Voices on Reporting

Quarterly updates

January 2016

Contents

Key accounting, auditing and regulatory updates for the quarter ending 31 December 2015

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

In our call on 16 December 2015, we covered updates relating to accounting, financial reporting and regulatory matters that are expected to be relevant for the quarter ending 31 December 2015.

In this document, we have summarised key updates and matters relating to various notifications from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI) and the Institute of Chartered Accountants of India (ICAI), as discussed on the call.

Timelines for Ind AS road map, IFC and ICDS

1

Ind AS implementation is now just three months away

- **16 February 2015** Road map for companies
- **29 September 2015** RBI recommended a road map for banks and NBFCs
- **20 October 2015** RBI issued a report on implementation
- **17 November 2015** IRDA recommended a road map for insurance companies
- **7 December 2015** IRDA issued a DP on convergence
- **1 April 2016** Effective date of Ind AS for companies (Phase I)
- **1 April 2017** Effective date of Ind AS for companies (Phase II)

Source: KPMG in India; Voices on Reporting slide deck dated 16 December 2015

1. **Ind AS implementation for companies other than insurance, banking and NBFC:** On16 February 2015, MCA issued the Companies (Indian Accounting Standards) Rules, 2015 (Rules) which laid down a road map for companies other than insurance companies, banking companies and Non-Banking Financial Companies (NBFC) for implementation of Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS). The MCA also notified 39 Ind AS standards together with the implementation road map. The notification of these IFRS converged standards is expected to fill up significant gaps that exist in the current accounting guidance. There are certain carve outs under Ind AS in comparison to IFRS. Table below provides a snapshot of companies covered in the Ind AS implementation road map.

(Source: MCA notification dated 16 February 2015 and KPMG in India's IFRS Notes: IFRS Convergence – a reality now! MCA notifies Ind AS standards and implementation road map dated 23 February 2015).

Current requirements	Phase I	Phase II	Voluntary adoption
Year of adoption	FY 2016 - 17	FY 2017 - 18	FY 2015 - 16 or thereafter
Comparative year	FY 2015 - 16	FY 2016 - 17	FY 2014 - 15 or thereafter
Covered companies			
(a) Listed companies	All companies with net worth >= INR500 crore	All companies listed or in the process of being listed	Any company could voluntarily adopt Ind AS
(b) Unlisted companies	All companies with net worth >= INR500 crore	Companies having a net worth >= INR250 crore	
(c) Group companies	Applicable to holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above. This may also impact fellow subsidiary companies while preparing consolidated financial statements of the holding company.		

Source: KPMG in India's IFRS Notes: IFRS Convergence – a reality now! MCA notifies Ind AS standards and implementation road map dated 23 February 2015.

2. RBI recommends road map for implementation of Ind AS for banks and NBFCs: On 29 September 2015, RBI through its Fourth Bi-monthly Monetary Policy Statement, 2015-16 informed its stakeholders that it has recommended to the MCA a road map for the implementation of Ind AS for banks and NBFCs from 2018-19 onwards. The RBI constituted a working group (under the chairmanship of Shri Sudarshan Sen) for the same.

On 21 October 2015, RBI issued a report of the working group which portrays the potential issues with respect to the implementation of Ind AS (Ind AS 109, *Financial Instruments* in particular) by banks in India along with its recommendations to ease out the implementation process.

The working group adopted a consultative approach and outreach meetings were held with bankers to understand their issues and apprehensions with regard to Ind AS, especially in the context of the current accounting practices. The group also reviewed several extant RBI instructions and guidelines as well as the Ind AS notified by the MCA to identify potential issues in relation to Ind AS implementation.

Accordingly, the working group structured its recommendations into the following key areas with a focus on financial instruments:

- Classification and measurement of financial assets
- Classification and measurement of financial liabilities
- Hedge accounting and derivatives
- Fair value measurement
- Impairment of financial assets
- Presentation of financial statements and disclosure
- Derecognition, consolidation and other residuary issues.

The working group also devised formats for financial statements of banks under Ind AS and application guidance thereon which are comprised in Annexures I to VIII of the circular.

