KPMG

IFRS Notes

Ind AS Transition Facilitation Group (ITFG) issues Clarifications Bulletin 15

18 April 2018

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Introduction

The Ind AS Transition Facilitation Group (ITFG) in its meeting considered certain issues received from the members of the Institute of Chartered Accountants of India (ICAI), and issued its Clarifications' Bulletin 15 on 5 April 2018 to provide clarifications on 10 application issues relating to Indian Accounting Standards (Ind AS).

Background

With Ind AS being applicable to corporates in a phased manner from 1 April 2016, the ICAI, on 11 January 2016 announced the formation of the ITFG in order to provide clarifications on issues raised by preparers, users and other stakeholders, related to the applicability and/or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015 (Ind AS Rules).

Since then, ITFG has issued 14 bulletins to provide guidance on issues relating to the application of Ind AS.

This issue of IFRS Notes provides an overview of the clarifications issued by ITFG through its Bulletin 15.

Overview of the clarifications in ITFG's Bulletin 15

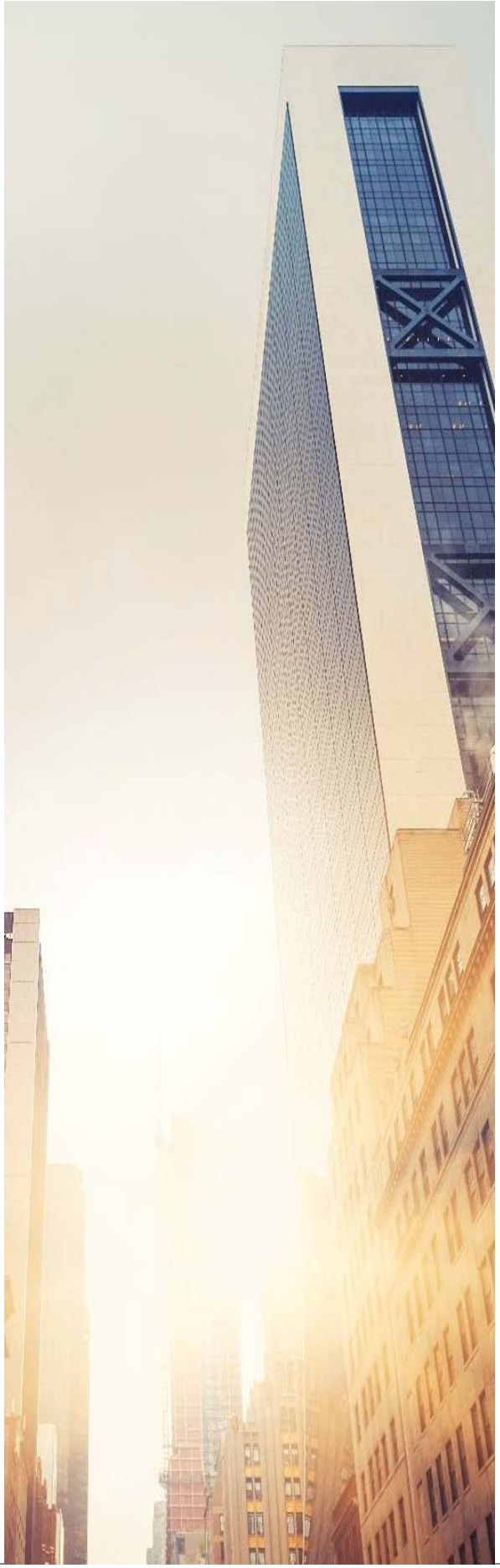
The following issues relating to the application of Ind AS have been clarified in this Bulletin:

- **Applicability of Ind AS**

  a) **General applicability issues (Issue 4):** The ITFG considered various scenarios relating to the applicability of Ind AS to a company having net worth less than INR250 crores as on 31 March 2017.

  As per the Companies (Indian Accounting Standards) Rules, 2015 read with Companies (Indian Accounting Standards) (Amendment) Rules, 2016, all companies, listed and unlisted, with a net worth over INR500 crores, and their holding, subsidiary, joint venture and associate companies were required to comply with Indian Accounting Standards (Ind AS) for financial years beginning on or after 1 April 2016, together with comparative information for the previous year (first phase of the Ind AS corporate road map).

  All other listed companies or those in the process of listing and all other unlisted companies with a net worth of INR250 crores or more, together with their holding, subsidiary, joint venture and associate companies, are required to report under Ind AS for financial years beginning on or after 1 April 2017, together with comparative information for the previous year (second phase of the Ind AS corporate road map).



Overview of the clarifications in ITFG's Bulletin 15 (cont.)

