IFRS Notes

ICAI issues exposure draft of Schedule III for NBFCs as per Ind AS

13 February 2017

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Background

The Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) (Amendment) Rules, 2016 (Ind AS Rules) on 30 March 2016, which included a road map for implementation of Ind AS by Non-Banking Financial Companies (NBFCs). The NBFCs are required to prepare both consolidated and individual financial statements based on Ind AS in the following two phases:

Phase I: For accounting period beginning from 1 April 2018 onwards with comparatives for the period ending on or after 31 March 2018:

a) The NBFCs having net worth of INR500 crore or more, and

b) Their holding, subsidiary, joint venture or associate companies, other than those companies already covered under the road map for companies issued by MCA in February 2015.

Phase II: For accounting period beginning from 1 April 2019 onwards with comparatives for the period ending on or after 31 March 2019:

a) The NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of less than INR500 crore

b) The NBFCs that are unlisted companies, having net worth of INR250 crore or more but less than INR500 crore

c) Holding, subsidiary, joint venture or associate companies of the above class of companies, other than those already covered under the road map for companies issued by MCA in February 2015.

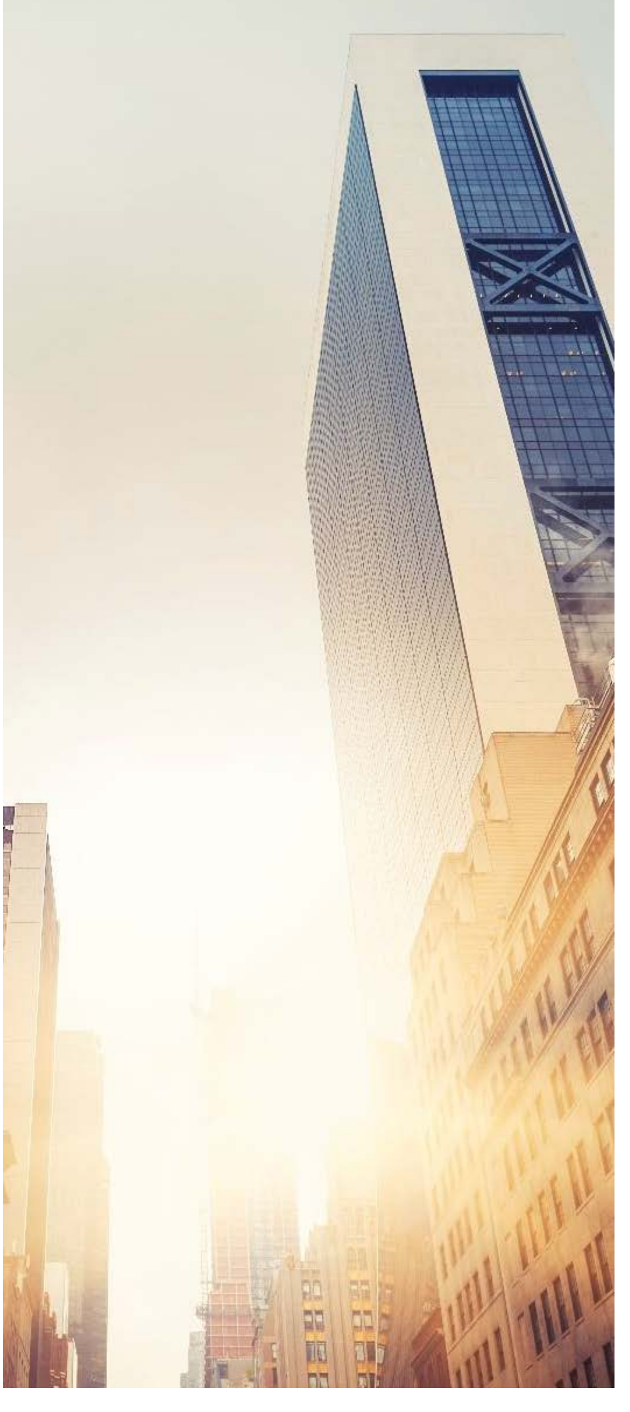
The NBFCs with a net worth below INR250 crore and not covered in Phase I and Phase II will continue to comply with the existing Accounting Standards (AS).

New development

On 6 February 2017, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) issued the Exposure Draft (ED) of the Ind AS compliant Schedule III to the Companies Act, 2013 (2013 Act) (Schedule III) for NBFCs.

Comments on the ED can be submitted to ICAI up to 6 March 2017.

