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Editorial

The rapid outbreak of the coronavirus (COVID-19) presents an alarming health crisis that the world is grappling with. The outbreak has been declared as a pandemic by the World Health Organisation (WHO) and a notified disaster by the Government of India. Measures to combat the pandemic have resulted in significant disruptions in business operations coupled with trade restrictions and non-fulfilment of contractual obligations. These are expected to cause consequential deterioration in economic conditions for some companies and an increase in economic uncertainty for others across almost all sectors. Together, these may have unusual accounting, audit and reporting implications for the companies for the financial year ended 31 March 2020. In this edition of Accounting and Auditing Update (AAU), we cast our lens on some of the key accounting and financial reporting impacts of the outbreak to be considered by companies in India.

The COVID-19 outbreak is also expected to create a number of potential challenges for companies to conduct, and auditors to attend inventory counts. Possible situations that could arise due to the outbreak could include - management does not conduct an inventory count on the balance sheet date or physical inventory count conducted at a date other than the date of financial statements. Also, there could be a situation where it is impracticable for an auditor to attend the physical inventory count. Through our article on the topic, we aim to discuss the key considerations while performing and observing inventory count in some of the possible situations.

Indian Accounting Standard (Ind AS) 109, *Financial Instruments*, Ind AS 32, *Financial Instruments: Presentation* and Ind AS 107, *Financial Instruments: Disclosures* have introduced several new accounting concepts as well as extensive disclosure requirements for companies that apply Ind AS. As Non-Banking Financial Companies (NBFCs) transitioned to the new accounting framework effective 1 April 2018, their annual reports for the year ended 31 March 2019 provided a first-hand opportunity to better understand the transition choices made by the companies in financial services sector, their key accounting policies and the qualitative disclosures as prescribed under relevant Ind AS. In this edition, we have covered an analysis of the disclosures provided by NBFCs in their Ind AS financial statements for the year ended 31 March 2019. The analysis is based on annual reports of 48 NBFCs with debt securities listed on BSE and 33 equity listed NBFCs as on 1 April 2019.

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

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

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Chapter 1

COVID-19: Potential impact on financial reporting

This article aims to:

Highlight key accounting and financial reporting impacts of COVID-19 to be considered by companies.

Introduction

The rapid outbreak of the coronavirus (COVID-19) presents an alarming health crisis that the world is grappling with. The impacts of the COVID-19 pandemic are unfolding in real time. The COVID-19 outbreak has already had a significant effect on the economies of affected countries and international financial markets. As the companies in India approach their year-end, there is an urgent need to evaluate the impacts of the outbreak on their accounting and financial reporting.

Key impacts on financial reporting

The financial reporting impacts of the COVID -19 outbreak will depend on facts and circumstances, including the degree to which a company's operations are exposed to the impacts of the outbreak.

Some of the key accounting and financial reporting considerations for the companies are explained below.

Going concern

The outbreak of COVID-19 has caused a significant deterioration in economic conditions for some companies and an increase in economic uncertainty for others.

Management would need to assess whether the current events and conditions cast significant doubt on the company's ability to continue as a going concern, or in severe cases, whether the going concern assumption is still appropriate as a basis for the preparation of the company's financial statements. In many cases, budgets and forecasts that may have been used to support management's initial going concern assessment may now be of limited relevance given the rapidly changing economic and business circumstances and may require significant revision to be able to support management's assessment in the current environment.

It would be critical to understand what impacts current events and conditions have on a company's operations and forecast cash flows, with the key immediate issue being whether the company still has sufficient liquidity to continue to meet its obligations as they fall due.

To the extent the events and conditions are identified that may cast significant doubt on a company's ability to continue as a going concern, disclosure would be required if these events constitute material uncertainties or management's conclusion involved significant judgement (i.e. a 'close call' scenario). Additionally, Ind AS 107, *Financial Instruments: Disclosures* requires disclosure of quantitative data about liquidity risk arising from financial instruments. A company also needs to explain how it is managing this risk, including any changes from the previous period and any concentrations of liquidity risk.

Disclosures addressing these requirements may need to be expanded, with added focus on the company's response to the impact of COVID-19.

Impact on accounting estimates

Various accounting estimates, which depend on future forecasts, could be impacted by the outbreak. Examples of specific areas that may be impacted include:

- **Impairment of non-current assets and goodwill:** Many companies may be facing the problem of low demand for their products or services or may be affected by the restrictions imposed by the government. Certain companies may be dependent on supply chains or may have production facilities in the states in India and abroad affected by lockdown. This situation could be an impairment trigger, and require an impairment test. However, it could be a challenge for many companies to estimate future cash flows due to the increase in economic uncertainty. Also companies would need to ensure that discount rates used in recent valuations have been updated to reflect the risk environment at the reporting date.

  Companies would need to provide disclosures as per Ind AS 36, *Impairment of Assets* and also help users understand uncertainty associated with management's assumptions about the future. Therefore, robust disclosures are needed to understand the degree of estimation uncertainty that exists in estimating the recoverable amount and the sensitivity of the recoverable amount to reasonably possible changes to key assumptions.

- **Onerous contract provisions:** Customer contracts may become onerous if, for example, suppliers are unable to fulfil their obligations under the contract as a result of closure or reduced production by manufacturing plants, which would necessitate recognition of a provision. Delay in fulfilment of contractual obligations may also result in penalties to be provided for. Companies should consider providing meaningful disclosures about judgements and estimates applied in recognising and measuring provisions.

- **Valuation of inventory:** There could be a significant impact on the inventory valuation on account of forced plant shutdowns, decline in net realisable value due to reduction in demand and non-fulfillment of sales and purchase contracts.

- **Expected Credit Losses (ECLs):** Certain sectors and regions may be particularly severely affected by the economic effects of COVID-19. Hence, companies would need to consider the impact of COVID-19 appropriately while recognising ECLs. However, the companies may find it challenging to incorporate into their measurement of ECLs the forward-looking information relating to the economic impact of COVID-19 that is available without undue cost or effort at the reporting date.

  Ind AS 109, *Financial Instruments* requires the application of judgement and both requires and allows entities to adjust their approach to determining ECLs in different circumstances. A number of assumptions and linkages underlying the way ECLs have been implemented to date may no longer hold in the current environment. Companies may need to consider the impact of any prudential regulatory actions taken to sustain the economy such as loan repayment holidays, reduction in interest rates. Additionally, the impact on the business of borrowers could also impact the credit risk parameters such as, risk of default (probability of default), loss given default i.e. estimated amount of the loss in the event of default and exposure at default.

  Relevant disclosures should be provided to enable better understanding of credit risk, timing and uncertainty of future cash flows.

- **Deferred tax assets:** The recoverability of deferred tax assets may be impacted by changes to future forecasts.

- **Insurance claims:** The companies may evaluate the terms of their insurance policies and estimate possible compensation surrounding loss of profits and business disruption, etc. including timing of recognition of such claims.

Fair value assessment

The fair value of an asset (or liability) is determined as per the market conditions at the measurement date. Due to uncertainty of the economic impact of COVID-19, there would be a significant change in the assumptions used to measure fair value of the assets and liabilities of a company at the end of the reporting period including considerable change in the valuation techniques being adopted by the companies on account of change in the market conditions and related observable inputs, redundant previous information, etc. Appropriate disclosures to address the change would become necessary.

As per Ind AS 1, *Presentation of Financial Statements* and Ind AS 113, *Fair Value Measurement,* a company would need to provide sensitivity disclosures along with disclosure of the key assumptions and judgements made by management. This is likely to enable users to understand how fair value has been determined and categorisation of fair value hierarchy.

Revenue recognition

Uncertainty about whether the rights and obligations in customer contracts remain enforceable may affect the timing and amount of revenue to be recognised. Companies and their customers may seek to modify existing contracts to respond to the impacts of COVID-19 on their business. Exercise of judgement would be required to assess when contract modifications are approved, particularly when contracts are modified frequently or there is continuing uncertainty about how a contract will be completed.

