



# Voices on Reporting

22 June 2016

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# Welcome

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Covering current and emerging reporting issues

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# Speakers for the call

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# Agenda

- **Ind AS reminders**
- Updates on the 2013 Act
- Updates on SEBI regulations
- Updates on accounting and financial reporting

# Implementation road map for Ind AS<sup>1</sup>

	Phase I	Phase II	Voluntary adoption
Year of adoption	FY 2016 - 17	FY 2017 - 18	FY 2015 -16 or thereafter
Comparative year	FY 2015 - 16	FY 2016 - 17	FY 2014 - 15 or thereafter
<b>Covered companies</b>			
(a) Listed companies	All companies with net worth $\geq$ INR500 crore	All companies listed or in the process of being listed	Any company could voluntarily adopt Ind AS
(b) Unlisted companies	All companies with net worth $\geq$ INR500 crore	Companies having a net worth $\geq$ INR250 crore	
(c) Group companies	Applicable to holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above. <i>This may also impact fellow subsidiary companies while preparing CFS of the holding company.</i>		

- Ind AS would apply to stand-alone and CFS.
- The net worth for implementation of Ind AS calculated based on the stand-alone financial statements as on 31 March 2014.
- Net worth does not include revaluation reserves, write back of depreciation and amalgamation reserve.
- No roll back is permitted.
- Banks, NBFCs and insurance companies to follow their specific road maps.

# Ind AS notified<sup>1</sup>

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**40 standards issued**



**Incorporates all relevant IFRS,  
IAS, IFRIC and SIC**



**Has carve-outs and carve-ins as  
compared to IFRS**



**Latest standards on financial  
instruments incorporated in Ind  
AS**

# Applicability of Ind AS in the offer documents<sup>2</sup>

- If an issuer company adopts Ind AS from 1 April 2016, then the disclosure of financial information in accordance with Ind AS in the offer document shall be in the following manner (Phase I):

Period of filing of offer document	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
Upto 31 March 2017	I GAAP	I GAAP	I GAAP	I GAAP	I GAAP
1 April 2017 to 31 March 2018	Ind AS	Ind AS	Ind AS*	I GAAP	I GAAP
1 April 2018 to 31 March 2019	Ind AS	Ind AS	Ind AS	I GAAP	I GAAP
1 April 2019 to 31 March 2020	Ind AS	Ind AS	Ind AS	Ind AS	I GAAP
On or after 1 April 2020	Ind AS	Ind AS	Ind AS	Ind AS	Ind AS

*\*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 date of transition to Ind AS*

- Disclosures of interim period, if any, shall be made in line with the accounting policies followed for the latest financial year.
- Discretion to present all the five year periods using the Ind AS framework instead of accounting standards otherwise applicable for such period(s).
- Financial information disclosed in the offer document for any particular year should be in accordance with consistent accounting policies (Ind AS or applicable accounting standards).
- Clear disclosure about the fact that the financial information has been disclosed in accordance with Ind AS while suitably explaining the difference between Ind AS and the previously applicable accounting standards, and the impact of transition to Ind AS.
- Issuers to ensure compliance with the relevant requirements of Ind AS 101, *First-time Adoption of Ind AS*.

# Key carve-outs in Ind AS<sup>3</sup>

Accounting area	Ind AS requirements (Mandatory)
Deemed cost exemption	<ul style="list-style-type: none"> <li>Additional choice to consider previous GAAP carrying values as 'deemed cost' for property, plant and equipment, intangibles asset, or investment property acquired prior to the transition date.</li> </ul>
Foreign currency convertible bonds - treatment of conversion option	<ul style="list-style-type: none"> <li>Recognition of embedded foreign currency conversion option as 'equity'.</li> </ul>
Employee benefits – discount rate	<ul style="list-style-type: none"> <li>Mandatory use of government security yields for determining actuarial liabilities (except for certain currencies other than INR).</li> </ul>
Business acquisitions – gain on bargain purchase	<ul style="list-style-type: none"> <li>Recognition of 'bargain purchase gains' in a business combination as 'capital reserve'.</li> </ul>
Classification of loan with covenant breaches	<ul style="list-style-type: none"> <li>Classify loans as non-current even in case of breach of a material provision if, before the approval of the financial statements, the lender agreed not to demand payment.</li> </ul>
Lease rental recognition	<ul style="list-style-type: none"> <li>No straight-lining for escalation of lease rentals in line with expected general inflation.</li> </ul>
Investment in associates – gain on bargain purchase	<ul style="list-style-type: none"> <li>Excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment to be transferred to the capital reserve instead of in the statement of profit and loss.</li> </ul>
Revenue recognition from sale of real estate	<ul style="list-style-type: none"> <li>IFRIC 15, <i>Agreements for Construction of Real Estate</i> will not be applicable under Ind AS 18, <i>Revenue</i> for accounting of revenue of the real estate developers.</li> </ul>



