



IFRS Notes

SEBI provides certain relaxations for Ind AS compliant quarterly results

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Introduction

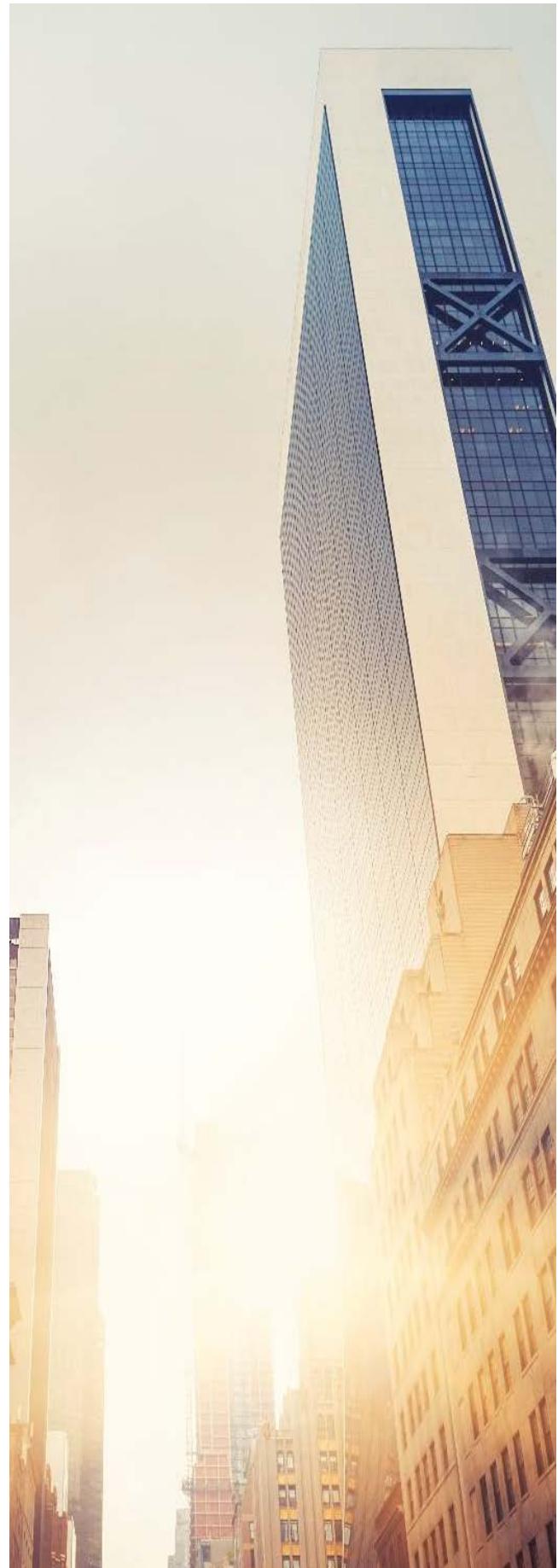
The Securities and Exchange Board of India (SEBI) issued a circular (reference No. CIR/CFD/FAC/62/2016) on 5 July 2016 (SEBI circular), providing

- certain relaxations to listed companies to whom the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS) are applicable from the accounting period beginning on or after 1 April 2016 to facilitate smooth transition during the first year of Ind AS implementation.
- revised formats for listed companies to submit their financial statements prepared on the basis of the Indian Accounting Standards (Ind AS).

"The SEBI circular aims to provide adequate relief to the corporate sector at large, while still retaining some of the essential information required for investors and other users of financial information. This can help them understand the key areas of impact on the financial performance of companies as a result of transition to Ind AS. While SEBI has laid out its minimum requirements, it is essential that companies develop their own communication strategies taking into consideration the potential impact of these new standards, as well as determine how much additional information may need to be provided on a voluntary basis to effectively communicate to the investors, in particular, differentiating accounting impacts from the underlying business changes."

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Background

The SEBI issued SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) on 2 September 2015. Further, on 30 November 2015, SEBI through its circular (CIR/CFD/CMD/15/2015) prescribed the following formats for listed entities under the new Listing Regulations for publishing their financial results:

- Formats for presenting the quarterly financial results including segment reporting by:
 - Companies other than banks
 - Banks
 - Half-yearly statement of assets and liabilities
- Format for limited review report and audit report.

