



The MCA issues amendments for consolidated financial statements of wholly-owned and partially-owned subsidiaries

16 August 2016

First Notes on

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Sector

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Relevant to

All

Audit committee

CFO

Others

Transition

Immediately

Within the next 3 months

Post 3 months but within 6 months

Post 6 months

Background

The Ministry of Corporate Affairs (MCA) has been issuing various amendments and clarifications to the Companies Act, 2013 (2013 Act) and its corresponding Rules to ease the implementation of the 2013 Act.

The 2013 Act through Section 129(3) of the 2013 Act prescribes the requirements for preparation of the Consolidated Financial Statements (CFS).

On 14 October 2014, MCA provided an exemption from the preparation of CFS to wholly-owned intermediate companies incorporated in India under certain circumstances.

New developments

Recently, the MCA through a notification dated 27 July 2016 issued the Companies (Accounts) Amendment Rules, 2016 (the Rules). The following are the important amendments made by the Rules:

Rule 6: Manner of consolidation of accounts

Current requirements

Rule 6 pertains to Section 129(3) of the 2013 Act which prescribes the requirements for preparation of CFS. Presently, Rule 6 exempts intermediate wholly-owned subsidiary companies incorporated in India from the preparation of CFS, if their immediate parent company is incorporated in India. The Rule does not grant an exemption to partially-owned companies or wholly-owned subsidiaries of foreign companies in India.

Amendment to the Rules

A new proviso to Rule 6 has been inserted which provides that a company is not required to prepare CFS, if it meets the following conditions:

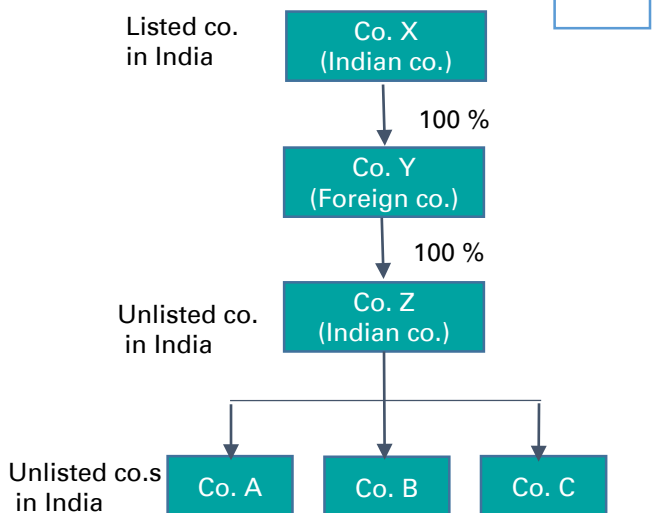
- i. It is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members (including those not otherwise entitled to vote) having been intimated in writing and for which the proof of delivery of such an intimation is available with the company, do not object to the company not presenting CFS
- ii. It is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India, and
- iii. Its ultimate or any intermediate holding company files CFS with the Registrar of Companies (ROC) which are in compliance with the applicable accounting standards.

The amendment grants relief to wholly-owned and partially-owned companies if their ultimate or any intermediate holding company prepares a CFS. However, such ultimate or intermediate

parent companies would have to file CFS with the ROC in compliance with the Accounting Standards under the 2013 Act.

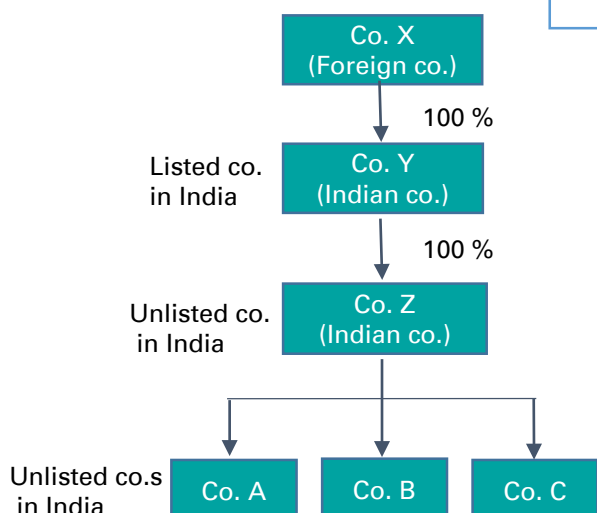
This Rule does not grant exemption to subsidiaries of foreign companies in India from the preparation of CFS. Following are few examples of situations will be get covered under Rules:

Situation 1



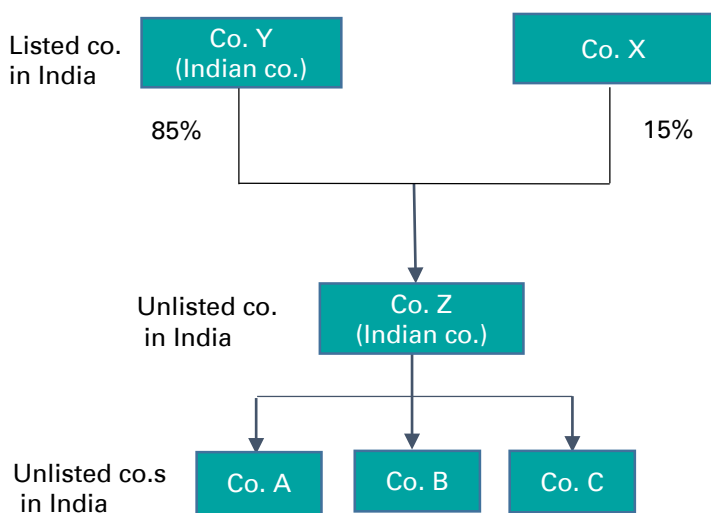
Co. Z can claim exemption and would not be required to file CFS with ROC if Co. X files CFS of the group with the ROC under applicable accounting standards.

Situation 2



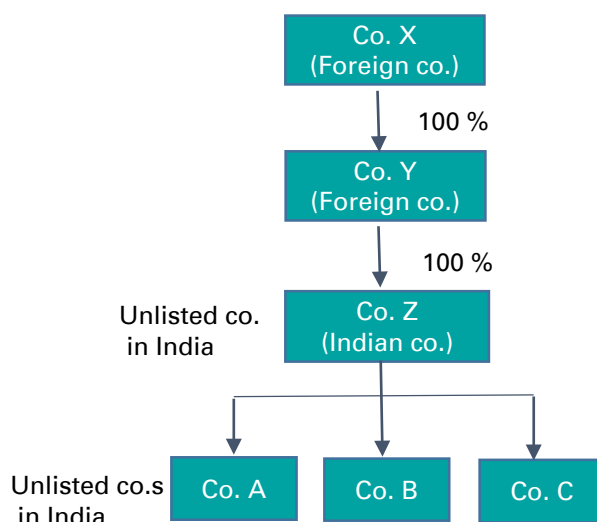
Co. Z can claim exemption and would not be required to file CFS with ROC if Co. Y files CFS of its group with the ROC under applicable accounting standards.

Situation 3



Co. Z can claim exemption and would not be required to file CFS with ROC if Co. Y files CFS with ROC and Co. X does not object to Co. Z not presenting CFS.

Situation 4



Co. Z cannot claim exemption and would be required to file CFS with ROC as both Co. Y and Co. X are foreign companies.

Rule 8: Matters to be included in the Board's report***Current requirements***

Rule 8(1) requires that the Board's report should contain a separate section which provides the report on performance and financial position of each of the subsidiaries, associates and joint ventures included in the CFS.

Amendment to the Rules

The amended Rules provide that the Board should report on the highlights of the performance of its subsidiaries, associates and joint venture companies and their contribution to the overall performance of the company during the period under report.

Rule 13: Companies are required to appoint an internal auditor

The following two amendments have been made in the said Rule:

- 1) An internal auditor may either be an individual, a partnership firm or a body corporate and
- 2) A cost accountant could also be an internal auditor.

(This amendment has been made in line with the requirements of Section 138 of the 2013 Act which states that an internal auditor could be a Chartered Accountant (CA) or a cost accountant or such other professional as may be decided by the board to conduct internal audit of the functions and activities of the company).

Others

The Rules have also issued two revised forms which are as follows:

1. Form AOC 1 'Statement containing salient features of the financial statement of subsidiaries/associate companies/joint ventures': There are no major changes in this form.
2. Form AOC 4 'Form for filing statement and other documents with the Registrar': Following additional disclosures have been introduced in the form:
 - Requirement to disclose whether the company has maintained books of accounts and other relevant books and papers in electronic form along with providing the place of maintenance of computer servers
 - Disclosure required on amount of unhedged foreign exchange exposure under the head 'Financial parameters-Balance Sheet items as on financial year end date'
 - Confirmation to be given on applicability of Corporate Social Responsibility (CSR) as per Section 135 of the 2013 Act, net profits for the last three financial years for computing CSR requirements, disclose number of CSR activities and confirm whether a responsibility statement of the CSR Committee on the implementation and monitoring of CSR policy has been enclosed in the Board's report
 - Additionally, 'details of remaining CSR activities' to be attached along with other prescribed documents.