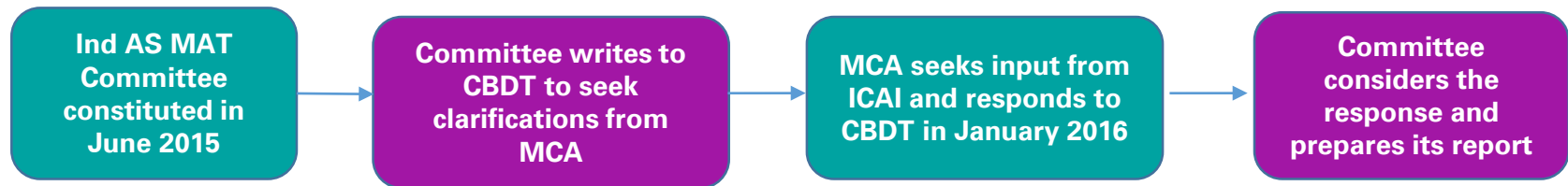
# Key carve-outs in Ind AS (cont.)<sup>3</sup>

Accounting area	Ind AS requirements (Optional)
Foreign exchange fluctuations	<ul style="list-style-type: none"><li>Option to continue the policy adopted for accounting for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP.</li></ul>
Accounting policies of associates	<ul style="list-style-type: none"><li>Option not to align the accounting policy of associates with that of the parent, if impracticable.</li></ul>

## Key carve-ins

Accounting area	Ind AS requirements
Common control	<ul style="list-style-type: none"><li>Specific guidance on common control and accounting for business combinations of entities or businesses under common control is provided under Appendix C of Ind AS 103, <i>Business Combinations</i>.</li></ul>

# Ind AS MAT Committee<sup>4</sup>



**Committee mandate** - To suggest a framework for computation of book profits for the purposes of levy of MAT under Section 115JB of the Income-tax Act, 1961 (IT Act) for Ind AS compliant companies in the year of adoption of Ind AS and thereafter.

## **Key recommendations of the Committee:**

- Net profit to be the starting point for paying MAT.
- No further adjustments to be made to net profits - other than those already specified under Section 115JB of the IT Act.
- Items that will permanently be recorded in reserves and hence never be reclassified to the statement of profit and loss, to be included in the book profits for MAT at an appropriate time.

The Committee provided an illustrative list of such items along with the recommended treatment for MAT as well as adjustments on first-time adoption of Ind AS.

# Ind AS Transition Facilitation Group - Clarification Bulletin 2<sup>5</sup>

## Option available for long-term foreign currency loans taken before the beginning of the first Ind AS reporting period

- Balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA) to be amortised over the balance period of loan and be routed through profit or loss and not through Other Comprehensive Income (OCI).
- Upfront cost/processing fee incurred for a foreign currency loan may be initially charged to the statement of profit and loss. Apply principles of Ind AS 109, *Financial Instruments* on first-time application of Ind AS.

