Editorial
In our journey of implementing Indian Accounting Standards (Ind AS), one of the important Ind AS that is significantly different from current Accounting Standards (Indian GAAP) is Ind AS 8, *Accounting policies, Changes in Accounting Estimates and Errors*. This standard covers guidance on accounting for changes in accounting policies, estimates and prior period errors. The guidance on accounting of errors under Ind AS is wider than current Indian GAAP (Accounting Standards) and requires an entity to adjust material prior period errors retrospectively by restating the comparative amounts and opening retained earnings at the beginning of the earliest period presented in the balance sheet. Our article in this edition of Accounting and Auditing Update (AAU) focusses on the guidance of accounting of prior period errors with the help of illustrative examples.

Many Indian entities have foreign operations and while preparing the Consolidated Financial Statements (CFS) under Ind AS, such entities need to understand the accounting requirements for Foreign Currency Translation Reserve (FCTR). The FCTR is a reserve that arises due to foreign currency translation differences while consolidating foreign operations (when the functional currency of the foreign operation is different from the parent entity). In this edition of AAU, we explain the accounting treatment of FCTR in various scenarios e.g. on first-time adoption of Ind AS, disposal, impairment, restructuring, etc. of a foreign operation.

Under the Companies Act, 2013 section of AAU, we highlight the regulatory requirements with regard to acceptance of deposits. This article captures the amendments and updates on the topic ‘acceptance of deposits’ by the Ministry of Corporate Affairs.

The IFRS 8, *Operating Segments* standard under International Financial Reporting Standards (IFRS) focusses on segment disclosures based on the components of the entity that management monitors in making decisions about operating matters. The International Accounting Standards Board (IASB) conducted a Post Implementation Review (PIR) of IFRS 8 in July 2013. As a follow up of PIR, the IASB proposed certain amendments to IFRS 8. Our article summarises the amendments proposed by the IASB.

As is the case each month, we also cover a regular round-up of some recent regulatory updates in India.

We would be delighted to receive feedback/suggestions from you on the topics we should cover in the forthcoming issues of AAU.
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Introduction

‘To err is human’, goes the proverbial phrase. This is particularly true in the context of preparation and presentation of financial statements wherein the Board of Directors of a company take responsibility for ensuring that financial statements are free from errors when exercising significant judgement and developing accounting estimates. However, as the financial statements are based on accounting estimates, they are not expected to be perfect and accurate in all respects but can, at best, faithfully represent that no errors have been made by management in selecting the accounting policies and in developing estimates, if any, in the process followed have been clearly explained.

Financial statements are not compliant with Ind AS if they contain material errors or immaterial errors made intentionally to achieve a stated presentation of a company’s financial position, profit or loss, or its cash flows. The objective of this article is to understand the nuances and implications of accounting for prior period errors under Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors.
Scope of prior period errors

Errors could be unintentional, due to oversight, incorrect assumptions, misrepresentation of facts, etc. Some of the examples of errors could be as follows:

- Calculation mistakes such as a formula error that went unnoticed in a spreadsheet for calculating depreciation
- Assumptions used in the calculation of impairment of fixed assets such as growth rate and discount rate, were incorrect due to oversight
- Misinterpretation of facts in an agreement resulting in under accrual of an operating expense
- Incorrect application of an accounting policy of revenue recognition while evaluating agent vs principal relationship
- Incorrect classification in financial statements when a defined benefit plan is incorrectly classified as a defined contribution plan.

Errors could also arise due to manipulation or falsification of facts and records resulting in a fraud. For example, deliberately inflating revenue by falsifying customer orders and sales invoices in order to achieve a budgeted profit target.

Ind AS 8 refers to the term ‘prior period errors’ which is much wider in scope as compared to ‘prior period items’ used in Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

Retrospective restatement

Presently, there is no requirement in the existing accounting standards and other technical literature in India for correction of errors by restating previously issued financial statements, other than for the limited purpose of preparation of restated financial information as per the Issue of Capital and Disclosure Requirements (ICDR) guidelines issued by the Securities and Exchange Board of India (SEBI). Ind AS 8 introduces a new concept of retrospective restatement of prior period errors.

On the other hand, AS 5 requires prior period items to be accounted for prospectively in the current year’s statement of profit and loss along with a separate disclosure of the nature and amount of the item.

Under Ind AS 8, adjustments to material prior period errors are made retrospectively by restating the comparative amounts for the prior periods presented and restating retained earnings at the beginning of the earliest period presented, in the first set of financial statements after the error is discovered. This is however, subject to an exception of impracticability which has been discussed later on in this article.
Additional disclosures mandated by Ind AS 8 include the following:

- Nature of the prior period error and amount of the correction made to each financial statement line item affected for the prior period(s) presented with an impact on the basic and diluted earnings per share
- The tax effects of the prior period error is also recognised directly in retained earnings as per the principles of Ind AS 12, *Income Taxes*.

The effect of a retrospective restatement of a prior period error is also considered when a company presents any accompanying financial information in respect of prior periods. For example, historical summaries in case of an initial public offering. In this regard, companies should also follow the requirements of the Guidance Note on Reports in Company Prospectuses (revised 2006) issued by the Institute of Chartered Accountants of India (ICAI), which is based on the principles of Ind AS 8, when preparing their restated financial information for the purpose of filing a prospectus.

**Presentation of prior period errors**

It is not uncommon to find companies label the restated comparative financial information in their financial statements, with the heading ‘restated’ because it is important to make users aware that comparative financial statements are not the same as the financial statements previously published.

In case of a retrospective restatement, the financial statements issued in the past and filed with the regulatory authorities continue to be valid and do not require to be revised and resubmitted. However, the regulatory aspects of a restatement should be appropriately considered having regard to Sections 130 and 131 of the Companies Act, 2013 (the 2013 Act), notified with effect from 1 June 2016, relating to the re-opening of accounts on Court’s/Tribunal’s orders and voluntary revision of financial statements/Board’s Report, respectively, in certain circumstances.

**Third balance sheet**

Ind AS 1, *Presentation of Financial Statements*, mandates the presentation of a ‘third balance sheet’ as at the beginning of the preceding period when the correction of an error has a material effect on the opening balances of the assets, liabilities and equity of the comparative figures presented i.e. when the error occurred before the earliest period presented in the financial statements. This is an additional requirement over and above the minimum comparative financial statements required to be disclosed as per Ind AS 1. However, related notes to the third balance sheet are not required to be given in this case. The company should include the explanatory disclosures required by Ind AS 1 and Ind AS 8.

In addition to the above, Ind AS 1 also requires the impact of the correction of the error for each component in retained earnings to be disclosed in the statement of changes in equity, forming part of the financial statements. Division II of Schedule III to the 2013 Act also contains a similar disclosure for Ind AS compliant companies.

**Correction of errors vs accounting estimates**

Correction of errors can be distinguished from changes in accounting estimates. The latter are inherent approximations and represent the management’s best judgement under given circumstances that may require revision when additional information becomes available. For example, the estimate for warranty may require revision as the failure rate of a product changes with more experience in subsequent periods and does not represent an error in the accrual for warranty made in prior years.
Illustration

The key accounting principles of the standard have been illustrated through an example below.

ABC Ltd. is preparing Ind AS financial statements for the year ended 31 March 20X1. During the year then ended, it identified the following material errors:

- Repair and maintenance expense of INR100 was over accrued during the year ended 31 March 20X3 due to a fictitious invoice.
- Legal and professional expenses of INR700 was not accrued during the year ended 31 March 20X2 due to an oversight.

The income tax rate is assumed to be 30 per cent. Also, the impact of the correction of errors on deferred tax and basic/diluted earnings per share is not expected to be significant.

The relevant extracts of the draft Ind AS financial statements before the correction of the errors is given below:

<table>
<thead>
<tr>
<th>Extract from balance sheet</th>
<th>As at 31 March 20X1 (INR)</th>
<th>As at 31 March 20X2 (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>16,060</td>
<td>6,660</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>7,060</td>
<td>2,160</td>
</tr>
<tr>
<td>Total equity</td>
<td>7,060</td>
<td>2,160</td>
</tr>
<tr>
<td>Provisions</td>
<td>5,500</td>
<td>3,000</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>3,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>9,000</td>
<td>4,500</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>16,060</td>
<td>6,660</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Extract from statement of profit and loss</th>
<th>Year ended 31 March 20X1 (INR)</th>
<th>Year ended 31 March 20X2 (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from operations</td>
<td>11,000</td>
<td>8,400</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(4,000)</td>
<td>(6,800)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>7,000</td>
<td>1,600</td>
</tr>
<tr>
<td>Tax expense</td>
<td>(2,100)</td>
<td>(480)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>4,900</td>
<td>1,120</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Extract from statement of changes in equity</th>
<th>As at 31 March 20X1 (INR)</th>
<th>As at 31 March 20X2 (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening retained earnings</td>
<td>2,160</td>
<td>1,040</td>
</tr>
<tr>
<td>Current year net profit</td>
<td>4,900</td>
<td>1,120</td>
</tr>
<tr>
<td>Closing retained earnings</td>
<td>7,060</td>
<td>2,160</td>
</tr>
</tbody>
</table>
The relevant extracts of the final Ind AS financial statements after the correction of the aforesaid errors is given below.