Companies would also be required to assess whether assets related to the revenue cycle - e.g. receivables, contract assets, inventories and capitalised contract costs are appropriately measured to reflect the uncertainty created by the outbreak.

Significant judgements and changes to those judgements affecting the amount and timing of revenue recognised should be appropriately disclosed.

Revenue estimates such as variable consideration (discounts, rebates, incentives, etc.) and stand-alone selling prices of goods and services might also need to be updated to reflect the current environment. Expanded disclosures depicting the methods, inputs and assumptions used for estimating variable consideration and stand-alone selling prices would become necessary.

Lease accounting

A company which is a lessee would need to assess its right-of-use assets for impairment. Similarly, lessors would need to ascertain whether some of their underlying assets held for lease are to be considered for impairment due to decrease in demand for such assets or steep decline in rentals. Other impact areas could be determination of lessee's incremental borrowing rate on account of change in its borrowing costs consequent to decline in its credit rating, reassessment of lease contracts including lease term, lease modifications and revenue recognition by lessor.

Also evaluate whether any lease arrangement has become onerous and as a result, a provision need to be recognised.

Hedge accounting

The COVID-19 outbreak may affect when and how a company applies hedge accounting.

In case of cash flow hedge, companies need to evaluate whether forecast transactions continue to be highly probable. If a transaction is not highly probable, then consider whether it is still expected to occur.

Additionally, any changes to the contractual terms of a financial instrument resulting from the COVID-19 outbreak may affect the instrument's eligibility as a hedged item.

Further, the increased credit risk arising from the COVID-19 outbreak could affect both hedge effectiveness testing and the measurement of hedge ineffectiveness. Companies would also need to evaluate whether accumulated losses in the cash flow hedge reserve will be recovered in future periods. If not, then it may have to reclassify the amount of loss not expected to be recovered to the statement of profit and loss.

Relevant disclosures depicting changes in how the company manages risks including impact of hedge ineffectiveness and reclassifications to the statement of profit and loss should be provided.

Derivative accounting

The COVID-19 outbreak could result in significant decline in business activity and subsequent decreases in a company's expected purchase, sale or usage requirements, disruptions to supply chains that may impair a company's ability to effect physical settlement and sudden decreases in demand (or supply) that may cause contracts to be closed out or terminated through net cash settlement without delivery. These circumstances may undermine a company's ability to apply the own use exemption. As a result, a company might need to reassess whether derivative accounting is required for sale and purchase contracts entered into by it.

Internal controls over financial reporting

Companies should also evaluate the effect on internal control over financial reporting, if any. For instance, new controls or modification in controls would be required where companies have enhanced/modified IT access to enable remote workforces.

Employee benefits

Market volatility and changes to remuneration policies may impact how companies estimate and measure employee benefits and recognise share-based payment expenses.

Modifications to share-based payment arrangements will need to be assessed as to whether they are either beneficial or non-beneficial to the employees and accounted for accordingly.

Government grants

Management would need to monitor government actions and legislation to identify all assistance given amid COVID-19 outbreak that may meet the definition of a government grant.

Companies that have not previously received government grants may need to develop new accounting policies and procedures and significant judgement may be required to address newly implemented government programmes.

Companies could consider expanding disclosures on the accounting policies for government grants and the impact of grants and other assistance on the financial statements.

Property, Plant and Equipment (PPE) accounting

The COVID-19 outbreak may affect the expected useful life and residual life of PPE which requires management review. In case the expectations differ from previous estimates, then change in estimate should be accounted for in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Borrowing costs

Capitalisation of interest on borrowings might need to be suspended in case the development of an asset has been suspended on account of COVID-19. Companies should also evaluate this area.

Disclosures in the annual reports

'Other information' that accompanies the financial statements may include additional discussion of risks associated with the outbreak if the expected impacts could be significant. Management would need to consider whether the explanation of events relevant to understanding the impact on the entity complies with regulatory requirements and responds to regulators' and users' expectations.

Disclosures should include identification of key assumptions about the impact of COVID-19 on material estimates and sources of estimation uncertainty that could result in material adjustments to the carrying amount of assets and liabilities, including sensitivity analysis.

Additionally, more extensive disclosures about company's policies and processes for managing its credit or liquidity risk exposures may become necessary.

Companies with the year end 31 December 2019

Events that occurred after the reporting date (31 December 2019) would need to be evaluated whether these events or conditions, individually or collectively, cast significant doubt on the company's ability to continue as a going concern, or in severe cases, whether the going concern assumption is still appropriate as a basis for the preparation of the company's financial statements.

Companies would need to evaluate whether the financial reporting effects of the COVID-19 outbreak should be accounted for as adjusting or non-adjusting events after the reporting period. With respect to 31 December 2019 financial statements, the financial reporting impact arising from the outbreak will likely be limited to non-adjusting events after the reporting period as the significant changes in business activities and economic conditions occurred as a result of events have occurred after the balance sheet date, such as actions taken by the government and private sector to respond to the outbreak.

When the impacts are considered as non-adjusting events, companies would need to consider whether it is appropriate to provide disclosures in their financial statements to reflect new events or changes in conditions after the reporting date, including an estimate of their financial effect if that can be determined. For instance, estimated effects on impairments of financial and non-financial assets (considering events and new information arising after the reporting date), covenant breaches, amendments or waivers in lending agreements, losses due to supply chain issues, volatility in commodities or foreign currency exchange markets, etc. after the reporting date.

Way forward

Effective communication

Companies should maintain close communications with their board of directors, auditors, legal counsel and other service providers as the circumstances progress. They should discuss with the board and the audit committee the potential financial impacts and risk assessment would help in better preparation of the financial statements.

Companies should aim to provide adequate disclosures in their year-end financial statements on current and potential impacts of COVID-19 on results of operations, liquidity and capital resources. The assessment should be based on both a qualitative and quantitative assessment on their business activities, financial situation and economic performance.

The sectors that are likely to be mostly affected by the COVID-19 outbreak are aviation, tourism, hospitality, Information Technology (IT), pharmaceuticals, automotive, building and construction and consumer goods. Additionally, banking sector would be impacted by the shutdowns in industries and this could result in rise in Non-Performing Assets (NPAs).

Potential impact on audit, an auditor's report and completion of the last quarter's results and annual financial reporting process

Companies may face challenges in helping auditors to conduct their audits as it may be difficult to provide them access to their establishments (e.g. not being able to observe management's inventory counts or to physically verify fixed assets after year-end). Also, in certain situations, companies may have challenges in obtaining access to management and others, including legal counsel, management's experts due to travel restrictions. They may not be able to provide the anticipated audit evidence e.g. there could a significant decline in response rates for bank and/or debtor confirmations. For large companies with various overseas components, there could be a significant challenge to work with component auditors and managements of the overseas components.

These challenges could lead to certain implications in the auditor's report which may include:

- Reporting of a new Key Audit Matter (KAM) in response to additional audit work necessary as a result of the outbreak
- Addition of a material uncertainty in relation to going concern paragraph, where relevant
- An emphasis of matter paragraph relating to a significant uncertainty arising from the outbreak
- A qualification or adverse opinion in respect of inadequate disclosures in the financial statements.

The above challenges could delay in completing the last quarter's results and annual financial reporting process.

Recently, the Securities and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs (MCA) have decided to provide temporary relaxations in compliance requirements to companies.

As part of the relaxations, SEBI has extended the timelines for filing of financial results for the quarter and year ended 31 March 2020 up to 30 June 2020 by equity listed companies. The timeline for filing financial results by companies with listed Non-Convertible Debentures (NCDs)/Non-Convertible. Redeemable Preference Shares (NCRPS)/ Commercial Papers (CPs) for the half-year and year ended 31 March 2020 have also been extended up to 30 June 2020.

