IFRS Notes

MCA clarifies Ind AS applicability norms for ‘payments banks and small banks’

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Background

Ind AS road map for corporates and banks

The Ministry of Corporate Affairs (MCA) through its notification dated 16 February 2015 laid down the road map for implementation of Indian Accounting Standards (Ind AS) by companies other than banking companies, insurance companies and Non-Banking Financial Companies (NBFCs) (corporate road map).

On 11 February 2016, the Reserve Bank of India (RBI) issued a circular (RBI/2015-16/315) which requires holding, subsidiary, joint venture or associate companies of scheduled commercial banks (excluding regional rural banks) to comply with Ind AS for accounting periods beginning from 1 April 2018 onwards, with comparatives for periods ending on or after 31 March 2018.

New development

The MCA through a circular (no. 10/2017) dated 13 September 2017 clarified that in case a holding company covered under the corporate road map of Ind AS has payments bank or small finance bank[1] as its subsidiary, then the holding company should continue to follow the corporate road map. However, the payments bank or the small finance bank should follow the banking sector road map as prescribed by RBI.

Therefore, according to the clarification, in case of a holding company covered under phase II of the corporate road map has a subsidiary as a payments bank or a small finance bank, then it would comply with the following timelines:

- **Holding company:** Follow Ind AS from 1 April 2017 with comparatives for the period ending on or after 31 March 2017.

- **Payments bank or small finance bank (subsidiary company):** Follow Ind AS from 1 April 2018 with comparatives for the period ending on or after 31 March 2018.

  However, such a subsidiary company would need to provide the Ind AS financial data to its holding company for the purpose of consolidation.

Our comments

The RBI allowed formation of payments banks and small banks as niche or differentiated banks; with the objective of furthering financial inclusion[2]. Since such banks could also be operated by corporates but are governed by the provisions of RBI, it became necessary to define a road map for such banks in case they are subsidiaries of a company covered under the corporate road map i.e. whether they would be covered under the corporate road map or under the road map specified for banks.

According to the clarification, such subsidiary companies (i.e. payments banks or small finance banks) would need to comply with Ind AS with effect from 1 April 2018. However, they still need to prepare financial information as per Ind AS for the purpose of consolidation. Therefore, it implies that these banks should also start initiating the process of preparation of their books of account as per Ind AS and identify the challenges that could be resolved in a timely manner.

It is important to note that the payments banks and the small finance banks would get the status of a scheduled bank once they commence their operations and are found suitable as per Section 42(6)(a) of the Reserve Bank of India Act, 1934 as per the guidelines issued by the RBI.

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[1]For a detailed overview of the guidance provided by the RBI with respect to a payments bank and a small finance bank, please refer to Annexure I of this note.

[2]*Financial inclusion* is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

Annexure I

Payments banks and small finance banks

With the view to further financial inclusion, RBI through its press releases dated 27 November 2014 issued the following guidelines with respect to formation of 'payments banks and small finance banks' in India:

- Guidelines for licensing of payments banks (press release 2014-2015/1089)
- Guidelines for licensing of small finance banks in the private sector (press release 2014-2015/1090).

Payments bank

The RBI prescribes detailed guidelines for the payments banks. Following are some of the key guidelines with respect to a payments bank:

- **Objectives**: The primary objective of setting up of payments banks is to provide:
  a) Small savings accounts and
  b) Payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high volume-low value transactions in deposits and payments/remittance services in a secured technology-driven environment.
- **Eligibility**: The existing non-bank Pre-paid Payment Instrument (PPI) issuers authorised under the Payment and Settlement Systems Act, 2007 and other entities such as individuals/ professionals, NBFCs, corporate Business Correspondents (BCs), mobile telephone companies, super-market chains, companies, real sector cooperatives that are owned and controlled by residents and public sector entities are eligible to apply to set up payments banks.

  Additionally promoter/promoter group could have a joint venture with an existing scheduled commercial bank to set up a payments bank.