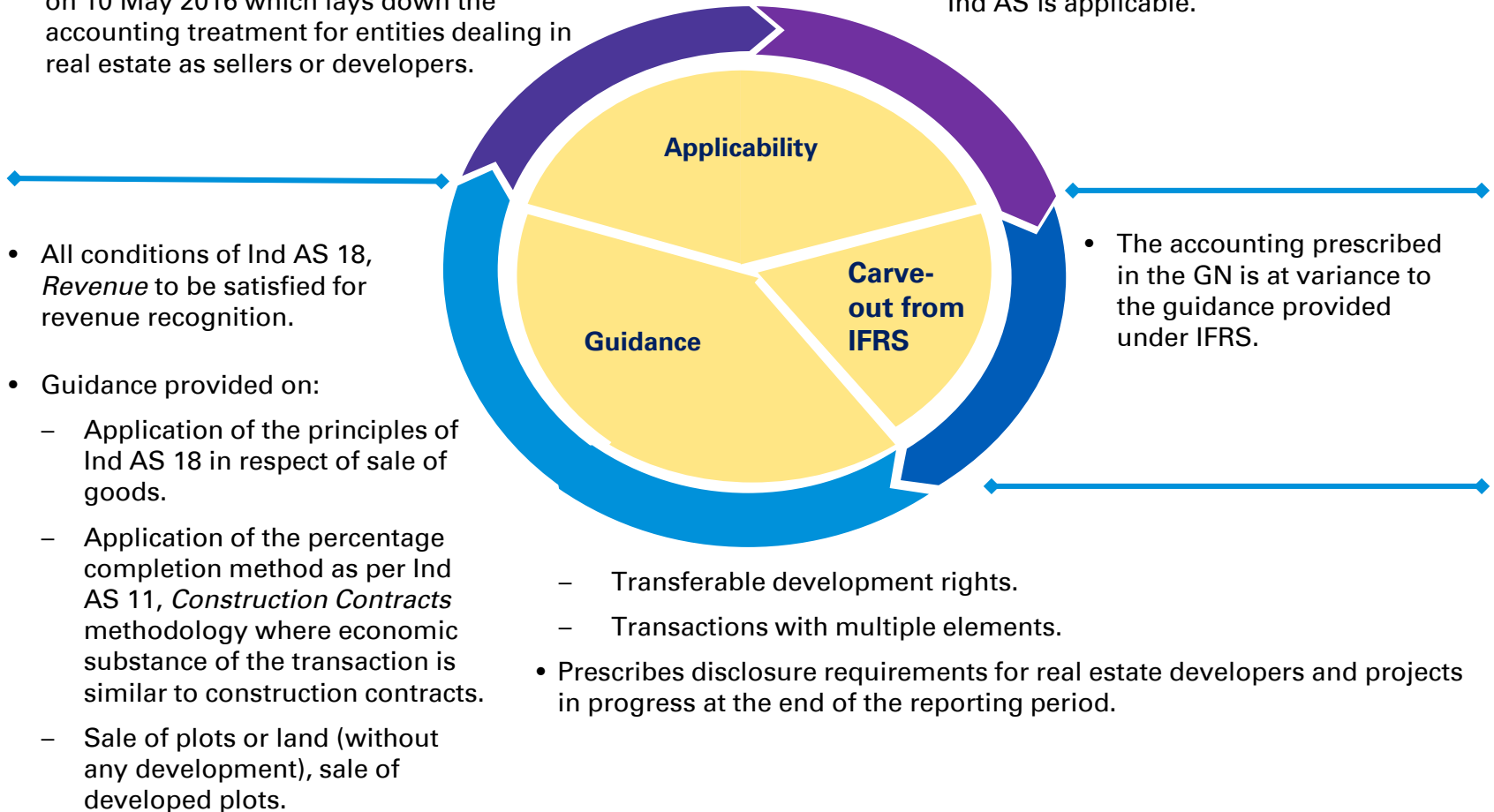
## Other clarifications

- Net worth of a foreign parent not to be considered as the basis for determining whether the Indian subsidiary is required to comply with Ind AS.
- Date of transition to Ind AS to be determined as per the requirements of Ind AS 101 by Indian companies, voluntary selection of the transition date is not permitted.
- In the case where spare parts are recognised as property, plant and equipment in accordance with criteria under Ind AS 16, *Property, Plant and Equipment*, then depreciation on such items should begin from the date when the asset is available for use.
- The expenditure incurred on construction of assets on land not owned by a company would be capitalised based on the principles of Ind AS 16 after consideration of facts and circumstances of each case.