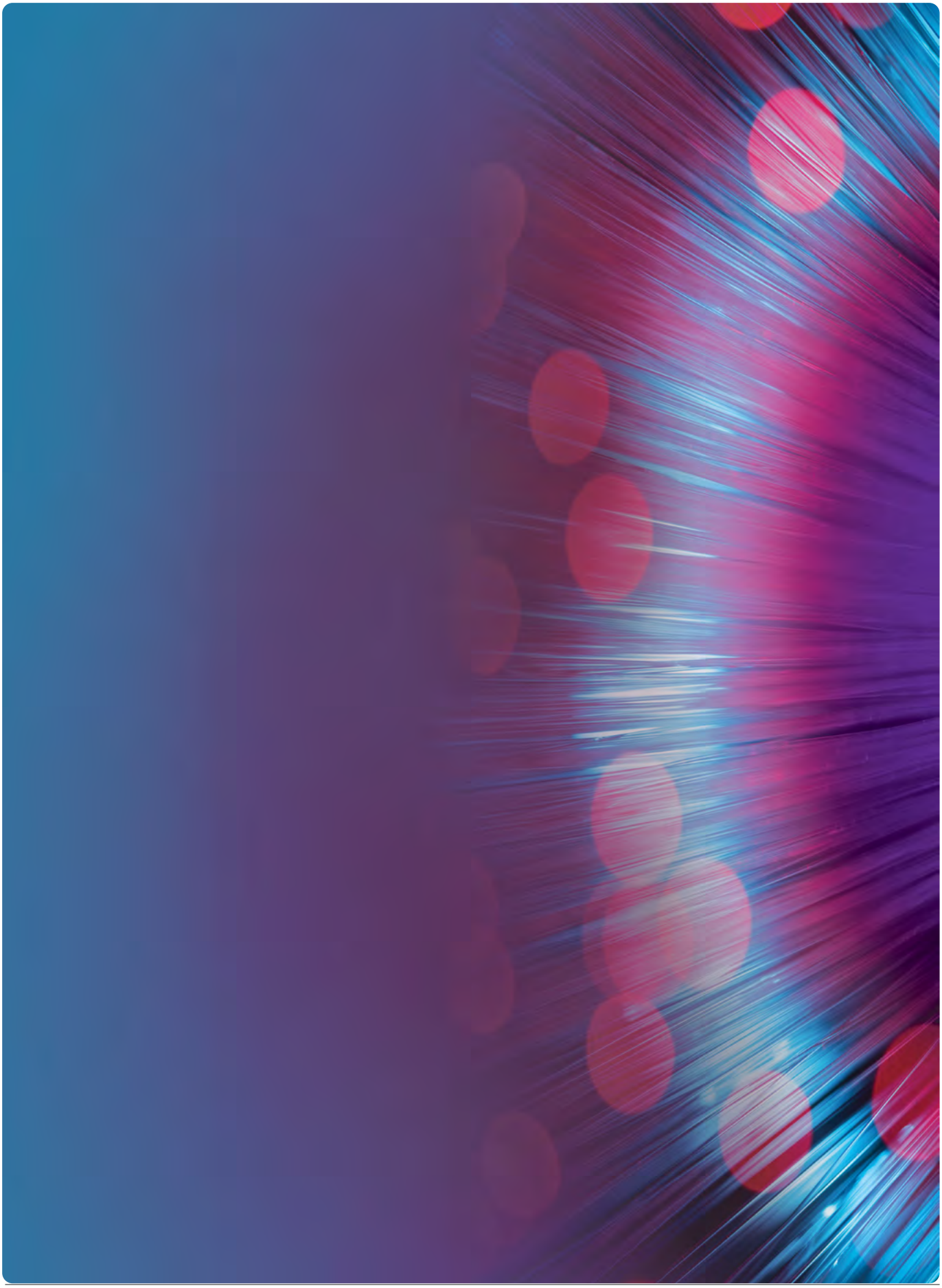
Additionally, listed companies are exempted from observing the maximum stipulated time gap between two board/audit committee meetings (i.e. 120 days) for the meetings held or proposed to be held between the period 1 December 2019 and 30 June 2020.

According to the recent MCA notification, directors can participate in meetings to discuss matters such as approval of financial statements, board's report, etc. through video-conferencing or other audio-visual means in place of mandatory physical presence up to 30 June 2020.

Given the situation, the government and SEBI may grant more relief measures. Hence, companies should continue to assess this area.

Resource center on financial reporting impacts of COVID-19

Also refer to KPMG International's **resource center** on COVID-19. The resource center includes Frequently Asked Questions (FAQs) on significant accounting and disclosure implications for companies on account of COVID-19 and highlights the actions to be taken by the management.



Chapter 2

Physical inventory count amid COVID-19

This article aims to:

Discuss key challenges relating to the physical inventory count amid the COVID-19 outbreak.

Introduction

The pandemic coronavirus (COVID-19) has caused significant disruptions in the business operations of companies. These disruptions also pose significant accounting and auditing challenges. Amongst those challenges, one of the challenges for the companies with year-end 31 March 2020 is to conduct a physical inventory count. This could be due to significant health and safety concerns, travel restrictions, lockdown, etc.

Inventory count – Key considerations

Management of a company is required to establish procedures under which inventory is physically counted at least once a year to serve as a basis for the preparation of the financial statements and, if applicable, to ascertain the reliability of the entity's perpetual inventory system.

Further Company Auditor's Report Order (CARO), 2016 requires auditors to comment on 'Whether at reasonable intervals the management has conducted physical verification of inventory and If any material discrepancies were noticed on physical verification, whether it has been accounted for in books of accounts.

When inventory is material to the financial statements, Standard on Auditing (SA) 501, *Audit Evidence - Specific Considerations* requires an auditor to obtain sufficient and appropriate audit evidence regarding the existence and condition of inventory by:

- Attendance at physical inventory counting, unless impracticable to:
  - Evaluate management's instructions and procedures for recording and controlling the results of the company's physical inventory counting
  - Observe the performance of management's count procedure
  - Inspect the inventory
  - Perform test counts and
- Performing audit procedures over the company's final inventory records to determine whether they accurately reflect actual inventory count results.

Current situation – COVID-19

The COVID-19 outbreak could create a number of potential challenges for management of a company to conduct, and an auditor to attend inventory counts. It is possible that the outbreak may make inventory count challenging, in some cases, impracticable and including attendance by auditors. This may involve companies to re-visit their inventory count strategy and have a discussion with the audit committee, those charged with governance.

Possible situations that could arise due to the outbreak are as follows:

- **Management does not conduct an inventory count on the balance sheet date:** There could be a situation when management of a company believe it is not feasible to conduct a physical inventory count, for example, when the locations where inventory is held are closed and warehouse employees are confined to their homes due to a government imposed lockdown. In this situation, management should inform the auditors and those charged with governance the rationale of not conducting the inventory count.

  If auditors, audit committee and those charged with governance conclude that management's explanations appear to be reasonable in the circumstances, then management would need to consider other possibilities e.g. whether it is possible to delay the count to a time when restrictions are lifted, or concerns reduced.

  However, if it is concluded that management's explanations do not appear to be reasonable in the circumstances, then there could be an impact on audit, including risk assessment and auditor's ability to obtain sufficient appropriate audit evidence. If there are management-imposed scope limitation then auditor would need to communicate this to audit committee and those charged with governance.

- **Physical inventory conducted at a date other than the date of financial statements:** In case the physical count of inventory would be conducted at a date other than the date of financial statements, then, information relating to changes in inventory between the count date and the date of financial statements would be crucial. An entity would need to ensure the effectiveness of the design, implementation and maintenance of controls over changes in inventory to determine whether the conduct of physical inventory counting at a date, or dates, other than the date of the financial statements is appropriate for audit purposes of an entity. Additional consideration should be given to following factors:

  - Whether the perpetual inventory records are properly adjusted
  - Reliability of the entity's perpetual inventory records
  - Reasons for differences between the information obtained during the physical count and the perpetual inventory records.

