



IFRS Notes

**SEBI clarifies the
applicability of Ind AS to
disclosures in offer
documents**

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Introduction

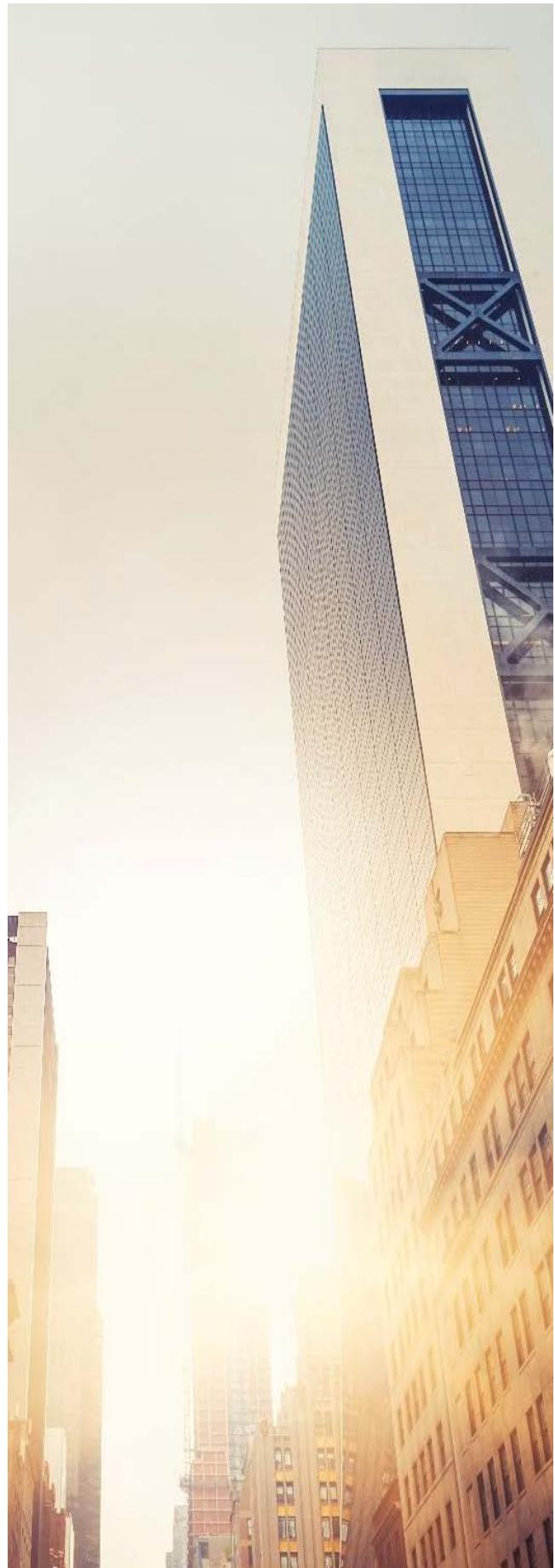
On 31 March 2016, the Securities and Exchange Board of India (SEBI) issued a circular (reference no. SEBI/HO/CFD/DIL/CIR/P/2016/47) clarifying the applicability of the Indian Accounting Standards (Ind AS) to the financial information disclosed by issuer companies in their offer document.

This circular specifies the accounting framework to be applied while disclosing financial information for each of the five financial years immediately preceding the filing of the offer document, based on the period in which it is filed.

"We believe this is a welcome move as it provides clarity to companies that are in the process or contemplating a listing on the Indian markets. While the circular provides an approach whereby companies present Ind AS financial statements in a phased manner together with existing Indian GAAP information for earlier periods, it remains to be seen whether this phased approach will be accepted by the investor community or whether they would expect companies to present all five years of the track record period in accordance with Ind AS."

Sai Venkateshwaran

Partner and Head
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Background

The Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Rules, 2015 which provided a road map for implementation of Indian Accounting Standards (Ind AS) by companies in India (corporate road map dated 16 February 2015). This required Ind AS to be applied in a phased manner i.e. from the financial year commencing 1 April 2016 onwards for companies in phase I and from the financial year commencing 1 April 2017 onwards for companies in phase II.