### Extract from balance sheet (refer Notes 1, 2, 3)

<table>
<thead>
<tr>
<th></th>
<th>As at 31 March 20X1 (INR)</th>
<th>As at 31 March 20X2 (INR)</th>
<th>Restated As at 1 April 20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>16,060</td>
<td>6,660</td>
<td>4,060</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>6,640</td>
<td>1,740</td>
<td>1,110</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>6,640</strong></td>
<td><strong>1,740</strong></td>
<td><strong>1,110</strong></td>
</tr>
<tr>
<td>Provisions</td>
<td>6,100</td>
<td>3,600</td>
<td>1,900</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>3,320</td>
<td>1,320</td>
<td>1,050</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>9,420</strong></td>
<td><strong>4,920</strong></td>
<td><strong>2,950</strong></td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td><strong>16,060</strong></td>
<td><strong>6,660</strong></td>
<td><strong>4,060</strong></td>
</tr>
</tbody>
</table>

### Extract from statement of profit and loss (refer Note 2)

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 March 20X1 (INR)</th>
<th>Restated Year ended 31 March 20X2 (INR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from operations</td>
<td>11,000</td>
<td>8,400</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(4,000)</td>
<td>(7,500)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>7,000</td>
<td>900</td>
</tr>
<tr>
<td>Tax expense</td>
<td>(2,100)</td>
<td>(270)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>4,900</td>
<td>630</td>
</tr>
</tbody>
</table>

### Extract from statement of changes in equity

<table>
<thead>
<tr>
<th></th>
<th>As at 1 April 20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of retained earnings as at 31 March 20X3, as previously reported</td>
<td>1,040</td>
</tr>
<tr>
<td>Impact of correction of error (refer Note 1)</td>
<td>70</td>
</tr>
<tr>
<td>Restated balance as at 1 April 20X3</td>
<td>1,110</td>
</tr>
<tr>
<td>Profit for the year ended 31 March 20X2</td>
<td>630</td>
</tr>
<tr>
<td>Retained earnings as at 31 March 20X2</td>
<td>1740</td>
</tr>
</tbody>
</table>

### Extract from statement of changes in equity

<table>
<thead>
<tr>
<th></th>
<th>As at 1 April 20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 April 20X2</td>
<td>1,740</td>
</tr>
<tr>
<td>Profit for the year ended 31 March 20X1</td>
<td>4,900</td>
</tr>
<tr>
<td><strong>Retained earnings as at 31 March 20X1</strong></td>
<td><strong>6,640</strong></td>
</tr>
</tbody>
</table>

### Notes to the illustration

1. As the misstatement due to fraud discovered during year ended 20X1 relates to a period preceding the comparative period presented, a third balance sheet as at 1 April 20X3 has been prepared by ABC Ltd. after giving effect to a restatement of INR70 (due to decrease in provisions by INR100, being the effect of provision for repair and maintenance expense, and increase in other current liabilities by INR30, being the current tax charge) to the retained earnings as at 31 March 20X3.

2. As the error due to oversight discovered during year ended 20X1 relates to the previous year ended 31 March 20X2, the comparative figures in the balance sheet and statement of profit and loss for the year ended 31 March 20X2 have been restated by giving effect to each of the affected financial statement line items. Accordingly, the legal and professional expenses included under ‘other expenses’ has been increased by INR700 with a consequential impact on the provisions, and provision for tax expense has been reduced by INR2,100 with consequential impact on other current liabilities. The net effect of the restatement of INR490 is reflected in the restated retained earnings as at 31 March 20X2 of INR1,740.

3. The retained earnings as at 31 March 20X1 stand corrected from INR7,060 to INR6,640 i.e. by INR420 (490-70) which represents the net cumulative impact of the restatement due to the correction of the errors as per Notes 1, 2 above as at 1 April 20X3 and 31 March 20X2, respectively.
Impracticability of retrospective restatement

Impracticability may arise due to several reasons. Certain examples are as follows:

• When previous records required to quantify the effect of the error have not been retained by management and information cannot be reconstructed from alternative sources to enable retrospective restatement
• When it is not possible or practicable to reconstruct the requisite information
• When the information is dependent on guessing management’s intent for prior periods.

Impracticability is neither measured by the cost nor by the level of effort involved in determining the effect of the errors and is explicitly defined by Ind AS. Inability by management to restate the prior period(s) presented is not a reason to conclude that the comparative information should not be restated. Further, it is also necessary for the management to establish that every reasonable effort has been made to determine the effect of an error before applying the aforesaid exception.

The exception to full retrospective restatement can be applied in the following two situations:

• When it is impracticable to determine the effect of a prior period error in a specific period on comparative information - In this situation, retrospective restatement is made for the earliest period for which it is possible to do so
• When it is impracticable to determine the cumulative effect of a prior period error - In this situation, the comparative information is adjusted prospectively from the earliest practicable date. Accordingly, the portion of the cumulative restatement prior to such date is disregarded by management.

Additionally, Ind AS 8, requires details of the circumstances that gave rise to the impracticability to be disclosed in the financial statements along with a description of how and from when the error has been corrected. For example, XYZ Ltd. is preparing restated financial information for five years for filing its prospectus. However, based on the availability of date and after reasonable effort, it concludes that it is impracticable to restate beyond the last two years, then the affected financial information is restated as far as practicable, in this case, the last two years of the financial information.

Accounting by use of hindsight is not allowed by the standard while correcting prior period errors to guess management’s intentions in an earlier period or using information obtained by management in a subsequent period to correct a prior period error in calculation of an accounting estimate.

The specific facts and circumstances of each company could be quite different, and therefore, requires careful deliberation by management before applying the exception of impracticability.

First time adoption of Ind AS

During transition to Ind AS, in case an error is discovered in the previous Generally Accepted Accounting Principles (GAAP), the retained earnings as at the date of transition are adjusted retrospectively (i.e. in the opening balance sheet), and the impact thereof is disclosed separately in the equity reconciliation and profit reconciliation between the previous GAAP and Ind AS, in the first Ind AS financial statements, as required by Ind AS 101, First-time Adoption of Indian Accounting Standards.

In the illustration explained above, ABC Ltd. is a first-time adopter of Ind AS (the date of transition is 1 April 2015), the error as per Note 1 above relates to the previous GAAP, in this case, it occurred prior to the date of transition. In accordance with Ind AS 101, the net impact of the error of INR70 is disclosed separately by ABC Ltd. in the equity reconciliation and profit reconciliation between previous GAAP and Ind AS.

Consider this

- A fraud committed in a prior year and subsequently discovered does not cease to be a prior period error merely because reliable information did not exist at the time when the financial statements were approved for issue.
- Ind AS 1 mandates the presentation of a ‘third balance sheet’ as at the beginning of the preceding period, when the correction of an error has a material effect on the opening balances of the assets, liabilities and equity of the comparative figures presented.
- Accounting by use of hindsight is not allowed by the standard while correcting prior period errors to guess management’s intentions in an earlier period.
Accounting for foreign currency translation reserve under Ind AS

Various Indian companies have invested in assets by setting up businesses outside India in the form of subsidiaries or foreign branches. This not only gives them direct access to newer and more extensive markets, but also provides better technology and helps them set a global footprint.

Under the Indian Generally Accepted Accounting Principles (GAAP), private and unlisted public companies were not required to prepare consolidated financial statements, the requirement for consolidation was mandated by the listing regulations. The Companies Act, 2013 and the Ind AS, however, require certain specified companies having subsidiaries, associates and joint ventures, whether within or outside India, to prepare consolidated financial statements.

When preparing consolidated financial statements, differences arising on translation of the financial statements of foreign operations (with a functional currency different from that of the consolidating entity) is transferred to the Foreign Currency Translation Reserve (FCTR), which forms part of Other Comprehensive Income (OCI). The Ind AS prescribes a detailed accounting treatment for FCTR.

In this article, we highlight the key implementation areas that could pose a challenge for entities while accounting for FCTR under Ind AS.
Accounting for translation differences under FCTR

Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, requires entities to recognise translation differences on consolidation of financial statements of foreign operations in FCTR, forming part of OCI and accumulate these in a separate component of equity. These differences would include:

- assets and liabilities translated at the exchange rate at the reporting date
- items of income and expense translated at exchange rates at the dates of the relevant transactions, although appropriate average rates may be used
- capital transactions (e.g. dividends) translated at exchange rates at the dates of the relevant transactions and
- components of equity should not be retranslated - i.e. each component of equity is translated once, at the exchange rates at the dates of the relevant transactions.

On disposal of the foreign operation, the cumulative translation difference for that foreign operation lying in FCTR would be required to be reclassified to the statement of profit and loss as part of the gain or loss on disposal of the foreign operation.

Determination of functional currency of foreign subsidiaries

Generally, the functional currency of the entity depends on the primary economic environment in which it operates. However, where the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy, the functional currency of the entity could be the same as that of the reporting entity. This may particularly be a challenge when entities have ‘step-down’ subsidiaries. Apart from primary factors explained in Ind AS 21, entities may consider the following while determining the functional currency of the subsidiaries:

- Whether transactions with the reporting entity are a high or a low proportion of the foreign subsidiary’s activities
- Whether cash flows from the activities of the foreign subsidiary directly affects the cash flows of the reporting entity and are readily available for remittance to it
- Whether cash flows from the activities of the foreign subsidiary are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

Following is an example to explain determination of functional currency of foreign subsidiaries.

Company A, an Indian company, has INR as its functional currency. It has a 100 per cent subsidiary in company B, based in Germany. Company B further holds 100 per cent shares in Company C, based in Japan. Company B is predominantly financed by a loan taken from a German bank in EUR. It manufactures its own products and the price of these products are determined by local competition and regulations. Its major market is in Europe. It has minimal transactions with Company A. Company B has formed Company C for the sole purpose of undertaking research and development activities for itself. It is mainly financed by Company B in EUR. Apart from paying its suppliers and employees for raw materials and labour in JPY, all its transactions are with B in EUR. Company B pays it a EUR-denominated fee for its research and development services, and also provides it with the necessary equipment for its activities. The fee is used to settle its expenses.

To determine the functional currency of Company B, we consider:

- The currency in which the sales prices are denominated and settled is EUR, the price is determined by local competition and government regulations in Germany
- Company B is financed mainly by a loan taken in EUR from a German bank
- There are minimal transactions between Company A and Company B, depicting that operations of Company B are carried out with a significant level of autonomy.

These factors indicate that the functional currency of Company C is EUR.

Accounting for FCTR on first-time adoption to Ind AS

Ind AS 101, *First-time Adoption of Indian Accounting Standards*, provides certain exemptions and exceptions to facilitate smooth transition from Indian GAAP (Accounting Standards) to Ind AS. These exceptions/exemptions are classified under mandatory exceptions and optional exemptions.

Ind AS 101 provides entities an option to consider cumulative translation differences for all foreign operations at the date of transition to Ind AS as zero. Accordingly, the gain/loss on a subsequent disposal of any foreign operation would exclude translation differences that arose before the date of transition to Ind AS, but it would include cumulative translation differences post that date.
Where an entity uses this exemption, the cumulative translation differences for all foreign operations at the transition date would be transferred to retained earnings, making the balance zero.