Impracticable for an auditor to attend physical count

Due to various restrictions imposed currently as part of measures to combat COVID-19 outbreak, in certain cases it could be difficult for auditors to physically attend the inventory count organised by a company. In that case, management would need to demonstrate controls over inventory movements and an auditor should be able to test and place reliance on them.

Auditors would need to perform alternative audit procedures to obtain audit evidence as to the existence and condition of inventory, for example, observing a current physical inventory count and reconciling it to the opening inventory quantities or inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting.

If the challenges persist and auditors are not able to obtain sufficient appropriate audit evidence by performing alternative procedures, then depending on the pervasiveness of the scope limitations, this may result in a modification of opinion in an auditor's report.

If auditors had attended last inventory count, then management would need to provide information to help auditors perform roll forward procedures. Roll forward procedures for the intervening period may include, among others, the following:

- Vouching purchases of inventory during the intervening period to and from perpetual records
- Vouching sales of inventory during the intervening period to and from perpetual records
- Performing substantive analytical procedures to evaluate sales, gross margin percentages, inventory turnover and/or days sales in inventory
- Testing inventory sales and purchases for proper cut-off at period end
- Testing the accuracy of the inventory reconciliation to the general ledger at period end, including tests of reconciling items.

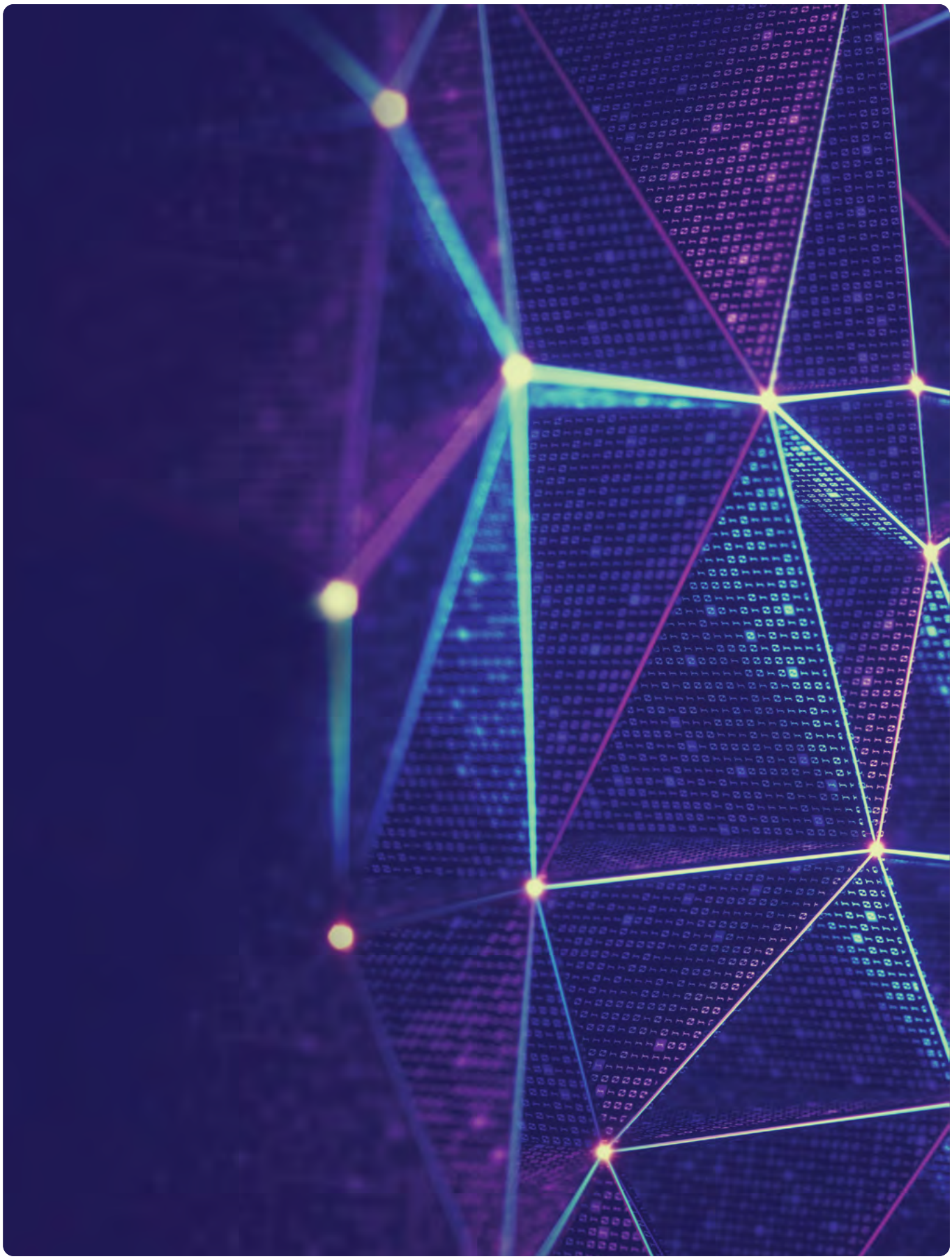
An auditor would need to consider whether roll-forward procedures could provide sufficient appropriate audit evidence. Generally, as the length of the roll-forward period increases, the persuasiveness of the audit evidence the previous inventory count combined with roll-forward procedures provides for existence of physical inventory quantities at the reporting date decreases. This is because an auditor can only sample transactions that were recorded during the roll-forward period, and there is a risk that inventory movements may not have been recorded. This risk increases as the roll-forward period gets longer. In addition, roll-forward procedures do not provide evidence as to the condition of inventory at the reporting date.

Use of technology in inventory count

In certain situations where physical attendance by auditors is not possible, they may be able to observe the count remotely via video call with the help of technology. An auditor would need to ensure the security on these applications. The auditors would need to understand the technological and practical constraints to observing an inventory count remotely. If auditors are observing a count remotely, they would need to perform the same procedures as if attending in person.

Conclusion

As the year-end is approaching, companies should at the earliest decide upon the course of action for performing inventory counts, if not done yet. Given the practical challenges, it becomes imperative for auditors and companies to understand the relevant audit considerations and take appropriate actions. This would require a detailed discussion with the audit committee, those charged with governance and the auditors to develop a future course of action. In any of the situation, management would need to provide adequate information along with the controls placed for inventory count and to enable auditors to obtain sufficient and appropriate audit evidence.



Chapter 3

Ind AS: Practical perspectives (NBFCs)

This article aims to:

Capture emerging trends and practices by analysing year end annual reports of NBFCs for the year ended 31 March 2019.

Introduction

The financial year 2018-19 marked a new beginning on the financial reporting horizon for financial services sector as Non-Banking Financial Companies (NBFCs) in India reported their financial statements in line with the requirements of Ind AS. The annual reports for the period ended 31 March 2019 provide the first opportunity to understand the choices made by the covered companies, their key accounting policies and the qualitative disclosures as required by the Ind AS.

Non-Banking Financial Companies (NBFCs) have adopted Ind AS from 1 April 2018. These companies have published their annual reports for the year ended 31 March 2019. These annual reports contain first full set of financial statements presented by NBFCs as per Ind AS framework.

As NBFCs embrace Ind AS, KPMG in India, through its analysis, 'Ind AS: Practical perspectives (NBFCs)' aims to capture emerging trends and practices by analysing their annual reports.

Basis of our analysis

We have analysed the annual reports of 48 NBFCs (top 15 NBFCs (based on loan funds) that have their debt securities listed on BSE and 33 equity listed NBFCs (on BSE 500) as on 1 April 2019.

Of the 15 debt listed companies analysed in this article, three companies are Housing Finance Companies (HFCs) while 12 companies are other NBFCs, and of the 33 equity listed companies analysed, 10 are HFCs while the balance 23 are other NBFCs. Out of 48 covered NBFCs, 38 reported consolidated financial statements while balance 10 reported standalone financial statements.

The analysis is based on the disclosures provided by NBFCs in their financial statements prepared in accordance with Ind AS included in the annual reports for the year ended 31 March 2019.