# Overview of the Guidance Note on Accounting for Real Estate Transactions<sup>6</sup>

- The ICAI issued the Guidance Note on Accounting for Real Estate Transactions (GN) on 10 May 2016 which lays down the accounting treatment for entities dealing in real estate as sellers or developers.

- The GN is applicable to all projects relating to real estate by entities to which Ind AS is applicable.



- All conditions of Ind AS 18, *Revenue* to be satisfied for revenue recognition.
- Guidance provided on:
  - Application of the principles of Ind AS 18 in respect of sale of goods.
  - Application of the percentage completion method as per Ind AS 11, *Construction Contracts* methodology where economic substance of the transaction is similar to construction contracts.
  - Sale of plots or land (without any development), sale of developed plots.

- Transferable development rights.
- Transactions with multiple elements.
- Prescribes disclosure requirements for real estate developers and projects in progress at the end of the reporting period.



# Agenda

- Ind AS reminders
- **Updates on the 2013 Act**
- Updates on SEBI regulations
- Updates on accounting and financial reporting

# Constitution of NCLT and notification of certain related sections<sup>7</sup>



On 1 June 2016, MCA notified the following:

- Constitution of NCLT and NCLAT
- Dissolution of CLB established under the Companies Act, 1956 and transfer of matters or proceedings pending before the CLB to NCLT.
- Important sections notified are as follows:
  - Section 245 wherein two classes i.e. shareholders and depositors could initiate class action suits to restrain the company from committing an act which is ultra vires the articles or memorandum
  - Section 130 and 131 regarding reopening of accounts/voluntary revision of financial statements/Board's report
  - Section 119(4) relate to provisions where NCLT would allow inspection of minute books of a general meeting requested by a member in case of refusal or default by company.



## Way forward

- Rules related to NCLT not yet notified
- Recommendations of the Companies (Amendment) Bill, 2016
- Proposed Insolvency and Bankruptcy Code 2016
- Status of the remaining sections of the 2013 Act.

# Companies (Corporate Social Responsibility Policy) Amendment Rules, 2016<sup>8</sup>

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The MCA on 23 May 2016 amended the Companies (Corporate Social Responsibility Policy) Rules, 2014.

## Scope widened

- Companies may now undertake approved CSR activities through any other company
- Additionally, undertake approved CSR activities through Section 8 companies/ registered trust/ society established by the
  - Central/state government/entity established under an Act of Parliament or a State legislature.



# Agenda

- Ind AS reminders
- Updates on the 2013 Act
- **Updates on SEBI regulations**
- Updates on accounting and financial reporting



# SEBI revises the process for listed entities to disclose the impact of audit qualifications<sup>9</sup>

On 27 May 2016, SEBI prescribed operational details for implementing the process of review of audit qualifications contained in the audit reports of the listed entities.



## Overview of revised procedure

- *Unmodified audit opinion:* Furnish a declaration to that effect to stock exchange(s) while submitting annual audited financial results.
- *Modified opinion:* Cumulative impact of the audit qualifications to be disclosed in a separate format called '**Statement on Impact of Audit Qualifications**' (statement) instead of form A and B.
  - Statement to be submitted along with the annual audited financial results to the stock exchanges.
  - The management of the listed entity shall have the option to explain its views on each audit qualification.
- Figures of prescribed financial items before and after adjustment of qualifications to be disclosed in the Statement. Earlier, SEBI could require adjustments (in subsequent year or through revised proforma results). These provisions have been withdrawn.
- In case no impact is quantified by the auditor, management to make an estimate.
  - If management is unable to do so, reasons to be provided by the management.
  - In both the cases, auditor should review and provide comments on the management's response.
- Stock exchanges to continue to regularly monitor the statement.



## Applicability

- New mechanism applicable to period ending on or after 31 March 2016.

# SEBI board meeting - 19 May 2016<sup>10</sup>

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The SEBI in its board meeting which was held on 19 May 2016, approved the following:



## Dividend Distribution policy for listed companies

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- Top 500 listed companies (by market capitalisation) to formulate and disclose the dividend distribution policies in the annual reports and on their websites.
- Following items may be included in the policy:
  - Circumstances under which their shareholders can/cannot expect dividend
  - The financial parameters that will be considered while declaring dividends
  - Internal and external factors that would be considered for declaration of dividend
  - Policy on how the retained earnings will be utilised
  - Provisions in regard to various classes of shares.
- If a company proposes to declare dividend on the basis of parameters other than those mentioned above, the same along with the rationale shall be disclosed.



