PwC ReportingPerspectives
July 2017

Click to launch

Editorial

We are pleased to bring you our quarterly newsletter covering the latest developments in financial reporting as well as other regulatory updates.

Ind AS 111, 'Joint arrangements', sets out principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). There are two types of joint arrangements: joint operations and joint ventures. Classification into either category depends on the investor's rights and obligations. Joint operators have rights to assets and obligations for liabilities, and joint venturers have rights to net assets. The two result in very different models of accounting for such arrangements. We have included the key requirements of Ind AS 111 relating to the classification and accounting of joint arrangements in this edition.

On 7 June 2017, the International Financial Reporting Standards (IFRS) Interpretations Committee (IFRS IC) issued IFRIC 23, which clarifies how the recognition and measurement requirements of International Accounting Standard (IAS) 12, 'Income taxes', are applied where there is uncertainty over income tax treatments. The Interpretation provides specific guidance on several areas where previously IAS 12 was silent. This edition includes the guidance provided by IFRIC 23 on how to determine the unit of account and recognition and measurement principles to be applied to that unit.

The Institute of Chartered Accountants of India (ICAI) formed the Ind AS Transition Facilitation Group (ITFG), which issued its eighth, ninth and tenth bulletin addressing certain issues related to the applicability and/or implementation of Ind AS. Further, the ITFG also revised its fifth bulletin and issued revised clarifications on certain issues. The group also withdrew its two previous clarifications. This edition summarises these ITFG clarifications, many of which provide implementation guidance on some very important matters having a wide-ranging impact.

On 18 May 2017, the International Accounting Standards Board (IASB) finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance contracts'. IFRS 17 replaces IFRS 4, 'Insurance contracts', which currently permits a wide variety of practices. IFRS 17 will have a significant impact on insurers that goes well beyond financial, actuarial and systems development areas. IFRS 17 will fundamentally change the accounting practices followed by all entities that issue insurance and investment contracts with discretionary participation features. We have covered the key concepts of IFRS 17 in this edition.

Finally, we have summarised other Indian as well as global regulatory updates.

We hope you find this newsletter informative and of continued interest.

We welcome your feedback at pwc.update@in.pwc.com

Under Ind AS, the accounting for joint arrangements is largely addressed in Ind AS 111, 'Joint arrangements'. The guidance in Ind AS 111 primarily focuses on the classification of joint arrangements, providing definitions for joint control and types of arrangements.

A joint arrangement is a contractual arrangement where at least two parties agree to share control over the activities of the arrangement. Unanimous consent towards decisions about relevant activities between the parties sharing control is a requirement in order to meet the definition of joint control.

Joint arrangements can be joint operations or joint ventures. The classificationis principle based and depends on the parties' exposure in relation to the arrangement.

This article presents the key requirements of Ind AS 111 on the classification and accounting of joint arrangements.

The principle-based approach of Ind AS 111 seeks to provide investors with greater clarity about an entity's involvement in joint arrangements by requiring the entity to recognise the contractual rights and obligations arising from the joint arrangement in which it participates.

The flow chart below summarises the classification and accounting of joint arrangements under Ind AS 111:

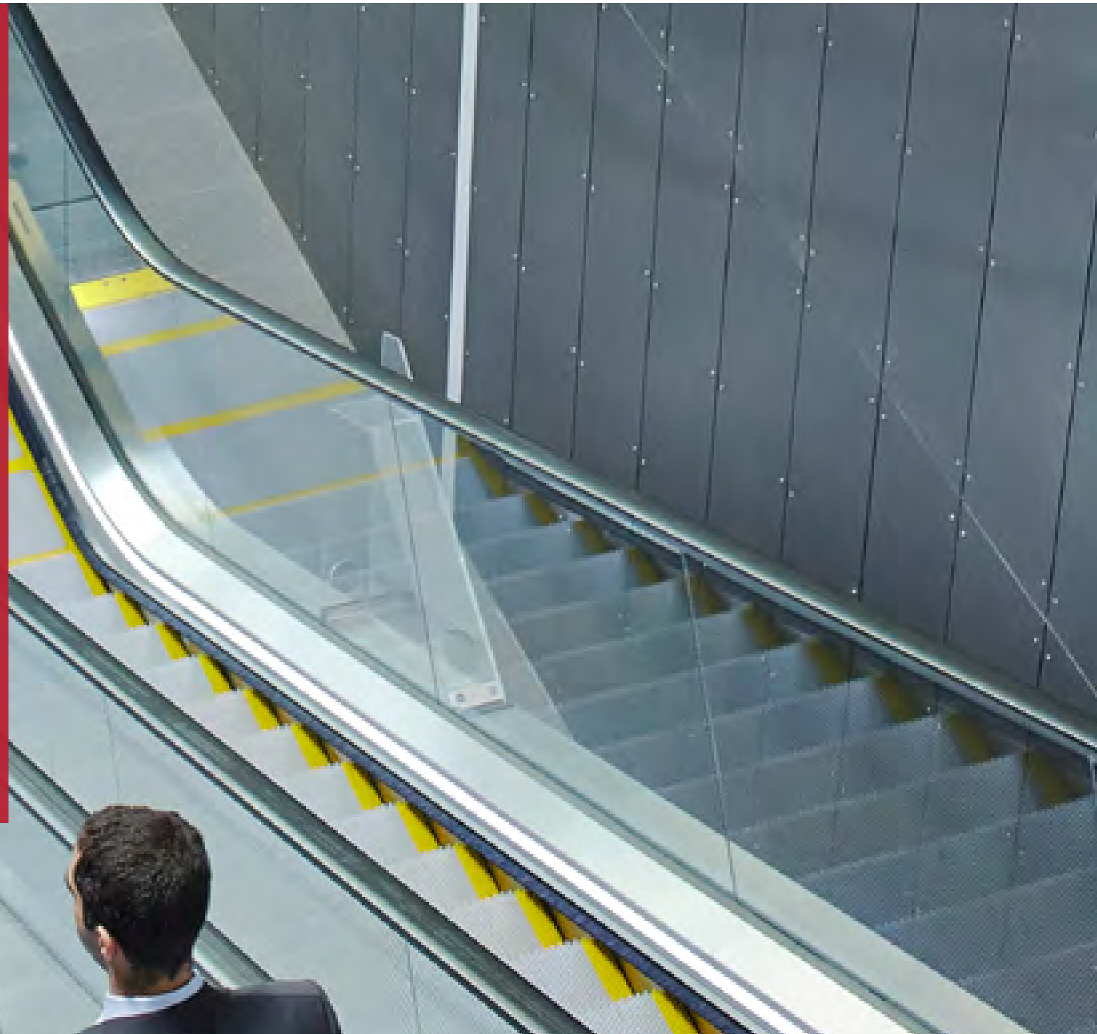
Joint arrangement
Joint control
over relevant activities