Analysis of impact of key standards

Ind AS 109, *Financial Instruments*, Ind AS 32, *Financial Instruments: Presentation* and Ind AS 107, *Financial Instruments: Disclosures* prescribe the principles for classification, recognition and measurement of financial instruments. These standards have introduced several new accounting concepts as well as extensive disclosure requirements for companies that apply Ind AS. In our experience, the NBFCs that have transitioned to Ind AS in the Financial Year (FY) 2018-19 faced complexity relating to accounting and preparation of disclosures as per new requirements applicable to financial services sector.

As a result of the new accounting and disclosure requirements, investors, analysts, lenders and other stakeholders would be able to obtain an enhanced understanding of a company's dealings in financial instruments. These disclosures are designed to provide more insights into the objective of transacting in the instruments as well as how they are managed by the company.

The impact of complying with the requirements of the new standards has been pervasive. The NBFCs have reported significant adjustments relating to classification and measurement of financial instruments, recognition and derecognition and relating to consolidation.

Analysis of key disclosures provided by NBFCs

First-time adoption exemption

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

While these exemptions facilitate a smooth transition to Ind AS, certain exemptions may also be chosen with a particular financial reporting objective in mind. For example, restatement of past business combinations may normally result in lower amount of goodwill as compared to Indian GAAP. The quantum of reduction may have been partly or entirely amortised to retained earnings depending on the timing of the acquisition.

A variety of first-time adoption choices have been made by the NBFCs. The section below provides a summary of key transition options which had impact for NBFCs.

Derecognition of financial assets

As per Ind AS 101, an entity should apply the derecognition requirements of Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind AS. However, an entity may apply the derecognition requirements retrospectively from a date chosen by, it if the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Of the 32 NBFCs that provided disclosures on this choice, 8 NBFCs have applied derecognition principles on a retrospective basis and the balance 24 have elected to apply derecognition provisions on a prospective basis. NBFCs applying principles retrospectively have in most instances stated that reliable information was available at the time of initially accounting for these transactions.

Investment in subsidiaries

25 NBFCs have disclosed that they account for investment in subsidiaries at cost and two NBFCs account for at Fair Value through Other Comprehensive Income (FVOCI).

Significant judgements and estimates

Under Ind AS, an entity should disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The disclosure of the most important judgements is likely to enable users of financial statements to understand better how the accounting policies are applied and to make comparisons between entities regarding the basis on which managements make these judgements.

Following table depicts the trend of some of the key judgements provided by the NBFCs:

Key judgements	Presented		Not presented	
	Equity	Debt	Equity	Debt
Impairment of financial assets (ECL)	32	14	1	1
Measurement and recognition of provisions and contingencies	27	14	6	1
Fair value measurement of financial instruments	30	14	3	1
Effective Interest Rate (EIR)	27	13	6	2
Business model assessment	28	13	5	2

Impairment of financial instruments was identified by all the entities as a significant judgement/estimate, irrespective of whether these entities were NBFCs, HFCs, broking or similar companies. The items such as fair value measurements, Effective Interest Rate (EIR) and business model assessment also were the other key areas of significant judgement and estimates identified by the companies.

Expected Credit Loss (ECL)

Ind AS 109 provides a new ECL model for impairment which may lead to earlier recognition of impairment allowance. Under the new approach entities are required to consider information from the perspective of historic, current and forward-looking data elements.

Whilst Ind AS 109 is required to be applied for ECL measurement, 6 NBFCs have retained loan loss provisions in line with prudential norms of the Reserve Bank of India (RBI) i.e. the provision amounts under the prudential norms are higher than the Ind AS based ECL provisions.

Ind AS 101 requires an entity to assess and determine the impairment allowance on financial assets as per Ind AS 109 using the reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that financial instruments were initially recognised and compare it to the credit risk at the date of transition to Ind AS. Only one NBFC has applied this exception prospectively. Rest have applied ECL principles at transition date on a retrospective basis.

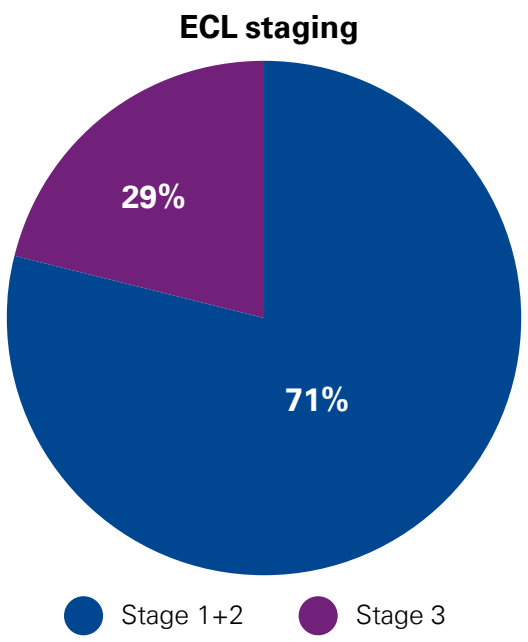
Description	Amount
Gross loans	INR3,013,012 crore
Impairment allowance	INR97,024 crore
Percentage to gross loans	3%

Out of 48 companies, four companies do not have loss allowance provision. Further, the percentage of provision ranges from 0.5 per cent to 39 per cent. There appear to be large variations in impairment percentage.

Classification and measurement of loans (including securitisation)

- More than 95 per cent of the aggregate loan exposure disclosed by the covered companies have been classified as amortised cost. This is reflective of the nature of the loan products offered by the covered companies and also the business model of holding these loans till maturity to collect substantial portions of the contractual cash flows.
- It is pertinent to note that while of the 48 companies covered in the analysis, 29 companies have undertaken securitisation arrangements. Under Ind AS, the criteria for derecognition of loans are far more detailed and stringent to meet the derecognition criteria. This is reflected in the fact that of these 29 companies, only five companies have been able to meet the derecognition criteria. The remaining 24 companies have therefore, reflected the proceeds arising from securitisation as borrowings.
- In terms of securitisation arrangements entered into by the covered companies, assignment transactions appear to be far more popular form of securitisation as compared to the traditional securitisation transaction involving transfer to a Special Purpose Vehicle (SPV) which in turn issues pass through certificates. The disclosures around securitisation arrangements, however, are expected to be more detailed and consistent as the covered companies progress in this journey of applying Ind AS requirements on an ongoing basis.

Ind AS 109 ECL staging – Per cent of ECL allowance



Source: KPMG in India's analysis, 2020 basis annual reports of NBFCs for the year ended 31 March 2019.

For the covered NBFCs, on an average, the Stage 3 loss allowance represented 71 per cent of total loss allowance under Ind AS 109.

Segmentation of loans

The level of segmentation depends on the size of the financial institution and nature of its lending activities. Segmentation process addresses the risk associated with the loan portfolio and should be customised to financial institution's requirements.

Out of 48 companies, 38 companies have disclosed the information about portfolio segmentation. The most common bifurcation used by companies is corporate and retail loans.

Staging criteria

Ind AS 109 requires staging assessment for retail loans based on rebuttal of Days Past Due (DPD) criteria. 41 companies out of 48 companies have done staging of their loan's basis the number of DPD. Out of balance companies, six have used rating basis[1] and balance one company has not provided any information about this disclosure requirement.

