KPMG

Voices on Reporting

Quarterly updates

July 2016

Contents

Voices on Reporting, is a series of knowledge sharing calls, organised by KPMG in India, which covers current and emerging reporting challenges and is usually scheduled towards the end of each month.

In this newsletter, we aim to summarise important topics relating to the quarter ending 30 June 2016 from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI) and the Institute of Chartered Accountants of India (ICAI).

Ind AS reminders

Implementation road map for Ind AS by companies

	Phase I	Phase II	Voluntary adoption
Year of adoption	FY2016-17	FY2017-18	FY2015-16 or thereafter
Comparative year	FY2015-16	FY2016-17	FY2014-15 or thereafter
Covered companies			
(a) Listed companies	All companies with net worth >= 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 >= INR500 crore	Companies having a net worth >= INR250 crore	
(c) Group companies	Applicable to holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above. *This may also impact fellow subsidiary companies while preparing Consolidated Financial Statements (CFS) of the holding company.*		

(Source: KPMG in India's analysis, 2016, MCA notification dated 16 February 2015 and IFRS Notes released by KPMG in India on 23 February 2015)

Key carve-outs in Ind AS

Accounting area	Ind AS requirements (Mandatory)
Deemed cost exemption	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.
Foreign currency convertible bonds-treatment of conversion option	Recognition of embedded foreign currency conversion option as 'equity'.
Employee benefits-discount rate	Mandatory use of government security yields for determining actuarial liabilities (except for foreign currencies other than INR).
Business acquisitions-gain on bargain purchase	Recognition of 'bargain purchase gains' in a business combination as 'capital reserve'.
Classification of loan with covenant breaches	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.
Lease rental recognition	No straight-lining for escalation of lease rentals in line with expected general inflation.
Investment in associates-gain on bargain purchase	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.
Revenue recognition from sale of real estate	IFRIC 15, *Agreements for Construction of Real Estate* will not be applicable under Ind AS 18, *Revenue* for real estate developers.

Accounting area	Ind AS requirements (Optional)
Foreign exchange fluctuations	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.
Accounting policies of associates	Option not to align the accounting policy of associates with that of the parent, if impracticable.

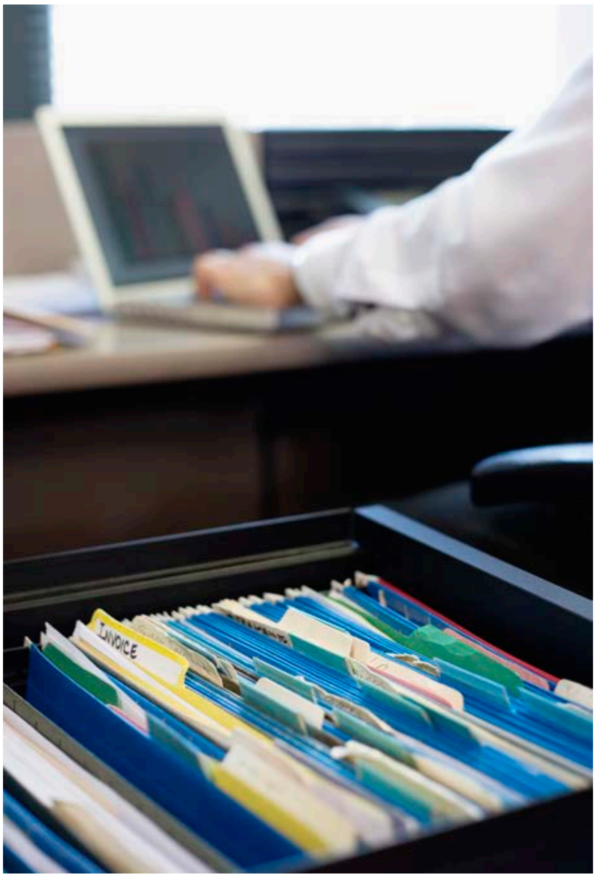
Key carve-in Ind AS

Accounting area	Ind AS requirements
Common control	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, *Business Combination.*

(Source: KPMG in India's analysis, 2016, MCA notifications dated 16 February 2015 and 30 March 2016 and IFRS Notes released by KPMG in India on 23 February 2015)

SEBI provides certain relaxations for Ind AS compliant quarterly results

The SEBI through its circular on 5 July 2016 has provided certain relaxations to listed companies to whom the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS Rules) are applicable on or after 1 April 2016 to facilitate smooth transition during the first year of Ind AS implementation. It has also revised the formats of the financial results so that it can be prepared on the basis of Ind AS.



Revised formats

As per the circular, all listed entities are required to comply with the existing formats upto 31 December 2016 and for the period on or after 31 March 2017, the format would be as prescribed in Schedule III to the Companies Act, 2013 (2013 Act) (to the extent of the balance sheet and statement of profit and loss). The banks and insurance companies would follow the formats prescribed under the respective acts/regulations.

Accordingly, SEBI has revised the formats of the financial results to be published in the newspapers and has prescribed that the comparatives filed along with the quarterly/annual financial results should be Ind AS compliant.

Relaxation from providing comparative information

The SEBI circular provides certain relaxations to entities while reporting their Ind AS compliant 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 and IFRS Notes released by KPMG in India on 13 July 2016)

The SEBI circular provides relaxations from providing certain comparative information as can be seen from the table below:

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	√	x	√	N.A.	N.A.	x (Note 2)	x (Note 4)	x (Note 2)	Optional
30 September 2016	√	√	√	√	√	x (Note 2)	x (Note 4)	x (Note 2)	Optional
31 December 2016	√	√	√	√	√	x# (Note 3)	√	x# (Note 3)	Optional
31 March 2017	√	√	√	√ (Note 1)	√ (Note 1)	√	√	√	√

(Source: KPMG in India's analysis, 2016 and IFRS Notes released by KPMG in India on 13 July 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 require 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.

Relaxation with respect to consolidated financial results

As per Regulation 33(3)(b)(i) of the Listing Regulations, a listed company may opt to submit to the stock exchange their quarterly/year to date consolidated financial results along with the quarterly and year to date stand-alone financial results in the first quarter of the financial year. However, as per the SEBI circular, during the year of adoption of Ind AS, the entity may opt to provide the consolidated financial results along with the stand-alone financial results in the second quarter.

All these relaxations would be applicable to the companies falling in the subsequent phases of the Ind AS road map in the relevant year of the Ind AS application.

Clarification on issues

The SEBI circular mentions that 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, it may take guidance from the provisions of the Ind AS Rules/AS Rules and Schedule III to the 2013 Act and make suitable modifications and provide appropriate explanations and clarifications for the same.

The SEBI circular also states the following 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.

Further, 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 and annual financial results.

Key takeaways

- 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.

(Source: SEBI circular no. SEBI/CIR/CFD/FAC/62/2016 dated 5 July 2016 and IFRS Notes released by KPMG in India on 13 July 2016)

Applicability of Ind AS in the offer documents

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.

On 31 March 2016, the SEBI issued a circular (reference no. SEBI/HO/CFD/DIL/CIR/P/2016/47) that 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.