Joint operation
Rights to assets and obligations for liabilities

Accounting: Recognising an operator's relevant share of assets, liabilities, revenues and expenses

Joint venture
Right over net asset

Accounting: Equity accounting



Determining the classification of joint arrangements can be set out as a four-step process, as shown below:

Step 1

Is the joint arrangement structured through a separate vehicle?

No → Joint operation

Yes ↓

Step 2

Does the legal form of the separate vehicle confer upon the parties direct rights to assets and obligations for liabilities relating to the arrangement?

Yes → Joint operation

No ↓

Step 3

Do the contractual terms between the parties confer upon them rights to assets and obligations for liabilities relating to the arrangement?

Yes → Joint operation

No ↓

Step 4

Do other facts and circumstances lead to rights to assets and obligations for liabilities being conferred upon the parties to the arrangement?

Yes → Joint operation

No ↓

Joint venture

Let us look at each of the four steps in detail below:

Step 1

Is the joint arrangement structured through a separate vehicle?

A separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality.

The most common forms of vehicles used to structure joint arrangements are limited liability companies, partnerships, corporations, associations and trusts. Each of these is a separately identifiable financial structure, having separately identifiable assets, liabilities, revenues, expenses, financial arrangements and financial records, and would be a separate vehicle.

The definition of a 'separate vehicle' in the standard is, however, quite broad. The separate vehicle does not necessarily need to have a legal personality. A contractual arrangement between two parties may also create a separate vehicle, although this is expected to occur infrequently.

Applicable laws and regulations should be considered before determining whether a particular structure meets the definition of a 'separate vehicle'.

Joint arrangements not structured through a separate vehicle

An arrangement that is not structured through a separate vehicle is a joint operation. The parties in the joint arrangement determine the rights to the assets and obligations for the liabilities among the parties. Much upstream activity in the oil and gas industry, for example, takes place in undivided interest working arrangements where the parties share joint control, fund development and operations, and take away their share of the production.

Joint arrangements structured through a separate vehicle

A joint arrangement that is structured through a separate vehicle is either a joint venture or a joint operation depending on the parties' rights and obligations relating to the arrangement.

The parties need to assess whether the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, any other facts and circumstances give them:

a. rights to the assets and obligations for the liabilities relating to the arrangement (that is, joint operation); or

b. rights to net assets of the arrangement (that is, joint venture).

Step 2

Does the legal form of the separate vehicle confer upon the parties direct rights to assets and obligations for liabilities relating to the arrangement?

The second step in determining the classification is to assess the rights and obligations arising from the legal form of the separate vehicle.

Joint arrangements are established through many different legal structures, including limited liability companies, unlimited liability companies, limited liability partnerships, general partnerships and unincorporated entities. Each of these legal structures exposes the parties to a different set of rights and obligations.

If the legal structure is such that the parties have rights to assets and are obligated for the liabilities, it is a joint operation because the legal entity does not create separation between the parties and the arrangement. The relevant laws and regulations need to be carefully assessed. Many partnerships, for example, are designed to allow the partners direct access to the assets, impose unlimited liability for obligations and allow for flow through of tax attributes. This type of separate vehicle does not create separation between the participants and the arrangement.

The key question is, can the separate vehicle or legal entity be considered in its own right—that is, are the assets and liabilities held in the separate vehicle those of the separate vehicle, or are they the assets and liabilities of the parties?

Partnerships, in many cases, do not create separation, as the partners are exposed to the liabilities and have rights to the assets of the partnership in the normal course of business. Generally, a limited liability partnership (LLP) may create separation where the partners are not obligated for the liabilities of the LLP and the assets of the LLP are its own assets. In this regard, the relevant provisions of partnership law and partnership deed should be considered.

Limited liability companies will create separation between the parties to the joint arrangement and the assets and liabilities of the arrangement. The creditors of the arrangement do not have a right to claim against the parties for unpaid debts.

Associations, trusts or specific types of corporation are other forms of legal entity used to establish joint arrangements. The rights and obligations arising from these structures vary significantly depending on jurisdictional laws and regulations. These should be assessed based on the specific facts and circumstances.

A separate vehicle that does not allow the parties rights to assets and obligations for liabilities relating to the arrangement indicates that the arrangement is a joint venture. However, the contractual terms between the parties and, when relevant, other facts and circumstances can override the legal form.

Step 3

Do the contractual terms between the parties confer upon them rights to assets and obligations for liabilities relating to the arrangement?

The rights and obligations agreed to by the parties in their contractual terms are normally consistent with the rights and obligations conferred on the parties by the legal form of the separate vehicle. The selection of a particular legal form is usually driven by the intended economic substance that the particular legal form delivers.

However, the parties to a joint arrangement may choose a particular legal form to respond to tax or regulatory requirements, or for other reasons. This may not be consistent with the economic substance sought by the parties to the arrangement. The parties might then enter into contractual arrangements that modify the legal form of the arrangement and create different rights and obligations. If the contractual terms give the parties rights to assets and obligations for liabilities, the arrangement is a joint operation.

The assessment of rights and obligations should be carried out as they exist in the 'normal course of business'. Legal rights and obligations arising in circumstances that are other than in the 'normal course of business', such as liquidation and bankruptcy, are much less relevant.