The SEBI (Issue of Capital and Disclosure Requirements (ICDR)) Regulations, 2009 require issuer companies to disclose financial information for each of the five financial years immediately preceding the filing of their offer document, while following uniform accounting policies for each of the financial years. Therefore, there was uncertainty on the accounting framework to be applied by companies that are transitioning to reporting under Ind AS. This circular seeks to provide clarity on the same.

Overview of the SEBI circular

This circular is applicable to companies that are covered in either of the phases of the corporate road map for Ind AS implementation, and file their offer document with SEBI on or after 1 April 2016.

Phase I companies

For companies that will implement Ind AS in phase I, i.e. from accounting periods beginning on 1 April 2016, the accounting framework applicable for disclosing financial information in their offer document is illustrated in the table below:

Period of filing offer document	Accounting framework for preceding five Financial Years (FYs)				
	Latest FY	Second latest FY	Third FY	Second earliest FY	Earliest FY
Upto 31 March 2017	Indian GAAP (2015-16)	Indian GAAP (2014-15)	Indian GAAP (2013-14)	Indian GAAP (2012-13)	Indian GAAP (2011-12)
1 April 2017 to 31 March 2018	Ind AS (2016-17)	Ind AS (2015-16)	Ind AS * (2014-15)	Indian GAAP (2013-14)	Indian GAAP (2012-13)
1 April 2018 to 31 March 2019	Ind AS (2017-18)	Ind AS (2016-17)	Ind AS (2015-16)	Indian GAAP (2014-15)	Indian GAAP (2013-14)
1 April 2019 to 31 March 2020	Ind AS (2018-19)	Ind AS (2017-18)	Ind AS (2016-17)	Ind AS (2015-16)	Indian GAAP (2014-15)
On or after 1 April 2020	Ind AS (2019-20)	Ind AS (2018-19)	Ind AS (2017-18)	Ind AS (2016-17)	Ind AS (2015-16)

* To be disclosed by making suitable restatement adjustments to the accounting heads from their values as on the date of transition following accounting policies consistent with that used at the date of transition to Ind AS.

Phase II companies

The accounting framework applicable to companies in phase II of the Ind AS corporate road map, is as per the table below:

Period of filing offer document	Accounting framework for preceding five FYs				
	Latest FY	Second latest FY	Third FY	Second earliest FY	Earliest FY
Upto 31 March 2018	Indian GAAP (2016-17)	Indian GAAP (2015-16)	Indian GAAP (2014-15)	Indian GAAP (2013-14)	Indian GAAP (2012-13)
1 April 2018 to 31 March 2019	Ind AS (2017-18)	Ind AS (2016-17)	Ind AS * (2015-16)	Indian GAAP (2014-15)	Indian GAAP (2013-14)
1 April 2019 to 31 March 2020	Ind AS (2018-19)	Ind AS (2017-18)	Ind AS (2016-17)	Indian GAAP (2015-16)	Indian GAAP (2014-15)
1 April 2020 to 31 March 2021	Ind AS (2019-20)	Ind AS (2018-19)	Ind AS (2017-18)	Ind AS (2016-17)	Indian GAAP (2015-16)
On or after 1 April 2021	Ind AS (2020-21)	Ind AS (2019-20)	Ind AS (2018-19)	Ind AS (2017-18)	Ind AS (2016-17)

* To be disclosed by making suitable restatement adjustments to the accounting heads from their values as on the date of transition following accounting policies consistent with that used at the date of transition to Ind AS.

Voluntary use of Ind AS framework

The SEBI has also permitted companies to voluntarily present financial information for all five financial years preceding the filing in accordance with the Ind AS framework. All the financial information disclosed in the offer document for any particular year should be in accordance with consistent accounting policies (whether Ind AS or Indian GAAP).

All other requirements for disclosure of financial information in the offer document, including the audit requirements shall remain the same.