Extension of the last date for filing of annual returns and financial statements forms

The MCA has revised form AOC-4 and other forms such as AOC-4 (XBRL) and AOC-4 (CFS) are under revision. These forms are expected to be available by the end of August 2016. Therefore, MCA has extended the last date of filing these forms (AOC-4, AOC-4 (XBRL), AOC-4 (CFS) and MGT-7) until 29 October 2016 (where the due date for holding an Annual General Meeting (AGM) is on or after 1 April 2016) without the payment of additional fees.

Our comments

- Preparation of CFS: The amendment broadens the scope of relief to unlisted subsidiary companies (wholly-owned and partially-owned of Indian parents) in line with the requirements of Ind AS 110, *Consolidated Financial Statements*. Earlier the relief was available only to the intermediate wholly-owned subsidiary companies incorporated in India from the preparation of CFS, if their immediate parent company is incorporated in India.
- The MCA amendment on matters to be reported in the Board's report helps to reduce the reporting requirements under Rule 8(1) and is consistent with the Company Law Committee's (CLC) recommendations as provided in the Report of the Companies Law Committee issued in February 2016.

This relaxation provided by the MCA is likely to bring in the much needed relief to unlisted partially-owned entities. However, a clarification is required on whether this exemption is available for annual financial statements for the year ending 31 March 2016.



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KPMG in India's IFRS institute



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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



SEBI issues a consultation paper on disclosure of financial information in offer document/placement memorandum and valuation of the units of Infrastructure Investment Trusts

20 July 2016

The Securities and Exchange Board of India (SEBI) issued a consultation paper on 15 June 2016, proposing continuous financial disclosures and other continuous disclosures to be made by Infrastructure Investment Trusts (InvITs) registered under the SEBI (Infrastructure Investment Trusts) Regulations, 2014 (InvIT Regulations).

Continuing with its recommendations, SEBI on 8 July 2016, issued a consultation paper proposing the following:

- Guidelines for financial disclosures in the offer document/placement memorandum
- Valuation of the units of InvITs.

This issue of IFRS Notes aims to provide an overview of the SEBI consultation paper.

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



Issue no. 11/2016 | Healthcare

This month the Accounting and Auditing Update focusses on the healthcare sector and highlights key matters relating to accounting, financial reporting and regulatory areas relevant to this sector. Our articles on Indian Accounting Standards (Ind AS) highlight key areas of impact such as revenue recognition, accounting of property, plant and equipment, consolidated financial statements (including acquisition of businesses), segment reporting, etc. and explain Ind AS requirements relating to the sector. The publication also features a interactions with senior members of two leading companies in this sector; Dr. Om Prakash Manchanda, Whole-time Director and Chief Executive Officer and Mr. Dilip Bidani, Chief Financial Officer, Dr. Lal Pathlabs Limited; Mr. Krishnan Subramanian, Group Chief Financial Officer, HealthCare Global Enterprises Limited. Our conversation with them explore some key accounting, reporting and other topical matters relevant to the sector. This publication also carries an article on the proposed Goods and Services Tax (GST) and provides an overview on the likely impact of GST on the healthcare sector. We also seek to highlight recently introduced sections of the Income-tax Act, 1961 and potential benefits that Finance Act, 2016 provides to the sector. Additionally, in this publication, we lay emphasis on considerations and challenges that companies in this sector could face while implementing Internal Financial Controls.

Our publication also carries a regular synopsis of recent regulatory updates.



The MCA amends certain provisions in deposits rules

20 July 2016

The Companies Act, 2013 (2013 Act) and the Companies (Acceptance of Deposits) Rules, 2014 (the Rules) prescribe the requirements companies should follow to accept deposits. In the past, the Ministry of Corporate Affairs (MCA) has issued various clarifications/amendments to certain provisions of Rules vide its circulars dated 31 March 2015 and 16 September 2016.

Recently, on 29 June 2016, MCA through a notification issued Companies (Acceptance of Deposits) Amendment Rules, 2016 which make certain amendments to the Rules. The amendments have come into force from the date of their publication in the official gazette i.e. from 29 June 2016.

Our issue of First Notes summarises the important amendments to the Rules made by MCA.



KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

In our recent call, on 11 July 2016, we covered following topics:

1. SEBI provides certain relaxation for Ind AS compliant quarterly results
2. The MoF announces deferment of ICDS by one year
3. Ind AS implementation issues.

Feedback/queries can be sent to aaupdate@kpmg.com

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