(Source: Press release dated 29 September 2015 and 20 October 2015 by the RBI, KPMG's IFRS Notes: RBI recommends a road map for implementation of Ind AS for banks and NBFCs dated 30 September 2015 and RBI issues a report of the working group on the implementation of Ind AS by banks dated 26 October 2015)

3. IRDA provides an update on implementation of Ind AS in the insurance sector and issues a discussion paper on convergence to Ind AS: The Insurance Regulatory and Development Authority of India (IRDA) through its order dated 17 November 2015 stated that the insurance sector in India would be converging with IFRS after the issuance of the revised standard on insurance contracts i.e. IFRS 4, *Insurance Contracts* by the International Accounting Standards Board (IASB). Currently, IFRS 4 is being deliberated by the IASB and a final standard is expected to be issued in 2016. The IASB expects to allow an implementation period of approximately three years after the publication of the new insurance contracts standard. For entities whose predominant activity is issuing contracts within the scope of IFRS 4, IASB is evaluating a proposal to allow an optional temporary exemption from applying IFRS 9, *Financial Instruments* (effective date 1 January 2018). In order to prepare the Indian insurance sector towards convergence with Ind AS, IRDA has constituted an implementation group to lay down the road map for convergence.

The IRDA on 7 December 2015 issued a Discussion Paper (DP) on the convergence to Ind AS in the insurance sector. The Standing Committee on Accounting Issues (SCAI) of the IRDA has recommended a draft of the regulations on financial statements and auditors' report which are compliant to Ind AS. The DP is open for comments.

Key highlights of the draft are as follows:

- It explains the applicability of the Ind AS issued under the Companies (Indian Accounting Standards) Rules 2015 to the 'life insurance business' as well as provides certain exceptions
- It explains the applicability of the Ind AS issued under the Companies (Indian Accounting Standards) Rules 2015 to 'other than life insurance business' and provides certain exceptions
- It allows revaluation of investment property acquired from policyholders funds only
- It requires enhanced disclosures
- It extends the applicability of the Regulations on branch offices of foreign reinsurers
- It requires presentation of the 'preference share capital' under the Schedule 'Borrowings'.

The date of applicability of these recommendations along with any other recommendations of the implementation group on Ind AS would be notified in due course of time.

(Source: Order no. IRDA/F&A/ORD/ACTS/201/11/2015 dated 17 November 2015; Discussion paper dated 7 December 2015 issued by the IRDA and KPMG in India's IFRS Notes: The IRDA provides an update on implementation of Ind AS in the insurance sector dated 20 November 2015 and IRDA issues a discussion paper on convergence to Ind AS in the insurance sector dated 14 December 2015)

Key takeaways

- Transition to Ind AS is just three months away. Ind AS is expected to bring in several changes when compared to the current Indian GAAP, and many of these would have a significant impact on presentation of financial statements, reported earnings, and net worth. These changes would be manageable, with adequate planning.

Reporting on IFC- countdown begins

The Companies Act, 2013 (2013 Act) has set the tone for enhanced corporate governance. A significant step towards this was the extension of the financial reporting to include reporting over Internal Financial Controls (IFC), which includes consideration of efficient conduct of business, compliance with applicable regulations and reliable financial information.

For financial year beginning on or after 1 April 2014, section 134(5) of the 2013 Act requires the director's responsibility statement to state that the directors, in the case of listed company, have laid down internal financial controls to be followed by the company and that such IFC are adequate and were operating effectively. Further, Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 requires the board of director's report (board's report) of all companies to state in detail the adequacy of IFC with reference to the financial statements.

Section 143(3)(i) of the 2013 Act requires the auditor's report to have a specific assertion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls for the year beginning on or after 1 April 2015. The said requirement is applicable to all companies under the 2013 Act.

The ICAI on 14 September 2015 issued a revised guidance note (GN) on audit of IFC over financial reporting. The GN covers aspects such as scope of reporting on internal financial controls under the 2013 Act, essential components of internal controls, technical guidance on audit of IFC, implementation guidance on audit of IFC. The GN also provides guidance on the reporting responsibility of the management, criteria to be considered for developing, establishing and reporting on IFC, reporting by auditors, how to audit IFC, IFC reporting on consolidated financial statements, etc.

(Source: GN of the ICAI dated 14 September 2015 and KPMG in India First Notes: ICAI releases revised guidance on Internal Financial Controls Over Financial Reporting dated 16 September 2015)

Key takeaways

- Companies should evaluate their present components of internal controls and ensure that they are alligned with the framework.
- The implementation of GN would entail setting up robust governance framework including consideration of outsourced processes, assessment of key risks, detailed documentation of risks and mitigating controls, strong information technology (IT) systems, periodic reviews, etc.