This circular is applicable to companies 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

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:

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	I GAAP	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	I GAAP	I GAAP
On or after 1 April 2020	Ind AS	Ind AS	Ind AS	Ind AS	I GAAP

**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.*

(Source: SEBI circular no. SEBI/HO/CFD/DIL/CIR/P/2016/47 dated 31 March 2016 and IFRS Notes released by KPMG in India on 1 April 2016)

Important points to note are as following:

- Issuer companies covered under Phase II of Ind AS road map to follow the above timelines with time lag of one year.
- Companies are permitted to voluntarily present financial information for all five financial years preceding the filing in accordance with the Ind AS framework.
- 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.
- Disclosures of interim period, if any, shall be made in line with the accounting policies followed for latest financial year.
- Clear disclosure about the fact that the financial information has been disclosed in accordance with Ind AS should be given along with suitably explaining the difference between Ind AS and the previously applicable accounting standards, and the impact of transition to Ind AS.
- Issuers also need to ensure compliance with the requirements prescribed under Ind AS 101, *First-time Adoption of Indian Accounting Standards.*

Ind AS Transition Facilitation Group issues clarifications - Bulletin 2 and 3

The Ind AS Transition Facilitation Group (ITFG) was formed by the ICAI on 11 January 2016 to provide certain clarifications on issues arising due to applicability and/or implementation of Ind AS. The ITFG held its second meeting on 12 April 2016 and issued its second bulletin (Bulletin 2) on 10 May 2016. The ITFG, subsequently, held its third and fourth meeting on 23 May 2016 and 22 June 2016 respectively, and issued its third bulletin (Bulletin 3) on 2 July 2016. In June 2016, the ICAI has also issued additional clarifications in the form of Frequently Asked Questions (FAQs). Summary of the guidance provided by the ITFG under Bulletin 2 and 3 is as follows:

- **Option to continue with the accounting policy under para 46A of AS 11:** Application of the option (under Ind AS 101) to continue with the accounting policy under para 46A of AS 11, *The Effects of Changes in Foreign Exchange Rates*, would be available for those long-term foreign currency loans which were taken before the beginning of the first Ind AS reporting period.
  - The balance of Foreign Currency Monetary Item Translation Difference Account (FCMITDA) should be amortised over the balance period of such long-term liability 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 have been initially charged to the statement of profit and loss. However, on first-time application of Ind AS, the principles of Ind AS 109, *Financial Instruments* should be applied.
- **Application of hedge accounting where company avails option under para 46A of AS 11:** A company may continue to avail its option under paragraph 46/46A of AS 11, under previous GAAP and capitalise the exchange gain/loss on such foreign currency loans into the cost of the related asset. If the company has also entered into a foreign currency swap transaction for hedging such a long-term foreign currency loan, it will not be permitted to apply hedge accounting to these swaps. This is because the company has no corresponding foreign exchange exposure that affects profit or loss, as it capitalises the exchange differences.
- **Property, Plant and Equipment (PPE)**
  - A company that has elected to continue with the carrying value under previous GAAP as the deemed cost for all of its PPE on transition to Ind AS may have capital spares that were recognised as inventory under previous GAAP but are eligible for capitalisation under Ind AS. On transition to Ind AS such capital spares should be recognised as a part of PPE if they meet the criteria under Ind AS 16, *Property, Plant and Equipment* and the previous GAAP carrying value of such spares can be considered as their deemed cost in accordance with paragraph D7AA of Ind AS 101.
  - In the case where spare parts are recognised as PPE in accordance with criteria under Ind AS 16, then depreciation on such items should begin from the date when the asset is available for use.
  - Capital work in progress is considered to be in the nature of PPE under construction and the provisions of Ind AS 16 apply to it. Accordingly, it can be recognised at the carrying value under previous GAAP as deemed cost under Ind AS 101 (the option under para D7AA).
  - Where a company does not elect to apply deemed cost exemption on first time adoption of Ind AS, it is required to apply Ind AS 16 retrospectively to its PPE. If such a company had applied depreciation rates specified under Schedule XIV to the Companies Act, 1956 (1956 Act) under previous GAAP (without considering the useful life of its PPE), on transition to Ind AS the company is required to recompute depreciation by assessing the useful life of each asset in accordance with requirement of Ind AS 16 and Schedule II to the 2013 Act.

    While the depreciation rates in Schedule XIV were intended to be minimum rates (and an estimate of useful life was required to be made), some companies may have applied these depreciation rates in order to comply with 1956 Act requirements (without considering the useful life of its PPE). These companies would be required to recompute depreciation on a retrospective basis in order to comply with Ind AS 16.
  - 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.
- **Deemed cost of an investment in a subsidiary:** A company that has used fair value as the measurement basis for deemed cost on transition, may continue to carry its investment in the subsidiary at the transition date fair value in its separate financial statements, which is deemed to be its cost in accordance with Ind AS 27, *Separate Financial Statements*.
- **Premium on redemption of non-convertible debentures:** In case of accounting treatment for premium on redemption of non-convertible debentures that are outstanding at the date of transition to Ind AS, the ITFG discussed whether

any retrospective adjustments were required under Ind AS on transition, if the issuing company had previously utilised the securities premium account (basis Section 78 of the 1956 Act to provide for the redemption premium in full. The ITFG examined this issue and provided guidance as follows:

- The non-convertible debentures are classified as a financial liability under Ind AS 109, since the issuer has a contractual obligation to redeem these debentures at a specified premium. Ind AS 109 requires financial liabilities to be classified as 'subsequently measured at amortised cost' unless these are derivatives or otherwise qualify for being designated as 'at fair value through profit or loss (FVTPL)'.
- If the debentures qualify for designation as FVTPL, these would be measured at fair value on the date of transition to Ind AS and the difference between fair value and the previous carrying amount recognised in retained earnings as a transition adjustment. Hence, no retrospective adjustments would be required in this situation.
- If such debentures are not designated as FVTPL and are therefore subsequently measured at amortised cost, the issuer is required to retrospectively calculate the Effective Interest Rate (EIR) as on the date of issue and compute the amortised cost as at the date of transition based on this EIR. The adjustment arising from the difference between the amortised cost and the carrying amount is to be recognised at the date of transition. To the extent that the issuer had previously utilised the securities premium account, it may credit the adjustment to this account with a corresponding debit to the relevant account that was credited earlier (debenture liability).

- **Voluntary adoption of Ind AS and adoption of Division II of the Revised Schedule III:** Companies which have voluntarily adopted Ind AS from the FY 2015-16 may use the format specified in Division II of the Revised Schedule III to the 2013 Act for the preparation of the financial statements as per Ind AS for FY2015-16.
- **Functional currency:** Where a company has two or more distinct businesses with different functional currencies, the company should identify the functional currency at the entity level, considering the economic environment in which the entity operates and not at the business or division level.
- **Transition date to Ind AS:** Determine the date of transition to Ind AS as per the requirements of Ind AS 101, voluntary selection of transition date is not permitted.

Applicability of Ind AS road map to group companies:

- If a parent company voluntarily or mandatorily adopts Ind AS then its holding, subsidiary, joint venture or associate company, whether through direct or indirect association (for example through another subsidiary) should comply with Ind AS from the financial year in which the parent company starts complying with Ind AS.
- If a company that is now required to apply Ind AS had an associate under the previous GAAP that no longer meets the definition of an associate under Ind AS, such an associate company would not be required to comply with Ind AS (unless it otherwise falls within the Ind AS road map) and vice versa.
- Where, during a financial year, a company becomes a holding, subsidiary, joint venture or associate company of another company falling in the Ind AS road map, then the former will be required to prepare Ind AS financial statements from that financial year and interim quarterly financial statements in the quarter in which the acquisition occurs.
- If the company ceases to meet the threshold criteria in the Ind AS road map immediately before the mandatorily application date then such company will not be required to comply with Ind AS even if it met the criteria on a prior date.
- Net worth of the foreign parent should not be considered as the basis for determining whether the Indian subsidiary is required to comply with Ind AS.