Particulars	No of companies
Days past due	41
Rating basis	6
Not disclosed	1

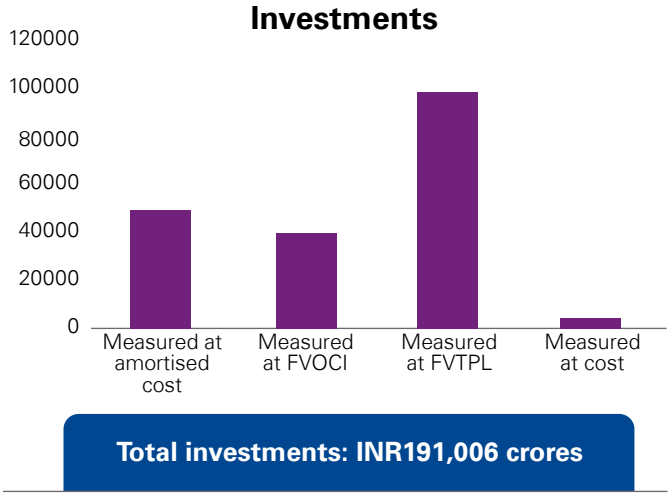
Source: KPMG in India's analysis, 2020 basis annual reports of NBFCs for the year ended 31 March 2019.

Classification and measurement of investments

Ind AS 109 requires investments in debt instruments to be classified into categories and measured at Fair Value through Profit or Loss (FVTPL), FVOCI or amortised cost on the basis of the business model assessment of the entity and the contractual cash flow characteristics of the asset. Investments in equity instruments are to be classified and measured at FVTPL, unless a company exercises the irrevocable option to classify and measure non-trading equity investments at FVOCI.

As per our analysis of the annual reports published by covered listed NBFCs, investments are primarily held in instruments such as mutual funds (quoted and unquoted), equity shares (quoted and unquoted), government securities and corporate bonds (generally unquoted).

Below figure summarises the composition of each category of financial assets based on the nature of investments held.



Source: KPMG in India's analysis, 2020 basis annual reports of NBFCs for the year ended 31 March 2019.

The above analysis indicates the following broad trends:

- Investments in quoted and unquoted mutual funds, including debt mutual funds and fixed maturity plans, are generally classified at FVTPL even though they may not be held for trading within the short-term.
- Investment in government securities and debt instruments comprise significant portion of the investments which are classified as FVOCI primarily based on the business model of partially holding the investments to collect contractual cash flows and partially holding them for sale. Investment in equity shares classified as FVOCI typically represents the strategic investments which are not classified as subsidiary, associate or joint venture nor are held for trading. While reporting entities under Ind AS have a free one time irrevocable choice to classify such investment in equity shares as either FVTPL or FVOCI, considerations relating to taxation (especially Minimum Alternate Tax (MAT) under Section 115JB of the Income-tax Act, 1961), volatility in statement of profit and loss, etc. has resulted in most companies choosing to classify such investment in equity shares as FVOCI.
- Investments classified as at amortised cost are primarily debt instruments where the business model of the companies typically involves holding such investments till contractual maturities.

1. Rating basis is the tool used by companies to measure credit risk of a loan asset. The companies have used external and internal credit rating model for staging assessment of loans.

Disclosure of fair value hierarchy

Ind AS 107 also requires companies to disclose the fair value of each class of financial assets and liabilities. Further, Ind AS 113, *Fair Value Measurement* requires companies to categorise the fair values (for items that are measured at fair value as well as those for which fair value is disclosed) into a hierarchy based on the inputs used in determining their fair value.

The following are the levels prescribed by Ind AS 113 for categorising fair value measurements and the results of the analysis of disclosures in the financial statements:

- **Level 1:** Fair value is measured based on unadjusted quoted prices in an active market for identical assets or liabilities.
- **Level 2:** Fair value is based on inputs that are observable in nature (other than quoted prices used in level 1), for example, quoted prices for similar assets/ liabilities in an active market, interest rates or yield curves, or other market-corroborated inputs.
- **Level 3:** One or more inputs used for determining fair value is unobservable in nature, for example, historical volatility used as an input in an option pricing model or a swap rate calculated based on different yield curves in a long term currency swap.

71 per cent of the mutual funds that are fair valued are considered by companies to be Level 1 in the hierarchy. Mutual fund investments are generally valued based on their Net Asset Value (NAV) per unit. We believe careful assessment is required as to the volume of redemptions and subscriptions, extent to which subscriptions were received from new investors, ability to redeem the investment at NAV and the consistency with the principles of fair value as defined under Ind AS 113 in the determination of NAV.

In comparison to the hierarchical classification of mutual funds above, the classification of equity shares suggests that 73 per cent of quoted equity shares are not classified as Level 1 in the hierarchy but are instead included in Level 3.

Out of the aggregate absolute fair value of derivative contracts, 66 per cent of the derivatives are classified as Level 2 and 34 per cent at Level 3 suggesting that most of the entities have not transacted in exchange traded derivatives. Further, five per cent of the fair values represented those arising in respect of a cash flow hedges as the fair values are recognised in OCI.

Derivative and hedging

19 of the covered NBFCs have entered into derivatives to mitigate their exposure to financial risks and in certain cases for trading. The derivatives are generally in the nature of foreign currency forward contracts, option contracts, currency futures and interest rate swaps (INR as well as cross currency). 12 of these 19 companies have applied hedge accounting to their derivative exposures.

It is important to note that while most of the companies have entered into derivative transactions as part of their risk management policy to manage the interest rate and exchange rate risk, not all companies are choosing to apply the requirements of hedge accounting, partly on account of the stringent requirements in relation to hedge documentation and periodic assessment of hedge effectiveness.

Ind AS 107 requires detailed disclosures of derivatives used for hedging exposures and additional information where such derivatives are designated as hedges under Ind AS 109. We have observed that several companies have not provided sufficient disclosures related to their hedging transactions to the extent required by Ind AS 107 and to enable analysis of derivative transactions on an aggregated basis.

Separating the cost of hedging

Ind AS 109 permits companies to separate the costs of hedging, in the form of time value of options, forward element of forward exchange contracts or currency basis spreads in cross currency swaps, from a hedge relationship. One of the 12 companies that have applied hedge accounting principles, have elected to separate the cost of hedging from their designated hedging relationships.

Capital to Risk Weighted Asset Ratio (CRAR)

Capital to Risk (Weighted) Assets Ratio (CRAR) or Capital Adequacy Ratio is the ratio of a company's capital to its risks. The Capital Adequacy Ratio is calculated by dividing a NBFC's capital by its risk-weighted assets. The capital of the NBFCs used to calculate the capital adequacy ratio is divided into two tiers i.e. Tier 1 and Tier 2.

CRAR is a crucial indicator, as it ensures NBFCs have enough capital to absorb losses. Also, CRAR is important for regulators to determine capital adequacy for the entity.

Out of the total of 48 companies covered by us in the analysis, reporting on capital adequacy was applicable to 40 companies. 52.5 per cent of these 40 companies did not report a change in the capital adequacy ratios for the year ended 31 March 2018 presented in the Ind AS financial statements as compared to the financial statements for the year ended 31 March 2018 under the erstwhile Indian GAAP. This suggests that there is a mixed practice adopted by companies with respect to the re-computation and presentation of the ratios for the comparative period. This trend is similar even if the equity listed companies and debt listed companies are analysed separately. 56 per cent of equity listed companies have not reported a change in the ratios in the 31 March 2019 Ind AS financial statements for the ratio pertaining to the year ended 31 March 2018 while that number was at 46.7per cent for debt listed companies.

Also, it is interesting to note, that at an aggregate level, the net worth under Ind AS as at 31 March 2018 has shown an increase when compared to the net worth under the erstwhile Indian GAAP as at 31 March 2018, only 15 per cent of the companies have reported an increase in the CRAR ratios.

Key audit matters reported by auditors

An analysis of the Key Audit Matters (KAMs) reported by the auditors in their audit opinions of NBFCs is summarised below.

KAM	Number of NBFCs
Measurement of ECL	39
Adoption of Ind AS/transition	32
Information technology systems/controls	25
Valuation of financial assets	12
Tax positions	4

Ind AS provides comprehensive disclosure requirements for NBFCs and HFCs to be provided in annual and interim financial statements. The analysis discussed in this chapter provides some of the trends for the financial services sector in relation to adoption of Ind AS. However, it can be expressed that quality of disclosures provided by NBFCs and HFCs are not as robust as expected. We expect that as the industry gains experience in applying the requirements of Ind AS, they would be able to appreciate the requirements and provide detailed disclosures.