Assessment	Indicators in contractual arrangements – joint operations	Indicators in contractual arrangements – joint ventures
Rights to assets	The parties share all interests (for example, rights, title or ownership) in the assets in a specified proportion—either in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement.	The assets and rights owned by the arrangement are those of the arrangement; the parties do not have any direct interests in the title or ownership of these assets.
Obligations for liabilities	The parties share all liabilities, obligations, costs and expenses in a specified proportion as in the case of rights to assets.	The contractual terms establish that the arrangement is liable for the debts and obligations of the arrangement and that the parties are only liable to the extent of unpaid capital. Further, the creditors of the joint arrangement do not have rights of recourse against the parties.
Revenues and expenses	The contractual arrangement usually establishes the allocation of revenues and expenses on the basis of the relative contribution or consumption of each party to the joint arrangement. For example, the contractual arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement.	The parties share in the net cash flows and net profits of the arrangement in proportion to their shareholding.

Do the contractual terms between the parties confer upon them rights to assets and obligations for liabilities relating to the arrangement?

The rights and obli
contractual terms a
obligations conferr
separate vehicle. T
usually driven by t
particular legal for

However, the parti
particular legal for
or for other reason
substance sought b
might then enter ir
legal form of the ar
obligations. If the c
and obligations for

The assessment of
as they exist in the
obligations arising
'normal course of b
are much less relev

Assessment	Indicators in contractual arrangements – joint operations	Indicators in contractual arrangements – joint ventures
Rights to assets	The parties share all interests (for example, rights, title or ownership) in the assets in a specified proportion—either in proportion to the parties' ownership interest in the arrangement or in proportion to the activity carried out through the arrangement.	The assets and rights owned by the arrangement are those of the arrangement; the parties do not have any direct interests in the title or ownership of these assets.
Obligations for liabilities	The parties share all liabilities, obligations, costs and expenses in a specified proportion as in the case of rights to assets.	The contractual terms establish that the arrangement is liable for the debts and obligations of the arrangement and that the parties are only liable to the extent of unpaid capital. Further, the creditors of the joint arrangement do not have rights of recourse against the parties.
Revenues and expenses	The contractual arrangement usually establishes the allocation of revenues and expenses on the basis of the relative contribution or consumption of each party to the joint arrangement. For example, the contractual arrangement might establish that revenues and expenses are allocated on the basis of the capacity that each party uses in a plant operated jointly, which could differ from their ownership interest in the joint arrangement.	The parties share in the net cash flows and net profits of the arrangement in proportion to their shareholding.

Step 3

How are guarantees issued by the parties considered in determining the classification of a joint arrangement?

Parties to joint arrangements may provide guarantees to third parties on behalf of the arrangement. This may be necessary in order to obtain financing or during the construction or development stages of a project. Does the provision of such guarantees (or commitment by the parties to pay in case the arrangement fails to pay or meet its obligations) indicate that the parties have direct obligations for the liabilities of the arrangement?

Rights and obligations are assessed, as they exist in the normal course of business. It is not appropriate to assume that the arrangement will not settle its obligations and that a guarantee will be called, as this would not be in the 'normal course of business'.

The provision of guarantees or commitments for funding are therefore not conclusive in determining classification, although these may be indicative of the willingness of the parties to the arrangement to fund the obligations of the arrangement and the dependence of the arrangement on the parties for cash flows.

Step 4

Do ‘other facts and circumstances’ lead to rights to assets and obligations for liabilities being conferred upon the parties to the arrangement?

Assessing ‘other facts and circumstances’ includes consideration of the purpose and design of the arrangement, its relationship to the parties and its source of cash flows. An arrangement designed primarily for the provision of output to the parties may indicate that the objective of the parties was to have direct access to the assets of the arrangement. The parties may be obligated to purchase or take all of the output of the joint arrangement. The purchase and sale agreements, off-take arrangements or cash calls may indicate that the parties are the sole source of cash flows for the joint arrangement.

The effect of an arrangement with such a design is that the liabilities incurred by the arrangement are in substance satisfied by the cash flows received from the parties and the parties are the only source of cash flows for the continuity of the arrangement’s operations. This is indicative of a joint operation.

Considerations when assessing ‘other facts and circumstances’

Some or all of the following characteristics might indicate that a joint arrangement in a legal entity should be classified as a joint operation:

1. The joint arrangement may be prohibited from selling any of its output to third parties.
2. The parties have uninterrupted access to the output.
3. There is likely to be a binding obligation on the parties to purchase substantially all of the output.
4. The demand, inventory and credit risks relating to the activities of the arrangement are passed on to the parties and do not rest with the arrangement.
5. The output or services are priced to cover the costs of the arrangement and not expected to generate significant net income.
6. The arrangement is unlikely to have any third-party borrowings without guarantees or take-or-pay arrangements with the parties.

Step 4

The table below considers how ‘other facts and circumstances’ might affect the classification in the two scenarios where joint control exists and there is a legal entity that creates separation between the parties and the joint arrangement.

No.	Scenario	Classification	Analysis
1	The arrangement manufactures car seats. Both parties are in the business of assembly and sale of cars. Both are obligated to take output in proportion to their shareholdings. The price of the seats is set by the parties at such a level that the arrangement operates at break-even. The arrangement is prohibited from selling the seats to third parties.	Likely to be a joint operation	The design of the arrangement is to provide all of the output to the parties. It is dependent on the parties for its cash flows to ensure continuity of operations. The parties receive substantially all of the economic benefits from the assets of the arrangement.
2	Two parties set up an arrangement to manufacture a product. The product is sold to third parties. According to the contractual terms: a. All of the gross cash proceeds from revenue of the arrangement are transferred to the parties, on a monthly basis, in proportion to their shareholdings; and b. The parties agree to reimburse the arrangement for all of its costs in proportion to their shareholdings, based on cash calls.	Likely to be a joint venture	The purpose and design of the arrangement is not to provide all of the output to the parties. The arrangement is selling the product to third parties and generating its own cash flows. Transferring gross proceeds of revenues to the parties and making cash calls for incurring its costs do not indicate that the parties have rights to assets and obligations for liabilities of the arrangement. These are merely funding mechanisms and are no different from the parties having an interest in the net results of the arrangement.