  The minimum paid-up equity capital for payments banks has been prescribed as INR100 crore.
- **Scope of activities:** The payments banks are permitted to set up its own outlets such as branches, Automated Teller Machines (ATMs), BCs, etc., to undertake only certain restricted activities permitted to banks under the Banking Regulation Act, 1949 (Banking Act) such as acceptance of demand deposits, issuance of ATM/debit cards and internet banking.
- **Registration:** A payments bank would be registered as a public limited company under the Companies Act, 2013 (2013 Act), and would be licensed under Section 22 of the Banking Act with specific licensing conditions which restricts its activities mainly to acceptance of demand deposits and provision of payments and remittance services.

Small finance bank

The RBI prescribes detailed guidelines for the small finance banks. Following are some of the key guidelines with respect to a small finance bank:

- **Objectives:** The objective of setting up of small finance banks is to:
  a) Provide for savings vehicles primarily to unserved and underserved sections of the population, and
  b) Supply of credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sector entities, through high technology-low cost operations.
- **Eligibility**: Resident individuals/professionals with 10 years of experience in banking and finance and companies and societies owned and controlled by the residents are eligible to set up small finance banks. Existing NBFCs, Micro Finance Institutions (MFIs), and Local Area Banks (LABs) that are owned and controlled by residents could also opt for conversion into small finance banks. However, joint ventures by different promoter groups for the purpose of setting up small finance banks would not be permitted.

  The minimum paid-up equity capital for small finance banks has been prescribed as INR100 crore.
- **Scope of activities:** The small finance bank should primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

  No restriction is present for the area of operations of a small finance bank.
- **Registration:** The small finance bank would be registered as a public limited company under the 2013 Act. It will be licensed under Section 22 of the Banking Act and governed by the various provisions such as the Banking Act, RBI Act, 1934 and the Foreign Exchange Management Act (FEMA), 1999.

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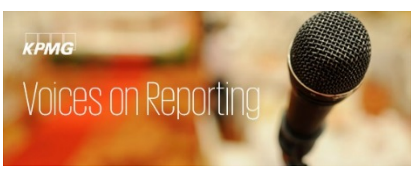
Voices on Reporting



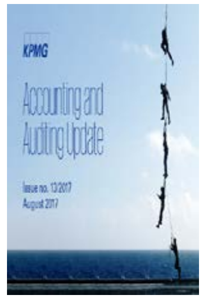
KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

Recently, the Central Board of Direct Taxes (CBDT) issued following circulars:

- Clarifications in the form of Frequently Asked Questions (FAQs) on issues relating to the levy of Minimum Alternate Tax (MAT) for Ind AS compliant companies
- Proposal for amendment to Section 115JB of the Income Tax Act, 1961 in relation to Ind AS compliant companies.

A special session of our Voices on Reporting webinar held on 3 August 2017 provided an overview of the implications of the above mentioned developments.

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



Issue no. 13/2017 – August 2017

In this month's Accounting and Auditing Update (AAU), we elaborate on the concept of held for sale and explain classification, measurement and presentation requirements of assets so categorised.

In this edition of AAU, our article provides an overview of the 'staging assessment' required to be performed by financial institutions to determine the extent of expected losses to be recognised under Ind AS.

Under the Companies Act, 2013 (2013 Act) article, we provide an overview of the provisions relating to loans and investments made by companies. The article also highlights the requirements of the Securities and Exchange Board of India's regulations with regard to loans and investments made by the companies.

This publication also carries an article on replacement of employee stock options in a business combination. In a business combination, an acquirer may be obliged to replace share-based payment awards granted to the employees of the acquiree or an acquirer may voluntarily replace such awards, whereas in other cases the awards may not be replaced. The article explains the accounting treatment under Ind AS for these three scenarios along with an illustration.

Our publication also carries a regular synopsis of recent regulatory updates in India and internationally.

SEBI mandates disclosures of defaults on repayment of loans from banks by listed entities

16 August 2017

The SEBI, through its circular dated 4 August 2017 has mandated listed entities who have defaulted in payment of interest/instalment obligations on loans from banks and financial institutions, debt securities (including commercial paper), etc. to provide a disclosure of defaults to the stock exchanges within one working day from the date of the default in the manner prescribed in the circular. This circular is effective from 1 October 2017.

This issue of First Notes provides an overview of the new SEBI disclosure requirements for listed entities in case of default in repayment of loans taken from banks and financial institutions.

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