The RBI lays down regulatory provisions relating to various aspects of operation of NBFCs/Asset Reconstruction Companies (ARCs) such as provisioning of loan exposures, maintenance of regulatory capital, etc. Ind AS prescribes accounting treatment in the financial statements of NBFCs/ARCs, of which certain provisions vary with the regulatory stipulations. Accordingly, NBFCs/ARCs required clarifications on certain aspects. Therefore, in this regard, RBI issued a circular on 13 March 2020 which provides regulatory guidance on Ind AS for NBFCs and ARCs. These guidelines focus on the need to ensure consistency in the application of the Ind AS in specific areas including asset classification and provisioning and provide clarifications on regulatory capital while applying Ind AS. These RBI guidelines are applicable to NBFCs and ARCs for preparing their financial statements for financial years 2019-20 and onwards.

Also refer to KPMG in India's First Notes: **RBI issues regulatory guidance on Ind AS for NBFC and ARC** dated 20 March 2020 for more insights on the topic.

Conclusion

Chapter 4

Regulatory updates

Relaxation for listed companies from compliances amid COVID-19

The Securities and Exchange Board of India (SEBI) through its various circulars has granted relaxations from certain provisions of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 (Listing Regulations) to accommodate the coronavirus (COVID-19) related concerns. Those are as follows:

- **Extension of timeline for various filings with the stock exchange:** SEBI has extended the timelines for various filings by the listed companies to the recognised stock exchanges under the Listing Regulations for the quarter and year ended 31 March 2020. These, *inter alia*, includes, extension of due date of filing quarterly/half-yearly/annual financial results by listed companies up to 30 June 2020.
- **Revised board/audit committee meeting norms:** The Board of Directors (BoD) and audit committee of listed companies have been exempted from observing the maximum stipulated time gap between two meetings (i.e. 120 days) for the meetings held or proposed to be held between the period 1 December 2019 and 30 June 2020. However, the BoD/audit committee should ensure that that they meet at least four times a year as stipulated under Regulation 17(2) and Regulation 18(2) of the Listing Regulations.
- **Revised timeline for AGMs and other meetings:** Currently, top 100 listed companies[1] are required to hold their Annual General Meetings (AGMs) within a period of five months from the date of closing of the financial year. Also, Nomination and Remuneration Committee (NRC), Stakeholders Relationship Committee (SRC) and Risk Management Committee (RMC) of listed companies are required to meet at least once a year.

  As per the relaxations provided, companies can hold their AGMs for financial year 2019-20 up to 30 September 2020 instead of 31 August 2020. Additionally, the timeline for NRC, SRC and RMC meetings has been extended up to 30 June 2020.
- **Publication of advertisements in newspaper:** Regulation 47 of the Listing Regulations requires listed companies to publish certain information in the newspaper which, *inter alia*, includes publication of financial results.

  As part of the relaxations, SEBI has exempted publication of advertisements in newspapers as required under Regulation 47 of the Listing Regulations for all events scheduled till 15 May 2020.

The provisions of the SEBI circulars are effective from 19 March 2020, 23 March 2020 and 26 March 2020 respectively.

(Source: SEBI circular no. SEBI/HO/CFD/CMD1/CIR/P/2020/38 dated 19 March 2020, circular no. SEBI/HO/DDHS/ON/P/2020/41 dated 23 March 2020 and circular no. SEBI/HO/CFD/CMD1/CIR/P/ 2020/48 dated 26 March 2020)

1. Based on market capitalisation as on 31 March of every financial year.

MCA eases board meeting norms up to 30 June 2020

Background

Currently, Section 173(2) of the Companies Act, 2013 (2013 Act) provides that the directors can participate in BoD meetings in person, through video conferencing or other audio-visual means in the prescribed manner.

However, Rule 4 of the Companies (Meetings of Board and its Powers) Rules, 2014 (Board meeting Rules) specify certain matters which cannot be considered in a meeting through video conferencing or other audio-visual means i.e. participation of directors in person is mandatory to discuss the matters. Those are as follows:

- Approval of the annual financial statements
- Approval of the board's report
- Approval of the prospectus
- Audit committee meetings for consideration of financial statements including consolidated financial statements, if any, to be approved by the BoD under Section 134(1) of the 2013 Act and
- Approval of the matter relating to amalgamation, merger, demerger, acquisition and takeover.

In case the required quorum[2] is present in a meeting to deal above matters through physical presence of directors, then any other director can participate through video conferencing or other audio-visual means.

New development

The Ministry of Corporate Affairs (MCA) has amended the Board meeting Rules, for the periods commencing from 19 March 2020[3] and ending on 30 June 2020, meetings to discuss the matters specified in Rule 4 of the Board meeting Rules (i.e. those relating to approval of financial statements, board's report, prospectus, etc.) can be held through video conferencing or other audio-visual means.

Further, companies are required to ensure compliance with the requirements specified for conducting meeting through video conferencing or other audio-visual means under Rule 3 of the Board meeting Rules.

The amendment to the Board meeting Rules is effective from 19 March 2020.

(Source: MCA notification dated 19 March 2020)

Special measures under the 2013 Act in view of COVID-19 outbreak

The MCA through a circular dated 24 March 2020 has considered certain special measures to address the impact of COVID-19. The key measures are as follows:

- No additional fee would be charged for late filing in respect of any document, return, statement, etc., required to be filed in the MCA-21 registry during a moratorium period from 1 April 2020 to 30 September 2020, irrespective of its due date.
- The maximum time gap between two board meetings have been extended to 180 days up to 30 September 2020 instead of 120 days as required under the 2013 Act.
- The Companies (Auditor's Report) Order, 2020 would be applicable from financial year 2020-21 instead of financial year 2019-2020.
- Currently, independent directors of a company are required to hold at least one meeting without attendance of non-independent directors and members of management under the 2013 Act.

  For the financial year 2019-20, if independent directors have not been able to hold this meeting, then it would not be considered as a violation of the provision. However, independent directors may share their views amongst themselves through telephone, e-mail or any other mode of communication, if they deem it to be necessary.
- The requirement to create deposit repayment reserve under Section 73(2)(c) of the 2013 Act amounting to 20 per cent of deposits maturing during the financial year 2020-21 before 30 April 2020 has been allowed to be complied with up to 30 June 2020.
- Currently, Section 149(3) of the 2013 Act requires every company to have at least one director who stays in India for a total period of not less than 182 days during the financial year. For the financial year 2019-20, if the company fails to ensure compliance with the requirement, it will not be treated as a non-compliance by companies.

(Source: MCA general circular no. 11/2020 dated 24 March 2020)

2. The quorum for every meeting of the BoD is as follows:
   - Listed companies: One-third of its total strength or three directors whichever is higher, including at least one independent director.
   - Other than listed companies: One-third of its total strength or two directors whichever is higher.

   Participation of the directors by video conferencing or by other audio-visual means would also be counted for the purposes of quorum.
3. Date of commencement of the Companies (Meetings of Board and its Powers) Amendment Rules, 2020.

Eligibility of CSR funds for COVID-19

The 2013 Act mandates that every company with a net worth of INR500 crore or more, turnover of INR1,000 crore or more or a net profit of INR5 crore or more during the immediately preceding financial year should contribute at least two per cent of its average net profits (made during the three immediately preceding financial years) for the purpose of Corporate Social Responsibility (CSR).

Further, Schedule VII of the 2013 Act provides the list of activities which are eligible for the CSR expenditure and can be included by companies in their CSR policies.

Clarification

MCA through a circular dated 23 March 2020 has clarified that spending of CSR funds for COVID-19 is an eligible CSR activity.

Accordingly, companies can now spend the funds earmarked for CSR for various activities related to COVID-19 as specified under Schedule VII of the 2013 Act i.e. those relating to promotion of healthcare, including preventive healthcare and sanitation and disaster management.