This issue of IFRS Notes provide an overview of the Ind AS compliant Schedule III for NBFCs.



Overview of the Ind AS compliant Schedule III for NBFCs

Applicability

- Schedule III will apply to every NBFC as defined in the Ind AS Rules to which Ind AS is applicable in preparation of its financial statements.
- The provisions of Schedule III will also apply when a company is required to prepare consolidated financial statements, in addition to the disclosure requirements specified under Ind AS.

Balance sheet

- Schedule III provides a format for the balance sheet and sets out the minimum disclosures to be provided on the face of the balance sheet.
- Items presented in the balance sheet are to be classified into:

    a) financial/non-financial assets,

    b) financial/non-financial liabilities and

    c) equity.

- The assets and liabilities to be presented in the order of liquidity as provided by Ind AS 1, *Presentation of Financial Statements.*
- Additional balance sheet as at the beginning of the earliest comparative period to be presented in case an NBFC applies an accounting policy retrospectively, or makes a restatement of items in the financial statements, or when it reclassifies items in its financial statements.
- The amount expected to be recovered or settled after more than 12 months to be disclosed for each asset and liability line item that combines amounts expected to be recovered or settled:
    - no more than 12 months after the reporting period, and
    - more than 12 months after the reporting period.

Statement of profit and loss

- Schedule III provides a format for the statement of profit and loss and sets out the minimum requirements of disclosure on the face of the statement of profit and loss.
- The statement of profit and loss should include profit or loss for the period and other comprehensive income for the period.

Statement of changes in equity

- The statement of changes in equity should reconcile opening amounts to closing amounts for each component of equity including reserves and surplus and items of other comprehensive income.
- The format also includes disclosure of the equity component of compound financial instruments in 'other equity', which is in accordance with Ind AS 32, *Financial Instruments: Presentation*.

Statement of cash flows

- The statement of cash flows to be presented when required in accordance with Ind AS 7, *Statement of Cash Flows.*

Notes

- Notes containing information in addition to that which is presented in the financial statements should be provided, including, where required, narrative descriptions or disaggregation of items recognised in the financial statements and information about items that do not qualify for such recognition.

Compliance with Ind AS and other statutes

- The formats and requirements of Schedule III can be modified to comply with any changes in treatment or disclosure (including addition, amendment, substitution, deletion in the head or sub-head) required by a relevant Act/Regulations/ guidelines/circulars issued by the relevant regulator from time to time including Ind AS (except the option of presenting assets and liabilities in accordance with current, non-current classification as provided by relevant Ind AS).
- Further, the disclosure requirements specified in Schedule III would be in addition to and not in substitution of the disclosure requirements specified in Ind AS. Companies would be required to make additional disclosures specified in Ind AS either in the notes or by way of additional statement(s) unless required to be disclosed on the face of financial statements. Similarly, all other disclosures as required by the 2013 Act should be made in the notes in addition to the requirements of Schedule III.

Materiality

- Schedule III requires financial statements to disclose all 'material' items, i.e., the items if they could, individually or collectively, influence the economic decisions that users make on the basis of financial statements. Materiality depends on the size and nature of the item judged in particular circumstances.

Overview of the Ind AS compliant Schedule III for NBFCs (cont.)

- The definition of what is material is similar to that given in Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.* However, while preparing the statement of profit and loss, Schedule III specifies that in addition to the general consideration of materiality, a company should disclose a note for any item of income or expenditure which exceeds 1 per cent of the revenue from operations or INR1,000,000, whichever is higher.

Other key points

- The financial statements should contain the corresponding amounts for the immediately preceding reporting period for all items shown including Notes.
- Additionally, all the line items and sub-totals should be presented as an addition or substitution on the face of the financial statements when such presentation is relevant to an understanding of the NBFC's financial position or performance, or to cater to categories of NBFCs as prescribed by the relevant regulator or sector-specific disclosure requirements, or when required for compliance with the amendments to the relevant statutes or under Ind AS.

Our comments

The ED on Schedule III provides timely guidance since several NBFCs would be in the process of implementing Ind AS from 1 April 2018. The requirements for presentation of financial statements comprised in Schedule III are similar to those prescribed under the current Schedule III for corporate entities other than NBFCs. However, a major change is the presentation of the balance sheet for NBFCs in the order of liquidity. In addition, it requires disclosures with respect to derivative financial instruments including disclosures on how derivatives are used for hedging, types of hedges recognised for accounting purposes and their usage/application by an NBFC.