**Net investment in foreign operation**

An entity’s net investment in a foreign operation is the amount of the entity’s interest in the net assets of that operation. A monetary item receivable from or payable to a foreign operation may form part of the net investment in a foreign operation. To qualify, settlement of the monetary item should be neither planned nor likely to occur in the foreseeable future. An entity may extend to/receive from the foreign operation a monetary item (for example the entity extends a loan to the subsidiary). Where the management does not intend to settle the loan, the entity may consider adding such loan advanced to the entity’s net investment in the foreign operation. Exchange differences arising on such loans are recognised in FCTR.

Example: On 1 April 2016, Company H (with functional currency in INR) extended a loan of USD10,000 at LIBOR + 1.3 per cent to Company S (its subsidiary in the U.S.), having USD as its functional currency. The loan is repayable on demand, however, the parent has informed the subsidiary that it will not demand the repayment. The amortised cost of the loan is USD10,000 on the reporting date. Exchange rate on 1 April 2016 is INR66.5 and on 31 March 2017 is INR65.3.

While preparing the consolidated financial statements for the year ended 31 March 2017, the assets and liabilities of Company H would be translated into INR (the functional currency of Company H). The exchange difference on the loan of INR12,000 would be presented in OCI.

Trade receivables and trade payables with a foreign operation are not included as part of the entity’s net investment in that foreign operation, even if they are outstanding for a long period.

Long-term loans extended to the foreign operation with a specified maturity would not qualify to be treated as being part of the entity’s net investment in that foreign operation.

**Accounting on disposal of foreign operation**

There may be a full or partial disposal of interest in foreign operations. This may be on account of sale, liquidation or repayment of share capital. If an entity disposes of its entire interest in a foreign operation, or loses control over a foreign subsidiary or retains neither joint control nor significant influence over an associate or joint arrangement as a result of a partial disposal, then cumulative exchange differences recognised in OCI are reclassified to profit or loss.

A partial disposal of a foreign subsidiary without the loss of control leads to a proportionate reclassification of the cumulative exchange differences in OCI to Non-Controlling Interests (NCI).

A partial disposal of a joint arrangement or an associate with retention of either joint control or significant influence results in proportionate reclassification of the cumulative exchange differences recognised in OCI to profit or loss.

The table below outlines the principles that apply to reclassification of the FCTR.

**Table 1: Principles applicable to reclassification of FCTR**

<table>
<thead>
<tr>
<th>Dispose of entire interest in foreign operation?</th>
<th>Yes</th>
<th>Reclassify entire FCTR to profit or loss (net of NCI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Partial disposal of joint arrangement/associate when interest retained is a financial asset*</th>
<th>Yes</th>
<th>Reclassify entire FCTR to profit or loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>Reclassify appropriate portion to profit or loss</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Partial disposal of subsidiary resulting in loss of control</th>
<th>Yes</th>
<th>Reclassify appropriate portion to NCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>Re-attribute appropriate portion to NCI</td>
<td></td>
</tr>
</tbody>
</table>

*Entity retains neither joint control nor significant influence.*

(Source: Insights into IFRS, KPMG IFRG Ltd’s publication, 13th edition September 2016)
Accounting on impairment, restructuring and liquidation of foreign operation

The entity should evaluate the accounting for FCTR on an impairment, restructuring or liquidation of the foreign operation:

- Where the entity records an impairment loss on its investment in foreign operation, such impairment would not constitute a ‘partial disposal’, and accordingly, no amount is transferred from the FCTR to the statement of profit and loss.
- Where the foreign operation undergoes a major restructuring which results in a reduction in the scale of operations, no amount would be transferred to the statement of profit or loss since the operations have not substantively ceased and the parent has not realised its investment in the foreign operation.
- Determining whether a foreign operation has been in substance liquidated may involve judgement based on the specific facts and circumstances. Where an entity liquidates substantive portion of its interest in a foreign operation it would be considered as a disposal of interest in the operation, the accounting for FCTR would be required to be done accordingly. An entity may abandon the business and assets or a foreign operation such that it is no longer active and the entity has no immediate plan to recommence activities, then the foreign operation should consider that it has been in substance “liquidated”, even though no formal process of liquidation was carried out and the entity continues to own all the equity interests in that legal body.

Conclusion

Ind AS provides detailed guidance on accounting for FCTR. However, this increases the entity’s requirements to maintain records on the computation of FCTR arising from different foreign operations (where it has invested in multiple foreign operations). Further, computation of exchange differences on monetary items also needs to be maintained separately.

The exemption provided by Ind AS 101 to deem FCTR as on the translation date as zero will make it simpler for entities not having detailed computation of the cumulative amounts lying in FCTR. Detailed computation, however, would be required to be maintained post the date of transition.

Consider this

- When determining the functional currency of a foreign operation, it is necessary to consider whether it is the same as the functional currency of its parent. Management has to exercise judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions based on the specific facts and circumstances.
- When there is an NCI in a foreign operation subsidiary, the amount of accumulated exchange differences attributable to the NCI is allocated to and recognised as part of the NCI.
Acceptance of deposits - regulatory requirements under the Companies Act, 2013

Companies can cater to their financial needs in various forms, such as raising capital through issuance of shares/debentures, acquiring funds from lending institutions, etc. An alternate mode through which companies can raise funds is through acceptance of deposits from its members or public.

In order to ensure better transparency and security of the depositors, the Companies Act, 2013 (2013 Act) prescribes stringent provisions to be complied with by companies while accepting deposits.

In this article, we will cast our lens over the requirements of the 2013 Act relating to acceptance of deposits by companies.

Applicability of the 2013 Act on companies

The deposit related provisions are applicable to the following classes of companies:

- A company that is eligible to accept deposits from the public (Section 76) (i.e. eligible company as defined under the Companies (Acceptance of Deposits) Rules, 2014 (Deposits Rules)).

However, deposit related rules are not applicable to:

- A banking company
- An Non-Banking Financial Company (NBFC)
- A housing finance company
- A company as may be specified by the Central Government (CG) after consultation with the Reserve Bank of India (RBI).

1. An eligible company means a public company fulfilling the following conditions:
   - Net worth of not less than INR100 crore or a turnover of not less than INR500 crore
   - Obtained prior consent of the company in the general meeting by means of a special resolution*, and
   - Filed the said resolution with the Registrar of Companies (ROC) before making any invitation to the public for acceptance of deposits.

(*In case, deposit is with respect to the limits specified under Section 180(1)(c) of the 2013 Act, an ordinary resolution may suffice the requirement.)
Definition of the term ‘deposits’

The 2013 Act defines the term ‘deposits’. It includes any receipt of money by way of deposit or loan or in any other form by a company, but does not include such categories of amount as may be prescribed in consultation with RBI.

Further, the Deposits Rules provide various categories and items that are excluded from the definition of deposits. Some of the significant items which are not to be categorised as deposits are as follows:

Receipt of amount towards subscription of securities in certain situations: An amount received and held pursuant to an offer made towards subscription to any securities (including share application money or advance towards allotment of securities pending allotment) would be excluded from the definition of deposits. However, such an amount has to be appropriated only against the amount due on allotment of the securities applied for.

Therefore, amount received towards subscription of securities would be treated as a deposit if:

- The securities against which amount has been received could not be allotted within 60 days from the date of receipt of the application money, or
- Advance for such securities and such application money or advance has not been refunded to the subscribers within 15 days from the date of completion of 60 days.

Receipt of amount from directors:

Any amount received from a person who, at the time of the receipt of the amount, was a director of the company or a relative of the director of the private company.

However, such a director or a relative of a director (in case of private company) is required to furnish a declaration in writing to the effect that such an amount has not been given out of funds acquired by him through borrowing or accepting loans or deposits from others. Additionally, the company should disclose the details of money so accepted in its Board’s report.

Receipt of amount from an employee:

An amount received from an employee of the company should not exceed his/ her annual salary under a contract of employment, and should be in the nature of non-interest bearing security deposit.

Receipt of amount for the purpose of business:

Any amount received in the course of, or for the purposes of, the business of the company. For example, amount received as:

a. An advance for the supply of goods or provision of services provided that such an advance is appropriated against supply of goods or provision of services within a period of 365 days from the date of acceptance of such advance.

b. An advance received in connection with consideration for an immovable property under an agreement/arrangement, provided that such advance is adjusted against such property in accordance with the terms of the agreement/arrangement.

c. An advance received under long-term projects for supply of capital goods except those covered under (b) above.

d. An advance towards consideration for providing future services in the form of a warranty or maintenance contract as per the written agreement/arrangement, if the period for providing such services does not exceed the period prevalent as per common business practice, or five years from the date of acceptance of such service, whichever is less.

These amounts should be deemed to be deposits on the expiry of 15 days from the date they become due for refund.

Further, if the amount (given in point (a), (b) and (c) above) become refundable (with or without interest) due to the reasons that the company accepting the money does not have necessary permission or approval, wherever required, to deal in the goods or properties or services for which the money was taken, then the amount received would be deemed to be a deposit.

Debentures:

- Secured debentures: Secured debentures (including optionally convertible, compulsorily convertible and non-convertible debentures) are not to be considered as deposits.

- Unsecured debentures:
  - Compulsorily convertible debentures: If compulsorily convertible debentures are issued to a company, then these are not to be classified as deposits.
  - Optionally convertible debentures and non-convertible debentures: If optionally convertible debentures and non-convertible debentures are issued to a company or a foreign body, then these are not to be classified as deposits.

However, if such debentures are issued to a resident, then these will be considered as deposits unless the debentures are listed on a stock exchange.

Receipt of amount from a company:

Any amount received by a company from any other company would be excluded from the definition of deposit.
Conditions for acceptance of deposits

Every company (including eligible company) intending to invite deposits is required to comply with the following conditions while accepting deposits:

Issue of a circular

- Company covered under Section 73(2): The company would need to issue a circular to all its members which includes the following:
  - A statement showing the financial position of the company
  - Credit rating obtained
  - Total number of depositors
  - Amount due towards deposits in respect of any previous deposits accepted by the company
  - Other particulars in such form and in such manner as may be prescribed.

- Eligible company: An eligible company should issue a circular in the form of an advertisement in Form DPT-1.

A copy of the circular should be placed on the company’s website.

Filing of circular with the Registrar of Companies (ROC): A copy of the circular (including statement as referred above) should be filed with the ROC within 30 days before the date of issue of the circular.