Step 4

The table below considers how 'other facts and circumstances' might affect the classification in the two scenarios where joint control exists and there is a legal entity that creates separation between the parties and the joint arrangement.

No.	Scenario	Classification	Analysis
1	The arrangement manufactures car seats. Both parties are in the business of assembly and sale of cars. Both are obligated to take output in proportion to their shareholdings. The price of the seats is set by the parties at such a level that the arrangement operates at break-even. The arrangement is prohibited from selling the seats to third parties.	Likely to be a joint operation	The design of the arrangement is to provide all of the output to the parties. It is dependent on the parties for its cash flows to ensure continuity of operations. The parties receive substantially all of the economic benefits from the assets of the arrangement.
2	Two parties set up an arrangement to manufacture a product. The product is sold to third parties. According to the contractual terms: a. All of the gross cash proceeds from revenue of the arrangement are transferred to the parties, on a monthly basis, in proportion to their shareholdings; and b. The parties agree to reimburse the arrangement for all of its costs in proportion to their shareholdings, based on cash calls.	Likely to be a joint venture	The purpose and design of the arrangement is not to provide all of the output to the parties. The arrangement is selling the product to third parties and generating its own cash flows. Transferring gross proceeds of revenues to the parties and making cash calls for incurring its costs do not indicate that the parties have rights to assets and obligations for liabilities of the arrangement. These are merely funding mechanisms and are no different from the parties having an interest in the net results of the arrangement.

Different joint arrangements or different types of joint arrangement can be established beneath the umbrella of a single framework agreement. One separate vehicle could conceivably include both a joint operation and a joint venture, although it would be rare in practice. This could occur when the parties undertake different activities in which they have different rights and obligations relating to the different activities. Management should take care when considering this approach and the inherent complexity and judgements in the eventual accounting, such as allocating the assets and liabilities between the parties.

One framework, two arrangements?

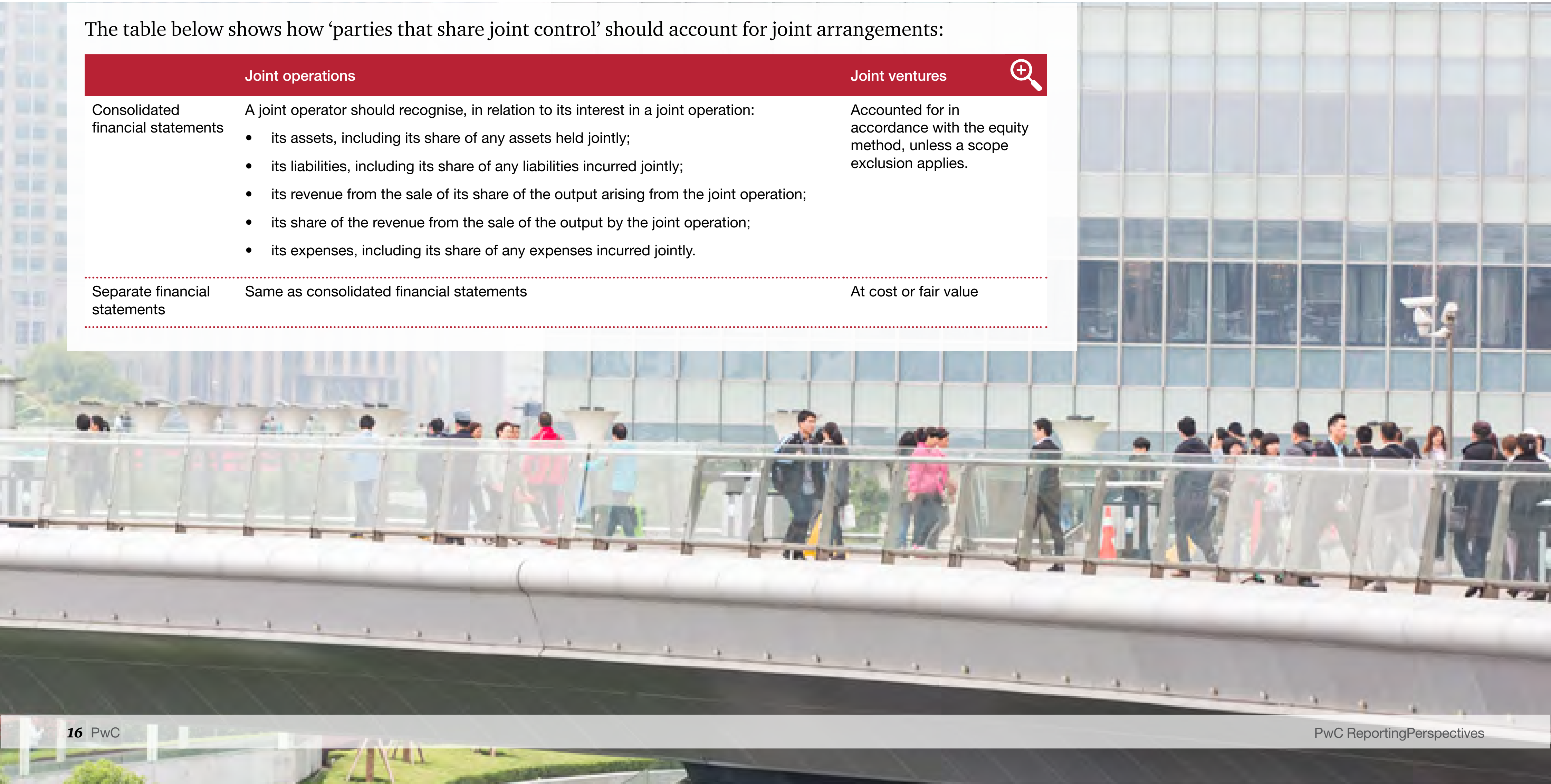
Three parties might establish joint control over a refinery in a legal entity. The three parties, A, B and C, have shareholdings of 35%, 35% and 30% respectively in the legal entity. A and B provide crude oil to the refinery and each is obligated to take 50% of the refined products. C operates the refinery and receives a management fee for its services. The refined products are priced such that the cash flows will cover operating expenses and sufficient cash to pay C's management fee. There may be a joint operation that encompasses the refining activity and refinery assets between A and B and a joint venture between A, B and C for the operations of the refinery.

