KPMG

IFRS Notes

ICAI issues exposure drafts of annual improvements to Ind AS (2014-2016 cycle), amendments to Ind AS 40 and Appendix B to Ind AS 21

12 April 2017

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Background

The Ministry of Corporate Affairs (MCA), through its notification dated 16 February 2015, issued Indian Accounting Standards (Ind AS), which are converged with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

In order to deal efficiently with amendments to IFRS on account of inconsistencies in the standards or to provide further clarifications, the IASB along with the IFRS Interpretations Committee considers interpretation issues on IFRS either as part of its annual improvement process or as specific amendments to IFRS. In 2016, as part of its process, the IASB issued amendments to certain IFRS. The amendments are as follows:

Standard	Description
IAS 40, *Investment Property*	The IASB had issued amendments to IAS 40, Investment Property on 8 December 2016 to clarify whether property under construction or development that was previously classified as inventory could be classified as investment property when there was evidence of a change in use.
IFRIC 22, *Foreign Currency Transactions and Advance Considerations*	In December 2016, the IFRS Interpretations Committee of the IASB issued IFRS Interpretation, IFRIC 22 which clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency.
IFRS 12, *Disclosure of Interests in Other Entities*	As part of its annual improvement process to IFRS standards (2014-2016 cycle), in December 2016, the IASB issued amendments to IFRS 12, by clarifying its scope to entities classified as held for sale.
IAS 28, *Investments in Associates and Joint Ventures*	As part of its annual improvement process to IFRS standards (2014-2016 cycle), in December 2016, the IASB issued amendments to IAS 28 for clarifying the method of accounting for associates or joint ventures.

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

New development

With Ind AS being applicable to large Indian corporates from 1 April 2016, there is a need to keep Ind AS updated with revisions made to IFRS in order to maintain convergence. Accordingly, the Institute of Chartered Accountants of India (ICAI) on 29 March 2017 issued exposure drafts on the following:

- Amendments to Ind AS 40, *Investment Property*
- Appendix B of Ind AS 21, *Foreign Currency Transactions and Advance Consideration*
- Annual Improvements to Ind AS (2014-2016 cycle).

The last date for comments on the exposure drafts is 28 April 2017.

This issue of IFRS notes provides an overview of the amendments proposed by the ICAI.

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Exposure draft of amendments to Ind AS 40

The proposed amendments to Ind AS 40 clarify:

When should a property be transferred to, or from 'investment property'?

- A transfer of property to, or from, investment property is made when and only when there is a change in use of the property. Such a change in use would involve an assessment of whether the asset meets or ceases to meet the definition of investment property and evidence that a change in use has actually occurred. Such evidence may include factors such as commencement or end of owner occupation, commencement of development with a view to sale or inception of an operating lease to another party. A change in management intention alone, does not support a transfer[1]
- The examples of evidence of a change in use in Ind AS 40 are inclusive in nature - i.e. other forms of evidence may support a transfer[1]
- The above assessment for transfer of investment property would also apply to properties under construction or development.

Transitional provisions

- On initial application of the amended standards (once notified), entities would need to reassess the classification of property held at that date, and if applicable, reclassify the investment property. However, the cost of the property used for measurement and disclosure purpose and its carrying amount would not change on such reclassification
- While providing a reconciliation of the carrying amount of the investment property at the beginning and at the end of the reporting period, entities would also need to disclose the amounts reclassified to and from investment property on reassessment of 'investment property' as per the amended standard (once notified).

Effective date

ICAI proposes to make these amendments applicable from 1 April 2018 (retrospective application would be permitted, provided companies have the required information).

Exposure draft of Appendix B to Ind AS 21

Paragraph 21 of Ind AS 21, *The Effects of Changes in Foreign Exchange Rates* requires an entity to record a foreign currency transaction, on initial recognition in its functional currency, by applying to the foreign currency amount, the spot exchange rate between the functional currency and the foreign currency at the date of transaction. The date of the transaction is the date on which the transaction first qualifies for recognition in accordance with Ind AS.

However, there are circumstances when an entity pays or receives consideration in advance in a foreign currency. This gives rise to a non-monetary asset or non-monetary liability before recognition of the related asset, expense or income.

The related asset, expense or income (or part of it) is the amount recognised by applying relevant Ind AS, resulting in derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.

Based on the clarification provided by the IFRS Interpretations Committee by issuing the IFRS Interpretation, IFRIC 22, the ICAI has issued an exposure draft to add Appendix B to Ind AS 21. This clarifies that the date of the transaction for determining the exchange rate to be used on initial recognition of the related asset, expense or income, is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in foreign currency.

Our earlier issue of IFRS Notes provides an overview of IFRIC 22.

Effective date

ICAI proposes to make these amendments applicable from 1 April 2018 (retrospective application would be permitted, provided companies have the required information).

[1] *Source: Transfers to and from investment property, KPMG IFRG Limited's publication, December 2016*

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Proposed amendments to Ind AS 112 and Ind AS 28 as part of annual improvements to Ind AS (2014-2016) cycle

As part of its annual improvement to Ind AS, the ICAI has proposed to make non-urgent but necessary amendments to Ind AS 112, *Disclosure of Interests in Other Entities* and to Ind AS 28, *Investments in Associates and Joint Ventures*. These proposals are in line with the changes made by IASB to IFRS.

Standard	Amendments made
Ind AS 112	The amendments clarify that disclosure requirements for interests in other entities also apply to interests that are classified (or included in a disposal group that is classified) as held for sale or has discontinued its operations in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.
Ind AS 28	• The amendment applies to investment in associates or joint ventures held by or held indirectly through venture capital organisations, mutual funds, unit trusts, investment-linked insurance funds and other similar entities. These entities may elect to measure their investments in associates or joint ventures at fair value through profit or loss. This election can be made on an investment-by-investment basis, at initial recognition of the associate or joint venture • A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or investment entity joint venture at the later of the following dates: - The investment entity associate or investment entity joint venture is initially recognised - The associate or joint venture becomes an investment entity - The investment entity associate or investment entity joint venture first becomes a parent.