Additionally, it provides flexibility in presentation of the financial statements as it states that the prescribed disclosure requirements are in addition to and not in substitution of the disclosure requirements specified in Ind AS.

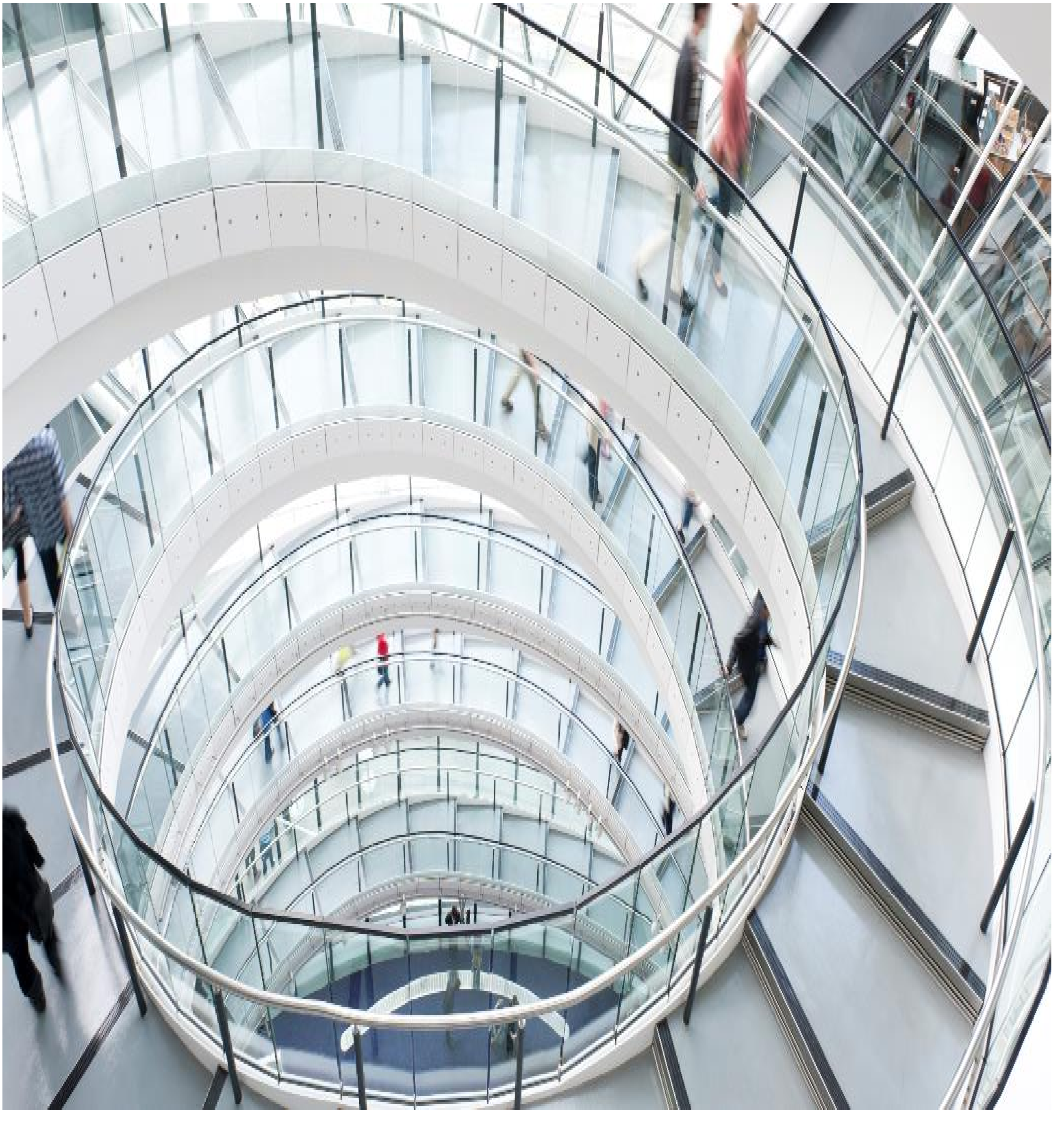
However, the following aspects may need further consideration:

- The general instructions for preparation of financial statements provided in Schedule III permit NBFCs to change the order of presentation of line items, if appropriate, considering the operations performed by the NBFC. While this provides a measure of flexibility in the presentation requirements, it may reduce comparability between NBFCs. In addition, if NBFCs form part of a larger consolidated group, this could pose some challenges for preparation of consolidated financial statements.
- The disclosure requirements for financial liabilities categorise them into classes such as trade payables, debt securities, borrowings, subordinated liabilities, etc. However, further clarity may be required on how these classes should be defined, specifically for presentation of the liability component of various types of compound instruments.
- Schedule III requires disclosure of receivables classified as 'secured, considered good', 'unsecured, considered good' and 'doubtful'. Due to the application of the Expected Credit Loss (ECL) model under Ind AS 109, *Financial Instruments*, bifurcation of the receivables into these categories may pose some challenges. The NBFCs will be required to track their receivables based on these categories, in addition to the computation required to determine ECL.
- Schedule III includes a note on interest income which requires separate disclosure of interest income earned for each class of financial assets measured at amortised cost, Fair Value Through Other Comprehensive Income (FVOCI) or Fair Value Through Profit and Loss (FVTPL). For financial assets measured at FVTPL, the Effective Interest Rate (EIR) method will not apply. The NBFCs will not be required to accrue interest income separately under Ind AS 109. Hence, further clarity may be required on whether NBFCs are required to present interest income on financial assets at FVTPL as part of their fair value gains or losses or separately as interest income.

Our comments (cont.)

In its general instructions related to other classification requirements for presentation of the balance sheet, Schedule III requires disclosure of amounts expected to be recovered or settled after more than 12 months from the end of the reporting period, for each asset and liability line item where such amounts are combined with amounts expected to be recovered or settled within 12 months from the end of the reporting period. This, in effect, will require NBFCs to categorise their assets and liabilities into 'current' and 'non-current' items. Since the balance sheet is to be presented in the order of liquidity, NBFCs would be required to maintain this information on a parallel basis, entailing additional efforts.

The Reserve Bank of India (RBI) also issues various disclosure requirements specific to respective classes of NBFCs from time to time. These disclosures would be in addition to the requirements of Schedule III. For example, disclosures on concentration of deposits, advances, exposures and non-performing assets, ratings assigned by credit rating agencies, etc. The NBFCs, in addition to the disclosures under the existing statute, would have to consider the additional disclosures mandated by RBI when transitioning to Ind AS.



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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.

Voices on Reporting

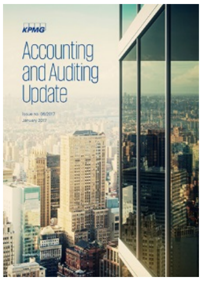
KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

Special session on Finance Bill, 2017 – Financial reporting perspective

In our recent call, we provided an overview and implications of the proposals given in the Finance Bill, 2017 on the following topics:

- Computation of book profit for Ind AS compliant companies for the purpose of levy of MAT
- Income Computation and Disclosure Standards
- Change in base of cost inflation index from 1 April 1981 to 1 April 2001
- MAT credit allowed to be carried forward to 15 Assessment Years.

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



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Starting this month, the Accounting and Auditing Update (AAU) includes a series of articles on the revised requirements of the Companies Act, 2013 (2013 Act). This month's edition carries an article on the Related Party Transactions (RPTs). The article provides an overview of the revised requirements for RPTs under the 2013 Act and the Securities and Exchange Board of India (SEBI) regulations.

This publication also carries an article on Initial Public Offering (IPO), which is an important event for any unlisted company. The article focusses on challenges that companies are likely to face and the significant decisions to be taken while preparing the financial information.

Additionally, this publication carries an article on derecognition of a financial liabilities under Ind AS 109, *Financial Instruments.*

Ind AS introduces many new terms and challenges in the field of financial reporting. This edition cast its lens on two such concepts under Ind AS: business combinations under common control and government incentives.

The publication also carries regular round up of regulatory updates in India and internationally.

SEBI advises listed companies to adopt integrated reporting voluntarily

9 February 2017

On 7 February 2017, SEBI issued a circular advising top 500 listed companies which are required to prepare BRR to adopt IR on a voluntary basis from the financial year 2017-18. While disclosing IR, companies should take note of the following points:

- **Placement of IR:** The information related to IR may be provided in the following ways:
  - As part of annual report with a separate section on IR
  - Incorporating in management discussion and analysis, or
  - By preparing a separate report (annual report prepared as per IR framework).

  In case the company has already provided the relevant information in any other report prepared in accordance with national/international requirement/ framework, it may provide appropriate reference to the same in its integrated report so as to avoid duplication of information.
- **Hosting on company's website:** Companies may host the integrated report on their website and provide appropriate reference to the same in their annual report.

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