The decision on classification is subject to continuous reassessment, and classification could change over time. The change could be an expected one, as different contractual arrangements are triggered as the activities of the arrangement change, or it could arise because the parties agree to changes to the existing contracts.

For example, a joint arrangement in the exploration and development phase may fund this phase though cash calls from the parties to the arrangement and therefore be classified as a joint operation. Once in production, the parties change the contractual terms and sell a substantial portion of the output to third parties, and the joint arrangement is no longer dependent on the parties for its cash flows; thus, the classification changes to joint venture.

The table below shows how ‘parties that share joint control’ should account for joint arrangements:

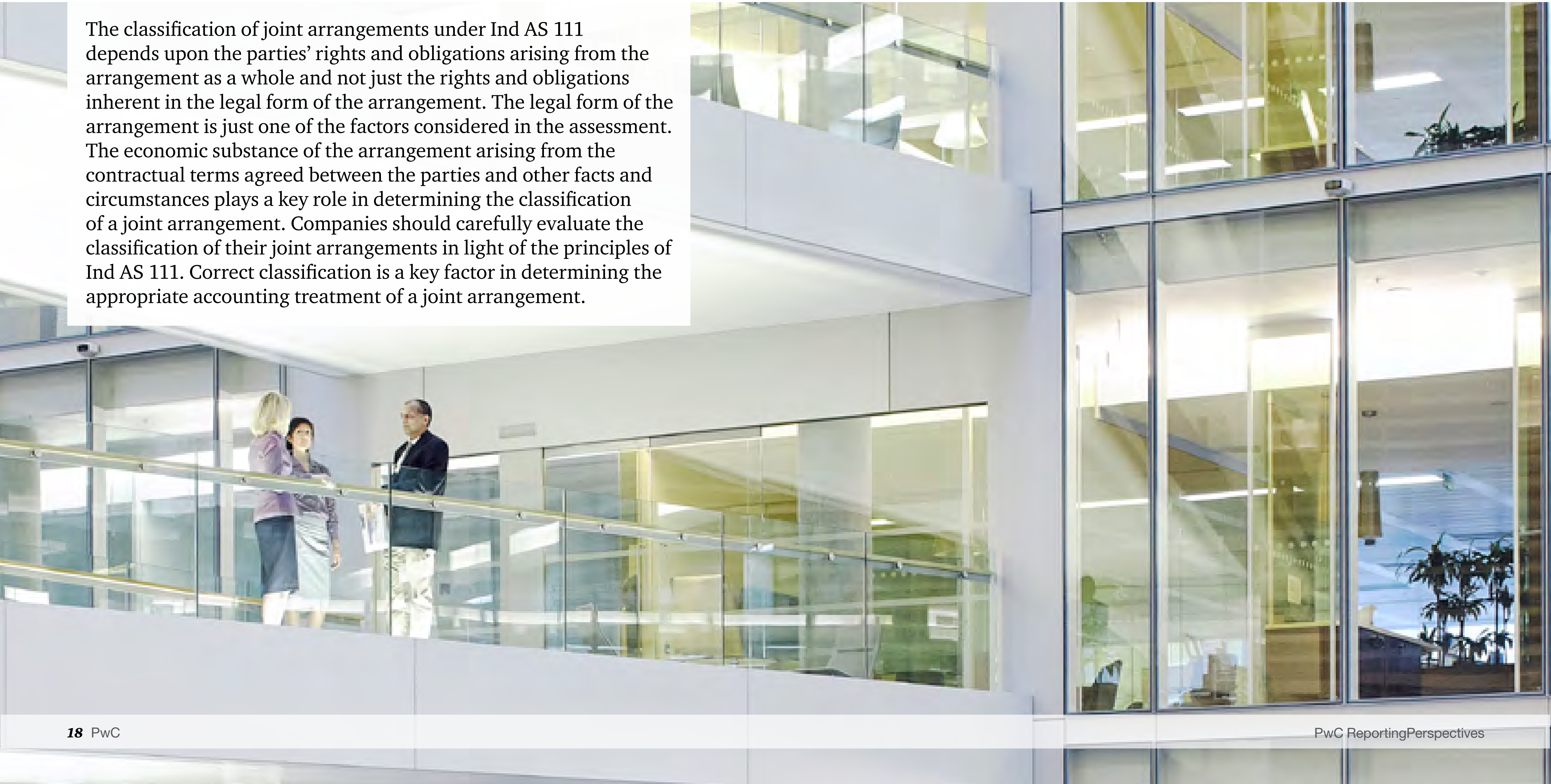
	Joint operations	Joint ventures
Consolidated financial statements	A joint operator should recognise, in relation to its interest in a joint operation: • its assets, including its share of any assets held jointly; • its liabilities, including its share of any liabilities incurred jointly; • its revenue from the sale of its share of the output arising from the joint operation; • its share of the revenue from the sale of the output by the joint operation; • its expenses, including its share of any expenses incurred jointly.	Accounted for in accordance with the equity method, unless a scope exclusion applies.
Separate financial statements	Same as consolidated financial statements	At cost or fair value



The table below shows how ‘parties that share joint control’ should account for joint arrangements:

	Joint operations	Joint ventures
Consolidated financial statements	A joint operator should recognise, in relation to its interest in a joint operation: • its assets, including its share of any assets held jointly; • its liabilities, including its share of any liabilities incurred jointly; • its revenue from the sale of its share of the output arising from the joint operation; • its share of the revenue from the sale of the output by the joint operation; • its expenses, including its share of any expenses incurred jointly.	Accounted for in accordance with the equity method, unless a scope exclusion applies.
Separate financial statements	Same as consolidated financial statements	At cost or fair value

The classification of joint arrangements under Ind AS 111 depends upon the parties' rights and obligations arising from the arrangement as a whole and not just the rights and obligations inherent in the legal form of the arrangement. The legal form of the arrangement is just one of the factors considered in the assessment. The economic substance of the arrangement arising from the contractual terms agreed between the parties and other facts and circumstances plays a key role in determining the classification of a joint arrangement. Companies should carefully evaluate the classification of their joint arrangements in light of the principles of Ind AS 111. Correct classification is a key factor in determining the appropriate accounting treatment of a joint arrangement.