The ITFG provided clarifications in following scenarios:

Scenario 1: *On 1 April 2017 (beginning of the year), the company was in the process of listing and ultimately got listed as at the end of the year i.e. March 2018*

In the given case, ITFG clarified that although the company had net worth less than INR250 crores, but it began the process of listing as at the beginning of the Financial Year (FY) 2017-18. Therefore, it falls within phase II of the corporate road map and would be required to prepare Ind AS financial statements for FY 2017-18.

Scenario 2: *The company is listed at the beginning of the year and gets de-listed during the year*

The ITFG clarified that since the company is listed at the beginning of the year (2017-18), it should comply with Ind AS from the same year irrespective of the fact that the company gets de-listed as at the end of the year. Hence, the company should prepare Ind AS financial statements for FY 2017-18.

Scenario 3: *The process of listing began during the year (in May 2017) and company is listed at the end of the year i.e. March 2018*

In the given case, the company was not listed and had not begun the process of listing at the beginning of the year. However, ITFG clarified that since the process of listing began during the year (in May 2017) and ultimately the company was listed at the end of the year, it should comply with Ind AS from FY 2017-18 (being the year in which it began the process of listing). It is further clarified that in case the company was listed in November 2017 (during the year), it would be required to provide Ind AS financial statements for the quarter ending 31 December 2017 and consequently for the year ending 31 March 2018.

Scenario 4: *The process of listing began during the year (in May 2017) and company is listed post March 2018*

In a scenario where the company was in the process of listing as at the end of FY 2017-18, it would still be required to comply with Ind AS and present Ind AS financial statements for the year ending 31 March 2018.

Scenario 5: *The company listed its debentures in May 2017 and they were de-listed in January 2018*

Based on the fact pattern, the company is not a listed entity at the beginning of the reporting period. Its debentures were listed during the year but they were delisted in January 2018. Hence the company is not in the process of being listed either at the beginning or at the end of the year. Accordingly, ITFG clarified that the company is not required to comply with the provisions of Ind AS.

b) Ind AS applicability to an NBFC (Issue 5): Non-Banking Financial Companies (NBFCs) are required to prepare both consolidated and separate financial statements under Ind AS, in two phases commencing from either 1 April 2018 or 1 April 2019 based on specified net worth criteria.

The ITFG considered a situation where a company is a registered stock-broker recognised by the Securities and Exchange Board of India (SEBI). The net worth of the company as on 31 March 2015 was INR500 crores. As per the Ind AS Rules, it falls within the NBFC road map and accordingly, would be required to apply Ind AS from 1 April 2018 onwards.

However, the company applied for termination of its membership to the exchange in July 2016. It was awaiting clearance from SEBI as of June 2017. It received clearance from SEBI in August 2017, with respect to acceptance of the termination. The company also has debt listed securities.

The ITFG considered whether the company was required to prepare Ind AS financial statements as at 31 March 2017 (as a phase one non-NBFC corporate entity) given that it has applied for termination of membership with the exchange in July 2016.

The ITFG noted that in the given case, since the company was a stock-broker falling within the definition of NBFC, based on the net worth criteria, it is required to comply with Ind AS from 1 April 2018. However, the company had applied for termination of its membership as a stock-broker in July 2016. Accordingly, the ITFG evaluated the following possibilities:

- If the company was carrying on the activities of an NBFC during the period it was awaiting approval from RBI, then it should comply with Ind AS as per the road map applicable to NBFCs.

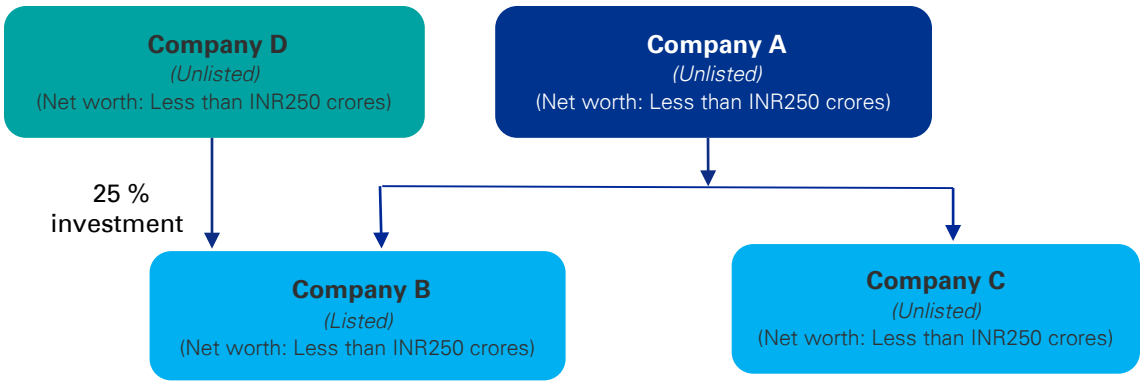
Overview of guidance under Ind AS 115 (cont.)

