



IFRS Notes

**SEBI publishes norms for
public issue of units and
disclosures to be made by
REITs**

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Introduction

The Securities and Exchange Board of India (SEBI) (Real Estate Investment Trusts) Regulations, 2014 (REIT Regulations) notified on 26 September 2014, provided a regulatory framework for registration and regulation of Real Estate Investment Trusts (REITs) in India. The REIT Regulations, *inter alia*, prescribe conditions for making a public offer, initial and continuous disclosures, investment conditions, unit-holder approval requirements, related party disclosures, etc.

Recently, SEBI issued the following circulars (REIT circulars) providing detailed requirements for REIT with respect to:

- I. Public issue of units of REITs (CIR/IMD/DF/136/2016 dated 19 December 2016)
- II. Disclosure of financial information in an offer document of a REIT (CIR/IMD/DF/141/2016 dated 26 December 2016), and
- III. Disclosure of financial and non-financial information to be submitted to the stock exchanges and required compliances on a continuous basis by a REIT (CIR/IMD/DF/146/2016 dated 29 December 2016).

Background

REIT regulations (Regulation 14(24) and Regulation 15(5)) mention that SEBI would be issuing guidelines or circulars pertaining to issue and allotment of units and advertisements to be made by a REIT.

Additionally, Regulation 15(2) read with Schedule III of the REIT Regulations and Regulation 23 of the REIT Regulations mention that SEBI would prescribe disclosures to be made by a REIT in an offer document and to the stock exchange(s) where its units are listed.

Accordingly, SEBI recently issued three circulars (REIT circulars) prescribing detailed requirements for public issue and disclosure of financial/non-financial information in an offer document and to the stock exchanges along with pertinent compliances by a REIT on a continuous basis.

This issue of IFRS Notes provides an insight into the requirements of the above mentioned REIT circulars in the following sections:

Chapter I: Guidelines for public issue of units of REITs

Chapter II: Disclosure of financial information in an offer document for REITs

Part	Topic
A	Financial information of REIT
B	Projections of a REIT's income and operating cash flows
C	Management discussion and analysis of a REIT's operations
D	Other disclosures for REIT
E	Historical information of manager and sponsor(s)
F	Framework for calculation of Net Distributable Cash Flows (NDCF's)

Chapter III: Disclosure of financial and non-financial information to be submitted to the stock exchanges and compliances on a continuous basis by a REIT

Part	Topic
A	Disclosure of financial information to stock exchanges
B	Other continuous disclosures to stock exchanges and other compliances

"SEBI's guidelines on disclosure requirements for REITs are largely consistent with international best practices. These guidelines provide a framework for disclosure of financial and other relevant information in line with internationally accepted norms. Potential investors would have access to information on quality of earnings, project risks and operating cash flows. This is expected to result in a more transparent and robust framework for entities to set up as well as invest in REITs, and should help in attracting the international investor community, which is essential to make this platform a success."

Sai Venkateshwaran

Partner and Head
Accounting Advisory Services
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Chapter I: Guidelines for public issue of units of REITs

Following are the salient pre-requisites for the issue of units of a REIT:

Appointment of a merchant banker: One or more merchant bankers and other intermediaries should be appointed by the manager¹ to carry out the obligations related to the public issue.

(¹As per the REIT Regulations, 'manager' means a company or Limited Liability Partnership or body corporate incorporated in India which manages assets and investments of the REIT and undertakes operational activities of the REIT.)

Filing of an offer document: The manager should file an offer document after following the prescribed requirements with SEBI and make a pre-issue advertisement on the website of the sponsor², manager and stock exchanges.

(²As per the REIT Regulations, 'sponsor' means any person(s) who set(s) up the REIT and is designated as such at the time of application made to the SEBI.)

Application and abridged version of offer document:

The merchant banker(s) should prepare and make arrangements for distribution of an application form for subscription of units of a REIT and abridged version of the offer document. Disclosures to be made in the abridged offer document have been specified in the annexure to the circular.

Price and price band: The floor price/price band should be determined by the manager in consultation with the merchant banker(s) or through the book building process.

The floor price or price band should be announced at least five working days before the opening bid (in case of an initial public offer) on the website of the sponsor, manager, stock exchanges and in all the newspapers in which the pre-issue advertisement was released and website of the REIT.

Issue price would be determined based on the bids received. Detailed requirements with respect to the bidding process have been prescribed.

Allocation in public issue: In case of an issue made through the *book building process*, allocation should be made to the given classes in the following manner:

- i. *Institutional investors* – not more than 75 per cent of the public issue
- ii. *Other investors* – not less than 25 per cent of the public issue.

Manager of the REIT in consultation with merchant bankers may allocate '60 per cent of the portion available for allocation to institutional investors' to anchor investors subject to the following conditions:

- An application of a value of at least INR10 crore in the public issue to be made by an anchor investor. Allocation to anchor investors would be

on a discretionary basis and would be subject to minimum two investors for allocation of up to INR250 crore and five investors for allocation of more than INR250 crore.