- **Toll roads and revenue based amortisation:** The ITFG has clarified that in harmonisation of the Companies (Accounts) Rules, 2014, Ind AS 38, *Intangible Assets* and Ind AS 101, principles of Ind AS 38 should be followed for all intangible assets related to service concession arrangements including toll roads once Ind AS is applicable to an entity. Accordingly, revenue based amortisation is generally not expected to apply to such intangible assets.
- **Core investment company:** All Core Investment Companies (CIC) should be regarded as Non-Banking Financial Companies (NBFCs) as they are specifically included in the definition of NBFCs as per Rule 2 of the Companies (Indian Accounting Standards) Rules, 2015. Therefore, CICs should comply with the road map specified for NBFCs, even if the RBI may have exempted a class of CICs from complying with certain regulations/directions governing CICs in India.

ICAI issues clarifications on certain issues on Ind AS implementation

Overview of the guidance

FAQ on the application of the 'deemed cost' exemption

Ind AS 101, permits an entity (in situations where there is no change in functional currency) on the date of transition to Ind AS, to continue with the carrying value for all of its PPE, measured as per its previous GAAP, and use that carrying value as its 'deemed cost' at the date of transition.

'Deemed cost' is defined as 'an amount used as a surrogate for cost or depreciated cost at a given date. Subsequent depreciation or amortisation assumes that the entity had initially recognised the asset or liability at the given date and that its cost was equal to the deemed cost'.

The issue being clarified by the ICAI was whether, on application of the exemption above and in view of the definition of deemed cost, the accumulated depreciation and provision for impairment under previous GAAP would be treated as 'nil' on the date of transition and how would the impact - in case of reversal of impairment losses (recognised prior to the date of transition) - be recognised.

This issue was previously referred to the Accounting Standards Board (ASB) by the ITFG and the ASB issued the following clarification on 30 June 2016.

ICAI guidance

Since 'deemed cost' is a surrogate for the cost or depreciated cost, for the purpose of subsequent depreciation or amortisation, deemed cost becomes the starting point for subsequent measurement under Ind AS. Therefore, the deemed cost, which on the basis of this exemption is the carrying amount of PPE on the date of transition under previous GAAP, is the new cost and any accumulated depreciation or provision for impairment under previous GAAP would have no relevance. Accordingly, provision for impairment recognised prior to the date of transition cannot be reversed in later years.

An additional disclosure of the gross block of assets, accumulated depreciation and provision for impairment under previous GAAP may be voluntarily provided in the notes forming part of the Ind AS financial statements.

FAQ on consolidation

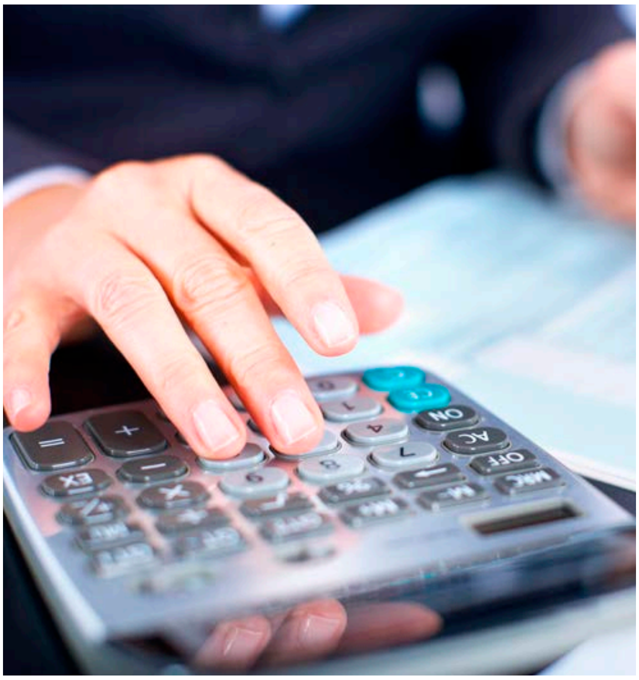
The ASB of the ICAI issued FAQs on 24 June 2016, to clarify requirements relating to preparation of CFS. The guidance provided in these FAQs is summarised below:

- Are subsidiaries in the legal form of an LLP or partnership firm required to be consolidated?

  Ind AS 110, *Consolidated Financial Statements* requires an entity that controls one or more other entities to consolidate all controlled entities. Since 'entities' include those in the form of a company or other forms, a parent entity is required to consolidate subsidiaries that are in the form of a Limited Liability Partnership (LLP) or a partnership firm under Ind AS. Consolidation under the relevant standards will also be required by the parent, if the LLP or partnership firm is an associate or joint venture of the parent entity.

- Is a company that has no subsidiaries, but has an investment in an associate or joint venture, required to prepare CFS under Companies (Accounting Standards) Rules, 2006?

  Section 129(3) of the 2013 Act requires a company with one or more subsidiaries to prepare CFS of the company and all subsidiaries. 'Subsidiary' has been defined to include associate companies and joint ventures. Therefore, a company that does not have any subsidiaries would still be required to prepare CFS that include its associate and joint venture companies in accordance with AS 23, *Accounting for Investments in Associates in Consolidated Financial Statements* and AS 27, *Financial Reporting of Interests in Joint Ventures* respectively.



Key takeaways

Significant matters for companies adopting Ind AS from 1 April 2016

- The MCA has notified 40 Ind AS till date. These Ind AS are applicable to stand-alone as well as CFS. The first interim financial reporting period for some of these listed entities would commence from quarter ending 30 June 2016.
- The Ind AS incorporate all relevant IFRS, IAS, IFRICs and SICs issued by the IASB. Further, the latest standard on financial instruments (IFRS 9, *Financial Instruments*) has been incorporated in Ind AS.
- The net worth for implementation of Ind AS should be calculated based on the stand-alone financial statements as on 31 March 2014. The net worth will not include revaluation reserves, write back of depreciation and amalgamation reserve.
- Once a company applies Ind AS voluntarily, it will be required to follow the Ind AS for all the subsequent financial statements. Thus, no roll back is permitted.

Ind AS roadmap for NBFCs, banks and insurance companies

- Types of NBFCs covered under the Ind AS implementation road map for 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 of banks covered in the Ind AS road map for banks: Group companies (holding/subsidiary/joint venture/associate company) of SCBs (excluding RRBs) 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.
- Group companies of NBFCs 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.
- NBFCs that are subsidiaries, associates or joint ventures of a parent that are covered by the corporate road map for Ind AS: Such companies 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. They will also have to determine the impact of Ind AS 109 and credit loss model even though as per road map they are required to adopt Ind AS from 1 April 2018.
- 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.

Challenges for first-time adopters of Ind AS

Companies, banks, insurers, and NBFCs adopting Ind AS for the first time should evaluate the carve-outs and understand the impact these can have on the financial statements in the short-term and long-term. New accounting policies may be required to be adopted and previous ones may need modifications. The basis of judgements and estimates would need to be disclosed.

Implementing the new financial instruments standard

This could pose significant challenges since Ind AS adopters in India shall have the onus to be the first to understand and implement this new complex standard on financial instruments.

Regulatory challenges

Minimum Alternate Tax (MAT) will be based on book profits and book profits are likely to be significantly impacted because of adoption of Ind AS.

Clarity on Ind AS implementation by companies in the process of listing

- Companies that plan 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 the circular issued by SEBI dated 31 March 2016.
- 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.

ITFG's interpretations and ICAI's FAQs on Ind AS implementation issues

- Companies should consider the interpretations issued by ITFG and the FAQs issued by the ICAI while transitioning to Ind AS as they are expected to pave the way for a faster implementation of Ind AS.