– If it ceases to carry on the activities of an NBFC, then the corporate road map as applicable to non-NBFC companies should have been followed based on its net worth.

The ITFG clarified that in the given case, assuming the company ceases to carry on the activities of an NBFC from July 2016 onwards, it would fall under the Ind AS corporate road map. Accordingly, based on its net worth, the company should have complied with the requirements of Ind AS from July 2016 onwards.

The ITFG in its clarification Bulletin 13 (Issue 4) had provided that the definition of NBFC includes a company which is carrying on the activity of NBFC.

c) **Ind AS applicability to entities in a group (Issue 10):** The Ind AS corporate road map applies to all companies which meet the specified criteria, and to their holding, subsidiary, joint venture and associate companies. The ITFG considered a situation wherein a listed entity (company B) with a net worth of less than INR250 crores adopted Ind AS for financial year beginning 1 April 2017 (phase II of the corporate road map). The ITFG considered the applicability of Ind AS to its group companies. The group structure of company B is depicted below:



– **Company A is an unlisted company with net worth less than INR250 crores and the holding company of B:** As per the Ind AS corporate road map, holding, subsidiaries, associate and joint venture companies of entities covered in the Ind AS corporate road map are required to prepare Ind AS financial statements. Accordingly, Company A is required to prepare Ind AS financial statements from 1 April 2017.

– **Company C is an unlisted company with net worth less than INR250 crores and a fellow subsidiary of B (subsidiary of company A):** The ITFG noted that the requirement to adopt Ind AS does not extend to a fellow subsidiary company, i.e., another subsidiary of an entity's holding company (which is required to adopt Ind AS because of its holding company relationship with the entity that meets the net worth/listing criteria).

  A holding company is required to prepare separate and consolidated financial statements under Ind AS, if one of its subsidiaries meets the specified criteria. Therefore, other subsidiaries may be required by the holding company to furnish financial information as per Ind AS for the purpose of preparing the holding company's consolidated Ind AS financial statements. Such fellow subsidiaries may, however, voluntarily opt to prepare their financial statements as per Ind AS.

  Hence, in the given case, company C is not mandatorily required to adopt Ind AS for its statutory reporting, although it may apply Ind AS voluntarily.

– **Company D is an unlisted company with net worth less than INR250 crores and holding 25 per cent stake in B:** With respect to Ind AS applicability to the investor - company D, the ITFG noted that an investor company does not qualify as a holding company of company B. Accordingly, company D is not required to comply with Ind AS by virtue of company B falling within the Ind AS road map. For consolidation purposes, company B may be required to provide financial statement data prepared in accordance with Companies (Accounting Standards) Rules, 2006 for the purpose of preparation of consolidated financial statements of company D.

Overview of the clarifications in ITFG's Bulletin 15 (cont.)

- **Classification and measurement of compound financial instruments:** The ITFG provided clarifications on considerations when determining the classification and measurement of financial instruments as financial liability or equity as per Ind AS 32, *Financial Instruments: Presentation*. The financial instruments considered were:

  a) **Foreign Currency Convertible Bonds (FCCB) (Issue 1):** The ITFG considered a situation where an entity (PQR) had issued FCCBs prior to transition to Ind AS at an interest rate of six per cent per annum, payable on a half yearly basis for a period of five years and one day (which would mature post transition to Ind AS). The holder of the instruments has an option to convert them into fixed number of shares of PQR.

  A borrowing in the same currency, with a similar time period and credit status, but without the conversion option would have carried an interest rate of 7.5 per cent per annum.

  The ITFG clarified that from the perspective of the issuer, the FCCB had both a liability and an equity component. The liability component comprised a contractual obligation of PQR to deliver cash to the holder, and the equity component comprised the holder's equity conversion option embedded in the FCCB to acquire a fixed number of entity's own equity instruments. Although the FCCB was denominated in a foreign currency, the conversion option would meet the definition of an equity instrument based on the guidance in paragraph 11(b) of Ind AS 32. Accordingly, PQR would be required to split the FCCB into the liability and equity components on initial recognition and present these separately in the balance sheet as follows:

  – **Liability component:** The liability component of the FCCB would be measured at fair value by discounting the contractually determined future cash flows under the instrument (i.e. the scheduled payments of interest and principal) at an interest rate applied at that time by the market to instruments of comparable credit status, providing substantially the same cash flows, on the same terms, but without the conversion option (market interest rate). In this case, the cash flows would be discounted at 7.5 per cent per annum, being the market interest rate applicable to PQR for such an instrument.