- Bidding for anchor investors would be open for one day before the issue opening date and allocation to anchor investors would be completed on the same day.
- In case price fixed as per book building is *higher* than the price at which allocation is made to an anchor investor, the anchor investor should bring in the additional amount within two days from the date of closure of issue. However, no refund would be made in case price fixed is *lower* than the allocation price and the anchor investor would have to take the allotment at the allotment price.
- The allocation price and the units allocated should be made available on the website of the stock exchange(s), sponsor(s), manager and merchant banker(s) before opening of the issue.
- The units allocated to anchor investors would have a lock-in period of 30 days from the date of allotment.
- Application under the anchor investor category can be made by mutual funds, insurance companies and pension funds. No such application can be made by merchant banker(s) or any person related to the merchant banker(s) in the anchor investor category.

A detailed procedure for allotment and basis of allotment have been provided in the circular on public issue.

Period of an issue and subscription period: An issue should be opened after five working days from the date of filing the offer document with SEBI and the public issue should be kept open for a minimum of three days and a maximum of 30 days.

Post issue reports: Following post issue reports are to be submitted to SEBI by the lead merchant banker in the format specified in the annexure to the circular on public issue:

- i. *Initial post issue report* – within three days of closure of the issue
- ii. *Final post issue report* – within 15 days of the date of finalisation of basis of allotment or within 15 days of refund of money in case of failure of issue.

Additionally, a due diligence certificate should be submitted along with the final post issue report as per the prescribed format.

Chapter I: Guidelines for public issue of units of REITs (cont.)

Others

Security deposit: An amount computed at lower of the rate of 0.5 per cent of the amount of units offered for subscription or INR5 crore should be kept as a deposit with stock exchange(s) before opening the subscription.

Underwriting: REIT can appoint underwriters as per the SEBI (Underwriters) Regulations, 1993, if it desires to get the issue underwritten.

Maintenance of books and records: Merchant banker(s) should maintain a final book of demand depicting the result of allocation process.

Public communication, advertisements, etc.: Any public communication made in relation to the issue should provide a true and fair disclosure in addition to other specified conditions.

Restrictions on issue: No REIT should make a public issue of units, if the REIT or the parties to the REIT or the promoter(s) or director(s) of parties to the REIT:

- i. is debarred from accessing the securities market by the SEBI;

- ii. is a promoter, director, or person in control of any other company or a sponsor, manager or trustee of any other REIT or REIT which is debarred from accessing the capital market under any order or directions made by the SEBI;
- iii. is in the list of the willful defaulters published by the Reserve Bank of India.

Prohibition on payment of incentives: No incentive can be offered for making an application for allotment of units is allowed to any person. Fees and commission for services rendered in relation to the issue are not prohibited.

Our comments

- Issuance of guidelines on public issue of units of REIT is a welcome step and is expected to be helpful for the REITs proposing expansion of capital base through public issue.
- REITs should carefully analyse the guidelines for public issue of units and accordingly put in place the required processes.

Chapter II: Disclosure of financial information in an offer document for REITs

A. Financial information of REIT: In the financial information section of the offer document, REIT is required to provide the following information:

Period of the financial information: Financial information for a period of last three completed Financial Years (FYs) immediately preceding the date of offer document should be disclosed. However, if the closing date of the last completed FY falls more than six months before the date of the offer document, then the REIT should also disclose its interim financial information. The interim financial information should not be more than six months old from the date of offer document.

Nature of the financial information: The previous three FYs and the interim period, if any, should be disclosed as follows:

- **Stand-alone and Consolidated Financial Statements (CFS):** When a REIT is in existence for the last three completed FYs, disclose historical financial statements of the REIT (on both stand-alone as well as consolidated basis) for the last three years and the interim period, if any.
- **Combined financial statements:** When a REIT is in existence for less than three completed FYs and historical financial statements of a REIT are not available for some portion or the entire portion of the reporting period of three years and interim period, if any, then disclose combined financial statements for the periods when such historical financial statements are not available.

Content and basis of preparation: The financial information should be prepared in accordance with the Indian Accounting Standards (Ind AS).

REITs can also present financial information in the form of condensed financial statements which should comply with the minimum requirements for condensed financial statements as described in Ind AS 34, *Interim Financial Reporting*, to the extent applicable.

Our comments

- Ind AS are largely converged with International Financial Reporting Standards (IFRS). The REIT regulations require that the Ind AS framework should be applicable to the REITs. Ind AS as the basis of preparation would result in introduction of a financial reporting language which is consistent with what is being used globally.
- Also, date of transition to Ind AS at the REIT level is independent of whether or not the Special Purpose Vehicles (SPVs) are covered under the Ind AS road map. Therefore, SPVs would still continue to follow the requirements prescribed by the MCA for their statutory reporting. However, the SPVs should also consider the merits of transitioning to Ind AS, since they are required to prepare Ind AS specific financial information to help REITs prepare CFS under Ind AS.