Update on ICDS implementation

On 31 March 2015, the Ministry of Finance (MOF) issued 10 Income Computation and Disclosure Standards (ICDS), operationalising a new framework for the computation of taxable income. All assessees are required to adopt these standards for the purposes of computation of taxable income under the heads 'Profits and gains of business or profession' or 'Income from other sources'. The Central Board of Direct Taxes (CBDT) notified these standards under Section 145(2) of the Income-tax Act, 1961 (IT Act) vide 'Notification No. 33/2015 dated 31 March 2015. The following is the list of the ICDS notified by the CBDT:

1. ICDS I relating to accounting policies
2. ICDS II relating to valuation of inventories
3. ICS III relating to construction contracts
4. ICDS IV relating to revenue recognition
5. ICDS V relating to tangible fixed assets
6. ICDS VI relating to the effects of changes in foreign exchange rates
7. ICDS VII relating to government grants
8. ICDS VIII relating to securities
9. ICDS IX relating to borrowing costs
10. ICDS X relating to provisions, contingent liabilities and contingent assets.

These standards are applicable for the previous year commencing from 1 April 2015, i.e. Assessment Year 2016-17 onwards. There are significant divergences from the present accounting standards issued by ICAI/MCA; divergences become more pronounced as compared to Ind AS.

Post the notification of the ICDS, it has been brought to the notice of the CBDT by many stakeholders that further clarifications and guidance is required on certain provisions for its proper implementation. Therefore, the CBDT has raised these issues to an expert group comprising departmental officers and professionals. The committee is currently examining these issues.

In order to issue a thorough guidance/clarification on the implementation issues, the CBDT has requested the stakeholders as well as the general public to share the issues and challenges they face while implementing the ICDS. The period for inviting these suggestions/ comments closed on 15 December 2015.

(Source: CBDT Press release dated 26 November 2015 and KPMG FIRST Notes: The CBDT requests for comments on the issues/ challenges for proper implementation of the ICDS dated 27 November 2015)

Updates on SEBI regulations

2

SEBI provides relaxation to listed entities for filing financial results under IFRS

Background

The SEBI on 2 September 2015 notified the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations). As per Regulation 33(1)(c) of the Listing Regulations, standalone financial results and consolidated financial results should be prepared as per the Generally Accepted Accounting Principles (GAAP) in India by the listed entity. Additionally, the listed entity may also submit the financial results, as per the IFRS issued by the IASB. As a result of this, the option to publish consolidated financial results as per IFRS was withdrawn. The Listing Regulations are applicable from 1 December 2015.

New development

Many representations were made by the stakeholders highlighting the issues arising from the implementation of the aforesaid regulation. Accordingly, SEBI, through its letter dated 6 November 2015 has provided following relaxation to the listed entities:

- The financial results for the quarters ending 31 December 2015 and 31 March 2016 and year ending 31 March 2016 may be filed under IFRS by listed entities which had exercised the option of preparing consolidated financial statements under IFRS for the first quarter of FY 2015-16, as per the dates specified in the Listing Regulations.
- The relaxation granted is without any prejudice to the requirements of the 2013 Act with respect to reporting of financial statements.

(Source: SEBI notice no. CFD/CMD/HB/MT/ 31333/2015 released on ICAI site and KPMG FIRST Notes: SEBI provides relaxation to listed entities for filing financial results under IFRS dated 1 December 2015)

Key takeaway

- It is a welcome step by SEBI for providing relaxation to listed companies which had exercised the option of preparing consolidated financial statements under IFRS for the first quarter of FY 2015-16.

Disclosures under Listing Regulations rationalised

The SEBI through its circular dated 30 November 2015 has prescribed the following formats for listed entities for publishing their financial results which are largely similar to the requirements of the earlier Listing Agreement:

- Formats for presenting the quarterly financial results including segment reporting by:
  - Companies other than bank
  - Banks.
- Half-yearly statement of assets and liabilities
- Format for limited review report and audit report.

However, information regarding 'public shareholding' and 'promoter and promoter group shareholding' is no longer required to be included as part of the financial results. Also, investor complaints pending at beginning and end of the quarter including the movement to be disclosed to the stock exchange separately from the results.