(Source: KPMG in India's analysis, 2016, MCA notifications dated 16 February 2015 and 30 March 2016, IFRS Notes released by KPMG in India on 23 February 2015, SEBI circular no. SEBI/HO/CFD/DIL/CIR/P/2016/47 dated 31 March 2016, IFRS Notes released by KPMG in India on 11 April 2016, SEBI circular no. SEBI/CIR/CFD/FAC/62/2016 dated 5 July 2016 and IFRS Notes released by KPMG in India on 5 July 2016 and 13 July 2016, ICAI – ITFG clarification Bulletin 2 and 3 dated 10 May 2016, ICAI FAQs dated 24 and 30 June 2016.)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Updates relating to the Companies Act, 2013

Constitution of the NCLT and notification of certain related sections of the 2013 Act

The 2013 Act, proposed the constitution of the National Company Law Tribunal (NCLT) to replace the erstwhile Company Law Board (CLB). Also, the National Company Law Appellate Tribunal (NCLAT) was proposed under the 2013 Act as the appellate authority for appeals against the order of the NCLT, instead of the High Court. However, the sections related to NCLT and NCLAT and corresponding rules were not notified pending their constitution.

Accordingly, on 1 June 2016, the MCA notified the following:

- The constitution of the NCLT and NCLAT to exercise and discharge the powers and functions as conferred on it under the 2013 Act.
- Certain sections of the 2013 Act enabling the exercise of power by the NCLT and NCLAT.
- With the constitution of the NCLT, the CLB constituted under the 1956 Act stands dissolved and all matters or proceedings pending before the CLB should be transferred to NCLT, which shall dispose such matters or proceedings in accordance with the provisions of 2013 Act or 1956 Act.

These notifications are effective from 1 June 2016 (being the date they are published in the official gazette).

New sections and sub-sections notified

The MCA notified certain new sections and sub-sections such as:

- Section 245 which provides that members or depositors could initiate class action suits through which they can seek to restrain the company from committing an act which is ultra vires the articles or memorandum.
- Section 130 and 131 relating to reopening of accounts/voluntary revision of financial statements or Board's report.
- Section 140(5) relating to powers of NCLT to order removal of an auditor of a company either through suo moto or an application made by central government or any other person concerned if he had committed any fraud.
- Section 97, 98 and 99 relating to powers of NCLT to call annual general meeting and meeting of members.

Key takeaways

- The constitution of NCLT/NCLAT signifies the tremendous efforts of the government to reduce the burden of courts and streamline efforts for a faster resolution of corporate disputes.
- The NCLT would help in streamlining and fast tracking of civil cases related to companies as there would be dedicated tribunals looking at company law matters to make the process more efficient.
- Consequent to the NCLT being constituted and the relevant provisions of the 2013 Act having been notified, the CLB stands dissolved and the current cases or proceedings will be transferred to NCLT. Our understanding is that the pending cases pertaining to the 1956 Act would be evaluated by NCLT instead of CLB.
- Recently, the MCA has notified the rules relating to procedures to be followed by NCLT/NCLAT. The notification of these rules is pivotal for effective transition from CLB to NCLT. Companies would need to evaluate related rules to understand the implication of newly notified sections.
- The constitution of NCLT and NCALT would also pave the way for a faster implementation of the bankruptcy code.

(Source: MCA notifications dated 1 June 2016 and First Notes released by KPMG in India on 22 June 2016)

The MCA amends certain provisions relating to managerial remuneration

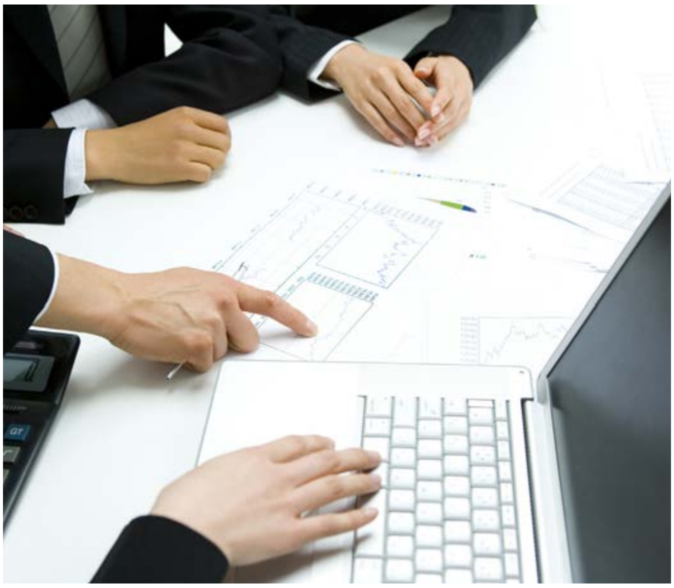
Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (the Rules) - MCA through its circular dated 30 June 2016 has made certain key amendments to the Rules which are as follows:

Amendment in Rules	Overview
Rule 3	Filing of return of appointment: A company is no longer required to file a return of appointment of Chief Executive Officer (CEO), Company Secretary and Chief Financial officer (CFO). Related amendment has also been made in Form No. MR. 1.
Rule 5(1)(v),(vi)(vii) and (ix) to (xi)	Disclosure in Board's report: Number of disclosures in the board's report has been reduced now. Clauses such as number of permanent employees on the rolls of company, explanation on the relationship between average increase in remuneration and company performance, comparison of the remuneration of the Key Managerial Personnel against the performance of the company, variations in the market capitalisation of the company, price earnings ratio as at the closing date of the current financial year, etc have been omitted.
Rule 5(2)	Disclosure regarding employee remuneration: The amendment requires disclosure of names of the top 10 employees in terms of remuneration drawn' and the name of every employee, who: • if employed throughout the financial year, was in receipt of remuneration for that year which, in the aggregate, was not less than INR1.02 crore (instead of INR60 lakh) • if employed for a part of the financial year, was in receipt of remuneration for any part of that year, at a rate which, in the aggregate, was not less than INR8.50 lakh per month (instead of INR5 lakh per month).
Form No. MR.1	Return of appointment of managerial personnel: This form has been revised to include a declaration/certificate by a practicing professional (Chartered accountant/Cost accountant/Company secretary) to state that the information contained in this form is true, correct and complete and no information material to this form has been suppressed. The revised Form No. MR.1 has also been provided by the MCA in the circular dated 30 June 2016.

The above amendments are applicable from the date they are published in the official gazette i.e. from 30 June 2016 onwards.

Key takeaways

- Amendments to the Rules would lead to further rationalisation of the Board's report and will help to provide stakeholders important and relevant information only.
- A certificate by a practitioner in addition to declaration by the board of directors in Form No. MR.1 will ensure stricter compliance and greater reliability of information provided by the company to the regulators.



(Source: MCA circular dated 30 June 2016 and First Notes released by KPMG in India on 8 July 2016)

The MCA amends certain provisions relating to auditor's rotation

As per the provisions of Section 139 of the 2013 Act, every company is required to comply with the auditor rotation requirements prescribed in the said section within three years from 1 April 2014 (i.e. from 1 April 2017). The MCA has clarified, that the companies should ensure compliance with the new provisions of Section 139 within a period which shall not be later than the date of the first annual general meeting of the company held after 1 April 2017. Therefore, for companies with 31 March as the year end should hold annual general meeting latest by 30 September 2017 to appoint auditors.

Key takeaways

- The clarification on the auditor's rotation is a welcome step by the MCA and shows the regulator's efforts to ensure a smooth transition of the 2013 Act.