Maintenance of liquid assets: On or before 30 April of each year, an amount not less than 15 per cent of the amount of deposits maturing during a Financial Year (FY) and the following FY should be kept in a scheduled bank (in a separate bank account) to be called as ‘deposit repayment reserve account.’ Such a reserve should be used only for the purpose of repayment of deposits.

Deposit insurance: A contract for providing deposit insurance (in respect of both principal and interest due) should be entered into by every company at least 30 days before the issue of a circular/advertisement, or 30 days before the date of renewal of a deposit.

However, companies are allowed to accept deposits without a deposit insurance contract at the earlier of the following dates:

- Up to 31 March 2017 or
- Up to the availability of a deposit insurance product.

The amount of the insurance premium paid on the insurance should be borne by the company itself and will not be recovered from the depositors.

Creation of a security: Security by way of a charge on assets (as referred to in Schedule III of the 2013 Act) excluding intangible assets should be created by every company for due repayment of the amount of deposit and interest thereon for an amount which should not be less than the amount remaining unsecured by the deposit insurance. Such a security should be created on specific movable or specific immovable property of the company.

In case of deposits secured by a charge on assets, the amount of such deposits and the interest payable thereon should not exceed the market value of such assets as assessed by a registered valuer.

Additionally, a company is required to appoint one or more trustees to create security for the deposits. A deposit trust deed in Form DPT-2 should be executed at least seven days before issuing the circular/advertisement.

Deposits which are not secured, or are partially secured, should be termed as ‘unsecured deposits’ and should be quoted in every circular, advertisement or in any document related to invitation or acceptance of deposits.

Credit rating

- Eligible company: Every eligible company is required to obtain at least once in a year, a credit rating for deposits accepted by it and the copy of such rating should be sent to the ROC along with the return of deposits in Form DPT-3.

Such a credit rating should not be below the minimum investment grade rating or other specified rating for fixed deposit from any one of the approved credit rating agencies (as specified for NBFCs).

Earlier deposits: In case a company has accepted deposits before the commencement of the 2013 Act and the amount of such deposit or part thereof or any interest due thereon remains unpaid on such commencement or becomes due at any time thereafter, then the company should comply with the following requirements:

- File a statement of all the deposits accepted and sums remaining unpaid on such amount with the interest payable thereon along with the arrangements made for such repayment with ROC within three months from the commencement of the 2013 Act or the due date of such payments
- Repay the said amount within one year from the commencement of the 2013 Act or from the date on which such payments are due, whichever is earlier.

The Tribunal can extend the timelines for repayment of deposits on an application made to it after considering the relevant factors.

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• Exemptions: As per a clarification issued by the Ministry of Corporate Affairs (MCA), the amount received by private companies from their members, Directors or their relatives prior to 1 April 2014, should not be treated as deposits under the 2013 Act and the Deposits Rules, provided disclosure of such amounts has been given in the notes to the financial statements for FY commencing on or after 1 April 2014.4

Similarly, in case a company had accepted public deposits under the relevant provisions of the Companies Act, 1956 (1956 Act) and the related Rules and has been repaying such deposits and interest in accordance with such provisions, the company is not required to repay such deposits within a year. However, it would need to comply with the other requirements of the 2013 Act and continue to repay such deposits and interest on due dates for the remaining period of such deposits.

Prohibition for buy-back of shares: In case a company defaults in in the repayment of deposits accepted either before or after the commencement of the 2013 Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company, then such a company is prohibited from buy-back of shares.

The buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.

Other relevant provisions

Form of application for deposits: A depositor5 is required to provide a declaration that the deposit has not been made out of any money borrowed from any other person in a form of application specified by the company.

Appointment of a nominee: A depositor may, at any time, nominate any person to whom his deposits should vest in the event of his death.

Deposit receipts: Every company is required to furnish to the depositor a receipt for the amount of money received within 21 days from the date of receipt of money/realisation of cheque/ date of renewal.

Permissible amount of deposits

The 2013 Act, when read along with the Deposits Rules, prescribes the following limits for acceptance of deposits from members and the public:

• Eligible company (excluding government company): An eligible company is allowed to accept deposits of up to 10 per cent of the aggregate of its paid-up share capital, free reserves and securities premium account from its members.

In case of any other deposits, deposits of up to 25 per cent of the aggregate of the paid-up share capital, free reserves and securities premium account are permitted

• Other company (i.e. public company which is not an eligible company and private company): Such other company is allowed to accept deposits of up to 35 per cent of its paid-up share capital, free reserves and securities premium account from its members

• Private company: A private company is allowed to accept deposits of up to 100 per cent of the aggregate of its paid-up share capital, free reserves and securities premium account from its members without complying with the conditions specified under Section 73(2) of the 2013 Act subject to filing of the details of monies so accepted with ROC in a specified manner.

Tenure of deposits

Both Section 73(2) and eligible companies are not allowed to accept or renew any deposit, whether secured or unsecured, which is repayable on demand. Further, deposits should not be repayable within a period of less than six months or more than 36 months from the date of acceptance or renewal as per the Deposits Rules.

However, to be able to meet its short-term funds requirements, a company is permitted to accept deposits for a period earlier than six months (but not earlier than three months), provided such deposits should not exceed 10 per cent of the aggregate of the paid-up share capital, free reserves and securities premium account of the company.

Additionally, such deposits should not be repayable not earlier than three months from the date of such deposits or renewal.

Premature repayment of deposits

If a company repays deposits before its maturity date, on the request of the depositor, then the rate of interest payable would be reduced by 1 per cent from the rate at the which the company would have paid the deposit on the due date except for a few conditions, such as repayment made for providing war risk, or other related benefits to personnel of the armed forces or to their families, on an application made by the associations or societies formed by such personnel, during the period of emergency declared under Article 352 of the Indian Constitution.

Interest payable on deposits

The 2013 Act, when read along with the Deposits Rules, provides that the rate of interest on deposits (or brokerage) should not exceed the maximum rate of interest prescribed by RBI for acceptance of deposits by NBFCs.

4. MCA general circular no. 05/2015 dated 30 March 2015.
5. As per the Deposits Rules, depositor means:
   a. Any member of the company who has made a deposit with the company in accordance with the provisions Section 73(2) of the 2013 Act or
   b. Any person who has made a deposit with a public company in accordance with the provisions of Section 76 of the 2013 Act.

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Penal provisions

In case of deposits (secured or unsecured) matured but remaining unpaid, a company is required to pay a penal interest of 18 per cent per annum for the overdue period.

Additionally, the 2013 Act along with the Deposits Rules impose stringent penal provisions in case it is proved that the deposits has been accepted by the company (including its officers) knowingly or willfully with the intent to defraud the depositors or for any fraudulent purpose.

Disclosures

Return of deposits: Every company is required to file with ROC a return of deposits (comprising information contained therein as on 31 March of that year duly audited by the auditor of the company) in Form DPT-3, on or before 30 June of every year along with the specified fees.

Financial statements: Every company is required to disclose the amount received from the Director in the notes to the financial statements. In the case of private companies, disclosure is required for directors and relatives of directors.

Recommendations of the Company Law Committee (CLC) and Companies (Amendment) Bill, 2016 (Amendment Bill)

CLC: The CLC in its report dated 1 February 2016 proposed to reduce the requirement to maintain a deposit reserve account in a scheduled bank from 15 per cent each for the last two years to 20 per cent during the maturing year.

Amendment Bill: In addition to the above mentioned proposal of CLC, the Amendment Bill proposed the following:

- Omission of the requirement of deposit insurance
- Amendment in Section 73(2)(e) of the 2013 Act so as to enable companies, which have made good on a default committed in the past, to accept deposits after five years from the date of default remediation.

Consider this

- Deposits Rules specify items or categories which are specifically excluded from the term ‘deposits’. However, certain companies that may have accepted deposits for more than 365 days for providing services would need to consider the requirements of the deposits rules.
- Deposits should not be repayable within a period of less than six months or more than 36 months from the date of acceptance or renewal.
- The rate of interest on deposits should not exceed the maximum rate of interest prescribed by RBI for acceptance of deposits by NBFCs.
- Companies are allowed to accept deposits without a deposit insurance contract up to 31 March 2017, or up to the availability of the insurance product whichever is earlier.
- Companies are required to deposit an amount equal to 15 per cent of the amount of deposits maturing during a FY and the following FY in a deposit repayment reserve account up to 30 April of each year.
- Stringent penal provisions are imposed in case deposits are received with the intent to defraud the depositors or for any fraudulent purpose.
This article aims to
- Provide an overview of the amendments to International Financial Reporting Standards 8 (IFRS 8) proposed by the International Accounting Standards Board (IASB) based on the concerns raised during Post-implementation Review (PIR).

Introduction

IFRS 8, Operating Segments was issued by IASB in 2006. It sets out the disclosure requirements for information about an entity’s operating segments, products and services, as well as about the geographical areas in which it operates and information on its major customers. Since the core principle of IFRS 8 focuses on the disclosure of information that enables users of an entity’s financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates, it is often of great importance to investors.

In order to assess whether IFRS 8 is working as intended, IASB conducted a Post-Implementation Review (PIR) of IFRS 8 and in July 2013, published its report and feedback statement ‘PIR: IFRS 8, Operating Segments (the report). In the report, IASB confirmed that the standard has been functioning as expected. However, IASB identified some areas that could benefit from improvements.

Therefore, recently, IASB proposed certain amendments to IFRS 8 in the form of an Exposure Draft (ED). The amendments seek to address the concerns of preparers, regulators and users of financial statements raised during PIR.

Comments to the proposed amendments can be submitted up to 31 July 2017.

Overview of the amendments proposed in the ED

Clarifications added to the guidance on identifying a Chief Operating Decision Maker (CODM): The proposed amendments emphasise that CODM is a function that makes operating decisions and decisions about allocating resources to and assessing the performance of the operating segments of an entity.

The function of CODM may be carried out by an individual or a group. This will depend on how the entity is being managed and may be influenced by corporate governance requirements.

A group can be identified as a CODM even if it includes members who do not participate in all decisions made by the group.

Additionally, the proposals require that an entity should disclose the title and description of the role of the individual or the group which is identified as a CODM.