Chapter II: Disclosure of financial information in an offer document for REITs (cont.)

Financial statements should disclose, at a minimum, the following components:

- i. Balance sheet
- ii. Statement of profit and loss/income and expenditure
- iii. Statement of changes in unit holders' equity
- iv. Statement of cash flows/receipts and payments
- v. Statement of net assets at fair value
- vi. Statement of total returns at fair value
- vii. Explanatory notes annexed to, or forming part of, any of the above statements.

The REIT circular also specifies the minimum line items that should be included in the above statements.

Our comments

- In addition to the primary components of Ind AS financial statements, REIT circulars require two additional statements i.e. statement of net assets at fair value and statement of total returns at fair value. Ind AS does not mandate fair value accounting of an investment property. Therefore, the use of these additional financial statements would essentially bring fair value reporting of investment properties into the financial reporting framework for REITs, without necessarily amending Ind AS.
- These statements can help facilitate REIT in India to be in consistence with the practice prevalent internationally for REITs, as international REITs use fair value model for valuation of investment properties.

Additionally, REIT circulars prescribe certain adjustments that should be made to the financial information in the offer document:

- Incorrect accounting policies:** Adjustments/rectifications for all incorrect accounting practices or failures.
- Prior period errors:** Adjustment to material amounts relating to adjustments for prior period errors/items.
- Changes to accounting policies:** Adjustments due to changes in accounting policies to the profits or losses/incomes or expenditures of the earlier years (required to be disclosed in the offer document) and of the year in which the change in the accounting policy has taken place.
- Revaluation reserve adjustment:** The balance sheet should be prepared after deducting the balance outstanding on revaluation reserve account from both fixed assets and reserves and the net worth should be arrived at after such deductions.

Material items: All material items i.e. the items if they can individually or collectively, influence the economic decisions made on the basis of the financial statements should be disclosed. Materiality should be judged and determined depending upon pertinent facts and circumstances.

Additionally, disclose separately either on the face of

the financial statements or in the schedules/notes any item, income or expenditure which exceeds one per cent of the revenue from operations or INR10 lakh, whichever is higher.

Our comments

- The REIT circulars prescribe minimum disclosure requirements. However, a REIT should consider presentation of other Ind AS disclosure requirements.
- All material items are to be disclosed by REITs in their financial statements. Materiality has been defined and is generally in line with the requirements in Ind AS. However, its application will need the exercise of judgement by REITs.

Additionally, while preparing the statement of profit and loss, it requires that a disclosure by way of a note of any item of income or expenditure which exceeds one per cent of the revenue from operations or INR10 lakh whichever is higher, in addition to the consideration of materiality.

Principles for preparation of combined financial statements:

Combined financial statements need to be prepared when a REIT has not been in existence for some portion or the entire portion of the reporting period of three years and interim period, if any. The combined financial statements would comprise combined financial performance of all the proposed REIT assets. The following steps would be taken into consideration:

- Treated as a single group:** The combined financial statements would be presented as if REIT assets were a part of a single group since the first day of the reporting period for which information is being presented.
- Apply Ind AS 110, Consolidated Financial Statements:** The combined financial statements should be prepared using the principles of Ind AS 110, to the extent applicable. Unlike CFS, the combined financial statements shall not have a parent. Transactions between the entities proposed to be owned by a REIT should be eliminated. Accounting of non-controlling interests, foreign operations, different fiscal periods, income taxes, etc. would be treated in the same manner as in CFS, to the extent applicable.
- Period of holding assets:** Where one or more of the underlying REIT assets have been held by the sponsor, its associates, or its group entities for a period of less than last three completed FYs, then such assets may be reflected in the combined financial statements from the date of holding. However, if the discrete financial information for those assets is available for the pre-holding period (i.e. the period before the acquisition by the

Chapter II: Disclosure of financial information in an offer document for REITs (cont.)

sponsor, its associates or its group entities), then such assets should be reflected in the combined financial statements for such pre-holding period as well.

Our comment

The inclusion of the information for the pre-holding period is a deviation from Ind AS. However, REIT circulars require such inclusion in order to present the operational performance of REIT assets in the historical period. Therefore, information for the pre-holding period also needs to be included in the combined financial statements.

Additionally, if there are any assets for which the financial information is considered for a period lesser than three years and the additional interim period, if any, then such fact should be clearly disclosed in the offer document along with all pertinent details.

- **Basis of preparation:** Assumptions made in preparation of the combined financial statements should be disclosed in the basis of preparation section of such statements. The basis of preparation should also explain the principles of combination and elimination of transactions amongst entities that are included in the combined financial statements. While preparing combined financial statements, guidance from the requirements laid down in the 'Guidance Note on Combined and Carve-Out Financial Statements' and any other pertinent guidance/directions issued by the Institute of Chartered Accountants of India (ICAI) should be taken by a REIT.