(Source: The Companies (Removal of Difficulties) Third Order, 2016 dated 30 June 2016 and First Notes released by KPMG in India on 8 July 2016)

The MCA amends certain provisions in deposits rules

As a background, the 2013 Act and the Companies (Acceptance of Deposits) Rules, 2014 (the Rules) prescribe the requirements for companies to accept deposits. In the past, MCA has issued various clarifications/amendments to certain provisions of the Rules vide its circulars dated 31 March 2015 and 16 September 2016.

Recently, on 29 June 2016, MCA has further made amendments to these Rules. The amendments have come into force from the date of its publication in the official gazette i.e. from 29 June 2016.

- The following items have been excluded from the definition of deposits:
  - Bond/debentures compulsorily convertible into shares within 10 year (earlier five years)
  - Advances for future warranty/maintenance services subject to conditions
  - Advance received and allowed by sectoral regulator/ government directions
  - Advance for subscription towards publication (whether in print or electronic form) that would be adjusted against the receipt of such publications
  - Amounts received from any collective investment scheme registered with SEBI
  - Amounts received from Alternate Investment Fund/Domestic Venture Capital Fund/Mutual Funds registered with SEBI
  - Amount equal to or greater than INR25 lakh received as convertible note by start-up company subject to conditions
  - Issue of listed non-convertible debentures not creating a charge on a company's assets.
- Limit of deposits (as a percentage of paid-up share capital, free reserves and securities premium) increased:
  - Private companies: 100 per cent (earlier 25 per cent)
  - Other companies: 35 per cent (earlier 25 per cent).
- Disclosure in the notes to financial statements: A new Rule 16A has been inserted now which requires:
  - Every company (other than a private company) to disclose in its financial statements by way of notes about the money received from the directors.
  - Private companies are required to disclose by way of a note, money received from directors or relatives of directors.
- Credit rating agencies and minimum investment grade rating prescribed: The amended Rules now require that the credit rating should not be below the minimum investment grade rating or other specified credit ratings for fixed deposits from any one of the approved credit rating agencies as specified for NBFCs in the Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998 (issued by the RBI; and as amended from time to time).
- Other amendments:
  - Deposit insurance: MCA amendment now permits companies to accept deposits without deposit insurance contract till 31 March 2017 (earlier 31 March 2016) or till the availability of a deposit insurance product, whichever is earlier.
  - Advertisement to invite deposits from public: The amended Rules now require the eligible company to issue the circular in the form of an advertisement in Form DPT-1 in english language in an english newspaper having country-wide circulation; and the circular is also required to be placed on the website of the company, if any.
  - New disclaimer requirement in DPT-1: The MCA has added a disclaimer to form DPT-1. The disclaimer states: *'It is to be distinctly understood*

that filing of circular or circular in the Form of advertisement with the Registrar should not in any way be deemed or construed that the same has been cleared or approved by the Registrar or Central Government. The Registrar or Central Government does not take any responsibility either for the financial soundness of any deposit scheme for which the deposit is being accepted or invited or for the correctness of the statements made or opinions expressed in the circular or circular in the Form of advertisement. The depositors should exercise due diligence before investing in the deposits schemes.'

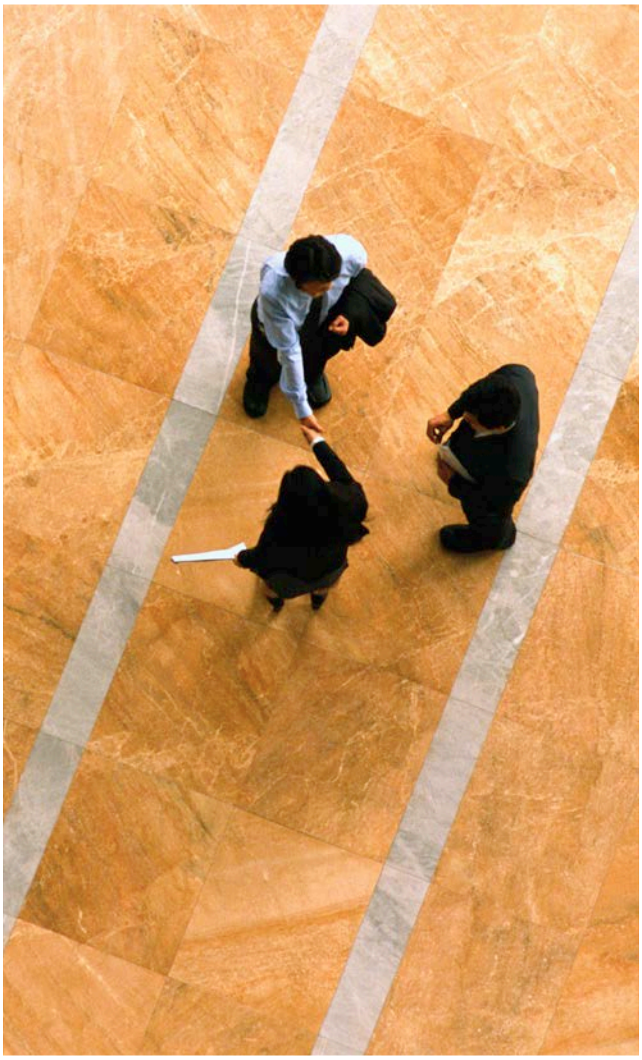
– New definitions: The MCA has added the definitions of start-up company and convertible notes in the Rules.

Key takeaways

- Companies should carefully monitor whether amounts raised through bonds, debentures or advances received during the course of, for the purposes of business would fall within the definition of deposits.

(Source: MCA notification dated 29 June 2016 and First Notes released by KPMG in India on 20 July 2016)

Companies (Corporate Social Responsibility Policy) Amendment Rules, 2016



The 2013 Act had introduced the CSR provisions that mandate corporates to constitute a CSR committee of the board which shall formulate and recommend a CSR policy indicating activities to be undertaken by the company, amount of expenditure to be incurred on such activities, etc.

The MCA on 23 May 2016, amended the Companies (Corporate Social Responsibility Policy) Rules, 2014 thereby widening the scope of the entities through which CSR activities could be undertaken.

Accordingly the amended Rules provide that companies can now undertake its CSR activities through:

- A company established under Section 8 of the 2013 Act or a registered trust or a registered society established by the company along with any other company, and
- Section 8 companies or a registered trust or a registered society established by the central or state government or any entity established under an Act of Parliament or a state legislature.

Compliance with the requirement of having an established track record of three years by Section 8 companies or a registered trust or a registered society established by the central government or state government or any entity established under an Act of Parliament or state legislature is not required.

(Source: MCA notification dated 23 May 2016)

Updates relating to SEBI regulations

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

On 2 September 2015, the SEBI notified the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations). They prescribed the requirements for listed entities to submit audited financial results for the financial year along with Form A, for an audit report with an unmodified opinion and Form B for an audit report with a modified opinion. Form B and the accompanying annual audit report would be reviewed by the stock exchanges and SEBI's 'Qualified Audit Report Review Committee'.

Recently on 27 May 2016, SEBI issued a circular which prescribes following operational details to be followed by listed entities for review of the audit qualifications contained in the audit reports in order to disseminate the impact of the audit qualifications on the financial statements without any delay:

- *Unmodified audit opinion:* Furnish a declaration to that effect to the stock exchange(s) while submitting the annual audited financial results.
- *Modified opinion:* Cumulative impact of the audit qualifications need to be disclosed in a separate format as specified in Annexure I called 'Statement on Impact of Audit Qualifications' (statement) instead of Form A and B.