  – **Equity component:** The equity component would be computed as the residual amount after deducting the liability component from the fair value of the compound instrument.

  b) **Compulsorily Redeemable Non-Cumulative Preference Shares (RNCPS) (Issue 2):** The ITFG considered RNCPS issued by an entity (ABC) with a discretionary dividend of six per cent per annum, redeemable in cash after 10 years. The market rate of interest for similar instruments was four per cent per annum. The ITFG considered the accounting treatment for the preference shares and dividend thereon.

  The ITFG clarified that in accordance with Ind AS 32, the RNCPS are compound financial instruments, and the liability and equity components of the instruments would be split as follows:

  – **Liability component:** This component represents ABC's contractual obligation to redeem the preference shares in cash. Accordingly, the fair value of the liability component on initial recognition would be computed as the present value of the eventual redemption amount discounted at the market interest rate.

  – **Equity component:** This component represents the discretionary dividend portion of the preference shares. It will be computed as the difference between the present value of the liability component and fair value of the instrument as a whole.

  The ITFG further clarified that any discretionary dividends would be recognised when they are actually declared and paid, and since they relate to the equity component, they will be disclosed in the statement of changes in equity as a distribution of profit or loss.

- **Classification of incentives receivable from government entities as financial assets (Issue 3):**

  The ITFG considered whether incentives receivable from government entities on compliance with stipulated conditions (for example, sales tax refunds) would fall within the definition of financial instruments, considering there is no formal one to one contractual agreement between the government and the entities.

Overview of the clarifications in ITFG's Bulletin 15 (cont.)

Ind AS 32 defines a financial asset as a contractual right to receive cash or another financial asset from another entity. It further defines 'contract' and 'contractual' as an *agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law.* Ind AS 32 clarifies that the contract need not be in writing, and may take a variety of forms. Ind AS 109, *Financial Instruments* states that an entity should recognise a financial asset or a financial liability in its balance sheet when the entity becomes a party to the contractual provision of the instrument.

In view of the above, ITFG clarified that when the government provides incentives (for example taxation benefits), it may not enter into a one to one agreement with each entity availing those benefits with regard to the rights and obligations of the scheme. Instead, there is an understanding between the government and the entities, that on complying with the stipulated conditions attached to the scheme, the entities will be granted the benefits of the scheme. Once the entities comply with the conditions attached to the schemes, they rightfully become entitled to the incentives. Thus, such an incentive receivable would fall within the definition of financial instruments, and accounted for as a financial asset in accordance with Ind AS 109.

- **Application of Ind AS to past business combinations of entities under common control (Issue 6):** The ITFG considered a situation where an entity (Y) merged with its wholly owned subsidiary (X) prior to transition to Ind AS. On the day prior to the merger, the promoters of Y held 49.95 per cent stake in Y. On transition to Ind AS, X did not opt for the exemption from applying Ind AS 103, *Business Combinations* retrospectively to past business combinations (under paragraph C1 of Ind AS 101, *First-time Adoption of Indian Accounting Standards*). The issue considered by ITFG was, whether X is required to apply the requirements of Appendix C to Ind AS 103 (*Business combinations of entities under common control*) in the given case.

  As per paragraph C1 of Ind AS 101, where a first-time adopter of Ind AS restates its past business combinations to comply with Ind AS 103, it is also required to apply Ind AS 110, *Consolidated Financial Statements* from that same date.

  Under the Indian Generally Accepted Accounting Principles (IGAAP), AS 21, *Consolidated Financial Statements* stated that control was established when an entity owned more than half of the total voting power of an enterprise or controlled the composition of the Board of Directors or of the corresponding governing body (as the case may be). Ind AS 110 widens the concept of control, and accordingly, investors with less than majority voting rights can also have control over the investee under Ind AS 110 (e.g. through contractual arrangements, de facto control, potential voting rights, etc.). It also specifies the accounting treatment for a business combination involving entities under common control[1].

  In this regard, ITFG clarified that X should evaluate whether both X and Y were under common control before and after the amalgamation. Assuming there was common control, X would be required to apply the provisions of Appendix C to Ind AS 103 retrospectively to the amalgamation.

- **Accounting for interest free refundable security deposits (Issue 7):** The issue considered by ITFG was, whether interest free refundable security deposits given by an entity (such as rent deposits paid to lessor, etc) are required to be discounted as per Ind AS, and the discount rate to be considered for the same.