On 7 June 2017, IFRS IC issued IFRIC 23 (the 'Interpretation'), which clarifies how the recognition and measurement requirements of IAS 12, 'Income taxes', are applied where there is uncertainty over income tax treatments.

Q&A

1 When does the Interpretation apply?

The IFRS IC had previously clarified that IAS 12, not IAS 37 ‘Provisions, contingent liabilities and contingent assets’, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax laws. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

2 What is the unit of account?

Each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The factors that an entity might consider to make this determination include:

- how it prepares and supports the tax treatment; and
- the approach that it expects the tax authority to take during an examination.

3 What should an entity assume about the examination of tax treatments by taxation authorities?

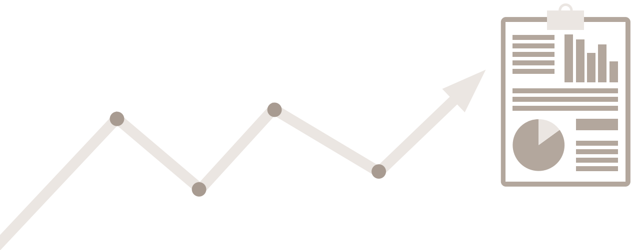
An entity is required to assume that a tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information. Detection risk is not considered in the recognition and measurement of uncertain tax treatments.

Detection risk is not considered; it is to be assumed that the tax authority will examine those uncertain tax treatments and have full knowledge of all related information.

Q&A

4 When should an entity account for any uncertain tax treatments?

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made (e.g. by recognising an additional tax liability or applying a higher tax rate).



5 How is the effect of uncertainty recognised?

The entity should measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (i.e. the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

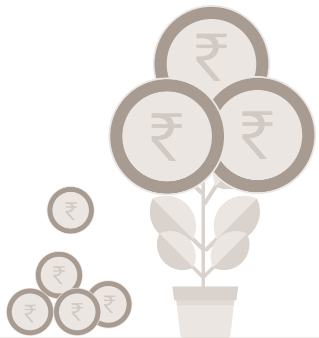
The most likely amount method might be appropriate if the possible outcomes are binary or are concentrated on one value. The expected value method might be appropriate if there is a range of possible outcomes that are neither binary nor concentrated on one value. Some uncertainties affect both current and deferred taxes (e.g. an uncertainty over the year in which an expense is deductible). IFRIC 23 requires consistent judgements and estimates to be applied to current and deferred taxes.

6 What about changes in circumstances?

The judgements and estimates made to recognise and measure the effect of uncertain tax treatments are reassessed whenever circumstances change or when there is new information that affects those judgements. New information might include actions by the tax authority, evidence that the tax authority has taken a particular position in connection with a similar item, or the expiry of the tax authority's right to examine a particular tax treatment. IFRIC 23 states specifically that the absence of any comment from the tax authority is unlikely to be, in isolation, a change in circumstances or new information that would lead to a change in estimate.

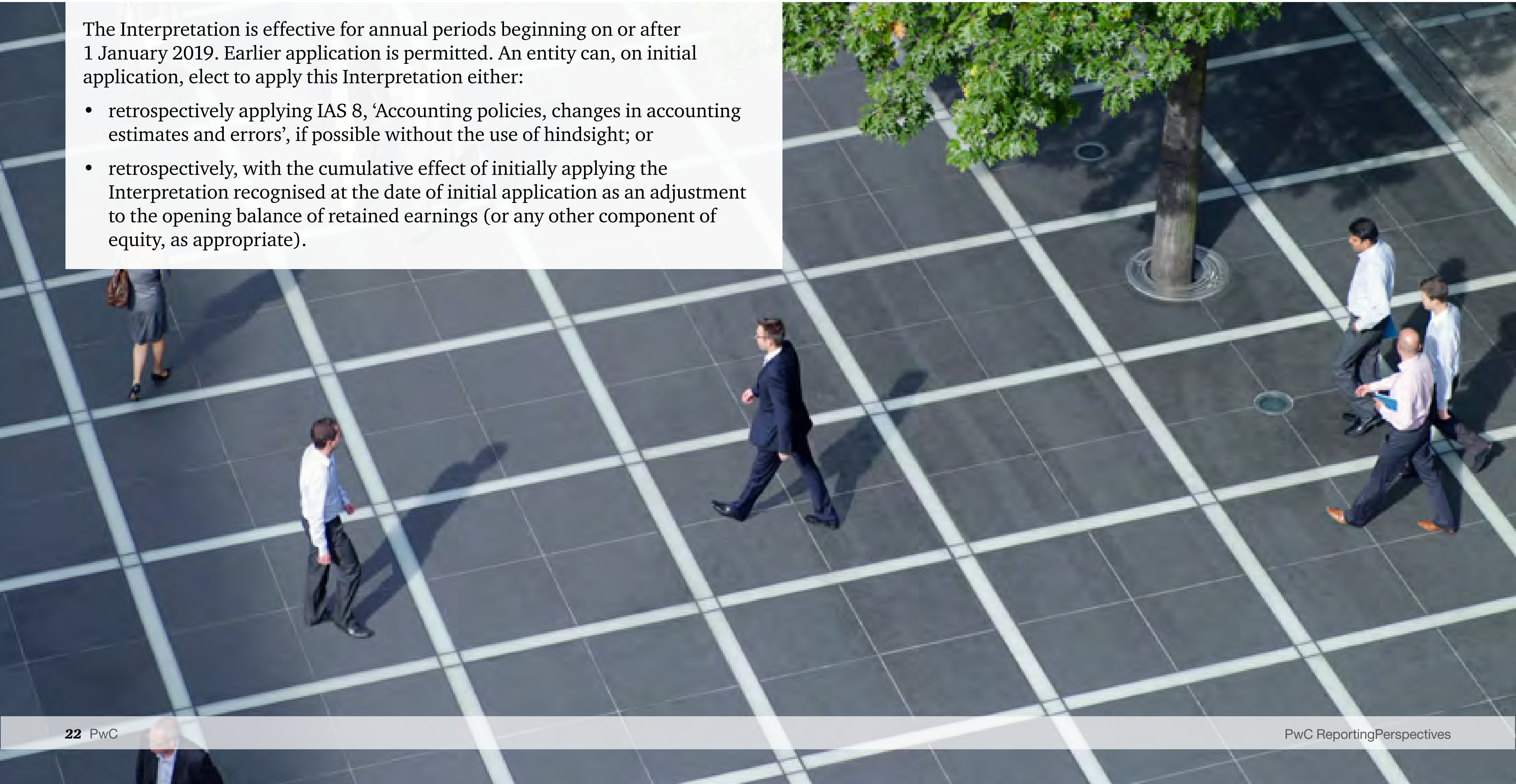
7 What about the disclosures?