Additionally, some of the revised disclosure requirements as per the new circular are as follows:

- <u>Format of financial results to be published in the newspapers</u>: The SEBI has modified the format for publishing financial results (standalone/consolidated) in the newspaper. As per the earlier Listing Agreement, listed entities were required to publish a copy of the financial results in newspaper which were submitted to the stock exchange. The new format requires disclosures of some key parameters such as total income, net profit, reserves, profit before tax, profit after tax, earning per share, equity share capital, etc., to be published in the newspaper and a reference needs to be made to the financial results being available on the website of the stock exchange.
- <u>Comparatives under Ind AS</u>: The prescribed classes of companies which are adopting Ind AS would publish quarterly/annual financial results under Regulation 33 of the Listing Regulations, 2015, would ensure that the comparatives filed along with such quarterly/annual financial results are also Ind AS compliant. Further, a company which presents quarterly financial results in accordance with Ind AS 34, *Interim Financial Reporting* for the period covered by its first

Ind AS financial statement should comply with the requirements of paragraph 32 of Ind AS 101, *First time Adoption of Indian Accounting Standards*.

(Source: SEBI circular CIR/CFD/CMD/15/2015 dated 30 November 2015)

Financial Results under new Listing Regulations – Debt and preference shares

The SEBI through its circular dated 27 November 2015 prescribed the format for financial results for listed entities which have listed their debt securities and/ or non-cumulative redeemable preference shares. The Listed Regulations specifies the requirement to submit results on a half yearly basis for both (debt and preference shares).

In case of debt securities detailed information relevant for lenders e.g., credit rating, asset cover, debt service coverage ratio, debenture redemption reserve, debt equity ratio, etc. are required to be given in the half yearly/annual results.

In the case of listed non-convertible redeemable preference shares, apart from information for lenders (as mentioned above), further information relevant for holders/investors are also required e.g. capital redemption reserve, track record of dividends, free reserves, etc.

(Source: SEBI circular no. CIR/IMD/DF1/9/2015 dated 27 November 2015

Scheme of arrangement by listed entities and relaxation under Rule 19(7) of the Securities Contracts (Regulation) Rules, 1957 (SCRR)

Current requirements under Rule 19(7) of SCRR

Rule 19 of the SCRR deals with requirements with respect to the listing of securities on a recognised stock exchange. Rule 19(7) of the SCRR relates to relaxation from any or all the requirements of Rule 19 given by SEBI on its own or through recommendations of a recognised stock exchange. Further, SEBI issued two circulars dated 4 February 2013 and 21 May 2013 (erstwhile circulars) applicable to listed entities desirous of getting their equity shares listed after merger/de-merger/amalgamation, etc. seeking exemption from SEBI from certain requirements under Rule 19(7) of the SCRR.

New requirements

Regulations 11, 37 and 94 of the Listing Regulations place obligations with respect to scheme of arrangement on listed entities and stock exchanges. The requirements under these regulations are largely similar to the erstwhile circulars. However, there are certain additional requirements which are as follows:

- All valuation reports to be considered by Audit Committee before finalising its report recommending scheme
- No time limit has been fixed for giving 'no objection letter/objection' by the stock exchanges to SEBI (earlier it was within 30 days from the date of application)

The circular is applicable from 1 December 2015 Schemes submitted to stock exchanges upto 30 November 2015 will be governed by the requirements of the erstwhile circulars.

(Source: SEBI Circular CIR/CFD/CMD/16/2015 dated 30 November 2015)

Penal provisions for non-compliance with certain provisions of the Listing Regulations and SOP for suspension/ evocation of trading of specified securities

The SEBI has issued directions to stock exchanges to monitor compliance by listed entities with the provisions of the Listing Regulations. The new circular of SEBI dated 30 November 2015 states that recognised stock exchanges should use imposition of fines as action of first resort in case of non-compliance with the provisions of the Listing Regulations and invoke suspension of trading in case of subsequent and consecutive defaults. Following procedure has been prescribed in order to maintain consistency and uniformity of approach:

- Uniform structure to implement 'fines'.
- Depositories may freeze/unfreeze the entire shareholding of the promoter and promoter group on receipt of intimation.
- Two or more consecutive defaults of the prescribed provisions of the Listing Regulations, the scrip of the listed entities could move to 'Z' category wherein trades should take place on 'Trade for Trade' basis.
- Specific SOP for suspension of trading and revocation of suspension of trading laid down for stock exchange.

