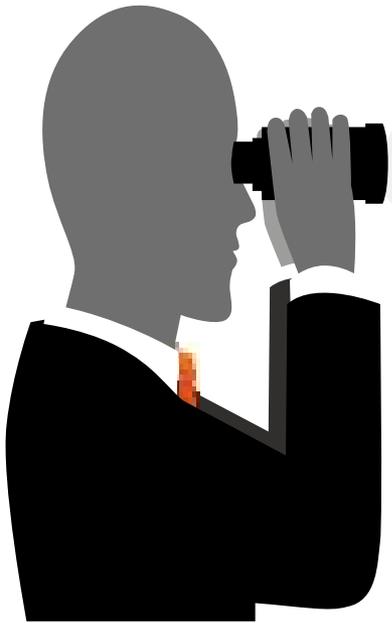
Internal controls over financial reporting

- Evaluate the effect on internal control over financial reporting, if any. For instance, new controls or modification in controls would be required where companies have enhanced/modified IT access to enable remote workforces.

Disclosure and presentation in financial statements

Consider following while preparing financial statements:

- Uncertainty surrounding estimates and judgements
- Impact on company's capital, financial resources and ability to meet debt covenants (credit and liquidity risk)
- Impairment disclosures along with ECL and restructuring costs.



Impact of COVID-19 on audit of financial statements



Impact in conducting audits



Potential impact on audit, an auditor's report, completion of the last quarter's results and annual financial reporting process

Barriers to obtaining the information

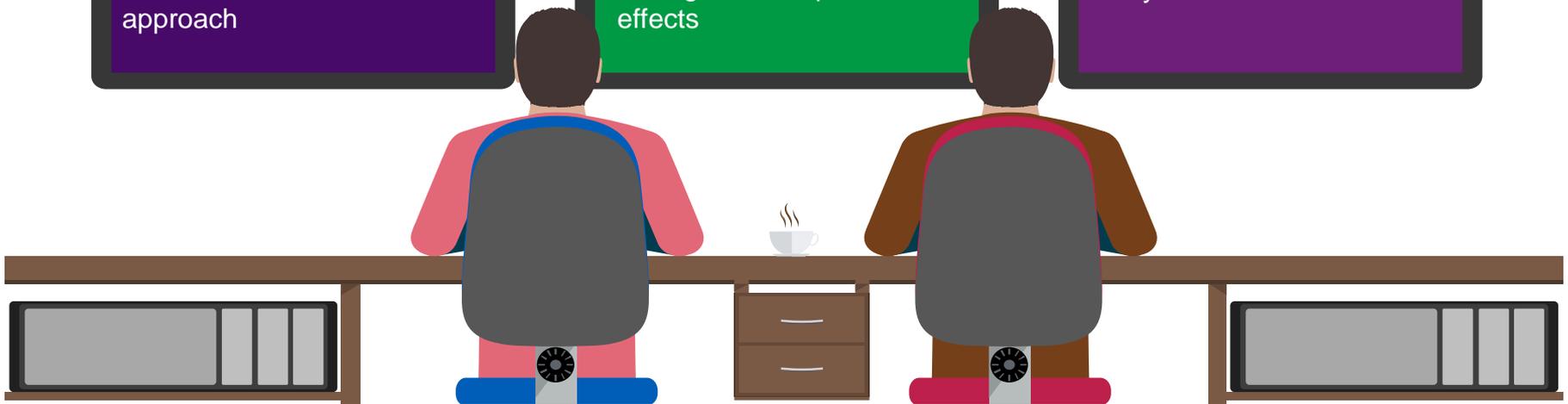
Internal controls over financial reporting process may have been modified/ potentially rendered ineffective

Difficulties in accessing client premises/management and others

Audit procedures not providing anticipated audit evidence may require modifications to audit approach

Additional audit work to respond to risk of material misstatement arising from the potential effects

Significant challenges in completion of audit by component auditors on a timely basis



Possible implications for audit report



Reporting of a new Key Audit Matter (KAM) in response to additional audit work necessary as a result of the outbreak



Additional paragraph on material uncertainty in relation to going concern, where relevant