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

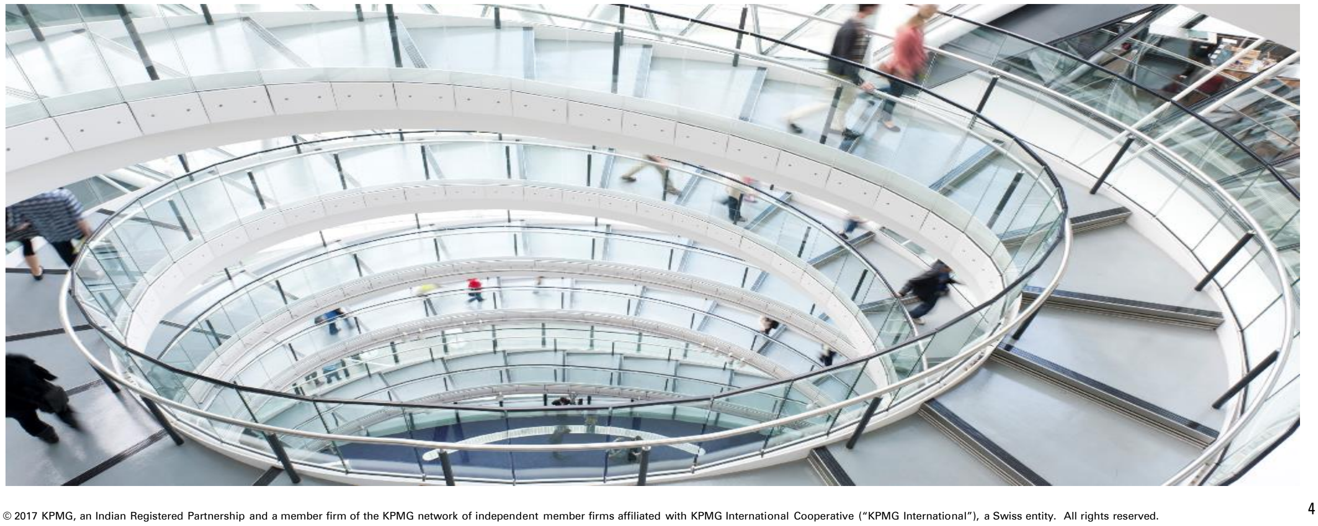
Effective date

ICAI proposes to make these amendments applicable retrospectively for annual periods beginning on or after 1 April 2018.

Our comments

The proposed amendments to Ind AS are in accordance with amendments made to IFRS and are designed to improve the practical application of these standards. A few of these amendments compulsorily require retrospective application, while the others provide an option to companies to apply them retrospectively where information is available, and where retrospective application would provide more useful and relevant information to the users of the financial statements. These amendments and their effective date is subject to the approval and notification by the MCA.

Companies that have transitioned to Ind AS or are in the process of implementing Ind AS should accordingly consider the information that would be required to be in compliance with these amendments.



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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.

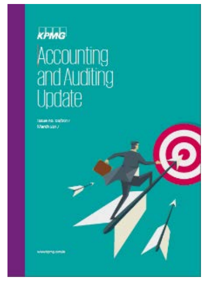
Voices on Reporting

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.

In our recent call held on Wednesday, 5 April 2017, we covered key financial reporting and regulatory matters that are expected to be relevant for stakeholders for the quarter ended 31 March 2017.

Our call included updates from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), etc.

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



Issue no. 8/2017 – March 2017

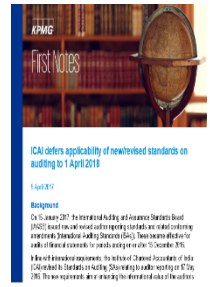
Continuing with our series of articles on the revised requirements of the Companies Act, 2013 (2013 Act), this month's edition of the Accounting and Auditing Update (AAU) carries an article on the requirements relating to Corporate Social Responsibility (CSR) under the 2013 Act. Our article summarises the requirements, amendments, clarifications and frequently asked questions issued by the Ministry of Corporate Affairs (MCA) on this topic.

Our article examines an important accounting matter relating to the factors to consider while determining if entities such as e-commerce companies and trading companies are acting as an agent or a principal based on the principles of Ind AS.

Our article also features an interaction with Mr. Ashish Chauhan, MD and CEO, BSE Ltd. Our conversation with him explores the incentives and value propositions of International Financial Service Centre (IFSC), opportunities available to Small and Medium Enterprises (SMEs) to list, various regulatory changes and reporting requirements.

Our publication also brings you the highlights of the Second Annual KPMG Accounting, Reporting and Compliance Conference.

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



ICAI defers applicability of new/revised standards on auditing to 1 April 2018

5 April 2017

In line with international requirements, the Institute of Chartered Accountants of India (ICAI) revised its Standards on Auditing (SAs) relating to auditor reporting on 17 May 2016. The new requirements aim at enhancing the informational value of the auditor's report. These standards were to become applicable for audits of financial statements for periods beginning on or after 1 April 2017.

Concerns were raised by the members of ICAI over the practical implementation of SAs and therefore, requested ICAI to consider the deferment of applicability of these SAs by a period of one year.

Accordingly, ICAI has deferred the effective date/applicability date of SAs by one year (through its announcement dated 1 April 2017). Accordingly, these SAs would be effective/applicable for audits of financial statements for periods beginning on or after 1 April 2018.

This issue of First Notes provides an overview of the amendments issued by the MCA.

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

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