



# IFRS Notes

**The MCA notifies a road map  
for Ind AS implementation by  
NBFCs and provides  
clarifications on the same for  
banks and insurance companies**

April 2016

[kpmg.com/in](http://kpmg.com/in)



## Introduction

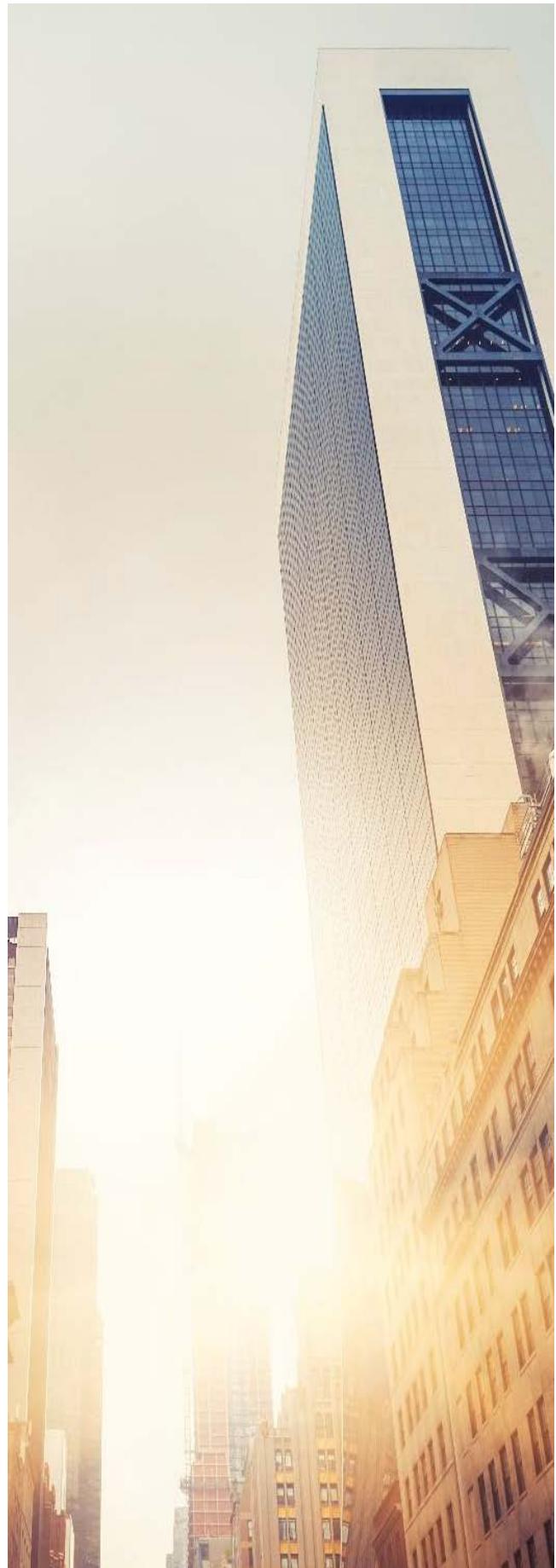
On 30 March 2016, the Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) (Amendment) Rules, 2016, which include a road map for implementation of Indian Accounting Standards (Ind AS) by Non-Banking Financial Companies (NBFCs) (NBFC road map).

NBFCs will be required to comply with Ind AS in a phased manner, from accounting periods beginning on or after 1 April 2018 for the first phase and 1 April 2019 for the second phase. This circular confirms the timeline for Ind AS implementation by NBFCs that was specified by MCA in its press release dated 18 January 2016.

**"While NBFCs covered by the road map will transition to Ind AS in 2018-19, the other companies in their group that are covered in MCA's corporate road map will transition at an earlier date. This may pose some practical implementation challenges, especially on consolidation, due to the differing accounting frameworks applied by various companies within the group"**

**Sai Venkateshwaran**

Partner and Head  
Accounting Advisory Services  
KPMG in India



## Background

The MCA, through its notification dated 16 February 2015, issued a road map for implementation of Ind AS by companies other than banking companies, insurance companies and NBFCs (corporate road map). On 29 September 2015, RBI recommended a road map to MCA for implementation of Ind AS from 2018-19 onwards for banks and NBFCs. The RBI then issued a circular on 11 February 2016 confirming the Ind AS implementation date for scheduled commercial banks.

The MCA notification of 30 March 2016 now provides certainty on the implementation timeline for NBFCs.

## Overview of the NBFC road map

The notification covers all NBFCs as defined in clause (f) of Section 45-I of the Reserve Bank of India Act, 1934, and includes Housing Finance Companies, Merchant Banking Companies, Micro Finance Companies, Mutual Benefit Companies, Venture Capital Fund Companies, Stock Broker or Sub-Broker Companies, Nidhi Companies, Chit Companies, Securitisation and Reconstruction Companies, Mortgage Guarantee Companies, Pension Fund Companies, Asset Management Companies and Core Investment Companies.