Potential implications in the auditor's report

An emphasis of matter paragraph relating to a significant uncertainty arising from the outbreak



A qualification or an adverse opinion as a result of scope limitation due to inability to obtain sufficient appropriate evidence or inadequate disclosures in the financial statements



"What we are telling our teams"



Maintain close communications with board of directors, auditors, legal counsel and other service providers



Discuss with the board and the audit committee the potential financial impacts and risk assessment



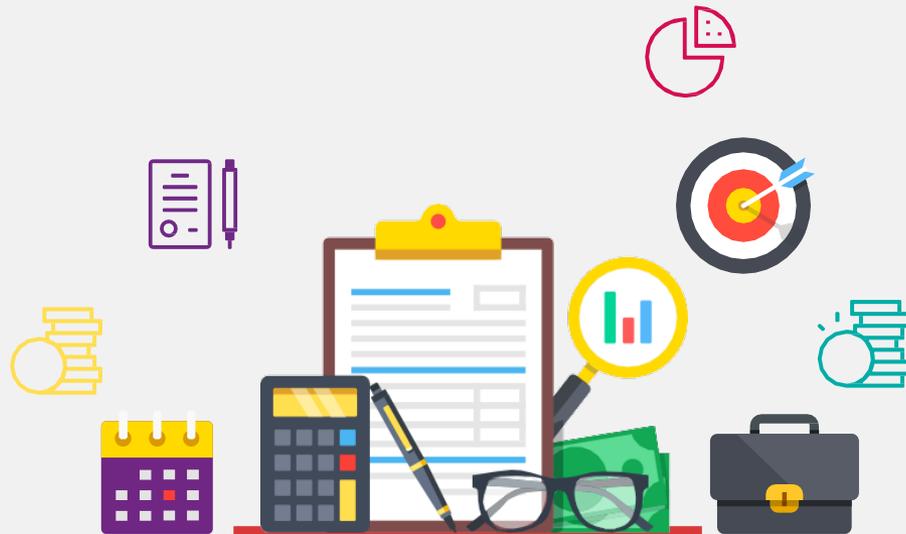
Provide adequate disclosures in year-end financial statements on current and potential impacts



Assess impact on audit, completion of the last quarter's results and annual financial reporting process



Relaxations amid COVID-19



Relaxations amid COVID-19



Recently, the Securities and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs (MCA) have granted relaxations to companies from certain provisions of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 (Listing Regulations) and the Companies Act, 2013 (2013 Act), in order to address the concerns relating to the outbreak of COVID-19.

1

Extension of timeline of various filings with the stock exchange(s)



2

Revised board and audit committee meeting norms



3

Eligibility of CSR funds for COVID-19



4

Other relaxations



Extension of timelines of filing of financial results for listed entities



| Regulation | Existing timeline for quarter/half year/ year ended 31 March 2020 | Revised timeline for quarter/ half-year/year ended 31 March 2020 |
|---|---|--|
| Listed entities with specified securities (i.e. equity shares and convertible shares) | | |
| <p>Regulation 33: Filing of financial results in the following manner:</p> <ul style="list-style-type: none"> <i>Quarterly results other than last quarter:</i> Within 45 days from the end of each quarter <i>Annual results with last quarter results:</i> Within 60 days from the end of FY | <p>15 May 2020</p> <p>30 May 2020</p> | <p>30 June 2020</p> <p>30 June 2020</p> |
| Listed entities with Non-Convertible Debentures (NCDs), Non-Convertible Redeemable Preference Shares (NCRPS) and Commercial Papers (CPs) | | |
| <p>Regulation 52: Filing of financial results in the following manner:</p> <ul style="list-style-type: none"> <i>Half-yearly results:</i> Within 45 days from the end of the half-year <i>Annual results:</i> Within 60 days from the end of FY. | <p>15 May 2020</p> <p>30 May 2020</p> | <p>30 June 2020</p> <p>30 June 2020</p> |



Revised board/audit committee meeting norms



Exemption from timeline

- The BoD and audit committee of listed companies have been exempted from observing the maximum stipulated time gap of 120 days for the meetings held or proposed to be held between the period 1 December 2019 and 30 June 2020
- Maximum time gap between two board meetings of companies have been extended to 180 days up to 30 September 2020 instead of 120 days .