  The statement is required 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.
- The existing requirement of making adjustments relating to the qualification in the books of accounts of the subsequent year is dispensed with.
- Where the impact of the audit qualification is not quantified by the auditor, the management shall make an estimate. In case it is unable to do so, reasons are required to be provided. In both the scenarios, the auditor shall review and provide comments on the management's response.
- Schedule VIII of the Listing Regulations, comprising the manner of reviewing Form B accompanying annual audited results has been deleted.
- The statements on the impact of audit qualifications filed by the listed entities shall be a part of regular monitoring by the stock exchanges as specified in Regulation 97 of the Listing Regulations. In case of non-compliance, the stock exchanges are required to take action against such entities as deemed fit and report to SEBI on a regular basis.
- The stock exchanges need to coordinate with one another in case the scrip is listed on more than one stock exchange.

Applicability

The revised procedures are applicable for all the annual audited standalone/consolidated financial results (as applicable) submitted by the listed entities for the period ending on or after 31 March 2016.

Format

Format given in the SEBI regulation of the Statement on Impact of Audit Qualifications (for audit report with modified opinion) submitted along-with Annual Audited Financial Results - *(Standalone and Consolidated separately)*

Statement on Impact of Audit Qualifications for the Financial Year ended March 31, ... [See Regulation 33 / 52 of the SEBI (LODR) (Amendment) Regulations, 2016]				
	Sr. No.	Particulars	Audited Figures (as reported before)	Adjusted Figures (audited figures after adjusting for qualifications)
I.	1.	Turnover/Total income	-	-
	2.	Total Expenditure	-	-
	3.	Net Profit/(Loss)	-	-
	4.	Earnings Per Share	-	-
	5.	Total Assets	-	-
	6.	Total Liabilities	-	-
	7.	Net Worth	-	-
	8.	Any other financial item(s) (as felt appropriate by the management)	-	-

II.

Audit Qualification (each audit qualification separately):

- Details of Audit Qualification:
- Type of Audit Qualification : Qualified Opinion/Disclaimer of Opinion/Adverse Opinion
- Frequency of qualification: Whether appeared first time/repetitive/since how long continuing
- For Audit Qualification(s) where the impact is quantified by the auditor, Management's Views:
- For Audit Qualification(s) where the impact is not quantified by the auditor:

(i) Management's estimation on the impact of audit qualification:
(ii) If management is unable to estimate the impact, reasons for the same:
(iii) Auditors' Comments on (i) or (ii) above:

III.

Signatories

- CEO/Managing Director
- CFO
- Audit Committee Chairman
- Statutory Auditor

Place:
Date:

Key takeaways

- The disclosure of the impact of audit qualifications, along with the management's views, is expected to provide timely and relevant information to users of financial reports and enable them to make informed investment decisions.
- The quantification of the impact of audit qualifications will assist users in their evaluation of the financial results.
- The SEBI Circular applies to financial results for periods ending on or after 31 March 2016 for companies that have already submitted their annual financial results to the exchanges. Such companies may additionally need to submit this statement if the auditor's report contains a modified opinion.

(Source: SEBI circular no. CIR/CFD/CMD/56/2016 dated 27 May 2016 and First Notes released by KPMG in India on 7 June 2016)

Dividend distribution policy for listed companies

The SEBI in its board meeting held on 19 May 2016, *inter alia*, approved the proposal for top 500 listed companies (by way of market capitalisation) to formulate and disclose their dividend distribution policies in the annual reports and on their websites. Such policy may include:

- The 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.

Further, SEBI through a notification dated 8 July 2016, has issued SEBI (Listing Obligation and Disclosure Requirement) (Second Amendment) Regulations, 2016 incorporating the above proposal.

Key takeaways

- Listed companies should start the process of developing dividend distribution policy.

(Source: SEBI press release no. 98/2016 dated 19 May 2016 and notification dated 8 July 2016)

Updates on accounting and financial reporting matters

New/revised standards on auditing issued by the ICAI

New/revised standards on auditing issued by the ICAI

With the view to highlight and bring into notice the key issues identified by the auditor, the ICAI on 17 May 2016 issued new SA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. Accordingly, consequential changes have been introduced in the given Standards on Auditing (SAs):

- 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.*

Understanding the new requirements

Introduction of Key Audit Matters: Key Audit Matters (KAM) are those matters that in the auditor's professional judgement were of most significance in the audit of the financial statements of the current period. The KAM are selected from matters communicated with those charged with governance. Following is the filtering approach for identification of KAM:

Starting point: Matters communicated to those charged with governance

Stage 1: Matters that require significant auditor attention in performing the audit

Stage 2: Key audit matters (matters of most significance).

The new requirements specify that all matters identified in Stage 1, and the rationale for determining whether each matter is a key audit matter are to be documented in the audit file.

Communicating KAM: SA 701 requires that the description of each key audit matter include a reference to the related disclosure(s), if any, in the financial statements and addresses:

- Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter, and
- How the matter was addressed in the audit.

Communication of KAM not required: Under the following two circumstances, a matter determined to be a key audit matter is not communicated in the auditor's report:

- Law or regulation precludes public disclosure about the matter, or
- In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Going concern as a key audit matter: When events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, and a material uncertainty exists, then such a matter by its nature meets the definition of a key audit matter. However, under the requirements of the new standard:

- these types of matters are disclosed in the auditor's report under a separate heading, and
- the key audit matters section includes a reference to that other section.

If it is determined that a material uncertainty does not exist, then the matters relating to this conclusion may be considered a key audit matter. In such circumstances, the description of key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial statements and related mitigating factors.

To help ensure that such matters are appropriately disclosed in the financial statements, SA 570, *Going Concern* has been amended to specifically require the auditor to consider whether, in the context of the applicable financial reporting framework the financial statements provide adequate disclosures when:

- events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified but
- based on the audit evidence obtained, the auditor concludes that no material uncertainty exists.

Applicability

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

Key takeaways

- The new reporting requirements are expected to bring more transparency and clarity regarding the auditor's responsibility while performing an audit and regarding the information that they provide to users about the audit.
- The introduction of key audit matters is the most significant change which would pose great concern for the companies as such matters would be looked upon by the users of the auditor's report at first instance.

(Source: ICAI notification dated 17 May 2016)

Overview of the Guidance Note on Accounting for Real Estate Transactions

On 30 March 2016, the MCA issued two Ind AS on revenue. Ind AS 18 does not provide guidance on revenue from real estate transactions. The MCA had stated that revenue would be recognised by real estate developers in accordance with a Guidance Note which would be issued by ICAI on this subject.

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

The GN covers all forms of transactions in real estate. An illustrative list of transactions which are covered by the GN is as under:

a. Sale of plots of land (including lease of land on finance lease under Ind AS 17, *Leases*) without any development.

b. Sale of plots of land (including lease of land on finance lease under Ind AS 17) with development including development in the form of common facilities like laying of roads, drainage lines and water pipelines, electrical lines, sewage tanks, water storage tanks, sports facilities, gymnasium, club house, landscaping etc.

c. Acquisition, utilisation and transfer of development rights.

d. Redevelopment of existing buildings and structures.

e. Development and sale of residential and commercial units, row houses, independent houses, with or without an undivided share in land.

f. Joint development agreements for any of the above activities.

However real estate transactions of the nature covered by Ind AS 16, Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, Ind AS 38, and Ind AS 40, *Investment Property* are outside the scope of this GN.