There are no new disclosure requirements in IFRIC 23. However, entities are reminded of the need to disclose, in accordance with IAS 1, 'Presentation of financial statements', the judgements and estimates made in determining the uncertain tax treatment.



The Interpretation is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. An entity can, on initial application, elect to apply this Interpretation either:

- retrospectively applying IAS 8, 'Accounting policies, changes in accounting estimates and errors', if possible without the use of hindsight; or
- retrospectively, with the cumulative effect of initially applying the Interpretation recognised at the date of initial application as an adjustment to the opening balance of retained earnings (or any other component of equity, as appropriate).

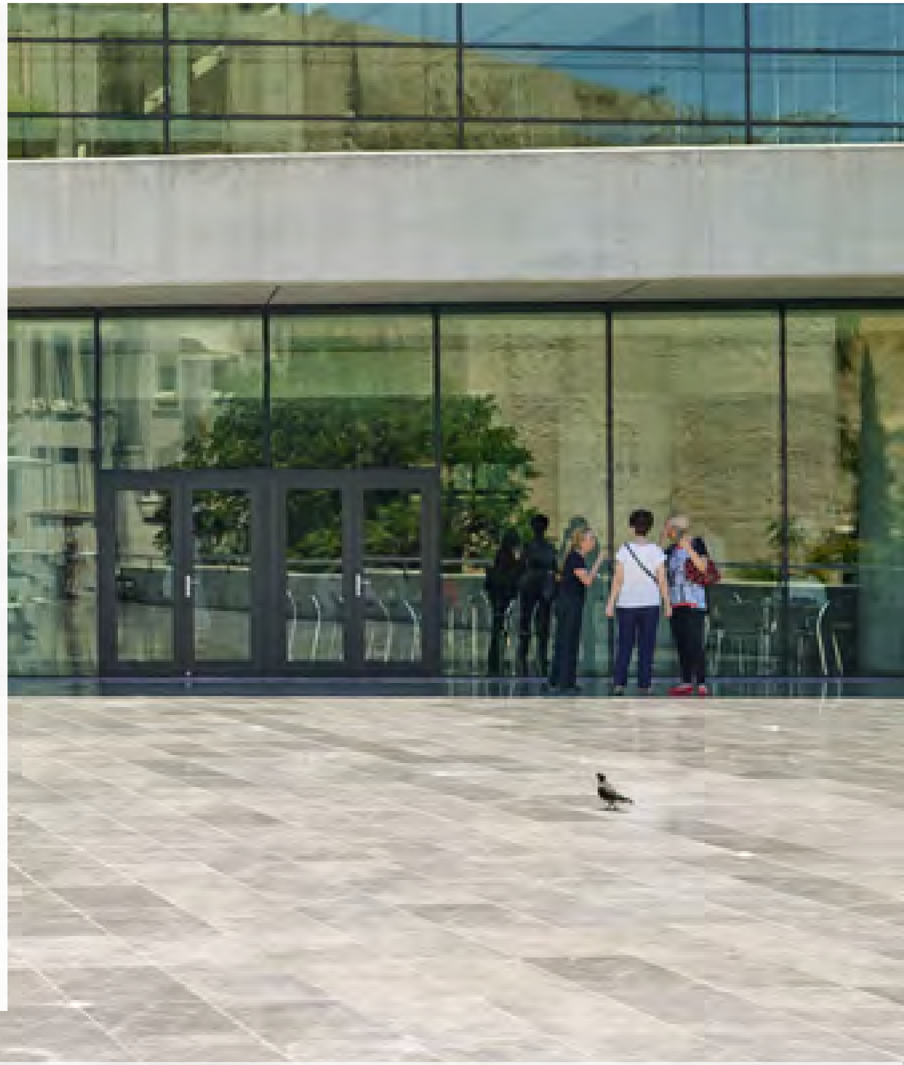


Accounting for uncertain tax positions is not specifically addressed within IFRS. IAS 37 excludes income taxes from its scope and is not used to measure uncertain tax positions. Currently, tax accounting follows the manner in which an entity expects the tax position to be resolved with the taxation authorities at the balance sheet date. Practice has developed such that uncertain tax positions may be evaluated at the level of individual uncertainty or group of related uncertainties. Alternatively, they are considered at the level of total tax liability for each tax authority. Acceptable methods by which to measure tax positions include (i) the expected value/probability-weighted-average approach and (ii) the single-best-most-likely-outcome method.

IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance on several areas where previously IAS 12 was silent. For example, the Interpretation specifies how to determine the unit of account and the recognition and measurement guidance to be applied to that unit. There is no specific guidance in IAS 12, and entities today might be using different models to determine the unit of account and measure the consequences of tax uncertainties. The Interpretation also explains when to reconsider the accounting for a tax uncertainty, and it states specifically that the absence of comment from the tax authority is unlikely, in isolation, to trigger a reassessment.

Most entities would have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

The committee rejected the suggestion of using the 'cumulative probability' approach where measuring uncertain tax treatments. This approach is used under US GAAP, but is more complex and is not found in any other IFRS or interpretation.



On 18 May, 2017, the International Accounting Standard Board (IASB) finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance contracts'. IFRS 17 replaces IFRS 4, 'Insurance contracts', which currently permits a wide variety of practices.