Physical presence not mandatory

- Meetings proposed to be held to discuss the matters specified in Rule 4 of the Companies (Meetings of Board and its Powers) Rules, 2014 (i.e. those relating to approval of financial statements, board's report, prospectus, etc.) can be held through video conferencing or other audio-visual means. for the periods commencing from 19 March 2020 and ending on 30 June 2020.



Meeting of independent directors

- In case the independent directors have not been able to hold even one meeting in a financial year (without the attendance of non-independent directors and members of management), then it will not be considered as a violation under the provisions of the 2013 Act
- Independent directors may share their views amongst themselves through telephone, e-mail or any other mode of communication, if they deem it to be necessary.



Eligibility of CSR funds for COVID-19



Requirement

- The 2013 Act mandates that every company with a net worth of INR500 crore or more, turnover of INR1,000 crore or more or a net profit of INR5 crore or more during the immediately preceding FY should contribute at least two per cent of its average net profits (made during the three immediately preceding FYs) for the purpose of Corporate Social Responsibility (CSR)
- Schedule VII of the 2013 Act provides a list of activities which are eligible for the CSR expenditure and can be included by companies in their CSR activities.



Relaxation

- Companies can now spend the funds earmarked for CSR for various activities related to COVID-19 as specified under Schedule VII of the 2013 Act i.e. those relating to promotion of healthcare, including preventive healthcare and sanitation and disaster management
- Contribution to PM-CARES qualifies as eligible CSR activity under Schedule VII of the 2013 Act.

Annexures



Other relaxations - Annexure I



Certain other special measures considered by MCA to address the impact of COVID-19 are as follows:

- No additional fee would be charged for late filing in respect of any document, return, statement, etc. required to be filed in the MCA-21 registry during a moratorium period from 1 April 2020 to 30 September 2020, irrespective of its due date
- The applicability of Companies (Auditor's Report) Order, 2020 (CARO 2020) deferred from FY2019-2020 to FY2020-21
- Requirement to create deposit repayment reserve amounting to 20 per cent of deposits maturing during the FY2020-21 before 30 April 2020 has been extended up to 30 June 2020
- Requirement to invest or deposit at least 15 per cent of the amount of debentures maturing during the year by 30 April 2020 has been extended up to 30 June 2020
- For the FY 2019-20, the company have been exempted to ensure compliance with the requirement of having at least one director who stays in India for a total period of not less than 182 days during the FY under Section 149(3) of the 2013 Act
- Newly incorporated companies have been granted an additional period of 180 days to file a declaration for commencement of business from initial 180 days of incorporation under Section 10A of the 2013 Act.



Other relaxations - Annexure II



SEBI has extended the timeline for various filings to be made by the listed companies to the recognised stock exchange(s) for the quarter, half-year and year ended 31 March 2020. The revised timelines are as follows:

| Regulation | Existing timeline for quarter/half year/ year ended 31 March 2020 | Revised timeline for quarter/half-year/year ended 31 March 2020 |
|---|---|---|
| Nomination and Remuneration Committee (NRC) to meet at least once in a year (Regulation 19(3A)) Stakeholders Relationship Committee (SRC) to meet at least once in a year (Regulation 20(3A)) Risk Management Committee (RMC) to meet at least once in a year (Regulation 21(3A)) | 31 March 2020 | 30 June 2020 |
| Filing of an annual secretarial compliance report within 60 days of the end of FY (Regulation 24A) | 30 May 2020 | 30 June 2020 |
| Filing of a compliance report on corporate governance within 15 days from the end of each quarter (Regulation 27(2)) | 15 April 2020 | 15 May 2020 |
| Filing of a statement showing holding of securities and shareholding pattern for each class of securities within 21 days from the end of each quarter (Regulation 31) | 21 April 2020 | 15 May 2020 |



Other relaxations - Annexure II



Relaxations from other filings to stock exchange (cont.)