Disclosure of interim financial information

Disclosures of interim period in the offer document, if any, shall be made in line with the accounting policies followed for latest financial year.

Additional disclosures

Once an issuer company transitions to reporting under Ind AS, it is required to clearly disclose the fact that the financial information disclosed is in accordance with Ind AS, while suitably explaining the difference between Ind AS and the previously applicable accounting standards along with the impact on transition.

The SEBI has mandated compliance with the following requirements of Ind AS 101, *First Time Adoption of Indian Accounting Standards* for this purpose:

- When historical summaries or comparative financial information in accordance with the previous GAAP is presented in any Ind AS financial statements, the issuer company is required to:
 - Label the previous GAAP information prominently as not being prepared in accordance with Ind AS, and
 - Disclose the nature of the main adjustments that would make it compliant with Ind AS, although quantification of such adjustments is not required.
- The issuer company is required to explain how the transition from previous GAAP to Ind AS affected its reported balance sheet, financial performance and cash flows, including providing the following transitional disclosures in the annual financial statements presented in the offer document:
 - Reconciliations of its equity reported in accordance with the previous GAAP to its equity in accordance with Ind AS

- Reconciliation of its total comprehensive income/profit or loss under the previous GAAP to its total comprehensive income in accordance with Ind AS, and
- Explanation of material adjustments to the statement of cash flows if presented under the previous GAAP.
- Similar transitional disclosures are required in the interim financial statements presented in the offer document.

Our comments

Disclosure of Ind AS financial information for the earliest of the three years for phase 1 issuers filing an offer document in 2017-18 or phase II issuers filing in 2018-19

Companies that fall within phase I of the corporate road map, and that file an offer document between 1 April 2017 and 31 March 2018, are required by the SEBI circular to present financial information in accordance with Ind AS for the three financial years immediately preceding the date of filing. This means that Ind AS financial information, including a statement of profit and loss as well as a statement of assets and liabilities, need to be disclosed as per Ind AS for the financial years ending 31 March 2017, 31 March 2016 and 31 March 2015.

In accordance with the corporate road map, these companies would prepare their first Ind AS financial statements for the financial year ending 31 March 2017 and present comparative financial information, in the statement of profit and loss and the balance sheet, for the preceding financial year ending 31 March 2016 and an opening Ind AS transition balance sheet as at the transition date, i.e. 1 April 2015. However, they would not have prepared Ind AS financial statements for the year ending 31 March 2015.

The circular states that Ind AS financial information for the year ending 31 March 2015 (for phase I companies) is to be disclosed in the offer document by making suitable restatement adjustments to the accounting heads from their values as on the date of transition by following accounting policies consistent with those used on transition. This could imply that such issuers have to follow the approach indicated in the circular while preparing Ind AS financial statements for year ending 31 March 2015, i.e., roll-back the financial information as at 1 April 2015 (Ind AS transition date as per MCA road map) by one year, in accordance with the circular, by making suitable adjustments that are consistent with the accounting policies used on transition.

The roll-back option is expected to pose some challenges and would require exercise of judgement by the issuer to estimate the adjustments that need to be made to the Ind AS financial information as at 1 April 2015. In addition, companies would have to carefully evaluate how those adjustments should be made for some areas, such as items that are measured at fair value (e.g. derivatives or revalued assets, where such fair value information may not be easily available at the earlier dates), items of property, plant and equipment that took deemed cost exemption (using the fair value option), or transactions that were exempt from retrospective restatement on first time adoption of Ind AS (e.g. business combinations that occurred during the period 1 April 2014 and 31 March 2015).

An issuer company that falls within phase II of the corporate road map and files an offer document between 1 April 2018 and 31 March 2019, would face a similar challenge while determining the Ind AS financial information for the year ending 31 March 2016.

Further, while a strict reading of the circular would indicate that the transition related disclosures are required as mandated by Ind AS 101, as per the MCA road map, the intent of SEBI could be to have these transition disclosures serve as a bridge between the Indian GAAP and Ind AS financial information presented as part of the five years' historical information. Accordingly, such transition disclosures (including reconciliations of equity and other comprehensive income) may also be required for the financial year ending 31 March 2015 for phase I companies or 31 March 2016 for phase II companies.