Aggregation of two or more segments: The proposals restructure the aggregation criteria to emphasise that all requirements must be met. Therefore, two or more operating segments may be aggregated into a single operating segment, if and only if, all the following conditions are met:

- Aggregation is consistent with the core principle of IFRS 8
- The segments have similar economic characteristics, and
- The segments are similar in each of the following respects:
  - Nature of products and services
  - Nature of production processes
  - Type or class of customer for their products and services
  - Methods used to distribute their products or provide their services, and
  - If applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

The proposed amendments have added further examples of similar economic characteristics. Examples of such measures include, similar long-term revenue growth, similar long-term return on assets or similar long-term average gross margins.
Identification of reportable segments:
The proposed amendments specify a new condition that requires an entity to identify the same reportable segments in its financial statements as in other parts of its annual reporting package.

An entity would need to disclose the reasons by way of notes to the annual financial statements, when the reportable segments identified in the financial statements differ from the segments identified in other parts of the annual reporting package.

Disclosure of specified items:
Currently, IFRS 8 requires disclosure of a number of items for each reportable segment if the specified amounts are reviewed by, or are regularly provided to CODM, such as revenue from external customers, interest revenue, amount of investment in associates and joint ventures accounted for by the equity method, etc.

The proposed amendments require an entity to disclose additional information about its reportable segments, provided such a disclosure helps the entity to meet the core principle of IFRS 8 (i.e. enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates).

This additional information may include information not reviewed by, or regularly provided to CODM.

Description of material reconciliations: The proposed amendments require that all material reconciling items should be separately identified and described in sufficient detail to enable users of the financial statements to understand the nature of these reconciling items. Examples of such reconciling items include:

- Adjustments for different accounting policies, such as when an item or type of transaction is measured on a different basis in the segment information than used elsewhere in the financial statements
- Elimination of intersegment amounts, such as revenue and intersegment receivables
- Amounts not allocated to the reportable segments, such as some corporate expenses, pension costs, etc.

Amendment to IAS 34 - Restatement in case of change in composition of reportable segments: Currently, IFRS 8 requires information for earlier periods to be restated whenever an entity changes the composition of its reportable segments, unless the information is not available and the cost to develop it would be excessive. Since information about reportable segment trends is particularly useful to users of financial statements, some respondents to PIR suggested that the number of earlier periods required to be restated should be increased to three or five years. However, others believed that preparing restated information for three to five years prior to the change would involve additional time and cost.

Therefore, based on the concerns raised, IASB proposed an amendment to International Accounting Standard (IAS) 34, Interim Financial Reporting. The amendment proposes that an entity – in its first interim financial report after a change in the composition of its reportable segments – to present restated segment information for each previously reported interim period of the prior and current year (unless the information is unavailable or costly to develop).

Presenting the restatements in the first interim report after the change would enable users of the financial statements to update their modelling of data and trend information in a timely manner.

Summary
The proposed amendments are aimed at improving the current application of IFRS 8. Entities, based on their practical experience with the standard, should provide their comments to the proposals.

Consider this

- The function of CODM may be carried out by an individual or a group depending upon how the entity is being managed.
- Explanation by way of notes to financial statements would be required when there is a difference between reportable segments identified in the financial statements and the reportable segments identified in the annual reporting package.
- All interim periods of the prior financial years would be restated and presented in the first interim financial report after a change in the composition of the reportable segments. This would result in the presentation of the restated segment information ahead of time.
MCA updates

MCA notifies provisions relating to merger or amalgamation of a foreign company

On 13 April 2017, the Government of India’s Ministry of Corporate Affairs (MCA) issued the following notifications:

- Notification of Section 234 of the Companies Act, 2013 (2013 Act) (merger or amalgamation of a company with a foreign company) effective from 13 April 2017
- Insertion of new sub-rule 25A (merger or amalgamation of a foreign company with a company and vice versa) in the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 (Rules).

The salient features of the notified provisions are as follows:

- **Prior approval of the Reserve Bank of India (RBI):** A foreign company (incorporated in the specified jurisdictions) may merge into a company registered under the 2013 Act or vice versa after obtaining prior approval of RBI and after complying with the provisions of Sections 230 to 232 of the 2013 Act and the related Rules.

- **Valuation conducted by valuers as per international standards:** The transferee company should ensure that valuation is conducted by valuers who are members of a recognised professional body in the jurisdiction of the transferee company, and further that such valuation is in accordance with internationally accepted principles on accounting and valuation. A declaration to this effect is required to be attached with the application made to RBI for obtaining its approval.

- **Application to NCLT:** After obtaining the RBI’s approval and complying with the provisions of the above mentioned Sections and the related Rules, the concerned company may file an application with the National Company Law Tribunal (NCLT) for approval of the merger.

For a detailed analysis on this topic, please refer to KPMG in India’s First Notes released on 24 April 2017.

(Source: MCA notifications dated 13 April 2017)

Companies (Meetings of Board and its Powers) Amendment Rules, 2017

On 30 March 2017, MCA issued a notification concerning Related Party Transactions (RPTs).

**Existing requirements**

- The first proviso to Section 188 of the 2013 Act requires prior approval of the shareholders by an ordinary resolution for RPTs prescribed under Section 188(1) of the 2013 Act that are neither in the ordinary course of business nor at an arm’s length basis.

- Rule 15(3) of the Companies (Meetings of Board and its Powers) Rules, 2014 specifies the limits for transactions beyond which RPTs would require shareholders’ approval.

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Mandatory disclosure of location parameters in case of charge on an immovable property

The MCA has revised the following forms with effect from 22 April 2017:

- **Form CHG 1**: Form for making an application for registration of creation, modification of charge (other than those related to debentures) including particulars of modification of charge by an Asset Reconstruction Company in terms of the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI)

- **Form CHG 9**: Form for making an application for registration of creation or modification of charge for debentures or rectification of particulars filed in respect of creation or modification of charge for debentures.

The revised forms require companies to mandatorily provide the location parameters (latitude and longitude), in case the type of charge is ‘immovable property or any interest therein’. (Source: MCA important notice)

**Aadhaar integration for MCA21 services**

The MCA has been actively considering Aadhaar integration for availing various MCA21 related services. Therefore, as a preparatory step, MCA has requested all individual stakeholders i.e. Director Identification Number (DIN) holders/Directors/key managerial personnel/professionals of the Institute of Company Secretaries of India, Institute of Chartered Accountants of India, Institute of Cost Accountants of India (whether in employment or in practice) to obtain Aadhaar as early as possible for integrating their details with MCA21.

It should be ensured that the information in Aadhaar is in harmony with the Permanent Account Number (PAN). Once integration would be implemented, all MCA21 services would be available based on Aadhaar based authentication only.

The MCA would announce the date of Aadhaar integration shortly. Accordingly, stakeholders have been requested to plan on priority so as to avoid future inconvenience. (Source: MCA important notice)

<table>
<thead>
<tr>
<th>Prescribed transaction categories</th>
<th>Existing requirements</th>
<th>Amended Rules</th>
</tr>
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<tbody>
<tr>
<td>Sale, purchase or supply of any goods or material (directly or through an agent)</td>
<td>Exceeding 10 per cent of turnover or INR1 billion, whichever is lower*</td>
<td><strong>Amounting to 10 per cent or more of turnover or INR1 billion, whichever is lower</strong> (Emphasis added to present changes)</td>
</tr>
<tr>
<td>Selling or otherwise disposing of, or buying, property of any kind (directly or through an agent)</td>
<td>Exceeding 10 per cent of net worth or INR1 billion, whichever is lower*</td>
<td><strong>Amounting to 10 per cent or more of net worth or INR1 billion, whichever is lower</strong> (Emphasis added to present changes)</td>
</tr>
<tr>
<td>Leasing of property of any kind</td>
<td>Exceeding 10 per cent of net worth or 10 per cent of turnover or INR1 billion, whichever is lower*</td>
<td><strong>Amounting to 10 per cent or more of net worth or 10 per cent or more of turnover or INR1 billion, whichever is lower</strong> (Emphasis added to present changes)</td>
</tr>
<tr>
<td>Availing or rendering of any services (directly or through an agent)</td>
<td>Exceeding 10 per cent of turnover or INR500 million, whichever is lower*</td>
<td>Amounting to 10 per cent or more of turnover or INR500 million, whichever is lower*</td>
</tr>
<tr>
<td>Appointment to any office or place of profit in the company, subsidiary company or associate company</td>
<td>Remuneration exceeding INR 0.25 million per month</td>
<td>No change</td>
</tr>
<tr>
<td>Underwriting the subscription of any securities or derivatives of the company</td>
<td>Remuneration exceeding one per cent of net worth</td>
<td>No change</td>
</tr>
</tbody>
</table>

(*Applies to transaction or transactions to be entered into either individually or taken together with the previous transactions during a Financial Year.)

(Source: KPMG in India’s analysis, 2017)

**Applicability:** The above notification is applicable from 30 March 2017.

(Source: MCA notification no. G.S.R. 309(E) dated 30 March 2017 and KPMG in India’s First Notes dated 4 April 2017)
ICAI updates
ITFG issues Clarifications Bulletin 7

Background
With Indian Accounting Standards (Ind AS) being applicable to large corporates from 1 April 2016, the Institute of Chartered Accountants of India (ICAI), on 11 January 2016 announced the formation of the Ind AS Transition Facilitation Group (ITFG) in order to provide clarifications on issues arising due to applicability and/or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015 (Rules 2015). Over the past year, the ITFG has issued six bulletins to provide guidance on issues relating to the application of Ind AS.

New development
The ITFG held its seventh meeting and issued clarifications bulletin (Bulletin 7) on 31 March 2017 to provide clarifications on nine issues in relation to the application of Ind AS, as considered in its meeting. The issues relate to the following topics:

- Application of the exemption to continue capitalisation of exchange gain/loss on long-term foreign currency loans
- Presentation currency for consolidated financial statements of an Indian company which does not have INR as its functional currency
- Classification of long-term lease of land as finance or operating lease
- Accrual of dividend on a financial instrument classified as a liability
- Recognition of deferred tax on freehold land
- Accounting for investment in debentures of a subsidiary company
- Application of exemption related to service concession arrangements in Ind AS 101 to toll roads under construction at the beginning of the first Ind AS financial reporting period.