(Source: SEBI Circular CIR/CFD/CMD/12/2015 dated 30 November 2015)

Key takeaway

- Companies should carefully consider the following:
  - New disclosures under the Listing Regulations
  - Schemes of arrangement that are being finalised
  - Penal provisions in the Listing Regulations.

SEBI DP on review of framework for public issuance of convertible securities

Consequent to discussion on proposal for revival of public issuance of convertible securities in its board meeting SEBI issued a DP to seek comments and suggestions. Highlights of the matters on which comments are sought by SEBI are given in the table below:

Current requirements	Proposals
No specific provision for tenure except for financing of group companies.	Tenure of five years.
No specific mention about convertible securities regarding selling shares to public.	Explicitly permit the existing holders of convertible securities as well to sell their securities to public.
An issuance can be made on a fixed price basis or through the book building route. Conversion price may either be pre-fixed at the time of issue or linked to market price at the time of conversion.	Disclosure should be made upfront in the offer document.

The SEBI also seeks suggestions relating to public issuance of optionally convertible securities by a listed entity and public issuance of compulsorily convertible securities by an unlisted entity. Time period for receiving comments by SEBI closed on 23 December 2015.

(Source: SEBI Board meeting dated 30 November 2015, SEBI Discussion Paper on 'Review of framework for public issuance of Convertible Securities' dated 1 December 2015)

SEBI DP on exit offer to dissenting shareholders

Background

The 2013 Act requires that dissenting shareholders should be given an exit opportunity by promoters and shareholders having control over the company in accordance with the regulations to be specified by SEBI.

SEBI's proposal

In order to frame a policy with respect to the above, SEBI issued a DP which proposes that every company should provide an option to shareholders to exit as required by 2013 Act. Some other issues for discussion are as follows:

- Applicability of the provision
- Eligibility of shareholder for availing the exit offer
- Offer price for the exit offer
- Carve outs for companies with no identifiable promoters or shareholders having control
- Exit offer in cases where a high percentage of amount raised for the issue has already been utilised
- Exemption from mandatory trigger of open offer requirements
- Manner of providing exit opportunity to dissenting shareholders
- Time period for receiving comments by SEBI closed on 23 December 2015.

(Source: SEBI Board meeting dated 30 November 2015 and SEBI Discussion Paper on "Exit Offer to Dissenting Shareholders" dated 1 December 2015)

SEBI issues Frequently Asked Questions (FAQs) on SEBI (Share Based Employee Benefits) Regulations, 2014

The SEBI through its FAQs dated 20 November 2015 clarified the following:

- Grant of ESOP to independent directors: It clarifies that the restriction on grant of ESOPs to independent directors in terms of the provisions of the SEBI (Share Based Employee Benefits) Regulations, 2014 and the 2013 Act applies only on fresh grants of ESOPs after commencement of the aforesaid provisions. Any grant already made prior to commencement of these provisions would remain valid i.e. an independent director can exercise such ESOPs, subject to fulfillment of terms and conditions of the ESOP schemes framed by the companies in terms of the relevant regulations.
- Classification of un-appropriated inventory of shares: Currently, proviso to Regulation 3(12) of the SEBI (Share Based Employee Benefits) Regulations, 2014 provides that the un-appropriated inventory of shares which is not backed by grants but has been acquired through secondary acquisition by the trust has to be sold on the recognised stock exchange within a period of five years from the date of notification of these regulations. It was not clear that for purpose of classifying the inventory as un-appropriated whether the appropriation made to the scheme could be considered as compliance of the SEBI requirements.

  Therefore, SEBI has clarified that appropriation towards ESPS/ESOP/SAR/General Employee Benefits Scheme/Retirement Benefit Schemes by 27 October 2015 would be considered as compliance with proviso to regulation 3(12). A company may appropriate towards individual employees or sell in the market during next four years so that no un-appropriated inventory remains thereafter.