  A refundable security deposit given by an entity represents its contractual right to receive cash from the holder of the deposit, and hence it falls under the definition of a financial asset in accordance with Ind AS 32. As per Ind AS 109, all financial assets subsequently measured at amortised cost and at fair value through other comprehensive income, are initially recognised at their fair value, plus or minus directly attributable transaction costs. Normally, the fair value of financial assets at initial recognition is their transaction price (i.e. consideration given or received). However, where a part of the consideration given or received is for something other than the financial instrument, entities are required to compute the fair value of the financial instrument using a fair valuation technique prescribed in Ind AS 113, *Fair Value Measurement*.

[1] A common control business combination means a business combination involving entities or businesses in which all the combining entities or business are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Overview of the clarifications in ITFG's Bulletin 15 (cont.)

In accordance with the above, ITFG clarified that where the effect of time value of money is material (determined on an overall consideration of total cash flows, etc.), the refundable security deposits should be shown at their present value, by discounting all future cash receipts at the market interest rate (to be evaluated by the entity based on its own facts and circumstances). The difference between the transaction price and fair value as determined should be accounted for as an expense, or a reduction of income, unless it qualifies for recognition as some other type of asset. For example, in case of an interest free rent deposit paid to a lessor in respect of a non-cancellable operating lease arrangement, the difference may be deferred as prepaid rent to be recognised as an expense over the underlying lease term in accordance with Ind AS 17, *Leases*.

- **Lease premium collected at the time of lease deed (Issue 8):** A situation was considered by ITFG, where a government company (XYZ), in the business of development of a smart city, allotted its land to a customer on 99 years of lease. The customer was required to pay a non-refundable lease premium (being the market value of land) at the time of execution of the lease deed, and a nominal amount of lease rent would be paid on an annual basis over a period of 99 years. On completion of 99 years, the lease would be renewable at the mutual consent of the lessor and lessee. The issue considered was the accounting treatment for the non-refundable lease premium collected at the time of execution of the lease deed as per Ind AS.

  The ITFG clarified that revenue arising from lease agreements would be accounted for in accordance with Ind AS 17, *Leases* (and not Ind AS 18, *Revenue*). Accordingly, the recognition of income would depend on the classification of lease, either as an operating lease or a finance lease, as given below:

  – **Operating lease:** XYZ would be required to present assets subject to operating lease in its balance sheet according to their nature. Further, lease income would be recognised on a straight-line basis over the lease term, unless another systematic basis was more representative of the time pattern in which user benefit was derived.

  – **Finance lease:** The lessor, XYZ, is required to recognise a receivable at an amount equal to the net investment in the lease. Finance income would be recognised based on a pattern reflecting a constant periodic return on the lessor's net investment in the finance lease.

  The ITFG further clarified that a lease of land for 99 years is an indication for classification as a finance lease. However, ITFG Bulletin 7 (Issue 5) dealt with the broad principles to be assessed while classifying a lease as an operating or a finance lease. Therefore, consideration should be given to relevant facts and circumstances. If the lease is considered as a finance lease, then in this case the entire lease premium has been received upfront, therefore the lessor would not be required to recognise a receivable.

- **Accounting for outstanding retired partners' capital balances by a partnership firm (Issue 9):** The ITFG considered a situation where an entity had an investment in a partnership firm, thereby establishing control over the firm, and consequently was required to consolidate the firm as its subsidiary. The firm was required to prepare Ind AS compliant financial statements for the purpose of consolidation (though Ind AS is not applicable to partnership firms). The firm had amounts outstanding towards retired partners' capitals, which were repayable on demand. The ITFG considered the accounting treatment for the outstanding towards retired partners' capital balances, including whether these should be discounted.

  The ITFG clarified that the amounts outstanding towards retired partners' capital balances were the firm's contractual obligations to deliver cash or another financial asset to the retired partners. Hence, they met the definition of a financial liability under Ind AS 32. Accordingly, as per Ind AS 109, they would initially be recognised at fair value. Paragraph 47 of Ind AS 113 states that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, and will be discounted from the first date that the amount could be required to be paid. Accordingly, the amounts outstanding would not be discounted on initial recognition and on subsequent measurement.

Our comments

The ITFG clarifications are expected to resolve various practical implementation issues faced by companies transitioning to Ind AS. The companies should consider the interpretations provided by the ITFG in their implementation efforts. However, it should be noted that some of the issues would require consideration of facts and circumstances and the exercise of judgement while analysing each individual situation.