For a detailed overview of the issues discussed in the ITFG bulletin, please refer KPMG in India’s IFRS Notes dated 4 April 2017.

(Source: ICAI – ITFG Clarification Bulletin 7 dated 31 March 2017 and KPMG in India’s IFRS Notes dated 4 April 2017)

ICAI revises ITFG bulletin 5 and issues FAQ on treatment of securities premium account on transition to Ind AS

The ITFG held its eighth and ninth meetings on 1 April 2017 and 8 April 2017, respectively. In these meetings, they reconsidered certain issues that were part of ITFG Clarification Bulletin 5 (bulletin 5), on the basis of the representations received from the stakeholders.

Accordingly, on 17 April 2017, ITFG issued a revised Clarification Bulletin 5 (revised Bulletin 5), wherein they withdrew Issue No. 2 (clarification on current and non-current classification of security deposits) and revised Issues No. 4 and 5 (pertaining to the deemed cost exemption for Property, Plant and Equipment (PPE)).

In addition, on 17 April 2017, the ICAI issued a Frequently Asked Question (FAQ) on treatment of the securities premium account under Ind AS on the date of transition. This FAQ replaces Issue No. 7 of the ITFG Bulletin 2 that was previously released in May 2016.

Overview of the clarifications provided by ICAI

Revisions to ITFG Bulletin 5: The ITFG has revised its responses to the following Ind AS application issues through its revised Bulletin 5.

- Issue No. 2: Guidance on current and non-current classification
  
In Bulletin 5, ITFG considered a situation wherein an electricity distribution company collected security deposits at the time of issue of electricity connection, which was refundable when the connection was surrendered. The ITFG had previously clarified that although most customers would not surrender their connection, the electricity company did not have an unconditional right to defer the settlement of the deposit. Therefore, it would be classified as a ‘current liability’.

In its revised Bulletin 5, ITFG has withdrawn this issue since the concept of current and non-current classification of assets and liabilities already existed under the previous Generally Accepted Accounting Principles (GAAP) and is included in the ‘General Instruction For Preparation Of Balance Sheet’ in Schedule III of the 2013 Act (Schedule III). Hence, this issue does not pertain to transition from previous GAAP to Ind AS. Companies should, therefore, apply the principles for current and non-current classification based on the definitions provided in Ind AS and in Schedule III.

- Issue No. 4: Accounting for processing fees by a company availing deemed cost exemption of PPE
  
In Bulletin 5, the ITFG considered a situation wherein a company had taken a loan prior to the date of transition to Ind AS and had capitalised the processing fees on the loan as part of the relevant fixed assets. The company chose to avail the deemed cost exemption provided in paragraph D7AA of Ind AS 101, First-time Adoption of Indian Accounting Standards to continue with the carrying value of the PPE as per the previous GAAP.

Paragraph D7AA of Ind AS 101 requires that no further adjustments should be made to the deemed cost of the PPE for transition adjustments that may arise from the application of other Ind AS. On this basis, the ITFG had previously clarified that no adjustments would be made to the carrying amount of the PPE. However, since the company would need to apply the requirements of Ind AS 109, Financial Instruments retrospectively for all loans outstanding on the transition date, the processing fees would be deducted from the loan amount to arrive at its amortised cost. This adjustment to the loan amount would be recognised in the retained earnings.

ICAI updates
ITFG issues Clarifications Bulletin 7

Background

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The revised Bulletin 5 clarifies that the processing fees should be adjusted in both the loan amount as well as in the carrying amount of the PPE. This would be in the nature of a consequential adjustment to PPE to enable an adjustment to the carrying amount of the loan as required by Ind AS. This would also reflect the correct economic reality and result in faithful representation of the effects of these transactions on transition to Ind AS. Hence, this would not be an adjustment to the deemed cost of PPE as envisaged in paragraph D7AA of Ind AS 101. Accordingly, the carrying amount of PPE as at the date of transition should be reduced by the amount of processing cost (net of cumulative depreciation impact). The difference between the adjustments to the carrying amount of the loan and PPE, respectively should be recognised in retained earnings.

**Issue No. 5: Accounting for government grant by a company availing deemed cost exemption of PPE**

In Bulletin 5, the ITFG considered a situation wherein a company had received an asset related to government grant prior to the date of transition to Ind AS, and had deducted the grant received from the carrying amount of fixed assets, as permitted under the previous GAAP. The company chose to avail of the deemed cost exemption provided in paragraph D7AA of Ind AS 101, to continue with the carrying value of PPE as per the previous GAAP.

As per Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, an asset related grant should not be deducted from the cost of PPE, and instead, should be accounted for as a deferred income. Paragraph D7AA of Ind AS 101 requires that no further adjustments should be made to the deemed cost of PPE for transition adjustments that may arise from the application of other Ind AS. Therefore, ITFG had previously clarified that no adjustments would be made to the carrying amount of PPE. In accordance with Ind AS 20, the company would, however, be required to account for deferred income in respect of the grant outstanding on the date of transition. The corresponding adjustment would be made in retained earnings.

The revised Bulletin 5 clarified that unamortised deferred income should be recognised and a corresponding adjustment made in PPE and retained earnings, respectively. Accordingly, while there is no change in the accounting treatment for the deferred income (as per bulletin 5), the carrying amount of PPE as at the date of transition would be increased by the amount of government grant deducted as per the previous GAAP (net of cumulative depreciation impact). The difference between the adjustments would be recognised in retained earnings as at the date of transition. The ITFG considered that this would reflect the correct economic reality and result in faithful representation of the effects of these transactions on transition to Ind AS.

**FAQ on treatment of securities premium account under Ind AS on the date of transition:** In this FAQ, ICAI considered a situation wherein a company had issued (prior to the date of transition to Ind AS) non-convertible debentures redeemable at a premium. In the past, the company had utilised the securities premium account to provide for debenture redemption premium and for writing off debenture issue expenses as per Section 78 of the Companies Act, 1956 and Section 53 of the 2013 Act.

On transition to Ind AS, these debentures are classified and measured at amortised cost in accordance with Ind AS 109. Accordingly, the company would have to apply the Effective Interest Method (EIM) with retrospective effect from the date of issue of debentures to arrive at their amortised cost on the date of transition. Since the company had previously adjusted the entire amount of debenture redemption premium payable from the securities premium account, the carrying amount of the non-convertible debentures as per Indian GAAP would be higher as compared to the amortised cost on the date of transition.

Ind AS 101 states that where the accounting policies that an entity uses in its Ind AS opening balance sheet differ from those that it used for the same date as per its previous GAAP, the adjustment on account of the difference in the accounting policies would be recognised directly in retained earnings or another category of equity at the date of transition to Ind AS. Accordingly, the FAQ clarifies that the appropriate component of equity in this scenario, is the securities premium account. Accordingly on transition to Ind AS, the excess carrying value of the financial liability as per Indian GAAP over the amortised cost based on the EIM as per Ind AS 109 would be reversed by crediting the securities premium account with corresponding debit to the relevant account which was credited earlier (i.e. the debenture liability).

(Source: ICAI - ITFG Clarification Bulletin 5 (revised) and FAQ on treatment of securities premium account under Ind AS on the date of transition dated 17 April 2017)
ICAI issues an implementation guide for auditor’s reporting requirements on Specified Bank Notes post demonetisation

Background

The MCA through its notification dated 30 March 2017 issued the following:

- **Amendments to the Schedule III of the Companies Act, 2013 (2013 Act):** Every company has to disclose the details of Specified Bank Notes (SBN) held and transacted during the period from 8 November 2016 to 30 December 2016 in the format specified by MCA.

- **The Companies (Audit and Auditors) Amendment Rules, 2017:**
  The MCA amended the Companies (Audit and Auditors) Rules, and requires auditors to report on whether the company had provided requisite disclosures in its financial statements with respect to holdings as well as dealings in SBN during the period from 8 November 2016 to 30 December 2016, and if so, whether these are in accordance with the books of accounts maintained by the company (Rule 11(d)).

The above notifications are applicable from 30 March 2017.

New development

In light of the above, ICAI published an Implementation Guide (IG) on 15 April 2017 to provide guidance in respect of additional disclosure in Schedule III of the 2013 Act and new Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules (as explained above). The IG contains the following sections:

- **Frequently Asked Questions (FAQs):** The IG addresses certain key considerations in the form of FAQs. These, inter alia, include guidance relating to the following:
  - Applicability of amendment to Schedule III of the 2013 Act and Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules: Revised disclosures are applicable to financial statements issued after 30 March 2017 and which include the period from 8 November 2016 to 30 December 2016.
  - Disclosure requirements: Closing cash in hand as on 8 November 2016 and as on 30 December 2016 with other details to be disclosed (amounts to be disclosed in INR). However, there is no specific requirement to mention the denomination in which closing cash balances during the specified period were held.
  - Auditor’s report: Auditors must comment on financial statements issued after 30 March 2017 and which include the period from 8 November 2016 to 30 December 2016 as per Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules. Auditor should consider modifying his report in accordance with SA 705, Modifications to the Opinion in the Independent Auditor’s Report, in the event of non-compliance having an impact on the true and fair view of the financial statements.

- **Illustrative list of audit procedures:**
  The IG provides an illustrative list of procedures. These procedures should not be substituted for ensuring compliance with standards on auditing and relevant guidance notes.

- **Reporting scenarios:** The IG lists down different reporting scenarios for auditors and provides illustrations of the notes which can be provided by the auditor in these scenarios.

- **Format of reconciliation:**
  Additionally, IG provides an illustrative format of a reconciliation of the cash balance required to be obtained from the management by an auditor.

For a detailed analysis on this topic, please refer to KPMG in India’s First Notes released on 21 April 2017.

(Source: The IG on auditor’s report under Rule 11(d) of Companies (Audit and Auditors) Amendment Rules, 2017 and Amendment to Schedule III to the Companies Act, 2013 issued by the ICAI dated 15 April 2017 and KPMG in India’s First Notes dated 21 April 2017)
ICAI issues Exposure Drafts of annual improvements to Ind AS (2014-2016 cycle), amendments to Ind AS 40 and Appendix B to Ind AS 21

Background
In order to deal efficiently with amendments to International Financial Reporting Standards (IFRS) on account of inconsistencies in the standards or to provide further clarifications, the International Accounting Standards Board (IASB) along with IFRS Interpretations Committee considers interpretation issues on IFRS, either as part of its annual improvement process or as specific amendments to IFRS. In 2016, as part of its process, the IASB issued amendments to certain IFRS.