NBFCs would be required to prepare both consolidated and individual financial statements based on Ind AS in two phases.

### *Phase I*

For accounting periods beginning from 1 April 2018 onwards, with comparatives for the periods ending on or after 31 March 2018:

- I. NBFCs having net worth of INR500 crores or more, and
- II. Their holding, subsidiary, joint venture or associate companies, other than those companies already covered under the road map for companies issued by MCA (corporate road map) in February 2015.

### *Phase II*

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

- I. 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.
- II. NBFCs that are unlisted companies, having net worth of INR250 crores or more but less than INR500 crore.
- III. 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 (corporate road map) in February 2015.

NBFCs with a net worth below INR250 crores and not covered in Phase I or II will continue to comply with the existing accounting standards.

### *Reference date for computing net worth*

In order to determine if an NBFC is covered by the notification, the net worth is to be calculated in accordance with the stand-alone financial statements of the NBFC as on 31 March 2016 or the first audited financial statements ending after that date.

Further, when an NBFC meets the specified thresholds for the first time at the end of an accounting period, it will be required to apply Ind AS from the immediate next accounting year.

## Clarification on Ind AS road map for banks

Holding, subsidiary, joint venture or associate companies of Scheduled Commercial Banks (excluding Regional Rural Banks) would be required to prepare Ind AS based financial statements for accounting periods beginning from 1 April 2018 onwards with comparatives for the periods ending 31 March 2018 or thereafter. These entities are not permitted to voluntarily adopt Ind AS from an earlier date.

## Clarification on Ind AS road map for insurance companies

Insurance companies shall apply Ind AS as notified by the Insurance Regulatory Development Authority (IRDA) for accounting periods beginning from 1 April 2018 onwards. However, an insurer or insurance company shall provide Ind AS compliant financial statement data for the purposes of preparation of consolidated financial statements by its parent, investor, or venturer, as required by the parent, investor, or venturer to comply with the requirements of Ind AS, based on the corporate road map.

## Our comments

### Applicability of the notification to various types of NBFCs

The MCA notification provides some clarity as it specifies that it applies to NBFCs as defined in clause (f) of Section 45-I of the Reserve Bank of India Act, 1934 (the RBI Act) and provides an inclusive list of the types of NBFCs covered. Therefore, companies should carefully consider whether they meet the definition of NBFCs under the RBI Act to determine if the Ind AS road map for NBFCs applies to them.

### Group companies not covered in corporate road map

Group companies of NBFCs that are not covered by the corporate road map will prepare Ind AS based financial statements based on the road map applicable to those NBFCs.

### Group companies covered in the Ind AS road map for banks

Holding, subsidiary, joint venture or associate companies of Scheduled Commercial Banks (excluding Regional Rural Banks) would be required to prepare Ind AS based financial statements for accounting periods beginning from 1 April 2018 onwards with comparatives for the periods ending 31 March 2018 or thereafter. Early adoption of Ind AS on a voluntary basis is not permitted for these companies.

### NBFCs and group companies with different Ind AS adoption dates

The notification clearly specifies that holding, subsidiary, joint venture and associate companies of NBFCs that are already covered under the corporate road map announced by MCA in February 2015, will apply Ind AS based on the timelines specified in the corporate road map.

### Situation 1: When NBFC is a parent entity while subsidiaries, associates and joint ventures are covered under the corporate road map

Subsidiaries, associates and joint ventures that would apply Ind AS in their stand-alone financial statements as per corporate road map for accounting periods prior to 2018-19, would also be required to provide relevant financial statement information in accordance with the accounting policies followed by the parent NBFC (based on existing accounting standards) for consolidation purposes at the NBFC parent entity level.

This is illustrated in the table below:

Financial year	NBFC Parent		Subsidiary/associate/joint venture	
	Stand-alone	Consolidated	Stand-alone	For consolidation
2016-17	Indian GAAP	Indian GAAP	Ind AS	Indian GAAP
2017-18	Indian GAAP	Indian GAAP	Ind AS	Indian GAAP
2018-19	Ind AS	Ind AS	Ind AS	Ind AS

This is expected to necessitate significant additional effort and costs since parallel financial information needs to be maintained and generated by the group companies.

**Situation 2:** Parent entity covered in corporate road map and NBFC being either subsidiary, associate or joint venture covered under the NBFC road map.