| Regulation | Existing timeline for quarter/half year/ year ended 31 March 2020 | Revised timeline for quarter/half-year/year ended 31 March 2020 |
|---|---|---|
| Certificate from a practicing company secretary within one month of the end of each half of the FY on timely issue of share certificates (Regulation 40(9)) | 30 April 2020 | 31 May 2020 |
| Top 100 listed companies to hold an Annual General Meeting (AGM) within five months from the date of closing of the financial year. (Regulation 44(5)) | 31 August 2020 | 30 September 2020 |
| Publication of advertisements in newspapers including financial results and notice of board meeting to discuss the financial results. (Regulation 47) | To be published along with submission of information to the stock exchange(s) except financial results. | Publication of advertisements of all events scheduled till 15 May 2020 is exempt. |





Joint statement issued by the Financial Conduct Authority (FCA), Financial Reporting Council (FRC) and Prudential Regulation Authority (PRA)

- Extended timelines of publication of audited annual financial reports for listed companies by two months
- Issued guidance for companies to provide assistance in preparing financial statements
- Issued guidance for auditors intended to provide practical help to conduct audit under current circumstances.



Covid-19: IFRS 9, capital requirements and loan covenants issued by PRA - Bank of England

The statements highlight guidance in three areas:

- Consistent and robust IFRS 9, *Financial Instruments* accounting and the regulatory definition of default
- Treatment of borrowers who breach covenants due to COVID-19 and
- Regulatory capital treatment of IFRS 9.



ESMA (European Securities and Markets Authority) issues guidance on accounting implications of COVID-19

- The statement highlights guidance on some accounting implications of the economic support and relief measures adopted by the EU member states in response to the outbreak.
- The measures include moratoria on repayment of loans and have an impact on the calculation of ECL in accordance with IFRS 9.



The International Financial Reporting Standards (IFRS) board issued statement - IFRS 9 and COVID-19

The statement discusses the accounting for expected credit losses applying IFRS 9 in the light of current uncertainty resulting from the COVID-19 pandemic.



US Securities and Exchange Commission (SEC) provides coronavirus-related disclosure guidance

The guidance assists companies with disclosure obligations as the effects of COVID-19 evolve. It highlights guidance in following areas:

- Assessing and disclosing the evolving impact of COVID-19
- Need to refrain from trading prior to disseminating material non-public information
- Reporting earnings and financial results.



SEC modified orders that extend filing deadlines for companies affected by coronavirus

- Extends filing deadlines for required filings under the Exchange Act to 45 days after the original due date.



Q&A



Links to previous recordings of VOR



| Month | Topics | Link |
|--|---|----------------------------|
| August 2019 | <ul style="list-style-type: none">• Ind AS 116, <i>Leases</i> - Impact on the technology sector | Click here |
| October 2019 | <ul style="list-style-type: none">• Clarification on 'appointed date' and 'acquisition date' in a scheme of arrangement issued by the Ministry of Corporate Affairs (MCA)• Important Ind AS implementation issues provided in the Ind AS Technical Facilitation Group (ITFG) clarifications bulletin 21• Accounting impact of the recent tax reductions for domestic companies in India• SEBI revised formats for compliance report on corporate governance• Other regulatory updates | Click here |
| November 2019 (Special session) | <ul style="list-style-type: none">• Focus on technology sector- Impact of recent tax amendments and certain challenge | Click here |
| January 2020 | <ul style="list-style-type: none">• The Taxation Laws (Amendment) Act, 2019• Ind AS Transition Facilitation Group (ITFG) clarifications - Bulletin 22• Updates relating to SEBI regulations• Updates relating to the Companies Act, 2013 | Click here |
| February 2020 (Special session) | <ul style="list-style-type: none">• Significant challenges for technology sector in relation to business combination | Click here |

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Our publications

Accounting and Auditing Update



First Notes



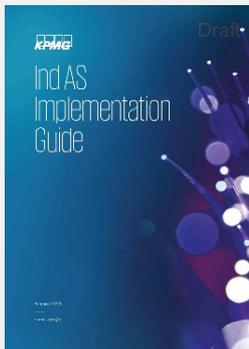
Coming up next

New issue of:

- Accounting and Auditing Update
- First Notes
- Voices on Reporting - publication

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Ind AS Implementation Guide





Thank you

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