New development
With Ind AS being applicable to large Indian corporates from 1 April 2016, there is a need to keep Ind AS updated with revisions made to IFRS in order to maintain convergence. Accordingly, the ICAI on 29 March 2017 issued exposure drafts on the following:

- **Amendments to Ind AS 40, Investment Property:** It provides guidance on when a property should be transferred to, or from ‘investment property’
- **Appendix B of Ind AS 21, Foreign Currency Transactions and Advance Consideration:** It clarifies that the date of the transaction for determining the exchange rate to be used on initial recognition of the related asset, expense or income, is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in foreign currency
- **Annual Improvements to Ind AS (2014-2016 cycle):** As part of its annual improvement to Ind AS, the ICAI has proposed to make non-urgent but necessary amendments to Ind AS 112, Disclosure of Interests in Other Entities and to Ind AS 28, Investments in Associates and Joint Ventures. These proposals are in line with the changes made by IASB to IFRS. The table below summarises the proposed amendments to Ind AS 112 and Ind AS 28.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Amendments made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ind AS 112</td>
<td>The amendments clarify that disclosure requirements for interests in other entities also apply to interests that are classified (or included in a disposal group that is classified) as held for sale or has discontinued its operations in accordance with Ind AS 105, <em>Non-current Assets Held for Sale and Discontinued Operations</em>.</td>
</tr>
</tbody>
</table>
| Ind AS 28    | • The amendment applies to investment in associates or joint ventures held by or held indirectly through venture capital organisations, mutual funds, unit trusts, investment-linked insurance funds and other similar entities. These entities may elect to measure their investments in associates or joint ventures at fair value through profit or loss. This election can be made on an investment-by-investment basis, at initial recognition of the associate or joint venture  
  • A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or investment entity joint venture at the later of the following dates:  
    - The investment entity associate or investment entity joint venture is initially recognised  
    - The associate or joint venture becomes an investment entity  
    - The investment entity associate or investment entity joint venture first becomes a parent. |

(Source: KPMG in India’s analysis, 2017)

Effective date
- **Amendments to Ind AS 40 and Appendix B Ind AS 21**
  The ICAI proposes to make these amendments applicable from 1 April 2018 (retrospective application would be permitted provided entities have the required information).
- **Amendments to annual improvements to Ind AS 112 and Ind AS 28**
  The ICAI proposes to make these amendments applicable retrospectively for annual periods beginning on or after 1 April 2018.

Last date for comments on the exposure drafts is 28 April 2017.

For a detailed analysis on this topic, please refer to KPMG in India’s IFRS Notes released on 12 April 2017.

(Source: Exposure drafts and annual improvements to Ind AS issued by ICAI dated 29 March 2017 and KPMG in India’s IFRS Notes dated 12 April 2017)
ICAI defers applicability of new/revised standards on auditing to 1 April 2018

On 15 January 2017, the International Auditing and Assurance Standards Board (IAASB) issued new and revised auditor reporting standards and related conforming amendments (International Auditing Standards (ISAs)). These became effective for audits of financial statements for periods ending on or after 15 December 2016.

In line with international requirements, ICAI revised its Standards on Auditing (SAs) relating to auditor reporting on 17 May 2016. The new requirements aim at enhancing the informational value of the auditor’s report. These standards were to become applicable for audits of financial statements for periods beginning on or after 1 April 2017.

The following table provides a suite of SAs that are new/revised:

<table>
<thead>
<tr>
<th>New and revised SAs</th>
<th>Description of changes and scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA 700 (Revised), <em>Forming an Opinion and Reporting on Financial Statements</em></td>
<td>Revisions to establish new required reporting elements, and to illustrate these new elements through an example in the auditor’s report.</td>
</tr>
<tr>
<td>SA 701, <em>Communicating Key Audit Matters in the Independent Auditor’s Report</em></td>
<td>New standard to establish requirements and guidance for the auditor’s determination and communication of Key Audit Matters (KAMs). The KAMs which are selected from matters communicated to those charged with governance, are required to be communicated in the auditor’s reports for audits of financial statements of listed entities.</td>
</tr>
<tr>
<td>SA 705 (Revised), <em>Modifications to the Opinion in the Independent Auditor’s Report</em></td>
<td>Clarification of how the new reporting elements are affected when expressing a modified opinion.</td>
</tr>
<tr>
<td>SA 706 (Revised), <em>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report</em></td>
<td>Clarification of the relationship between the emphasis of the matter and other matter paragraphs and KAMs section of the auditor’s report.</td>
</tr>
</tbody>
</table>

(Source: KPMG in India’s analysis, 2017)

**New development**

Concerns were raised by members of the ICAI over the practical implementation of SAs and therefore, requested the ICAI to consider deferment of applicability of these SAs by a period of one year.

The ICAI considered the matter and concluded that there is a need to provide adequate training and implementation guidance to members of the ICAI on these SAs in order to equip them with the requirements and to implement these SAs appropriately. Additionally, it took note of the fact that it may take considerable time to provide the implementation guidance and organise training programmes.

Accordingly, ICAI has deferred the effective/applicability date of SAs by one year (through its announcement dated 1 April 2017). Accordingly, these SAs would be effective/applicable for audits of financial statements for periods beginning on or after 1 April 2018.

The extant SAs 700, 705 and 706 will continue to apply.

(Source: ICAI announcement dated 1 April 2017)

ICAI issues an exposure draft on the Guidance Note on Division II-Ind AS Schedule III to the Companies Act, 2013

**Background**

On 6 April 2016, MCA amended Schedule III to the 2013 Act to include general instructions for preparation of financial statements of a company whose financial statements are required to comply with Ind AS.

The amendment divides Schedule III into two parts i.e. Division I and II:

a. Division I is applicable to a company whose financial statements are required to comply with the current accounting standards

b. Division II is applicable to a company whose financial statements are drawn up in compliance with Ind AS (Ind AS Schedule III).

The primary focus of the proposed GN has been to lay down broad guidelines to deal with practical issues that may arise in the implementation of Ind AS Schedule III while preparing financial statements as per Ind AS.

The Exposure Draft (ED) on the GN on Division II-Ind AS Schedule III to the Companies Act, 2013 is open for comments till 30 April 2017.

(Source: Exposure draft on the Guidance Note on Division II-Ind AS Schedule III to the Companies Act, 2013 dated 21 April 2017)

New development

Ind AS has become applicable to the prescribed class of companies from FY 2016-17 (comparative year ended 31 March 2016). In order to provide guidance in the preparation and presentation of financial statements in accordance with various aspects of the Ind AS Schedule III for companies adopting Ind AS, the ICAI on 20 April 2017 issued an exposure draft on the Guidance Note (GN) on Division II-Ind AS Schedule III to the 2013 Act.
RBI updates
Guidelines on compliance with AS 11 by banks - Clarification

On the basis of consultations with the ICAI and Foreign Exchange Dealers’ Association of India (FEDAI), and after taking into account the difficulties expressed by banks in complying with AS 11, The Effects of Changes in Foreign Exchange Rates, RBI has issued guidelines on compliance with AS 11 (revised 2003) in March 2005. These guidelines address and provide clarifications on key topics related to AS 11, such as classification of integral and non-integral foreign operations, exchange rate for recording foreign currency transactions and translation of financial statements of non-integral foreign operation, etc.

Issue
Recently, RBI has observed that banks have been recognising gains in the statement of profit and loss from Foreign Currency Translation Reserve (FCTR) on repatriation of accumulated profits/retained earnings from overseas branch(es) by treating the same as partial disposal under AS 11.

Clarification
The RBI examined the matter after taking into consideration, inter alia, the views of the ICAI, and clarified that the repatriation of accumulated profits should not be considered as disposal or partial disposal of interest in non-integral foreign operations as per AS 11. Accordingly, banks should not recognise in the statement of profit and loss, the proportionate exchange gains or losses held in the FCTR on repatriation of profits from overseas operations.

For a detailed analysis on this topic, please refer to KPMG in India’s First Notes released on 21 April 2017.

(Source: RBI notification no. RBI/2016-17/281 dated 18 April 2017 and KPMG in India’s First Notes dated 21 April 2017)

Additional provisions for standard advances at higher than the prescribed rates

Background
The RBI through its master circular dated 1 July 2015 has prescribed rates at which provisions should be made for specified categories of Non-Performing Assets (NPAs). According to it, banks are required to make general provision for standard assets at the following rates for the funds outstanding on global loan portfolio basis:

- a. Farm credit to agricultural activities and Small and Micro Enterprises (SMEs) sectors at 0.25 per cent
- b. Advances to Commercial Real Estate (CRE) sector at 1 per cent
- c. Advances to Commercial Real Estate - Residential housing sector (CRE - RH) at 0.75 per cent
- d. Housing loans extended at teaser rates and restructured advances as specified
- e. All other loans and advances not included in (a), (b) and (c) above at 0.40 per cent.

New Development
The RBI through its notification dated 18 July 2017 advised that the provisioning rates prescribed above are the regulatory minimum rates. Banks are encouraged to make provisions at higher rates in respect of advances to the stressed sectors of the economy.

With a view to ensure that banks have adequate provisions for loans and advances at all times, the following has been advised:

- a. Banks should put in place a board-approved policy for making provisions for standard assets at rates higher than the regulatory minimum, based on evaluation of risk and stress in various sectors.
- b. The policy should require a review, at least on a quarterly basis, of the performance of various sectors of the economy to which the bank has exposure to evaluate the present and emerging risks and stress therein. The review may include quantitative and qualitative aspects like debt-equity ratio, interest coverage ratio, profit margins, ratings upgrade to downgrade ratio, sectoral NPAs/stressed assets, industry performance and outlook, legal/regulatory issues faced by the sector, etc. The reviews may also include sector-specific parameters.

- c. As the telecom sector is reporting stressed financial conditions and interest coverage ratio for the sector is presently less than 1, the Board of Directors of the banks may review the telecom sector latest by 30 June 2017, and consider making provisions for standard assets in this sector at higher rates so that necessary resilience is built in the balance sheets.

For a detailed analysis on this topic, please refer to KPMG in India’s First Notes released on 21 April 2017.