Our comment

In addition to the Guidance Note on Combined and Carve-out Financial Statements issued by ICAI, REITs may also refer to relevant international guidance and best practices for preparing combined financial statements.

Additional financial disclosures: Following additional disclosures are also required to be made by a REIT and should be audited:

- i. **Property wise rental/operating income:** Disclose property wise rental/operating income from the properties for all the REIT assets included in the financial information for the last three years and interim period, if any.

Our comment

Determination of what would constitute a property for the purpose of computing rental/operating income is an area of significant judgement and requires consideration of other pertinent facts such as whether to consider property at an individual level, or to take the entire complex together as one property, etc.

- ii. **Earnings Per Unit (EPU):** Disclose EPU for the last three years and interim period, if any, computed in accordance with Ind AS 33, *Earnings per Share*.

Our comments

- In many situations the necessary components for computation of EPU may not be available at the early stage of the offer document. Therefore, disclosure of EPU may be possible in many cases when final prospectus is filed or on finalisation of the capital structure of the REIT.
- Additionally, it may not be possible to determine the exchange ratio of sponsors' assets with the units of the REIT at the stage of preparing a draft offer document.

- iii. **Commitments and contingent liabilities:** A statement of commitments and contingent liabilities, if any, as on the date of latest financial information should be disclosed. Any material change in the contingent liabilities and commitments (from the date of latest financial information to the date of the offer document) should be disclosed in the offer document.
- iv. **Related party disclosures:** REIT regulations and Ind AS 24, *Related Party Disclosures* define related parties. A REIT should comply with the related party disclosure requirements of both REIT regulations and Ind AS 24.

Additional disclosures, such as, details of the related party and its relationship with REIT, nature and value of the transaction, etc. have been prescribed.

Our comment

The financial statements of a REIT should contain the disclosures of both - the related parties as defined in Ind AS as well as the related parties as defined in the REIT Regulations. Therefore, the related party disclosures for a REIT are expected to be wider as compared to the requirements of the Ind AS.

- v. **Capitalisation statement:** Disclose a capitalisation statement showing total debt, net worth, and the debt/equity ratios before and after the completion of issue.
- vi. **Debt payment history statement:** A debt payment history statement should be disclosed showing history of interest and principal payments of all REIT assets for the past three years and interim period, if any.

Chapter II: Disclosure of financial information in an offer document for REITs (cont.)

Audit of financial information: The financial information is required to be audited by the auditor appointed as per the REIT Regulations. The following points should be complied with:

- The auditor, so appointed, should be the one who has subjected itself to the peer review process of the ICAI and who holds a valid certificate issued by the Peer Review Board of ICAI.
- The auditor should follow the requirements of the Guidance Note on Reports in Company Prospectuses issued by the ICAI while providing the report.
- The reports of the auditors on the financial statements of the various REIT assets for the periods covered in the last three years and interim period should be considered and relied upon by the auditor. Guidance from Standard on Auditing (SA) 600, *Using the Work of another Auditor* could be taken for procedures to be performed in such cases.

B. Projections of a REIT's income and operating cash flows: The REIT circulars require disclosure of projections of revenue and operating cash flows, project-wise, over the next three years, including the related assumptions.

The projections should be disclosed for REIT assets/properties that are owned by the REIT or are proposed to be owned by a REIT prior to the allotment of units in the public offer. These projections including assumptions should be certified by the auditor.

Our comment

The REIT Regulations have been amended on 30 November 2016 to provide that the projections of the income with respect to assumptions and calculations should be certified by an auditor instead of just certifying the arithmetical accuracy.

C. Management Discussion and Analysis (MDA) of a REIT's operations: MDA (by the manager) based on the financial statements should be prepared and disclosed along with providing a comparison for the most recent financial information with financial information of the previous two years.

MDA should contain an overview of the business of a REIT, a summary of the financial information containing significant items of income and expenditure, factors that may affect results of the operations, etc.

D. Other disclosures: Other disclosures include the following:

- Working capital:** A statement regarding sufficiency of the working capital to fulfil the present requirements of a REIT (i.e. at least 12 months from the date of listing) should be disclosed. If sufficient working capital is not available, the manager is required to describe

how he/she proposes to provide for additional capital.

Our comment

In line with the practice prevalent internationally in other jurisdictions, the management of a REIT would also require monthly forecasting together with downside sensitivity analysis to prepare this statement of sufficiency.

- Past market performance:** In case of a capital offering subsequent to the initial offer, the market value of the units traded on all the designated stock exchanges where a REIT is listed, the following should be disclosed:
 - On the last date of reporting period
 - Highest value during a reporting period based on intra-day and on closing price with specified date
 - Lowest value during reporting period intra-day and on closing price with specified date.

E. Historical financial information of a manager and a sponsor: An offer document of the REIT is required to include a summary of the audited CFS (including the balance sheet and statement of profit and loss without schedules) of a manager and sponsor(s) for the past three completed years, prepared in accordance with ASs, as applicable, as per the Companies Act, 2013 (2013 Act) and rules thereunder.