Key matters for consideration are as follows:

- **Foreign currency convertible bonds:** Ind AS 32 provides an explicit carve-out with respect to classification of a conversion option in a financial instrument, by an issuer, when the option is to be settled by delivery of a fixed number of the issuer's own equity instruments in exchange for a fixed amount in any currency. Such instruments are classified as equity as per Ind AS 32. However, as per IAS 32, *Financial Instruments: Presentation*, such a conversion option does not meet the definition of an equity instrument since it would result in the exchange of a fixed number of shares for a variable amount of cash in the entity's functional currency. The conversion option would therefore be considered as an embedded derivative under IAS 32.

- **Accounting for interest-free refundable security deposits:** There has been significant debate and diversity in the accounting treatment for interest-free refundable security deposits, specifically on adjustment of time value of money. Accounting for security deposits is dependent on their nature and the purpose for which these have been placed as well as the terms of the contract.

  For example, an interest-free security deposit paid to a lessor as a lease deposit would be classified as a financial asset under Ind AS 32. The lease deposit is required to be measured at fair value on initial recognition. The ITFG clarified that the difference between the amount of deposit placed with the lessor and its fair value would be treated as a prepaid lease expense and amortised over the period of the lease. It is also to be noted, that interest income on the lease deposit would accrue over the period of the lease (being the unwinding of the discount). The accrual of interest income would result in an altered representation of lease expenses in the statement of profit and loss over the term of the lease. Additionally, companies also need to assess the tax consequence on such notional interest income.

  Different considerations may apply to interest-free security deposits in certain situations, such as those placed with utility companies. These are generally classified as financial assets and subsequently measured at amortised cost. Such deposits may or may not specify a contractual period but are generally repayable on demand, indicating that they may be initially recognised at their transaction price. However, as per Ind AS 109, amortised cost for a financial asset is measured using the effective interest rate determined on the basis of estimated future cash flows arising from the asset through its expected life. In estimating the expected cash flows, an entity is required to consider all contractual terms, including the probability of the holder exercising an option to require the asset to be repaid early. This may, in certain situations, result in an initial recognition amount that differs from the transaction price in some situations.

  Further, from the perspective of financial statement presentation, as per Ind AS 1, *Presentation of Financial Statements*, an entity is required to determine whether the security deposit is a 'current asset' i.e. expected to be realised within 12 months of the reporting date or a 'non-current asset' i.e. expected to be realised after 12 months of the reporting date.

  Therefore, companies would need to carefully analyse the nature, period and other contractual terms of interest free refundable security deposits to determine the appropriate accounting treatment.

- The ITFG has clarified that incentives receivable from the government, once an entity has complied with all necessary and relevant conditions attached to such schemes, fall within the definition of a financial instrument and would be recognised as financial assets under Ind AS 109. This is on the basis that there is an understanding/agreement of terms between the entity and the government based on the terms of the relevant schemes. Although there is no specific, individual contract in writing, such an arrangement would qualify as a 'contractual' agreement as per Ind AS 32.