The recent SEBI circular revises the disclosure requirements as follows:

- Certain relaxations in reporting of Ind AS financial results for first three quarters
- Format of financial results to be published in the newspapers.

The SEBI circular is applicable with immediate effect and also modifies certain requirements of the circular dated 30 November 2015.

This IFRS note provides an overview of the relaxations and formats for the Ind AS compliant quarterly financial results.

Overview of the circular

Revised formats for financial results

The following are the key points from the SEBI circular:

1. **Formats up to 31 December 2016:** Listed entities are required to comply with the existing formats prescribed under the SEBI circular dated 30 November 2015 till the period ending 31 December 2016.
2. **Formats for the period ending 31 March 2017:** For the period on or after 31 March 2017, listed entities should provide their unaudited/audited, quarterly/half yearly financial results as the case may, as per the formats of the balance sheet and statement of profit and loss, prescribed in Schedule III to the Companies Act, 2013 (2013 Act).
3. **Formats for banks and insurance companies:** All banking and insurance companies should follow the formats as prescribed under the respective acts/regulations specified by their regulators.
4. **Compliance with accounting standards:** All listed entities are required to comply with the Companies (Accounting Standards) Rules, 2006 (AS Rules) till the time the Ind AS are not applicable to such entities.

5. Segment reporting: The quarterly/annual segment reporting should consist of the following:

- Segment revenue (including inter-segment revenue)
- Segment results
- Segment assets
- Segment liabilities.

Unallocated items, wherever applicable, should be shown separately in respect of the above information. Aggregate inter-segment revenue should be shown as a deduction from the segment revenue.

6. Periods covered: Listed companies at the time of issuing their financial results should disclose figures relating to the periods as mentioned in the respective annexures to the circular dated 30 November 2015. Those periods are:

- Three months ended
- Previous three months ended
- Corresponding three months ended in the previous year
- Year to date figure for the current period ended
- Year to date figures for the previous year ended
- Previous accounting year ended.

The circular dated 30 November 2015 provides that companies following the Ind AS road map are required to present their Ind AS compliant comparatives at the time of publishing their quarterly/annual financial results. The SEBI circular provides certain relaxations (mentioned in the forthcoming section) from providing the above comparative information. Accordingly, based on the above, it appears that listed entities need not present previous GAAP results for the comparative periods for which presentation of Ind AS results is not mandatory.

7. Financial results to be published in newspapers: Listed companies are required to publish their financial results in newspapers, as provided under Regulation 47(1)(b) of the Listing Regulations, in the updated format prescribed in Annexure I of the circular.

Implementation of Ind AS during the year: Relaxations

In addition to the prescribed revised formats for presentation of financial results, the SEBI circular provides certain relaxations to entities while reporting their Ind AS compliant quarterly financial results. The relaxations are explained with the help of tables below:

Table 1: Timelines for submitting quarterly financial results

Quarters	Timelines for submitting quarterly financial results	
	Existing	Revised
Quarter ending 30 June 2016	Up to 14 August 2016	Up to 14 September 2016
Quarter ending 30 September 2016	Up to 14 November 2016	Up to 14 December 2016
Quarter ending 31 December 2016	Up to 14 February 2017	Up to 14 February 2017
Quarter ending 31 March 2017	Up to 30 May 2017	Up to 30 May 2017

(Source: KPMG in India's analysis, 2016)

Table 2: Quarterly reporting, audit or review and disclosure of reserves requirement

Reporting requirements	3 months ended	Preceding 3 months ended	Corresponding 3 months ended in the PY*	YTD** figures for current period ended	YTD figures for the PY ended	PY ended 31 March 2016	Audit/review of PY comparative period	Audit or review of period ended 31 March 2016	Disclosure of reserves (excluding revaluation reserves)
30 June 2016	✓	✗	✓	N.A.	N.A.	✗ (Note 2)	✗ (Note 4)	✗ (Note 2)	Optional
30 September 2016	✓	✓	✓	✓	✓	✗ (Note 2)	✗ (Note 4)	✗ (Note 2)	Optional
31 December 2016	✓	✓	✓	✓	✓	✗ [#] (Note 3)	✓	✗ [#] (Note 3)	Optional
31 March 2017	✓	✓	✓	✓ (Note 1)	✓ (Note 1)	✓	✓	✓	✓

(Source: KPMG in India's analysis, 2016)

*PY – Previous Year

**YTD – Year to date

#The submission of Ind AS compliant financial results for the PY ended 31 March 2016 is not mandatory.