The given table illustrates how financial information would be presented where a manager and/or sponsor have done a transition from AS to Ind AS at any time during the period of last three years (for example financial information to be given for FYs 2014-15, 2015-16, 2016-17):

FY/financial information to be presented in the given FY	Manager/sponsor entity that applies Ind AS for latest two years out of the last three completed years	Manager/sponsor entity that applies Ind AS for the latest year out of the last three completed years
2014-15	Ind AS	AS
2015-16	Ind AS	Ind AS
2016-17	Ind AS	Ind AS

(Source: KPMG in India's analysis, 2017)

Our comment

The financial information of the manager and sponsor is to be disclosed based on the ASs applicable to the entity under the 2013 Act. However, if the manager and/or the sponsor has

Chapter II: Disclosure of financial information in an offer document for REITs (cont.)

Our comment (cont.)

transitioned to Ind AS at any time during the previous three years then the circular permits disclosure of financial information under previous ASs for the third preceding FY or the second and third preceding FY depending on the date of transition. While this offers some relief to managers/sponsors from preparing three years' historical financial information under Ind AS, entities should consider providing additional information under Ind AS. This will enable a better understanding and ensure relevance of financial information for users.

Foreign entity is not required to comply with the 2013 Act:

If any of the manager/sponsor is a foreign entity and is not legally required to comply with the 2013 Act, then the financial statements of such entity may be prepared in accordance with IFRS.

- F. Framework for calculation of Net Distributable Cash Flows (NDCF):** Every REIT/manager has to define NDCFs for itself and the definition should comply with the 2013 Act, Limited Liability Partnership Act, 2008 (LLP Act, 2008), or any Central Government Act, as applicable. The definition should be disclosed in the offer document and should be followed consistently pursuant to listing.

The circular provides guidance for defining and calculating NDCFs at the Special Purpose Vehicle (SPV) level and the REIT level. It contains formats for calculation of NDCFs at the SPV and REIT level.

Our comments

- From a commercial viability perspective, NDCF is one of the most important aspects of the REIT Regulations. The prescribed requirements are intended to be broad guidelines and each manager is required to define NDCFs for each REIT. This definition is required to be disclosed in the offer document and is subject to compliance with the 2013 Act or the LLP Act, 2008 as applicable.
- As per Regulation 18(16) of the REIT Regulations, not less than 90 per cent of the NDCFs should be distributed to the REIT (subject to certain conditions) and not less than 90 per cent of the NDCFs of the REIT would be distributed to the unit holders.

The REIT circulars provide that adjustments such as depreciation, proceeds from sale of real estate assets, loss/gain on such sale and certain non-cash adjustments such as increase/decrease in carrying amount of an asset/liability, deferred tax, lease rents recognised on a straight line basis, etc. should be made to profit after tax to determine the distributable cash flows. Additionally, repayments to external debts should also be adjusted so as to arrive at NDCF.

However, it is important to note that there may be constraints in up streaming cash flows if there is a depreciation block. This could result in lower amount of profits as per books which could further limit the dividend distribution as per the 2013 Act.

Chapter III: Disclosure of financial and non-financial information to be submitted to the stock exchanges and compliances on a continuous basis by the REIT

- A. Disclosure of financial information to stock exchanges:** Following is an overview of the requirements prescribed in this section:

Nature and time for disclosures: A REIT is required to submit its half yearly and annual financial information (on both stand-alone and consolidated basis) to the stock exchanges within the given time period:

- In case of financial information of the first half year of the FY* - within 45 days from the end of the half year
- In case of annual financial information* - within 60 days from the end of the FY
- In case of financial information of the second half year of the FY* - submit it along with the annual financial information. Additional note stating that the figures of the second half year are a balancing figures of the full FY reduced by the figures of the first half year period need to be provided.

The annual financial information should contain comparative information for the immediately preceding financial year.

The half yearly financial information should contain comparative information for the immediately preceding half year as well as for the corresponding half year in the immediately preceding financial year.

Basis of preparation of financial information: The financial information should be prepared in accordance with Ind AS. Such financial information should be prepared on the basis of accrual accounting policy and in accordance with uniform accounting policies adopted for all the periods.

The SPVs/Holding companies (HoldCos) owned by a REIT may prepare financial statements in accordance with AS and laws applicable to them. But for consolidation purpose, consolidated financial information of REIT in accordance with Ind AS should be disclosed.

In addition to the financial information in accordance with Ind AS, a REIT may also submit the financial information as per the IFRS along with the material differences, if any, between the financial information as per Ind AS and as per IFRS (which is appropriately highlighted and explained).

Chapter III: Disclosure of financial and non-financial information to be submitted to the stock exchanges and compliances on a continuous basis by the REIT (cont.)

Key financial statements: As per the REIT circulars, the REIT can present financial information in the form of condensed financial statements which should comply with the minimum requirements for condensed financial statements as described in Ind AS 34, *Interim Financial Reporting*, to the extent applicable.