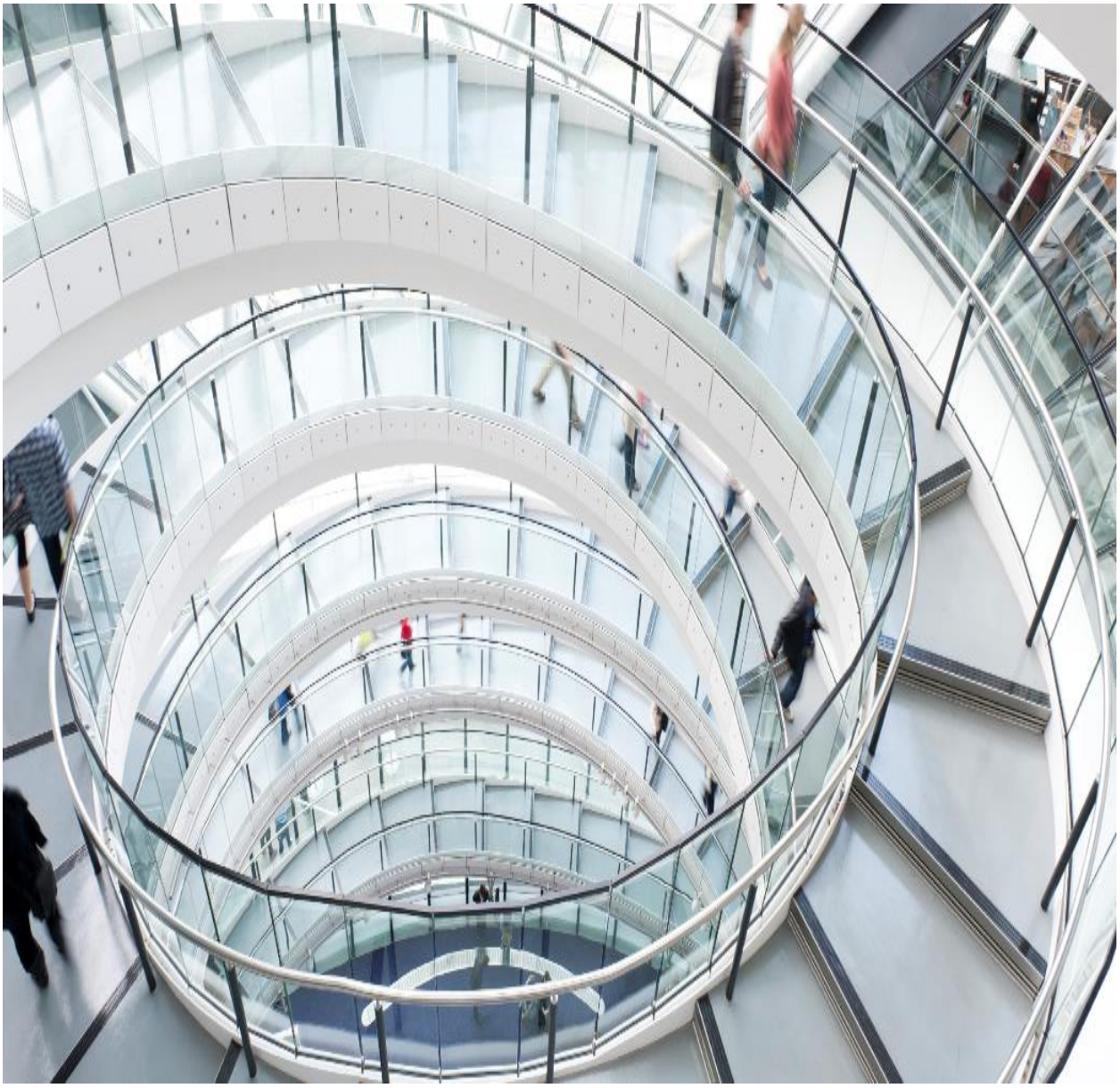
  In practice, this may require the exercise of significant judgement by entities that are entitled to receive incentives from the government, in order to determine whether a 'contractual' right exists resulting in the recognition of a financial asset. This may affect accounting of various types of government grants.

  Companies under phase I of the corporate roadmap that have accounted for such incentives in a different manner in the previous financial year may be required to evaluate the impact of these clarifications on their comparative financial statements, with respect to discounting of the incentives

Our comments (cont.)

clarifications on their comparative financial statements, with respect to discounting of the incentives and recognition of an impairment allowance, on the expected credit loss model calculations (including due to potential delays in payments).

- **Classification of leased land:** The classification of a lease of land is assessed based on the general classification guidance in Ind AS 17. A long term lease may generally indicate that a lease of land is a finance lease. However, companies should exercise judgement to assess the nature of lease at the inception of the lease based on the expected conditions and outcomes at that time. Based on the classification of a lease as either finance or operating lease, companies should account for the upfront lease premium collected at the time of lease deed.
- **Applicability of Ind AS to fellow subsidiary:** The Ind AS corporate road map specifies the companies that are required to comply with Ind AS, based on the net worth criteria. It also mandates the holding, subsidiary, joint venture and associate companies of such companies to prepare Ind AS compliant financial statements. However, fellow subsidiaries (forming part of the same group) are not specified in the corporate road map. The ITFG clarification has reiterated its position, by clarifying that fellow subsidiaries of companies covered under the corporate road map are not entailed to comply with Ind AS, however, they may voluntarily adopt Ind AS, since they will be required to prepare Ind AS compliant financial information for the purpose of consolidation.



KPMG in India

Ahmedabad
Commerce House V, 9th Floor,
902 & 903, Near Vodafone House,
Corporate Road,
Prahlad Nagar,
Ahmedabad – 380 051.
Tel: +91 79 4040 2200
Fax: +91 79 4040 2244

Bengaluru
Maruthi Info-Tech Centre,
11-12/1, Inner Ring Road,
Koramangala,
Bengaluru – 560 071.
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh
SCO 22-23 (Ist Floor),
Sector 8C, Madhya Marg,
Chandigarh – 160 009.
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai
KRM Tower, Ground Floor,
No 1, Harrington Road
Chetpet, Chennai – 600 031
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Gurugram
Building No.10, 8th Floor
DLF Cyber City, Phase II,
Gurugram, Haryana – 122 002,
Tel: +91 124 307 4000.
Fax: +91 124 254 9101