It has been further reiterated that activities specified under Schedule VII of the 2013 Act are broad-based and can be interpreted liberally for the purpose.

(Source: MCA general circular no. 10/2020 dated 23 March 2020)

MCA clarification on the liability of independent directors, non-promoters and non-KMP non-executive directors

The MCA through its circular dated 2 March 2020 provides a clarification on both the prosecution filed as well as internal adjudication proceedings initiated by the Registrar of Companies (ROC) against Independent Directors (IDs), non-promoter and non- Key Managerial Personnel (KMP) Non-Executive Directors (NEDs).

As per the circular:

- Civil or criminal proceedings should not unnecessarily be initiated against IDs or NEDs (non- promoters and non-KMP) unless sufficient evidence exists against them, and
- ROCs are required to follow a standard operating procedure, as prescribed by MCA while initiating proceedings against 'officers in default'.

For a detailed read, please refer to KPMG in India's First Notes on 'MCA provides clarification on the liability of independent directors, non-promoters and non-KMP non-executive directors' dated 17 March 2020.

(Source: MCA general circular No.1/2020 dated 2 March 2020)

Revised norms for data bank of independent directors

Background

On 22 October 2019, the MCA issued certain notifications relating to the creation and maintenance of the data bank for independent directors. As per the notified provisions, every individual who has been appointed or willing to be appointed as an independent director in a company is required to apply online to the Indian Institute of Corporate Affairs (institute) for inclusion of his/her name in the data bank maintained by the institute within the prescribed timeline.

Additionally, an individual whose name has been included in the data bank is required to pass an online proficiency self-assessment test conducted by the institute within a period of one year from the date of inclusion of his/her name in the data bank, unless exempt from passing the test.

New development

Recently, MCA through its notification made amendments to the above-mentioned provisions. As per the revised provisions:

- **Timeline for enrolment in the data bank:** Following persons should apply online to the institute for inclusion of their names in the data bank for a period of one year, five years or for their life time:

a. *Every individual who has been appointed as an independent director in a company as on 1 December 2019:* Within a period of **five months** (earlier three months) from 1 December 2019 i.e. up to 30 April 2020 and

b. *Every individual who intends to get appointed as an independent director in a company after 1 December 2019:* Before his/her appointment.

(Emphasis added to highlight the change)

- **Persons exempt from online proficiency test:** An individual will not be required to pass the online proficiency test in case, he/she has served for a period of 10 years or more as on the date of inclusion of his/her name in the data bank as a director or a KMP in the following companies:

  a. A listed public company

  b. An unlisted public company with a paid-up share capital of INR10 crore or more

  c. Body corporate listed on a recognised stock exchange.

  (Emphasis added to highlight the change)

The amendments are effective from 2 March 2020.

(Source: MCA notification no. G.S.R 145(E) dated 28 February 2020)

RBI guidelines on Ind AS implementation by NBFCs and ARCs

On 13 March 2020, the Reserve Bank of India (RBI) issued a notification providing regulatory guidance on implementation of Indian Accounting Standards (Ind AS) (RBI guidelines) by Non-Banking Financial Companies (NBFCs) and Asset Reconstruction Companies (ARCs) while preparing their financial statements for financial year 2019-20 and onwards.

Some of the key features of the guidelines are as follows:

- **Business model assessment:** Considering the criticality of the nature of business model in determining classification of financial assets and restrictions in subsequent reclassifications, NBFCs/ARCs are advised to:

  a. Put in place board of directors approved policies that clearly articulate and document their business models and portfolios

  b. Articulate the objectives for managing each portfolio and

  c. Frame policies for sales out of amortised cost business model portfolios and disclose the same in notes to financial statements.

- **Expected Credit Loss (ECL) model:** The RBI guidelines prescribe that the BoD should approve sound methodologies for computation of ECL. The methodology so approved should define the policies, procedures and controls for assessing and measuring credit risk on all lending exposures. The parameters and assumptions considered for computing ECL, as well as their sensitivity to the ECL output should be documented.

- **Prudential floor for ECL:** While NBFCs/ARCs are required to compute and record impairment allowances in accordance with Ind AS 109, *Financial Instruments*, they should simultaneously maintain asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP).

  A comparison between the provisions required under the IRACP and the impairment allowance computed as per Ind AS 109 should be disclosed in the notes to the financial statements in the prescribed format annexed to the notification.

- **Computation of regulatory capital and ratios:** The RBI also provides detailed guidance for determining owned funds, net owned funds and regulatory capital of NBFCs and ARCs. Regulatory ratios, limits and disclosures should be based on Ind AS figures. Impaired and restructured assets should be considered as Non-Performing Assets (NPA) for calculation of NPA ratios.

For a detailed read, please refer to KPMG in India's First Notes on 'The Reserve Bank of India issues regulatory guidance on Ind AS for NBFCs and ARCs' dated 20 March 2020.

(Source: RBI notification no. RBI/2019-20/170 dated 13 March 2020)

Extension of last date of filing Form NFRA-2

An auditor of a company and a body corporate covered under National Financial Reporting Authority (NFRA) Rules, 2018 is required to furnish an annual return (in Form NFRA-2) with the NFRA.

On 5 March 2020, MCA through a circular clarified that the time limit for filing Form NFRA-2 for the financial year 2018-19 will be 150 days from the date of deployment of the form on the website of NFRA. The form has been deployed on 9 December 2019 on the NFRA website.

(Source: MCA general circular No.7/2020 dated 5 March 2020)

IRDAI constituted a 'Committee on Corporate Governance Guidelines' for insurance companies in India

Currently, insurance companies in India are required to follow Corporate Governance Guidelines (guidelines) issued by the Insurance Regulatory and Development Authority of India (IRDAI) in 2016.

On 19 March 2020, the IRDAI through an order constituted a committee to review and suggest changes in the existing guidelines on corporate governance considering relevant Insurance Core Principles (ICPs) and application papers of International Association of Insurance Supervisors (IAIS) on governance and control functions.

The committee is required to submit its report to IRDAI within a period of three months from the date of the order.

(Source: IRDAI Ref: IRDA/F&A/ORD/CG/069/03/20 Order dated 19 March 2020)

IASB defers effective date of IFRS 17

The International Accounting and Standards Board (IASB) has recently decided to defer the effective date of International Financial Reporting Standard (IFRS) 17, *Insurance Contracts* to annual reporting periods beginning on or after 1 January 2023 (earlier was applicable from 1 January 2021). The exemption from application of IFRS 9, *Financial Instruments* granted to insurers meeting certain criteria will continue.

Further, the IASB expects to issue the amendments to IFRS 17 in the second quarter of 2020.

(Source: IASB announcement dated 17 March 2020)

ICAI issues an accounting advisory on impact of coronavirus on financial reporting

On 27 March 2020, the Institute of Chartered Accountants of India (ICAI) has issued an accounting and auditing advisory which addresses the key impacts of coronavirus on financial reporting for the year ending 31 March 2020.

(Source: ICAI announcement dated 27 March 2020)

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.

First Notes

COVID-19: Potential impact on financial reporting

24 March 2020

The rapid outbreak of the coronavirus (COVID-19) presents an alarming health crisis that the world is grappling with. The impacts of the COVID-19 pandemic are unfolding in real time. The COVID-19 outbreak has already had a significant effect on the economies of affected countries and international financial markets. As the companies in India approach their year-end, there is an urgent need to evaluate the impacts of the outbreak on their accounting and financial reporting.

The financial reporting impacts of the COVID -19 outbreak will depend on facts and circumstances, including the degree to which a company's operations are exposed to the impacts of the outbreak.

This issue of First Notes discusses key accounting and financial reporting impacts of COVID-19 to be considered by companies.

Voices on Reporting

KPMG in India is pleased to present Voices on Reporting (VOR) - a series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting

KPMG in India has scheduled a special session of VOR webinar on 3 April 2020 to discuss potential financial reporting implications in view of COVID-19 outbreak.

For registration details, please click **here**.

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