Following financial statements should form part of the annual financial information:

- i. Balance sheet
- ii. Statement of changes in unit holders' equity
- iii. Statement of cash flows/receipts and payments;
- iv. Statement of net assets at fair value
- v. Statement of total returns at fair value
- vi. Explanatory notes annexed to, or forming part of, any of the above given statements.

Following financial statements should form part of the half-yearly financial information:

- i. Statement of profit and loss/income and expenditure;
- ii. Explanatory notes annexed to, or forming part of, any statements referred above.

All material items i.e. the items if they can, individually or collectively, influence the economic decisions made on the basis of the financial statements should be disclosed in the financial statements.

Additional disclosures along with financial information:

Following additional disclosures are also required to be made by a REIT:

- i. **Statement of NDCFs:** A REIT should disclose statements of NDCFs of the REIT and all the underlying HoldCos and SPVs. Such statements should be prepared in accordance with the definition of NDCFs and the framework for calculation of NDCFs, as defined by the REIT/manager and as disclosed in the offer document.
- ii. **Manager fees:** Details regarding fees paid to the manager along with explanations and justification for the fees paid to the manager, including details about methodology for computation of the fees.

A REIT would need to confirm whether there has been any material change in the fees paid to the manager as compared to the previous reporting period. If yes, then REIT would need to disclose detailed reasons and information for the change in fees.

- iii. **Changes in accounting policies:** Adequate disclosures regarding any change in accounting policies as per Ind AS 8 should be provided.
- iv. **Disclosures related to modified opinion(s):** Following disclosures in the annual financial information are required in case an auditor has expressed any modified opinion in respect of the following:

a) *In case of audited annual financial*

information: In addition to the audited annual financial information, an auditor is required to file a 'Statement on Impact of Audit Qualifications' (the statement) disclosing such modified opinion(s) and the cumulative impact of the same in the format specified in the SEBI circular³ issued on 27 May 2016.

(³Circular no. CIR/CFD/CMD/56/2016 prescribed operational details to be followed by listed entities for review of audit qualifications contained in the audit reports of the listed entities.)

b) *In case of financial results of preceding FY/half year:* An auditor is required to disclose the following:

- Brief details of the past modified opinion(s) or other reservation(s)
- Whether such modified opinion(s) or other reservation(s) have been resolved:
 - If yes, details thereof
 - If no, the reasons thereof and the steps which the REIT intends to take in this matter.

v. Additionally, following statements are required to be disclosed by the REIT:

- Statement of EPU
- Statement of contingent liabilities
- Statement of commitments
- Statement of related party transactions.

The details and the basis of the disclosure of the above statements would be the same as specified under 'Additional financial disclosures' in Part A of Chapter II of this note.

Approval and authentication of financial information:

The financial information would be required to be approved before submission to the stock exchanges by the Board of Directors/Governing body of the investment manager and would be authenticated and signed in the prescribed manner.

Audit of financial information: Following has been prescribed with respect to the audit of the financial information:

Period of financial information	Financial statements to be audited or unaudited
Annual	Audited
Half-yearly	Audited/unaudited ⁴

(Source: KPMG in India's analysis, 2017)

(⁴In case the REIT opts to submit unaudited financial information, the same would be subject to limited review by the auditor of the REIT.)

Chapter III: Disclosure of financial and non-financial information to be submitted to the stock exchanges and compliances on a continuous basis by the REIT (cont.)

In addition to the requirements specified under 'Audit of financial information' in Part A of Chapter II of this note, an auditor is required to provide his/her opinion as to whether the statement of NDCFs gives a true and fair view for the years/periods ended at the balance sheet dates.

Our comment

The requirement of an auditor's opinion on the statement of NDCF is aimed at ensuring compliance with the framework for calculation of NDCFs as defined by the REIT/manager at the time of listing.

Financial information of the manager: Following additional statements of the manager for the latest FY along with comparative figures for the immediate preceding FY is also required to be submitted along with the annual financial information:

- i. Balance sheet
- ii. Statement of profit and loss (without schedules).

However, the above information is not required to be disclosed if the manager's net worth is not materially eroded⁵ when compared to its net worth as per the last disclosed financial statements by the REIT. The fact about non-disclosure of financial information on account of no material erosion needs to be disclosed.

(⁵Material erosion is to be judged by the trustees in view of various factors including but not restricted to size of the REIT, size of manager, amount of net worth erosion, prevailing circumstances, etc.)

Obligation to maintain proper books of account and records, documents, etc.: Every REIT is required to maintain proper books of account, records and documents, etc. relating to a period of not less than eight FYs immediately preceding a FY. However, where the REIT had been in existence for a period of less than eight years, then they need to be maintained for all the preceding years.

B. Other continuous disclosures to stock exchanges and other compliances: Following is an overview of the requirements prescribed in this section:

Listing agreement: REIT is required to enter into a simplified listing agreement⁶ with all the stock exchanges where it proposes to list its units.