The GN primarily provides guidance on application of percentage of completion method where it is appropriate to apply this method as such transactions and activities of real estate have the same economic substance as construction contracts. For this purpose, the GN draws upon the principles enunciated in AS 11, *Construction Contracts*. In respect of transactions of real estate which are in substance similar to delivery of goods, principles enunciated in Ind AS 18 are applied.

The GN also lists down the disclosure requirements for real estate developers and projects in progress at the end of the reporting period.

Key takeaways

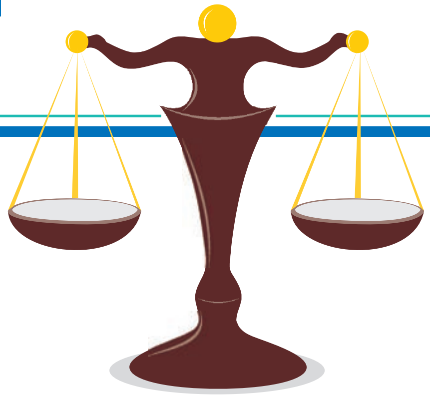
- The GN is expected to streamline the diverse accounting practices currently prevalent in the real estate industry.
- The accounting prescribed in the GN is at variance to the guidance provided under IFRS. Hence this area is a carve-out from IFRS.

(Source: The Guidance Note on Accounting for Real Estate Transactions issued by ICAI dated 10 May 2016)

EAC opinions issued by ICAI during the quarter ended June 2016

Sr. No.	Particulars	Month
1.	Accounting for expenditure incurred as a pre-condition to obtaining environmental clearance for setting up power project and coal mines	April 2016
2.	Treatment of royalty paid in dispute pending the final decision of the court	May 2016
3.	Application of paragraph 21 of AS 22, *Accounting for Taxes on Income*	June 2016

(Source: The ICAI Journal, The Chartered Accountant for the months of April, May and June 2016)



Other regulatory updates

RBI permits writing of options against contracted exposures by Indian residents

Under the present regulatory framework, outlined in RBI's Comprehensive Guidelines on OTC Foreign Exchange Derivatives and Overseas Hedging of Commodity Price and Freight Risks (A.P (DIR Series) circular no. 32 dated 28 December 2010), writing of options by users (Indian resident entities) on a stand-alone basis is not permitted. The users could currently enter into option strategies of simultaneous buying and selling of plain vanilla European options, provided there is no net receipt of premium.

Now, with the view to encourage participation in the OTC currency options market and improve its liquidity, RBI through its Circular-RBI/2015-16/431 (the RBI Circular), issued on 23 June 2016, has permitted resident exporters and importers of goods and services to write (sell) standalone plain vanilla European call or put option contracts against their contracted exposure, i.e. covered call or covered put respectively, to any AD Category-I bank in India subject to the prescribed operational guidelines, terms and conditions.

Some of the salient features of the RBI Circular are as follows:

- **Participants**: The guidelines in the RBI circular will be applicable to the following participants:
  a. *Market makers* - AD Category-I banks in India who have RBI's approval to run cross currency and foreign currency-Indian rupee option books.
  b. *Users* - Listed companies and their subsidiaries/joint ventures/associates having common treasury and consolidated balance sheet or unlisted companies with a minimum net worth of INR200 crore, if these companies provide appropriate disclosures in the financial statements as prescribed by the ICAI.
- **Permitted options:** Covered options (either as a single FCY-INR option or as separate options for the FCY-USD and USD-INR legs) may be written (sold) by resident exporter or importers against their underlying contracted exposures arising out of their exports or imports, respectively. However, the use of covered option shall not be considered as a hedging strategy.
- **Underlying:** Covered options may be written against either a portion or the full value of the underlying.
- **Structure derivative product:** The covered option being a combination of an underlying cash instrument and a generic derivative product, should be treated as a structured derivative product.
- **Approvals:** AD Category-I banks may enter into covered options with their exporter or importer constituents only after obtaining specific approval in this regard from their competent authority, i.e. their Board, Risk Committee, etc.
- **Capital and provisioning requirements:** AD Category-I banks shall treat the exposures against which a covered option has been written as an 'unhedged exposure' and accordingly apply the guidelines on Capital and Provisioning Requirements for Exposures to entities with Unhedged Foreign Currency Exposure.
- **Period:** Covered option contracts may be written for a maximum maturity period of 12 months.

Similar amendments have been made in the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000.

Key takeaways

- While RBI's move is expected to improve liquidity in the OTC currency options market, companies that are proposing to write these options should carefully assess the accounting implications of these options.
- Such options will generally not qualify for hedge accounting under Ind AS 109. The covered options would generally, therefore, be recognised at their fair value with changes in fair value recognised through the statement of profit and loss by the issuing companies, under current accounting principles as well as under Ind AS.

(Source: RBI circular RBI/2015-16/431 dated 23 June 2016 and First Notes released by KPMG in India on 29 June 2016).

The MoF announces deferment of ICDS by one year

On 31 March 2015, the MoF issued 10 Income Computation and Disclosure Standards (ICDS) which were notified by the Central Board of Direct Taxes (CBDT) under Section 145(2) of the Income-tax Act, 1961. These standards were applicable for the previous year commencing from 1 April 2015 (i.e. Assessment Year (AY) 2016-17 onwards).

Subsequent to receipt of representations from various stakeholders which were examined by an Expert Committee ('the Committee'); the Committee has recommended amendments to the notified ICDS. Accordingly, the MoF, on 6 July 2016 announced that the revision of ICDS as recommended by the Committee is under consideration. Further, revision of the Tax Audit Report for ensuring compliance with the ICDS and capturing the disclosures mandated by them is also under process. Accordingly, the ICDS would be applicable from 1 April 2016 (i.e. AY 2017-18).

Key takeaways

- The adoption of ICDS brings with it a significant change and is expected to alter the way companies compute their taxable income, as several concepts from the existing generally accepted accounting principles in India (Indian GAAP)/Ind AS have been modified. This has raised many implementation challenges for companies in India and the deferment of ICDS implementation can give India Inc. additional time to fully understand and evaluate the potential impact on their tax liability for a smooth and effective transition to ICDS.

- It is also expected that with the additional time, companies would be able to better align their ICDS implementation with the Ind AS implementation process. It will also provide regulators time to issue all clarifications and make necessary amendments in ICDS or other legislations, for smooth implementation of ICDS.

- We also expect regulators to provide full clarity regarding provisions of MAT (for companies moving to Ind AS), revision to new tax audit forms and feedback on clarifications sought by various stakeholders.

However, the deferment has also given rise to some uncertainty as highlighted below:

- **Companies transitioning to Ind AS:** The ICDS framework was intended to provide a stable platform for the computation of taxable income considering that certain companies are transitioning to Ind AS. While many companies would start reporting under Ind AS from the FY2016-17, there are a few that have early adopted Ind AS for FY2015-16. The deferment is therefore expected to give rise to significant uncertainty for such companies as to the basis for computation of taxable income. Accordingly, CBDT may need to provide clarity on the method to be adopted by such companies for computation of their taxable income.

- **Computation of advance tax:** Companies that have paid advance tax on the basis of the ICDS for FY2015-16 have to now recalculate and determine their tax liability in the absence of ICDS. This may lead to a situation where additional tax could be payable or a tax refund may become due. Companies need to assess the impact on their cash flows due to taxes and further clarity is required on any interest or penalties that may arise as a result of additional tax being payable. A similar issue may arise for the advance taxes due for the first quarter of FY2016-17 as well.