# Agenda

- Ind AS reminders
- Updates on the 2013 Act
- Updates on SEBI regulations
- **Updates on accounting and financial reporting**

# New/revised standards on auditing<sup>11</sup>

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The ICAI, through a notification dated 17 May 2016, issued the following new/revised Standards on Auditing (SAs):

- **SA 701**, *Communicating Key Audit Matters in the Independent Auditor's Report*
- **SA 700** (Revised), *Forming an Opinion and Reporting on Financial Statements*
- **SA 705** (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
- **SA 706** (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- **SA 260** (Revised), *Communication with Those Charged with Governance*
- **SA 570** (Revised), *Going Concern*

These standards are applicable for audits of financial statements for periods beginning on or after  
1 April 2017.

# Important Expert Advisory Committee (EAC) opinions issued by ICAI

## Accounting for expenditure incurred as a pre-condition to obtaining environmental clearance for setting up power projects and coal mines<sup>12</sup>

- AS 10, *Accounting of Fixed Assets* lays down the principle for capitalising an item of cost to a fixed asset/project under construction i.e. expenditure directly attributable to the construction of the project/fixed asset for bringing it to its working condition for its intended use.
- If the expenditure is considered directly attributable for an asset under construction then the expenditure should initially be capitalised as 'capital work-in-progress' as and when incurred with a suitable disclosure in the notes to accounts to explain the nature of such expenses.
- When the project is ready for commencement of commercial production then such expenditure should be recognised as a part of the cost of the related project/asset.

## Treatment of royalty paid in dispute pending the final decision of the court<sup>13</sup>

- As on 31 March 2015, apart from the compliance with the requirements of AS 29, *Provisions, Contingent Liabilities and Contingent Assets* (i.e. accounting for differential royalty during the year 2008-09 till 2013-14 demanded by the state government as a contingent liability), the company should recognise the payment made against the disputed liability as 'deposit' which should be classified under an appropriate accounting head, considering the requirements of Schedule III to the 2013 Act.
- The company should appropriately explain the facts of the dispute either through appropriate nomenclature, for example, 'Deposit of royalty paid in dispute' or through an appropriate disclosure in the Notes so as to disclose the nature of the item and to give a true and fair view to the users of the financial statements.

# Important EAC opinions issued by ICAI (cont.)

## Application of paragraph 21 of AS 22, *Accounting for Taxes on Income*<sup>14</sup>

- The term 'substantively enacted' should be construed as the tax rate that has substantive effect of actual enactment i.e. the process of enactment is substantively complete.
- Whether the process of enactment is substantively complete is a matter of judgement, which should be determined considering the facts and circumstances and various factors, such as, whether or not remaining stages of the enactment process in the past have affected the outcome.
- Adequate and appropriate disclosures should be made regarding the tax rate adopted while recognising deferred tax assets and liabilities and the basis for such adoption in the notes to accounts.
- Effects of changes in effective tax rates in the next reporting period resulting into any increase or decrease in the recognised deferred tax assets or liabilities would be accounted as a change in accounting estimate and should be recognised in the statement of profit and loss and not in free reserves.



# Consultation paper – Infrastructure Investment Trusts<sup>15</sup>

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On 15 June 2016, SEBI has issued a consultation paper for continuous disclosures by Infrastructure Investment Trusts (InvITs). It has three parts:

- Part A - Continuous financial disclosures to be made by the InvITs
  - Part B - Other continuous disclosures to be made by the InvITs
  - Part C - Framework for calculation of Net Distributable Cash Flows.
- Comment period ends on 28 June 2016.
  - Some of the important proposals are as follows:
    - Frequency of disclosures
    - Time period within which disclosures to be made
    - Financial statements which needs to be disclosed
    - Audited or limited review financial statements
    - Accounting standards to be followed
    - Line items for financial statements
    - Disclosure of related party transactions
    - Disclosure of unit holding pattern
    - Prior intimations and disclosure of material and price sensitive information
    - Net Distributable Cash Flows.