(Source: SEBI notification dated 28 October 2014 and SEBI FAQ dated 20 November 2015)

Updates on accounting and financial reporting

3

The ICAI issues exposure draft of draft guidance note on important issues relating to Schedule II to the Companies Act, 2013

Background

The 2013 Act requires companies to compute the depreciation in accordance with the Schedule II to the 2013 Act which provides useful lives to compute the depreciation. Schedule II is based on the principle for recognising depreciation on the assets over their useful lives. Accordingly, provisions governing charge of depreciation in the erstwhile Schedule XIV to the Companies Act, 1956 have been replaced with Schedule II to the 2013 Act.

In order to address certain practical issues in the implementation of the Schedule II of the 2013 Act, the ICAI issued an Application Guide (AG) on 10 April 2015. The AG also provided examples for a better understanding of the Schedule II of the 2013 Act.

New development

On 10 November 2015, the ICAI issued an Exposure Draft (ED) of the draft Guidance Note (GN) on some important issues arising from Schedule II to the 2013 Act. This GN has been issued with the objective of providing guidance on certain significant issues that may arise when companies practically implement Schedule II of the 2013 Act. Further, use of this ED would help to establish consistent practice with respect to the accounting for depreciation. ICAI withdrew certain Guidance Notes on Accounting relating to the guidance on accounting for depreciation in accordance with the Companies Act, 1956.

Summary of the key modifications/new guidance provided in the draft ED are given below:

- Classification on useful life/residual value when management estimate is different from the Schedule II:

  The ED provides that where the useful lives of various assets are the same as Schedule II, the company should use these useful lives. In case the useful life of an asset as estimated by the company differs, i.e., higher/ lower from the indicative useful life given in Schedule II, the former should be applied by the company for providing depreciation.

- Guidance on step by step approach to multiple shift depreciation:

  The ED provides guidance on the topic 'multiple shift depreciation'. The ED clarifies that extra shift depreciation would not be provided for:

  - Continuous process plants (CPP) - these are plants which are required and designed to operate for 24 hours a day. Accordingly, while estimating the useful life of the CPP, the inherent nature of the plant would be factored in.
  - Assets which are marked as 'No Extra Shift Depreciation' (NESD) under Schedule II to the 2013 Act. For these assets useful life would be estimated on double/triple shift basis at the beginning of the year.

  The ED also provides guidance on how to compute useful life of an asset when circumastancxes change i.e. an asset was initially considered for use on single shift basis and may now be used double/triple shift.

  Based on the requirements of Schedule II to the 2013 Act, the ED has enhanced the disclosure requirements.

- Concept CPP and defines principle of useful lives for CPP:

  The ED provides explicit guidance on Unit of Production (UOP) method of depreciation. UOP method is generally considered appropriate where the number of units that can be produced or serviced from the use of the asset is the major limiting factor for the use of the asset rather than the time. A company may use UOP method based on the factors prescribed in paragraph 12 of AS 6 *Depreciation Accounting*.

Following are some of the examples where UOP method can be identified appropriate:

- Useful life of an aircraft engine is restricted by number of flying hours
- Useful life of a boiler is limited to number of hours
- Useful life of a mould is limited by the number of imprints.

Change in the method of depreciation from written down value (WDV) or straight line method (SLM) to UOP method on adoption of Schedule II to the 2013 Act should be calculated retrospectively using the UOP method from the date the asset came into use to the company with adjustment of any surplus or deficiency arising from change in method to the statement of profit and loss as such change is required by the statute. Transitional provisions given under Note 7(b) of Schedule II to the 2013 Act will not apply.

- Clarification provided on adoption of different methods of depreciation for similar assets at different geographical locations:

  The ED provides that the depreciation method used should best reflect the way the asset is consumed. Different methods of depreciation for similar assets at different geographical locations can only be used if the different methods selected are based on factors such as:

  - type of asset
  - the nature of the use of such asset and
  - circumstances prevailing in the business.

  Otherwise, the use of different methods for similar assets at different geographical locations is not justified.

(Source: Exposure Draft of Draft Guidance Note on Some Important Issues Arising from Schedule II to the Companies Act, 2013 dated 9 November 2015 by the ICAI)

Key takeaways

- The ED seeks to address important issues on accounting for depreciation such as step by step approach to account for depreciation in case of assets being used in multiple shift. Companies should carefully evaluate the impact of the ED on their financial statements. While this is still in a draft stage, the ICAI shall incorporate feedback it receives from respondents before finalising the guidance note.