Preparation of interim financial information in the year of filing under Ind AS and Indian GAAP

The circular states that disclosures of an interim period, if any, in the offer document shall be made in line with the accounting policies followed for the latest financial year. This means that companies that file their offer documents by 31 March 2017 shall be required to disclose interim financial information for an interim period ending prior to 31 March 2017 as per Indian GAAP, being the accounting framework followed for the financial year ending 31 March 2016.

However, on listing, such companies shall be required to prepare interim financial information (as per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015) as well as the financial statements for the year ending 31 March 2017 under Ind AS (as per the corporate road map). This would mean that the information provided to investors as part of the offer document would be on a basis inconsistent with that followed for reporting post listing. Further, this may involve duplication of efforts to prepare financial information for the same period under Indian GAAP as well as Ind AS.

Considering that information in historical periods may not be comparable with the post listing information, such companies should consider alternate approaches to keep their stakeholders (such as investors, bankers, analysts, etc.) informed by giving suitable qualitative and quantitative disclosures to help ensure that the financial information included in the prospectus are relevant and useful to them.

Transition date when Ind AS financial information is voluntarily disclosed

An issuer company may voluntarily disclose financial information for all five preceding financial years in accordance with Ind AS, instead of using Indian GAAP information or the hybrid approach. In this situation, it is unclear from the SEBI circular whether the company will be required to:

- Prepare Ind AS financial statements with a transition date as at the beginning of the earliest preceding financial year presented in the offer document, or
- Roll-back the financial information from its Ind AS transition date (1 April 2015/2016, as the case may be) by making suitable adjustments to determine the financial information for the financial years preceding the year of transition.

Therefore, SEBI would need to provide clarity on the approach to prepare historical information for an issuer voluntarily disclosing all five preceding financial years in accordance with Ind AS.

Audit of Ind AS financial information voluntarily disclosed in the offer document

An issuer may voluntarily disclose financial information under Ind AS for the preceding five financial years by making adjustments to the Ind AS financial information available on the transition date. In a situation where the current auditor has not audited the financial statements for preceding years (under Indian GAAP), it is unclear whether this will require a re-audit of the entire financial statements by the current auditor for such preceding financial years.

The Guidance Note on Reports in Company Prospectuses (Revised 2006), issued by the Institute of Chartered Accountants of India (ICAI) states that an auditor of an offer document would be able to rely upon the reports from the auditors of the financial statements for preceding financial years disclosed in the offer document, in accordance with the Standard on Auditing (SA) 600, *Using the Work of Another Auditor*.

Based on this guidance, the current auditor may be required to audit only the adjustments made to restate the previous financial information to comply with accounting policies under Ind AS. However, further clarity is required from the ICAI and SEBI to determine whether voluntary disclosure of Ind AS financial information will entail additional audit requirements.

Next steps

Companies that are planning to file their offer document with SEBI and are covered by the corporate road map for Ind AS implementation should consider the requirement to disclose Ind AS financial information based on this circular. Where additional effort may be required to determine Ind AS adjustments or prepare transition disclosures, companies should initiate efforts well in advance due to the significant time involved in compiling this information.

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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

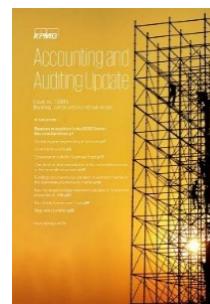


KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

In our call, on 5 April 2016, we covered key financial reporting and regulatory matters that are expected to be relevant for stakeholders for the financial year ending 31 March 2016.

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), the Institute of Chartered Accountants of India (ICAI), the Insurance Regulatory and Development Authority of India (IRDA), etc.

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



The Accounting and Auditing Update issue 2016/7 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 revenue recognition from the sale of real estate under Ind AS and we have highlighted the potential challenges that may arise due to adoption of Ind AS.

The publication features an interview 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 carries a number of other accounting issues in detail, which are 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

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