Q&A



# Sources

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1. KPMG in India's analysis, 2016 based on primary research.
2. SEBI circular – SEBI/HO/CFD/DIL/CIR/P/2016/47 dated 31 March 2016.
3. KPMG in India's analysis, 2016 based on primary research.
4. Ministry of Finance press release dated 28 April 2016.
5. ICAI - ITFG clarification bulletin 2 dated 10 May 2016.
6. The Guidance Note on Accounting for Real Estate Transactions issued by ICAI dated 10 May 2016.
7. MCA notifications dated 1 June 2016.
8. MCA notification dated 23 May 2016.
9. SEBI circular no. CIR/CFD/CMD/56/2016 dated 27 May 2016.
10. SEBI press release no. PR No. 98/2016 dated 19 May 2016.
11. ICAI notification dated 17 May 2016
12. ICAI Journal: The Chartered Accountant for the month of April 2016.
13. ICAI Journal: The Chartered Accountant for the month of May 2016.
14. ICAI Journal: The Chartered Accountant for the month of June 2016.
15. Consultation paper on Continuous disclosures to be made by Infrastructure Investment Trusts registered under the SEBI (Infrastructure Investment Trusts) Regulations, 2014 issued by SEBI dated 15 June 2016.

# Glossary

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- 2013 Act - The Companies Act, 2013
- GAAP - Generally Accepted Accounting Principles
- Ind AS - Indian Accounting Standards
- CFS - Consolidated Financial Statements
- IAS - International Accounting Standards
- NBFCs - Non Banking Financial Companies
- SIC - Standard Interpretations Committee
- IFRIC - International Financial Reporting Interpretations Committee
- MCA - The Ministry of Corporate Affairs
- MAT - Minimum Alternate Tax
- CBDT - The Central Board of Direct Taxes
- ICAI - The Institute of Chartered Accountants of India
- PPE - Property, Plant and Equipment
- NCLT - National Company Law Tribunal
- NCLAT - National Company Law Appellate Tribunal
- CLB - Company Law Board
- BIFR - Board for Industrial and Financial Reconstruction
- AAIFR - Appellate Authority for Industrial and Financial Reconstruction
- SEBI - The Securities and Exchange Board of India
- IFRS - International Financial Reporting Standards
- InvITs - Infrastructure Investment Trusts

# Links to previous recordings of VOR

Month	Topics	Link
<b>November 2015</b>	<ul style="list-style-type: none"><li>• Overview of Ind AS 109, <i>Financial Instruments</i></li><li>• Draft interpretations on IAS 12, <i>Income Taxes</i> and IAS 21, <i>The Effects of Changes in Foreign Exchange Rates</i></li></ul>	Click <a href="#">here</a>
<b>December 2015</b>	<ul style="list-style-type: none"><li>• Ind AS road map, IFC and ICDS</li><li>• The SEBI matters</li><li>• The accounting matters</li></ul>	Click <a href="#">here</a>
<b>January 2016</b>	<ul style="list-style-type: none"><li>• Overview of Ind AS 21, <i>The Effects of Changes in Foreign Exchange Rates</i></li><li>• Key regulatory updates.</li></ul>	Click <a href="#">here</a>
<b>February 2016</b>	<ul style="list-style-type: none"><li>• Report of the Companies Law Committee</li><li>• Securities and Exchange Board of India (SEBI) issues the Frequently Asked Question (FAQs) on the SEBI Listing Regulations, 2015.</li></ul>	Click <a href="#">here</a>
<b>April 2016</b>	<ul style="list-style-type: none"><li>• Updates on Ind AS convergence</li><li>• Updates on SEBI regulations</li><li>• Updates on the Companies Act, 2013 (2013 Act)</li><li>• Updates on accounting and financial reporting</li></ul>	Click <a href="#">here</a>
<b>May 2016 (Special session)</b>	<ul style="list-style-type: none"><li>• Framework proposed by the MAT-Ind AS committee – new development</li></ul>	Click <a href="#">here</a>
<b>May 2016</b>	<ul style="list-style-type: none"><li>• ITFG clarification Bulletin 2</li><li>• Amendments to Accounting Standards</li><li>• Guidance Note on Accounting for Real Estate Transactions</li></ul>	Click <a href="#">here</a>

For other archives of VOR calls, visit [www.KPMG.com/in](http://www.KPMG.com/in)

# KPMG in India's IFRS institute

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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 on the evolving global financial reporting framework.