NBFCs shall apply Ind AS in preparing their financial statements only if they meet the criteria specified in this notification and are not permitted to voluntarily adopt Ind AS. However, the notification clarifies that NBFCs that are subsidiaries, associates or joint ventures of a parent company, that is required to prepare consolidated Ind AS financial statements under the corporate road map, will be required to provide relevant financial information based on the parent's accounting policies for consolidation purposes. The table below illustrates this requirement:

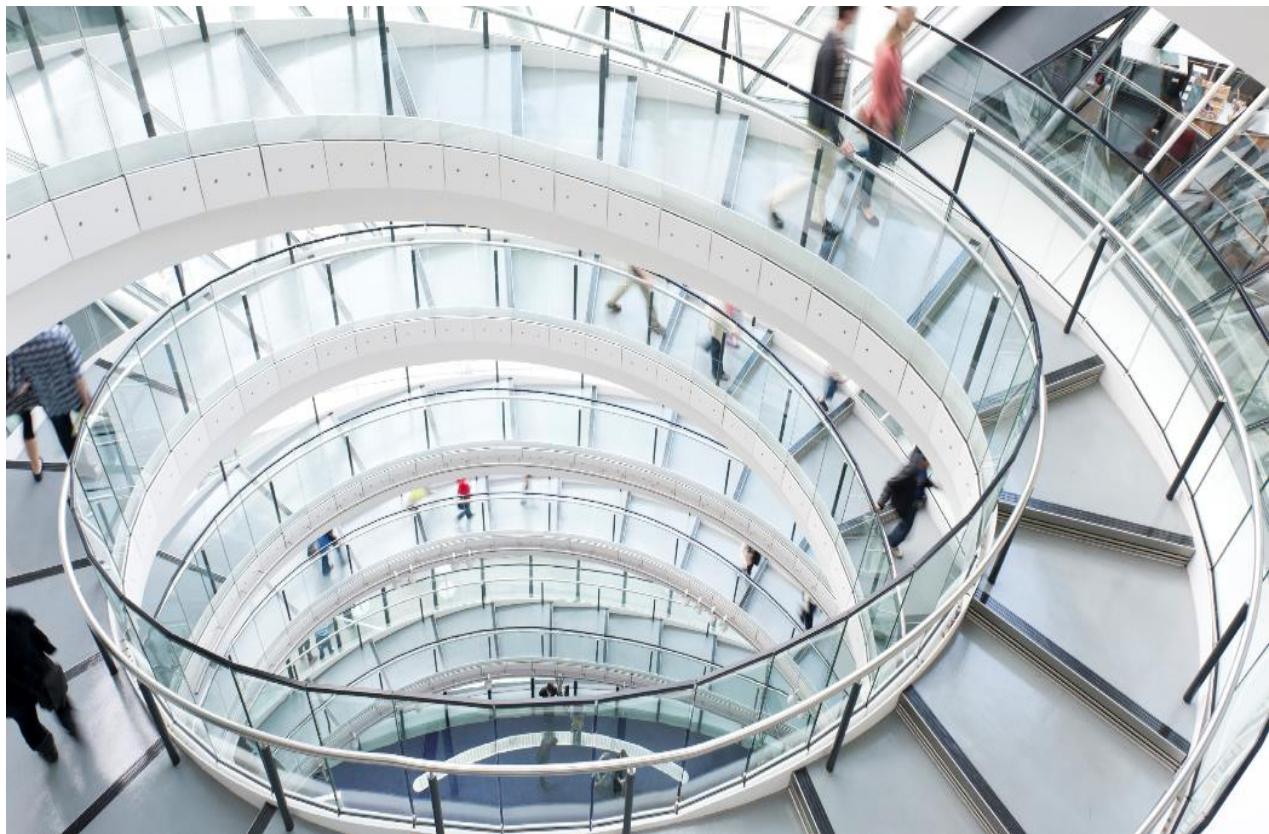
Financial year	NBFC subsidiary		Parent company	
	Stand-alone	For consolidation	Stand-alone	Consolidated
2016-17	Indian GAAP	Ind AS	Ind AS	Ind AS
2017-18	Indian GAAP	Ind AS	Ind AS	Ind AS
2018-19	Ind AS	Ind AS	Ind AS	Ind AS

This means that such NBFCs would have to determine the financial statement impact related to Ind AS transition at a much earlier date, which can involve substantial efforts and cost.

### Next steps

The transition date to Ind AS for NBFCs would be 1 April 2017. This is expected to have an organisation-wide impact due to the pervasive nature of the new standards. Therefore, entities covered under this road map should commence identifying the necessary changes required to their financial reporting and regulatory policies, processes and systems to prepare for this change.

In addition, NBFCs that are subsidiaries, associates or joint ventures of a parent that are covered by the corporate road map for Ind AS implementation will need to rapidly initiate efforts to determine the Ind AS financial statement impact in order to prepare financial information for consolidation by its parent.