EAC opinions issued during the quarter ended December 2015

1. Provisioning for doubtful receivables (The ICAI Journal, The Chartered Accountant issued in September 2015)
2. Requirement of preparation of complete/ condensed set of financial statements for interim financial reporting (The ICAI Journal, The Chartered Accountant issued in October 2015)
3. Amortisation of SAP license and accounting for annual renewal fee (The ICAI Journal, The Chartered Accountant issued in November 2015)
4. Accounting treatment of pension liability post-separation (The ICAI Journal, The Chartered Accountant issued in December 2015).

MCA notifies sections in the Companies Act relating to reporting of offences involving fraud by auditors and an omnibus approval for related party transactions and issues the corresponding rules

Background

The Companies Act, 2013 (the 2013 Act) became largely effective from 1 April 2014. On 2 December 2014, the Union Cabinet introduced the Companies (Amendment) Bill, 2014 in the Parliament to make certain amendments to the 2013 Act. The amendment received the President's assent on 25 May 2015 and was subsequently notified in the Official Gazette on 26 May 2015, is called the Companies (Amendment) Act, 2015 (Amendment Act, 2015). Further, the Ministry of Corporate Affairs (MCA) on 29 May 2015 notified Section 1 to 12 and 15 to 23 of the Amendment Act, 2015.

New developments

The MCA on 14 December 2015, notified Section 13 (reporting of an offence involving a fraud to the central government) and Section 14 (an omnibus approval for related party transactions) of the Amendment Act, 2015. The notification will be effective from the date of its publication in the Official Gazette i.e. 15 December 2015.

Further, the MCA through its notification dated 14 December 2015 also amended/inserted certain rules which are as follows:

Amendments	Brief description of the changes
Amended Rule 13 relating to reporting of frauds by auditors and other matters (the Companies (Audit and Auditors) Amendment Rules 2015).	The amendment specifies that an auditor would report a fraud of an amount of INR1 crore or above to the central government after following a specified process.
Inserted Rule 6A relating to omnibus approval for related party transactions on an annual basis (the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2015).	An audit committee may provide an omnibus approval for related party transactions after following certain specified conditions.
Omitted Rule 10 relating to loan to directors, etc. under Section 185 of the 2013 Act (the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2015).	Aligned rules with the Amendment Act, 2015.
Amended Rule 15 relating to contract or arrangement with a related party (the Companies (Meetings of Board and its Powers) Second Amendment Rules, 2015).	Aligned rules with the Amendment Act, 2015.

Amendment in reporting of frauds by auditors and other matters (Rule 13)

Currently, the 2013 Act or the aforesaid rules do not provide any threshold for reporting of frauds by auditors.

Now, the amended Rule 13 provides that if an auditor of a company in the course of the performance of his duties as a statutory auditor, has a reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of INR1 crore or above, is being or has been committed against the company by its officers or employees, the auditor should report the matter to the central government after ensuring the following process:

- The auditor should report the matter to the board or the audit committee (as the case may be) immediately but not later than two days of his/her knowledge of the fraud seeking their reply or observations within 45 days
- On receipt of such a reply or observations from the board or the audit committee, the auditor should forward his/her report and the reply or observations of the board or the audit committee along with his/her comments (on such a reply or observations of the board or the audit committee) to the central government within 15 days from the date of receipt of such a reply or observations
- In case the auditor fails to get any reply or observations from the board or the audit committee within the stipulated period of 45 days, he/she should forward his/her report to the central government along with a note containing the details of his/her report that was earlier forwarded to the board or the audit committee for which he/she has not received any reply or observations.

The report to the central government would be in the form of a statement as specified in Form ADT-4.

In the case of a fraud of less than INR1 crore, the auditor would report the matter to an audit committee or board (as the case may be) not later than two days of his knowledge of the fraud. Additionally, the details of such a fraud reported to the audit committee or the board during the year, would be disclosed in the board's report along with the following information:

- Nature of fraud with description
- Approximate amount involved
- Parties involved, if remedial action not taken
- Remedial action taken.

The provision of this rule would also apply to a Cost Auditor and a Secretarial Auditor during the performance of his duties under Section 148 and Section 204 respectively of the 2013 Act.

Amendments to the above Rule 13 would come into force from the date of publication in the Official Gazette i.e. 15 December 2015.