(Source: RBI notification no. RBI/2016-17/282 dated 18 April 2017 and KPMG in India’s First Notes dated 21 April 2017)

Disclosure in the ‘notes to accounts’ to the financial statements - Divergence in the asset classification and provisioning

As part of its supervisory processes, RBI assesses compliance by banks with extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP). There have been instances of material divergences in banks’ asset classification and provisioning from RBI norms, thereby leading to published financial statements not depicting a true and fair view of the financial position of the bank.

Therefore, in order to ensure greater transparency and promote better discipline with respect to compliance with IRACP norms, RBI mandates disclosures in the notes to accounts to the financial statements of banks where such divergences exceed the given threshold:

- a. The additional provisioning requirements assessed by RBI exceed 15 per cent of the published net profits after tax for the reference period or
- b. The additional gross NPAs identified by the RBI exceed 15 per cent of the published incremental gross NPAs for the reference period, or both.

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The above disclosures should be made in the notes to accounts in the ensuing annual financial statements published immediately following communication of such divergence by RBI to banks.

However, the disclosure with respect to the divergences observed by RBI for FY2015-16 should be made in the notes to accounts of financial statements for the year ended 31 March 2017.

For a detailed analysis on this topic, please refer to KPMG in India’s First Notes released on 21 April 2017.

(Source: RBI notification no. RBI/2016-17/283 dated 18 April 2017 and KPMG in India’s First Notes dated 21 April 2017)

**Prudential guidelines - banks’ investment in units of REITs and InvITs**

**Background**

The Securities and Exchange Board of India (SEBI) has put in place regulations for Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) and requested RBI to allow banks to participate in these schemes.

Currently, banks are allowed to invest in equity-linked mutual funds, Venture Capital Funds (VCFs) and equities to the extent of 20 per cent of their net owned fund. It was proposed to allow banks to invest in REITs and InvITs within this umbrella limit.

**New development**

The RBI through a notification dated 18 April 2017 issued ‘Prudential guidelines - Banks’ investment in units of REITs and InvIT’. The notification allows banks to participate in REITs and InvITs within the overall ceiling of 20 per cent of their net worth permitted for direct investments in shares, convertible bonds/debentures, units of equity-oriented mutual funds and exposures to VCFs (both registered and unregistered), subject to the following conditions:

- Banks should put in place a Board approved policy on exposures to REITs/InvITs which lays down an internal limit on such investments within the overall exposure limit of the real estate and infrastructure sectors
- Banks should not invest more than 10 per cent of the unit capital of an REIT/InvIT
- Banks should ensure adherence to the prudential guidelines issued by RBI from time to time on equity investments by banks, classification and valuation of investment portfolio, Basel III capital requirements for commercial real estate exposures and large exposure framework, as applicable.

(Source: RBI notification no. RBI/2016-17/280 dated 18 April 2017)

**Foreign Exchange Management (Foreign Exchange Derivative Contracts) (Amendment) Regulations, 2017**

**Background**

Regulation 5 of the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 dated 3 May 2000 provides that a person resident outside India may enter into a foreign exchange derivative contract with a person resident in India in accordance with provisions contained in Schedule II, to hedge an exposure to risk in respect of a transaction permissible under the Act, or rules or regulations or directions or orders made or issued thereunder.

Schedule II currently provides that a registered foreign investor, non-resident Indian and overseas corporate body may enter into a forward contract with the Indian Rupee as one of the currencies with an authorised dealer in India to hedge its exposure subject to the conditions specified.

**New development**

The RBI through a notification dated 17 March 2017 has amended Schedule II of the Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 (Schedule II).

The amended Schedule II allows a non-resident to enter into a foreign exchange derivative contract with an authorised dealer bank in India to hedge an exposure to exchange risk of and on behalf of its Indian subsidiary in respect of the said subsidiary’s transactions subject to the terms and conditions as specified by RBI from time to time.

(Source: RBI notification no. G.S.R. 260(E) dated 17 March 2017)

**Technical guidance note on XBRL returns - Harmonisation of banking statistics**

The RBI collects data in the form of returns from banks as part of statutory, regulatory, supervisory, policy and research requirements that is used for compilation of certain key banking statistics at aggregate level by the user departments.

The RBI issued a ‘Technical guidance note on XBRL returns - Harmonisation of banking statistics’ with an objective to ensure quality and uniformity across banks in data compilation for various returns by providing harmonised definitions of major balance sheet/profit and loss/off balance sheet items covered in the banking/regulatory returns.

However, in the event of a conflict between the definition of a term provided in the technical guidance note vis-à-vis the statutory/accounting/regulatory (provided in the relevant circulars) definition, the latter would prevail.


**Other updates**

**The Finance Act, 2017**

The Finance Act, 2017 received the assent of the President of India on 31 March 2017. The Act comprises the financial proposals of the Central Government for FY2017-18 which, inter alia, includes amendments to Section 115JB of the Income-tax Act, 1961 relating to Minimum Alternate Tax (MAT) for Ind AS compliant companies.

The provisions of the Act came into force from 1 April 2017.

Guidelines on information and cyber security for insurers

On 7 April 2017, the Insurance Regulatory and Development Authority of India (IRDAI) issued ‘Guidelines on information and cyber security for insurers’ along with a detailed control checklist for effective implementation of these guidelines. Following are some of the key points related to the guidelines:

These guidelines are applicable to all insurers. In the event that policyholder information is being shared with intermediaries and other regulated entities, it would be the responsibility of insurers to ensure that adequate mechanisms are put in place to ensure that issues related to information and cyber security are addressed.

- Insurers who have not completed three years from the date of commencement of business are exempted from the requirement to appoint a Chief Information Security Officer (CISO). However, the responsibilities of the CISO may be taken care of by any of the functionaries reporting to the Board of Directors. All other requirements stipulated in the guidelines document would be applicable to these insurers.
- The guidelines also prescribe timelines for implementation of various activities (from 30 April 2017 to 31 March 2018). Insurers should take suitable steps to be fully compliant with these guidelines within the prescribed timelines.
- The guidelines, inter alia, require an annual independent assurance audit of the information system of the insurers. The guidelines require that the first audit report in this relation should be submitted to the IRDAI by 31 March 2018.

(Source: IRDAI circular no. IRDA/IT/GDL/MISC082/04/2017 dated 7 April 2017)
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

ICAI issues exposure drafts of annual improvements to Ind AS (2014-2016 cycle), amendments to Ind AS 40 and Appendix B to Ind AS 21

12 April 2017

With Ind AS being applicable to large Indian corporates from 1 April 2016, there is a need to keep Ind AS updated with revisions made to IFRS in order to maintain convergence. Accordingly, the Institute of Chartered Accountants of India (ICAI) on 29 March 2017 issued exposure drafts on the following:

- Amendments to Ind AS 40, Investment Property
- Appendix B of Ind AS 21, Foreign Currency Transactions and Advance Consideration

The last date for comments on the exposure drafts is 28 April 2017.

Our issue of IFRS notes provides an overview of the amendments proposed by the ICAI.

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

MCA notifies provisions relating to merger or amalgamation of a foreign company

24 April 2017

On 7 December 2016, the Ministry of Corporate Affairs (MCA) notified certain sections of the Companies Act, 2013 (2013 Act) which, inter alia, relate to compromises, arrangements and amalgamations.

Further, the rules in relation to compromises, arrangements and amalgamations came into effect on 15 December 2016.

New development

On 13 April 2017, MCA issued the following notifications:

- Notification of Section 234 of the 2013 Act (merger or amalgamation of a company with a foreign company)
- Insertion of new sub-rule 25A (merger or amalgamation of a foreign company with a company and vice-versa) in the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 (Compromises Rules).
- Our issue of First Notes provides an overview of the notified provisions.

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 held on 5 April 2017, we covered key financial reporting and regulatory matters that are expected to be relevant for stakeholders for the quarter ended 31 March 2017.

Our call included updates from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), etc. Some of the recent emerging issues on which we provided an update on the call are as follows:

- Ind AS reminders
- Amendments to Ind AS 7, Statement of Cash Flows and Ind AS 102, Share-based Payment
- Updates on Ind AS Transition Facilitation Group (ITFG) Bulletins
- The regulatory framework for schemes of arrangements by listed entities
- Revised limits for related party transactions.

ICAI issues exposure drafts of annual improvements to Ind AS (2014-2016 cycle), amendments to Ind AS 40 and Appendix B to Ind AS 21

12 April 2017

With Ind AS being applicable to large Indian corporates from 1 April 2016, there is a need to keep Ind AS updated with revisions made to IFRS in order to maintain convergence. Accordingly, the Institute of Chartered Accountants of India (ICAI) on 29 March 2017 issued exposure drafts on the following:

- Amendments to Ind AS 40, Investment Property
- Appendix B of Ind AS 21, Foreign Currency Transactions and Advance Consideration

The last date for comments on the exposure drafts is 28 April 2017.

Our issue of IFRS notes provides an overview of the amendments proposed by the ICAI.

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

MCA notifies provisions relating to merger or amalgamation of a foreign company

24 April 2017

On 7 December 2016, the Ministry of Corporate Affairs (MCA) notified certain sections of the Companies Act, 2013 (2013 Act) which, inter alia, relate to compromises, arrangements and amalgamations.

Further, the rules in relation to compromises, arrangements and amalgamations came into effect on 15 December 2016.

New development

On 13 April 2017, MCA issued the following notifications:

- Notification of Section 234 of the 2013 Act (merger or amalgamation of a company with a foreign company)
- Insertion of new sub-rule 25A (merger or amalgamation of a foreign company with a company and vice-versa) in the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 (Compromises Rules).
- Our issue of First Notes provides an overview of the notified provisions.

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 held on 5 April 2017, we covered key financial reporting and regulatory matters that are expected to be relevant for stakeholders for the quarter ended 31 March 2017.

Our call included updates from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), etc. Some of the recent emerging issues on which we provided an update on the call are as follows:

- Ind AS reminders
- Amendments to Ind AS 7, Statement of Cash Flows and Ind AS 102, Share-based Payment
- Updates on Ind AS Transition Facilitation Group (ITFG) Bulletins
- The regulatory framework for schemes of arrangements by listed entities
- Revised limits for related party transactions.

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

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