(⁶'Format of uniform listing agreement' specified in circular no. CIR/CFD/CMD/6/2015 dated 13 October 2015.)

However, REIT Regulations and circulars issued need to be followed while complying with listing conditions.

Disclosure of unit holding pattern: A REIT is required to disclose the unit holding pattern for each class of unit holders in the specified format within the following time periods:

- i. One day prior to listing of units on the stock exchanges

- ii. On a quarterly basis, within 21 days from the end of each quarter, and
- iii. Within 10 days of any capital restructuring of REIT resulting in a change exceeding 2 per cent of the total outstanding units of REIT.

Review of credit rating: As per Regulation 20(2) of the REIT Regulations, a REIT is required to obtain credit rating in case the aggregate consolidated borrowings and deferred payments of the REIT (net of cash and cash equivalents) exceed 25 per cent of the value of the REIT assets. Following additional requirements have been prescribed in the recent circular:

- Such a credit rating needs to be reviewed once a year by the registered credit rating agency.
- Credit rating review should be completed annually within 30 days from the end of the FY.
- An intimation along with all the pertinent information should be made to the stock exchanges upon completion of the credit rating review and receipt of credit rating report.

Others: Following additional requirements for a REIT have been prescribed:

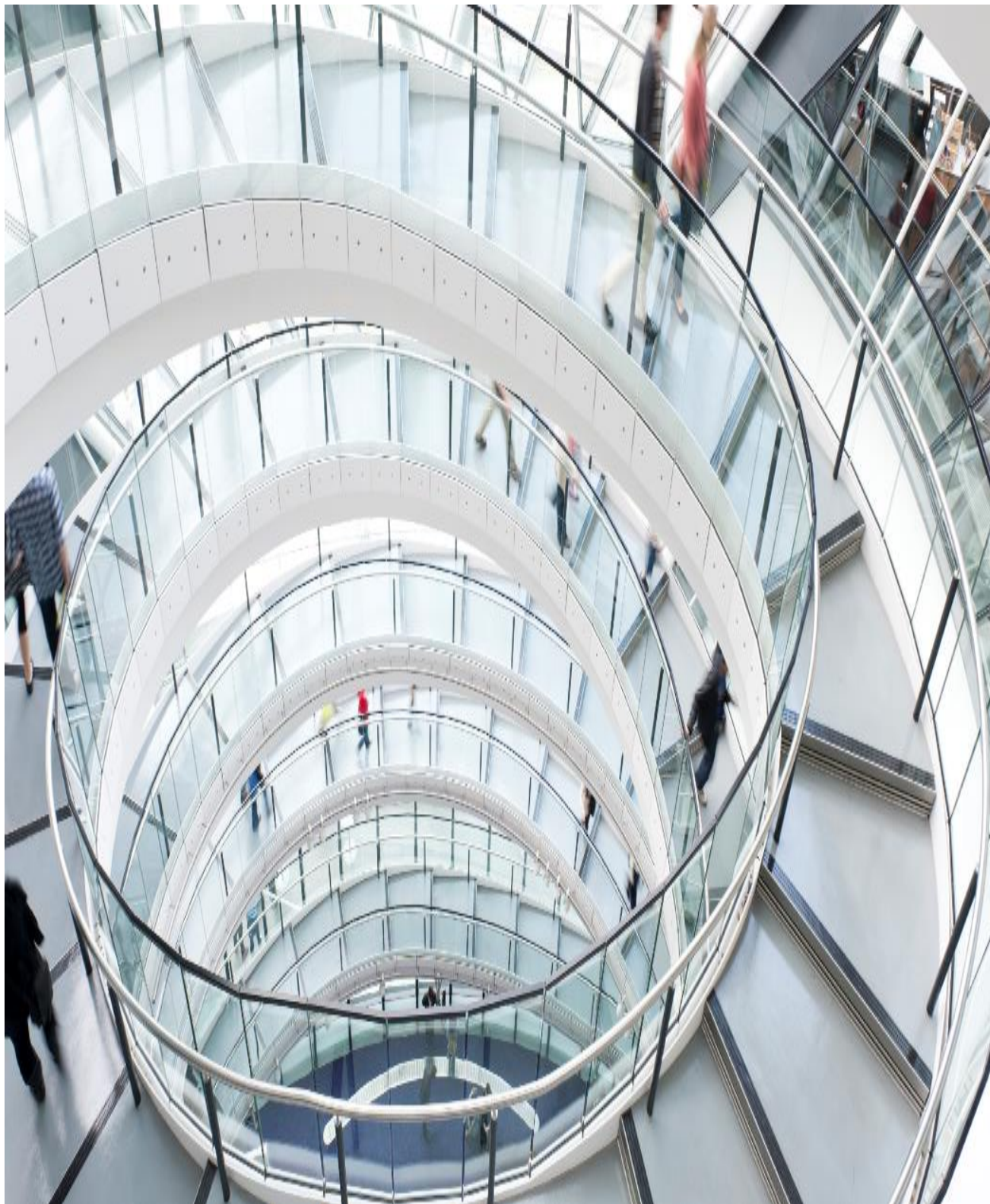
- **Website of a REIT:** A REIT is required to maintain a functional website comprising the specified updated (up to last two days) information. Further, any change/development that trigger a need for an update, should be updated within two days of such change/development.
- **Grievance redressal mechanism:** In order to ensure expeditious redressal of investor complaints, a REIT is required to get itself registered with the SEBI Complaints Redress System (SCORES) or such other system as mandated from time to time. Every listed REIT is required to submit on a quarterly basis, a statement of specified complaints within 21 days from the end of each quarter.
- **Statement of deviation(s) or variation(s):** Every listed REIT is required to submit on a quarterly basis, following statements for any public issue, rights issue, preferential issue, etc.:
 - **Statement of deviations:** In case of deviation in the use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting,
 - **Statement of variation (category wise):** In case of variation between projected utilisation of funds made by a REIT in its offer document or explanatory statement to the notice for the general meeting and the actual utilisation of funds.