Notes:

1. It requires reporting for Financial Year (FY) ended 31 March 2017 or 31 March 2016 as the case may be.
2. Companies may voluntarily provide Ind AS comparatives for the year ended 31 March 2016. However, these are not required to be audited or reviewed. Companies should disclose the fact that the financial results have not been audited/reviewed.
3. If a company opts to provide Ind AS comparatives for the year ended 31 March 2016, then such comparatives would be required to be audited
4. Ind AS quarterly financial results for the comparative period are not required to be audited or reviewed. Companies should disclose the fact that the financial results have not been audited/reviewed.

Other important relaxations given in the SEBI circular are as follows:

- **Consolidated financial results:** The SEBI circular provides that a listed company may opt to present quarterly/year to date consolidated financial results in the second quarter instead of the first quarter of the financial year and this option shall not change during the remaining part of the financial year.
- **Companies that get covered in the Ind AS road map Phase 2 or after phase 2:** For companies falling in subsequent phases of the Ind AS road map (e.g. when Ind AS would be applicable to FY2017-18, 2018-19 and 2019-20), all the relaxations pertaining to the quarter ending 30 June 2016, 30 September 2016 and 31 December 2016 would be applicable to such listed companies.

Clarifications on issues with respect to Ind AS implementation

Following are the important clarifications in respect of Ind AS implementation:

- **Reconciliations to be presented:** The circular states that following are the reconciliation requirements:
 - Reconciliation of its equity for the previous year ended 31 March 2016 shall be provided while submitting the audited yearly balance sheet for the period ended 31 March 2017
 - Reconciliation of its equity for the previous year ended 31 March 2016 shall be provided in case the listed entity intends to provide the same while submitting the unaudited/audited Ind AS compliant half-yearly balance sheet for the period ended 30 September 2016.
 - Reconciliation of its net profit/loss as mentioned in the unaudited/audited quarterly financial results shall be provided only for the corresponding quarter of the previous year.
- **Year-end other than 31 March:** In case a company follows any other financial year ending apart from 31 March, then at the time of transitioning to Ind AS and while adopting 31 March as its financial year end, the company should disclose with due prominence that the comparative amounts presented are not entirely comparable in the:
 - Quarterly
 - Half yearly
 - Year to date
 - Annual financial results.
- **Technical difficulty in interpretation:** At the time of transitioning to Ind AS, if a listed company faces any technical difficulty in the interpretation of any specific item in the formats or implementation of the circular while publishing its financial results, the listed companies should take guidance from the relevant provisions of the Ind AS Rules/AS Rules and Schedule III to the 2013 Act and may opt to make suitable modifications, as applicable.

Further, the listed companies should also provide suitable explanations and clarifications, wherever necessary.

Our comments

The issue of this circular by SEBI is a step in the right direction as it provides considerable relaxation to entities while transitioning to Ind AS, specifically in the case of listed entities falling within phase I of the Ind AS road map and transitioning to Ind AS from 1 April 2016.

Relaxations

The relaxations can be summarised as under:

- Extension of timelines for reporting of financial results for the quarter ending 30 June 2016 and 30 September 2016 by one month i.e. from 45 days to 75 days. No extension for submission of financial results for the quarter ending 31 December 2016.
- Relaxation of the formats for disclosing of financial results by dropping the requirements to the present balance sheet as on 31 March 2016 and quarter ending 31 March 2016.
- Aligning the format for the balance sheet presentation with Schedule III to the 2013 Act for the half-year ending 30 September 2016 and year ending 31 March 2017. It also aligns the format for the statement of profit and loss for period ending 31 March 2017 with the format prescribed in Schedule III to the 2013 Act.
- Option to exercise choice to provide consolidated financial results from the second quarter instead of first quarter.

Our comments (cont.)

- No requirement for audit or review of comparatives for the quarter ending 30 June 2016 and 30 September 2016. However, companies are required to get their comparatives either audited/reviewed by the auditors for the quarter ending 31 December 2016. Additionally, if a company opts to provide Ind AS compliant financial results for the period ended 31 March 2016 along with the quarter ending 31 December 2016, then such Ind AS comparatives would be required to be either reviewed or audited by the auditors.