Hyderabad
Salarpuria Knowledge City,
ORWELL, 6th Floor, Unit 3,
Phase III, Sy No. 83/1, Plot No 2,
Serilingampally Mandal,
Raidurg Ranga Reddy District,
Hyderabad, Telangana – 500081
Tel: +91 40 6111 6000
Fax: +91 40 6111 6799

Jaipur
Regus Radiant Centres Pvt Ltd.,
Level 6, Jaipur Centre Mall,
B2 By pass Tonk Road
Jaipur, Rajasthan, 302018.
Tel: +91 141 – 7103224

Kochi
Syama Business Center
3rd Floor, NH By Pass Road,
Vytilla, Kochi – 682019
Tel: +91 484 302 7000
Fax: +91 484 302 7001

Kolkata
Unit No. 603 – 604,
6th Floor, Tower – 1,
Godrej Waterside,
Sector – V, Salt Lake,
Kolkata – 700 091.
Tel: +91 33 4403 4000
Fax: +91 33 4403 4199

Mumbai
Lodha Excelus, Apollo Mills,
N. M. Joshi Marg,
Mahalaxmi, Mumbai – 400 011.
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Noida
Unit No. 501, 5th Floor,
Advant Navis Business park,
Tower-B, Plot# 7, Sector 142,
Expressway Noida,
Gautam Budh Nagar,
Noida – 201305.
Tel: +91 0120 386 8000
Fax: +91 0120 386 8999

Pune
9th floor, Business Plaza,
Westin Hotel Campus, 36/3-B,
Koregaon Park Annex,
Mundhwa Road,
Ghorpadi, Pune – 411001.
Tel: +91 20 6747 7000
Fax: +91 20 6747 7100

Vadodara
iPlex India Private Limited,
1st floor office space, No. 1004,
Vadodara Hyper, Dr. V S Marg,
Alkapuri, Vadodara – 390 007.
Tel: +91 0265 235 1085/
232 2607/232 2672

You can reach out to us for feedback and questions at:
in-fmkpmgifrsinst@kpmg.com

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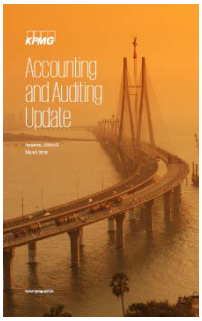
Voices on Reporting

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

In our recent session of Voices on Reporting webinar on 4 April 2018, we covered key financial reporting and regulatory matters that are expected to be relevant for stakeholders for the quarter ended 31 March 2018.

Click here to access the audio recording (mp3) and presentation (pdf).

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



Issue no. 20/2018 – March 2018

In this edition of Accounting and Auditing Update (AAU), we highlight the significant areas where revenue recognition under real estate and construction sector is expected to change due to implementation of Ind AS 115, *Revenue from Contracts with Customers*. This standard is applicable to Indian companies covered in the Ind AS road map from 1 April 2018.

The article on SA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* aims to explain significant changes expected in the auditor's report due to communication of key audit matters. The SA would be applicable to listed companies and certain other companies from 1 April 2018.

The publication carries an article on securitisation transactions which describes with the help of an illustration whether a certain securitisation transaction would meet the criteria for derecognition of a financial instrument and application of control definition on such special purpose entities or trusts.

This publication also casts lens on accounting for income taxes. The article covers two practical scenarios:
- accounting for income taxes in any interim period
- accounting for deferred taxes in a business combination.

Our publication also carries a regular synopsis of some recent regulatory updates in India and internationally.

SEBI relaxes norms governing schemes of arrangements by listed entities

18 January 2018

The listed entities that desire to undertake a scheme of arrangement or are involved in a scheme of arrangement need to follow the regulations laid down by the Securities and Exchange Board of India (SEBI). On 10 March 2017, SEBI issued a circular number CFD/DIL3/CIR/ 2017/21 which laid down a revised regulatory framework for schemes of arrangements by listed entities and relaxation under Rule 19(7) of the Securities Contract (Regulation) Rules, 1957.

The SEBI received representations to improve the existing framework governing schemes of arrangements.

Additionally, SEBI wanted to expedite the processing of draft schemes and prevent misuse of schemes to bypass regulatory requirements. Therefore, on 3 January 2018, SEBI issued a circular number CFD/DIL3/CIR/2018/2 (the circular) to make certain amendments to the circular dated 10 March 2017.

The recent circular is applicable from the date of its issue i.e. 3 January 2018. In this issue of First Notes, we have provided an overview of the key amendments/ relaxations given in the circular.

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