These statements need to be given till the time the issue proceeds have been fully utilised or the purpose for which these proceeds were raised has been achieved.

Chapter III: Disclosure of financial and non-financial information to be submitted to the stock exchanges and compliances on a continuous basis by the REIT (cont.)

Additionally, an explanation for the said variation needs to be furnished in the annual report of a REIT.

- **Annual statement of funds utilised:** A REIT should also prepare an annual statement of funds utilised for purposes other than those stated in the offer document or explanatory statement to the notice for the general meeting. This statement should be certified by the statutory auditors of the REIT. This statement should be provided to the trustee and Board of Directors/Governing body of the manager till such time the money raised through the issue has been fully utilised.



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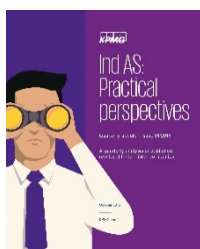
KPMG in India's IFRS institute



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.

Ind AS - Practical perspectives



KPMG in India's Ind AS - Practical perspectives aims to put a finger on the pulse of India Inc's adoption of Ind AS and capture emerging trends and practices.

Our impact assessment is based on Nifty 50 companies which would be the first group of companies to report Ind AS

results. The Nifty 50 companies have started reporting their financial results for the quarter ended 30 September 2016.

Out of the companies comprising Nifty 50 index, eight companies are banks, one is a Non-Banking Financial Company (NBFC) and two companies follow a different date of transition to Ind AS. Therefore, our analysis would comprise the remaining 39 companies.

This can be accessed on KPMG in India's website - ['Ind AS- Practical perspectives' webpage](#)

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



Issue no. 5/2016 – December 2016

This month the Accounting and Auditing Update focusses on the recent updates from the regulators in India and emerging new trends in the field of accounting and auditing. This edition includes a detailed analysis on the recently notified sections of the Companies Act, 2013 relating to restructuring, amalgamation and winding-up of companies. The notification of these sections was much awaited and our article discusses the key provisions of the recently notified sections along with our comments.

This publication also carries an article on the revised guidance note on reports or certificates for special purposes issued by the Institute of Chartered Accountants of India. The article provides an overview of the key elements of the guidance note and highlights additional considerations for management of entities and practitioners.

Ind AS 110, *Consolidated Financial Statements* provides wider definition of control in comparison to Accounting Standards. The revised definition is expected to impact the current structures and give rise to certain practical issues while preparing consolidated financial statements. Our article highlights some of these issues and explains the accounting under Ind AS with the help of examples.

Additionally, this publication carries an article on low-interest and interest-free loans under Ind AS 109, *Financial Instruments*. The article on this topic explains the accounting with the help of illustrative examples and a detailed flowchart. Our publication also carries a regular synopsis of regulatory updates.



Provisions relating to merger, amalgamation and winding-up, etc. are notified under the Companies Act, 2013

12 December 2016

On 7 December 2016, the Ministry of Corporate Affairs (MCA) issued a notification, whereby certain sections of the Companies Act, 2013 (2013 Act) were notified to come into force. These sections amongst others, relate to:

- reduction of capital and variations of shareholders' right;
- compromises, arrangements and amalgamations.

In addition to the above, certain winding-up sections were also notified by MCA. The notification states that the aforementioned sections would come into force on 15 December 2016.

MCA has also on 7 December 2016 notified the Companies (Transfer of Pending Proceedings), Rules 2016 (Transfer Rules) and also issued the Companies (Removal of Difficulties) Fourth Order, 2016 (Difficulties Order) to facilitate a smooth transition of the proceedings initiated under the Companies Act, 1956 (1956 Act) and pending before any district court or high courts to the National Company Law Tribunal (NCLT).

This issue of First Notes aims to provide an overview of these notifications.

Previous editions are available to download from: www.kpmg.com/in

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