The SEBI relaxation for the first two quarters regarding comparative information to be neither audited nor reviewed by the auditors comes with a caution and places emphasis on the management of listed companies to exercise due diligence to ensure that the financial results provide a true and fair view of its affairs. Therefore, it appears that the relaxation in its true sense does not relax the responsibility of the management that the comparatives for the year to date 31 December quarter should not include significant adjustments to the quarter ending 30 June 2016 and 30 September 2016.

Alignment with Ind AS/AS standards and presentation of 'Total Comprehensive Income'

The SEBI has clearly mentioned that if there is any technical difficulty in interpreting any specific item in the formats or implementation of its SEBI circular, then such requirements will not override the requirements of Ind AS/AS and would be guided by Ind AS/AS standards and Schedule III to the 2013 Act. Therefore, the formats of the 30 November 2015 circular should include information of the Other Comprehensive Income and Total Comprehensive Income (as described in the format for newspaper in Annexure I of the SEBI circular).

Relaxations from reconciliations

The SEBI circular specifies the reconciliations to be provided along with Ind AS quarterly financial results. Accordingly, it appears other reconciliations as required by para 32 of Ind AS 101, *First-time Adoption of Indian Accounting Standards* (as outlined below) would not be required to be presented along with the Ind AS quarterly financial results:

- Reconciliations of equity under previous GAAP to equity under Ind AS as at:
 - the date of transition, being 1 April 2015 (in the first interim period)
 - the end of the comparative annual period, being 31 March 2016 (in the first interim period)
 - the end of the comparative interim period for each quarter (e.g. 30 June 2015 for 30 June 2016 quarter)
- Reconciliations of statement of profit and loss under previous GAAP to statement of profit and loss under Ind AS for:
 - the comparative annual period ending 31 March 2016
- Explanation of significant adjustments to the statement of cash flows
- Explanation of errors made under previous GAAP, whether correction of errors should have be presented separately from changes in the accounting policies.

Next steps

Communication with stakeholders

Listed companies would have to develop their own communication strategies to share the potential impact of Ind AS on their financial position, performance and liquidity. They may have to determine how much additional information should be provided on a voluntary basis to effectively communicate to the investors, in particular, differentiating accounting impacts from the underlying business changes.

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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 recent call, on 11 July 2016, we covered the following topics:

- SEBI relaxes norms for Ind AS compliant quarterly results
- MoF defers ICDS by one year
- ITFG: Clarification Bulletin 3.

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



Issue no. 10/2016 – Consumer Markets

This month the Accounting and Auditing Update focusses on the consumer markets sector and highlights key matters relating to accounting, financial reporting and regulatory areas relevant to this sector. The Indian Accounting Standards (Ind AS) largely converged with the International Financial Reporting Standards (IFRS) are bringing about a paradigm shift in financial reporting in India. Our article highlights two key areas of impact: revenue recognition and the consideration of embedded leases and explains the new accounting requirements in these areas and the expected challenges that are likely to be faced by the sector. The publication also features an interaction with Mr. V. Srinivasan, Chief Financial Officer and Company Secretary, Godrej Consumer Products Limited and explores some key accounting, reporting and other topical matters relevant to the industry. This publication also carries an article on fraud risk, which assesses key implications of fraud risk areas on this sector. We also seek to highlight considerations and challenges that companies in this sector could face while implementing Internal Financial Controls and key updates in the Foreign Direct Investment policy relating to this sector.

In this publication, we lay emphasis on how transfer pricing affects the sector, via complex issues relating to advertisement, marketing and promotion expenditure and an overview of the recent judgements of Indian courts in this area. We also cast our lens on distinct features and challenges associated with accounting and reporting for the liquor industry, a key sub-sector within consumer markets.

The MCA amends certain provisions relating to auditor's rotation and managerial remuneration

8 July 2016

The Companies Act, 2013 (2013 Act) became largely effective from 1 April 2014. The Ministry of Corporate Affairs (MCA) has been issuing various amendments and clarifications to the 2013 Act and to the corresponding Rules to remove practical challenges faced by companies while implementing certain provisions of the 2013 Act. Recently, on 30 June 2016, the MCA amended certain provisions relating to:

- Auditor's rotation, and
- Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

Our First Notes provide an overview of the amendments made by the MCA.

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