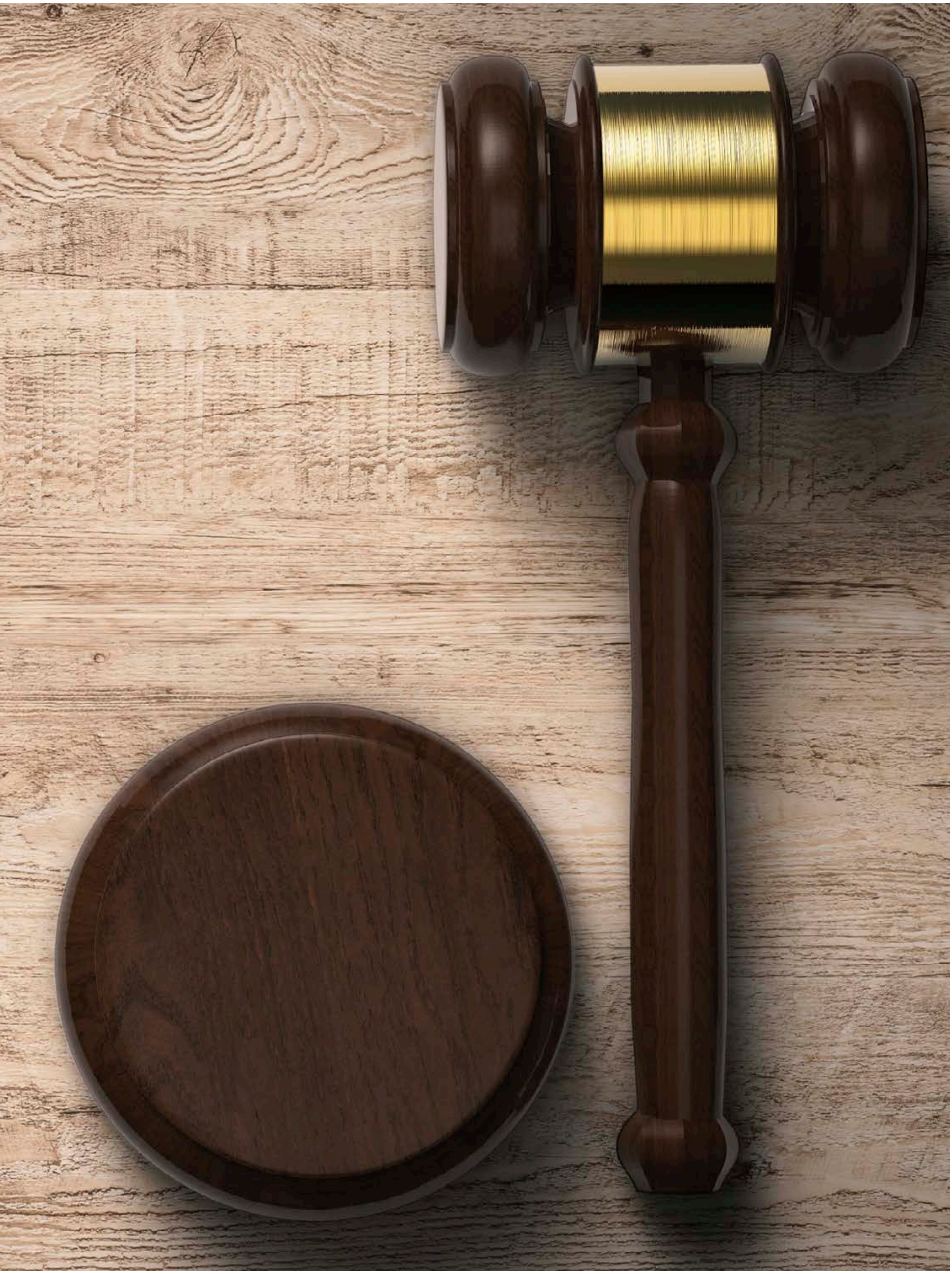
- **Provision for tax:** From a financial reporting perspective, listed companies may have already recorded a tax provision for the previous year ended 31 March 2016 on the basis of ICDS while submitting their annual financial statements for the year. These companies may be required to evaluate the impact of the press release on the financial results for the quarter ended 30 June 2016. Similarly, unlisted companies, that have not yet finalised their annual financial statements for the year ended 31 March 2016, should consider the impact of the press release on these financial statements.

- While the deferment of ICDS does provide India Inc. additional time to plan its implementation, this deferment comes at a time when several companies might have already assessed the ICDS impact and planned their tax payments. This is likely to pose some difficulties for such companies. The CBDT should therefore provide further clarification and issue necessary amendments on a timely basis to address these uncertainties and enable smooth implementation of the ICDS framework in FY 2016-17.

(Source: MoF press release dated 6 July 2016 and First Notes released by KPMG in India on 7 July 2016)

Glossary

MCA	The Ministry of Corporate Affairs
SEBI	The Securities and Exchange Board of India
ICAI	The Institute of Chartered Accountants of India
FY	Financial Year
Ind AS	Indian Accounting Standards
CFS	Consolidated Financial Statements
GAAP	Generally Accepted Accounting Principles
ITFG	Ind AS Transition Facilitation Group
NBFCs	Non-Banking Financial Companies
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
SIC	Standard Interpretations Committee
2013 Act	The Companies Act, 2013
1956 Act	The Companies Act, 1956
NCLT	National Company Law Tribunal
NCLAT	National Company Law Appellate Tribunal
CLB	Company Law Board
CSR	Corporate Social Responsibility
SA	Standard on Auditing
KAM	Key Audit Matters
EAC	Expert Advisory Committee
CIC	Core Investment Companies
ASB	Accounting Standards Board
LLP	Limited Liability Partnership
IASB	International Accounting Standards Board
SCB	Scheduled Commercial Bank
RRB	Regional Rural Bank
MAT	Minimum Alternate Tax
CEO	Chief Executive Officer
CFO	Chief Finance Officer
RBI	The Reserve Bank of India
MoF	Ministry of Finance
ICDS	Income Computation and Disclosure Standards
OTC	Over the Counter
CBDT	Central Board of Direct Taxes
AY	Assessment Year



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.

IFRS Notes

SEBI issues a consultation paper on disclosure of financial information in offer document/placement memorandum and valuation of the units of Infrastructure Investment Trusts

20 July 2016

The Securities and Exchange Board of India (SEBI) issued a consultation paper on 15 June 2016, proposing continuous financial disclosures and other continuous disclosures to be made by Infrastructure Investment Trusts (InvITs) registered under the SEBI (Infrastructure Investment Trusts) Regulations, 2014 (InvIT Regulations).

Continuing with its recommendations, SEBI on 8 July 2016, issued a consultation paper proposing the following:

- Guidelines for financial disclosures in the offer document/placement memorandum
- Valuation of the units of InvITs.

This issue of IFRS Notes aims to provide an overview of the SEBI consultation paper.

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

The MCA amends certain provisions in deposits rules

20 July 2016

Background

The Companies Act, 2013 (2013 Act) and the Companies (Acceptance of Deposits) Rules, 2014 (the Rules) prescribe the requirements companies should follow to accept deposits.

In the past, the Ministry of Corporate Affairs (MCA) has issued various clarifications/amendments to certain provisions of Rules vide its circulars dated 31 March 2015 and 16 September 2016.

New development

Recently, on 29 June 2016, MCA through a notification issued Companies (Acceptance of Deposits) Amendment Rules, 2016 which make certain amendments to the Rules. The amendments have come into force from the date of their publication in the official gazette i.e. from 29 June 2016.

This issue of First Notes summarises the important amendments to the Rules made by MCA.

Accounting and Auditing Update

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.

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