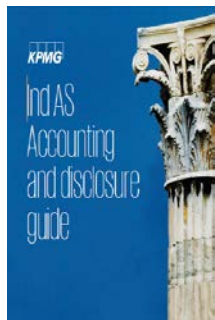
In addition to proprietary KPMG content, the website provides links to several other sources of information related to IFRS and its implementation. The site can be accessed by all interested parties at no cost. Additionally, the site provides the facility of registering as a member by providing certain minimal information.

To download KPMG content, become registered members of the website by following a few easy steps.

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



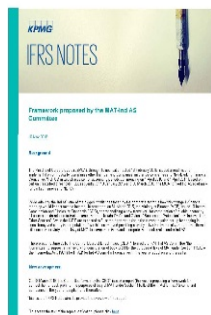
## New launch - The Ind AS Accounting and disclosure guide

6 June 2016

Ind AS comprises 40 accounting standards that provide extensive guidance and entail a significant change in the financial reporting framework used by Indian companies to report their financial results. Their adoption requires a detailed level of analysis for which companies may need to invest substantial amounts of time to ensure compliance.

Our publication 'Ind AS – Accounting and disclosure guide (the guide)' is an extensive tool designed to assist companies in preparing financial statements in accordance with Ind AS by identifying the potential accounting considerations and disclosure requirements that are applicable to them. It covers key recognition, measurement and disclosure requirements for each standard along with some additional considerations.

The guide is available for download from our website [click here](#).



## Framework proposed by the MAT-Ind AS Committee

10 May 2016

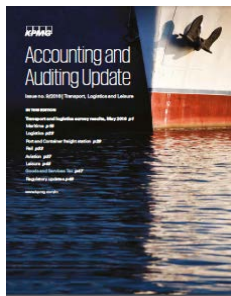
On 8 June 2015, the Central Board of Direct Taxes (CBDT) formed the MAT-Ind AS Committee (the Committee) to suggest a framework for computation of book profit for the purpose of levy of MAT under Section 115JB of the Income-tax Act, 1961 (the IT Act) for Ind AS compliant companies in the year of adoption and thereafter.

On 18 March 2016, the Committee formed by the CBDT issued a report (the report) proposing a framework for computation of book profit for the purposes of levy of MAT under Section 115JB of the IT Act for Ind AS compliant companies in the year of adoption and thereafter.

This issue of IFRS Notes provides an overview of the report.

# Topics discussed in AAU and First Notes

## Accounting and Auditing Update (AAU)



## Issue no. 9/2016 | Transport, Logistics and Leisure

- Transport and logistics survey results, May 2016
- Maritime
- Logistics
- Port and Container freight station
- Rail
- Aviation
- Leisure
- Goods and Services Tax
- Regulatory updates.

## First Notes



## SEBI revises the process for listed entities to disclose the impact of audit qualifications

7 June 2016

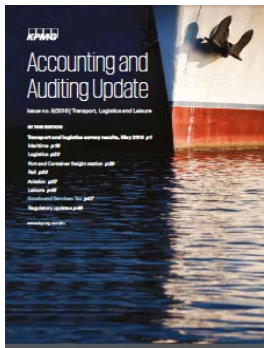
With a view to streamlining the existing process for review of audit qualifications contained in the audit reports of the listed entities, the Securities and Exchange Board of India (SEBI), in consultation with SEBI Advisory Committees, the Institute of Chartered Accountants of India (ICAI), stock exchanges and industry bodies, has notified the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2016 on 25 May 2016.

In addition, on 27 May 2016 SEBI issued a circular, CIR/CFD/CMD/56/2016 which prescribes operational details to be followed by listed entities for implementing this process.

This issue of First Notes provides an overview of the revised procedure.

# Others

## Missed an issue of Accounting and Auditing Update



## Missed an issue of First Notes



## Coming up next

June 2016

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes

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# Thank you

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