Amendments introduce Rule 6A relating to omnibus approval for related party transactions

Currently, Regulation 23 of the newly effective SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) provide that an audit committee may grant an omnibus approval for a related party transaction proposed to be entered into subject to certain conditions. Such an omnibus approval would be valid for a period not exceeding one year and would require fresh approvals after the expiry of one year. MCA with an intent to align with the Listing Regulations has amended the rules so that an audit committee would be empowered to provide omnibus approvals for related party transactions subject to certain conditions. The conditions specified by MCA are largely similar to the Listing Regulations.

The amendments to the above rules will come into force from the date of their publication in the Official Gazette.

Key takeaways

- The amended rules for reporting of fraud by auditors increases responsibility of auditors
- Immaterial frauds would now form part of the annual report, and the requirement to report immaterial frauds to the central government has been done away with.
- The amended rules for omnibus approval of related party transactions are consistent with the new Listing Regulations issued by SEBI.

For a detailed overview of these amendments, refer to the KPMG's First Notes issued on 24 December 2015.


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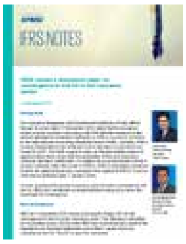
KPMG in India’s IFRS institute

KPMG in India is pleased to re-launch its 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

IRDA issues a discussion paper on convergence to Ind AS in the insurance sector



14 December 2015

Background

The Insurance Regulatory and Development Authority of India (IRDA) through its order dated 17 November 2015 stated that the insurance sector in India would be converging with IFRS after the issuance of the revised standard on insurance contracts i.e. IFRS 4, Insurance Contracts by the International Accounting Standards Board (IASB). Currently, IFRS 4 is being deliberated by the IASB and a final standard is expected to be issued in 2016. The IASB expects to allow an implementation period of approximately three years after the publication of the new insurance contracts standard. Additionally, for entities whose predominant activity is issuing contracts within the scope of IFRS 4, IASB is evaluating a proposal to allow an optional temporary exemption from applying IFRS 9, Financial Instruments (effective date 1 January 2018).

New developments

IRDA on 7 December 2015 issued a Discussion Paper (DP) on the convergence to Ind AS in the insurance sector. The Standing Committee on Accounting Issues (SCAI) of the IRDA has recommended a draft of the regulations on financial statements and auditors’ report which are compliant to Ind AS. The DP is open for comments.

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

MCA notifies sections in the Companies Act relating to reporting of offences involving fraud by auditors and an omnibus approval for related party transactions and issues the corresponding rules

24 December 2015

Background

The Companies Act, 2013 (the 2013 Act) became largely effective from 1 April 2014. On 2 December 2014, the Union Cabinet introduced the Companies (Amendment) Bill, 2014 in the Parliament to make certain amendments to the 2013 Act. The amendment received the President’s assent on 25 May 2015 and was subsequently notified in the Official Gazette on 26 May 2015, is called the Companies (Amendment) Act, 2015 (Amendment Act, 2015). Further, the Ministry of Corporate Affairs (MCA) on 29 May 2015 notified Section 1 to 12 and 15 to 23 of the Amendment Act, 2015.

New developments

The MCA on 14 December 2015, notified Section 13 (reporting of an offence involving a fraud to the central government) and Section 14 (an omnibus approval for related party transactions) of the Amendment Act, 2015. The notification will be effective from the date of its publication in the Official Gazette i.e. 15 December 2015. Further, the MCA through its notification dated 14 December 2015 also amended/inserted certain rules relating to such sections.

This issue of First Notes aims to provide an overview of the key amendments.

Accounting and Auditing Update

Issue no. 4/2015 | Pharmaceutical

This month the Accounting and Auditing Update focusses on the pharmaceutical sector and highlights key matters relating to accounting, financial reporting and regulatory areas relevant to this sector.

In this publication, we have highlighted key areas of impact due to adoption of Ind AS: revenue recognition, research and development expenditure, business combinations, intangible assets and government grants on pharmaceutical sector.

- Impact of Ind AS on the pharmaceutical sector – Key considerations
- Survey analysis
- Ind AS 108, Operating Segments and its impact on the pharmaceutical sector
- Business combinations and accounting for intangibles
- ICDS- Potential impact on the pharmaceutical sector
- GST- A sweet pill for the Indian pharmaceutical sector
- Tax deductibility of business promotion expenses
- Regulatory updates

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