## KPMG in India

### Ahmedabad

Commerce House V, 9th Floor  
902 & 903, Near Vodafone House  
Corporate Road, Prahaladnagar  
Ahmedabad 380 051  
Tel: +91 79 4040 2200  
Fax: +91 79 4040 2244

### Hyderabad

8-2-618/2  
Reliance Humsafar, 4th Floor  
Road No.11, Banjara Hills  
Hyderabad 500 034  
Tel: +91 40 3046 5000  
Fax: +91 40 3046 5299

### Bengaluru

Maruthi Info-Tech Centre  
11-12/1, Inner Ring Road  
Koramangala, Bengaluru 560 071  
Tel: +91 80 3980 6000  
Fax: +91 80 3980 6999

### Kochi

Syama Business Center  
3rd Floor, NH By Pass Road,  
Vytilla, Kochi – 682019  
Tel: +91 484 302 7000  
Fax: +91 484 302 7001

### Chandigarh

SCO 22-23 (1st Floor)  
Sector 8C, Madhya Marg  
Chandigarh 160 009  
Tel: +91 172 393 5777/781  
Fax: +91 172 393 5780

### Kolkata

Unit No. 603 – 604, 6th Floor,  
Tower - 1, Godrej Waterside,  
Sector – V,  
Salt Lake, Kolkata - 700 091  
Tel: +91 33 44034000  
Fax: +91 33 44034199

### Chennai

No.10, Mahatma Gandhi Road  
Nungambakkam  
Chennai 600 034  
Tel: +91 44 3914 5000  
Fax: +91 44 3914 5999

### Mumbai

Lodha Excelus, Apollo Mills  
N. M. Joshi Marg  
Mahalaxmi, Mumbai 400 011  
Tel: +91 22 3989 6000  
Fax: +91 22 3983 6000

### Delhi

Building No.10, 8th Floor  
DLF Cyber City, Phase II  
Gurgaon, Haryana 122 002  
Tel: +91 124 307 4000  
Fax: +91 124 254 9101

### Pune

703, Godrej Castlemaine  
Bund Garden  
Pune 411 001  
Tel: +91 20 3058 5764/65  
Fax: +91 20 3058 5775

You can reach us for feedback and questions

at:

[in-fmkpmgfrsinst@kpmg.com](mailto:in-fmkpmgfrsinst@kpmg.com)

## 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



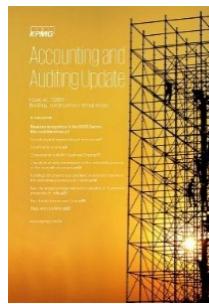
**KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.**

In our next call, on 5 April 2016, we will cover key financial reporting and regulatory matters that are expected to be relevant for stakeholders as they approach the quarter ending 31 March 2016.

Our call will include updates from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Institute of Chartered Accountants of India (ICAI), the Insurance Regulatory and Development Authority of India (IRDA), etc.

Our Voices on Reporting conference call will be held on Tuesday, 5 April 2016 between 04:00 – 05:00 PM.

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



This month the Accounting and Auditing Update focusses on the Building, Construction and Real Estate (BCRE) sector and highlights key matters relating to accounting, financial reporting and regulatory areas relevant to this sector.

In this publication, we highlight current Indian GAAP guidance on revenue recognition by the sector and the guidance under IFRS. The Institute of Chartered Accountants of India is expected to issue a guidance note to provide direction on the accounting of the revenue recognition from the sale of real estate under Ind AS and we have highlighted potential challenges due to adoption of Ind AS.

The publication features an interaction with Mr. Govinder Singh, International Business Head and Ex-Chief Financial Officer, Tata Housing Development Company Limited, and explores some key accounting, reporting and other topical matters relevant to the industry.

The publication also carrier number of other accounting issues in detail relevant to this sector.

Additionally, our publication carries a regular synopsis of regulatory updates



## The proposed Companies (Amendment) Bill, 2016

### 1 April 2016

Based on the recommendations of the CLC report, on 16 March 2016, the government proposed the Companies (Amendment) Bill 2016, (the Bill) on issues arising on account of implementation of the Companies Act, 2013 (2013 Act) in the Lok Sabha to amend the 2013 Act. The Bill considered the suggestions made by the CLC as well as the comments received from the stakeholders and ministries/departments.

The recommendations cover significant areas of the 2013 Act, including definitions, raising of capital, accounts and audit, Corporate Social Responsibility (CSR), managerial remuneration, companies incorporated outside India and offences/penalties.

This issue of First Notes summarises key recommendations of the Bill.

**Previous editions are available to download from: [www.kpmg.com/in](http://www.kpmg.com/in)**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

This document is meant for e-communication only.