IFRS 17 will have a significant impact on insurers well beyond financial, actuarial and systems development areas. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The standard applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers', and IFRS 9, 'Financial instruments', are also applied.

As per the circular issued by Insurance Regulatory and Development Authority of India (IRDAI) dated 28 June 2017, issuers shall apply Ind AS from FY 2020–2021 in line with the effective date of IFRS 17.

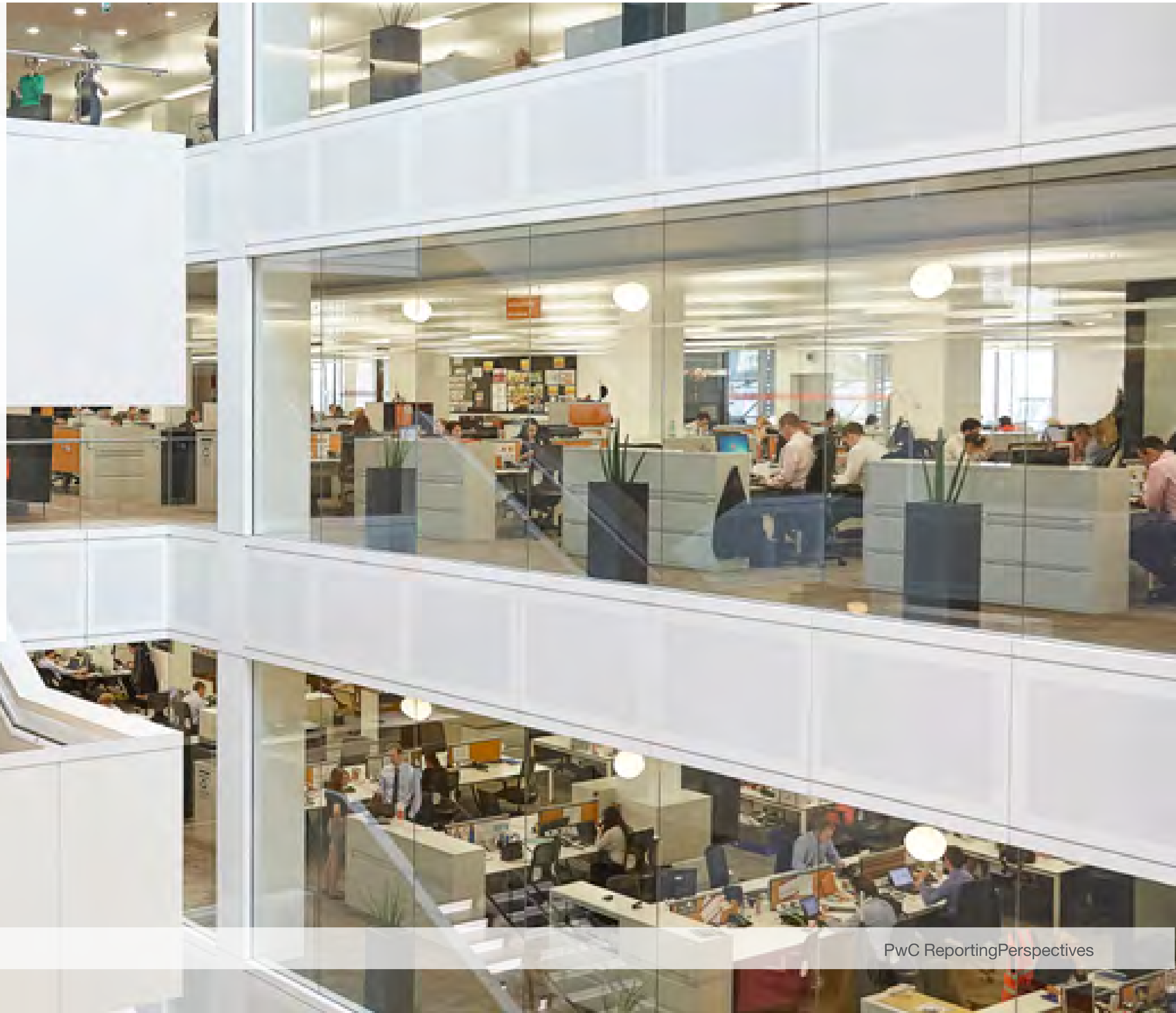
In this article, we summarise the key provisions of IFRS 17.

IFRS 17 will have a significant impact on insurers well beyond financial, actuarial and systems development areas. It will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Scope

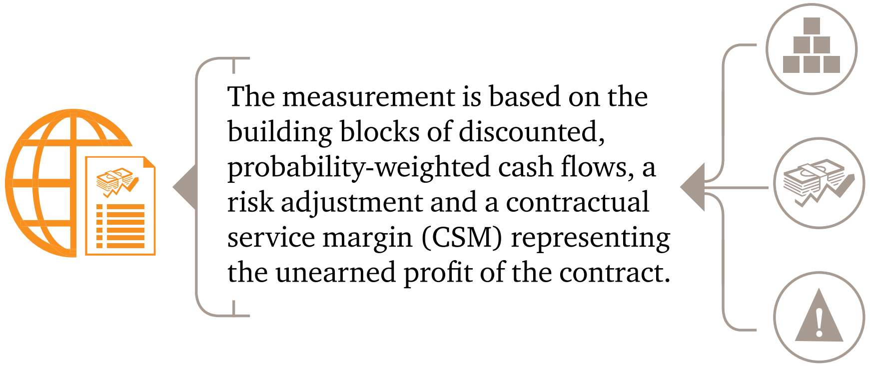
IFRS 17 applies to insurance contracts issued, to all reinsurance contracts, and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, entities have an accounting policy choice to account for them in accordance with either IFRS 17 or IFRS 15. Similar to the position under IFRS 4, financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity previously asserted explicitly that it regarded them as insurance contracts. Insurance contracts (other than reinsurance) where the entity is a policyholder are not within the scope of IFRS 17.

Embedded derivatives and distinct investment and service components should be “unbundled” and accounted for separately in accordance with the related IFRSs. Voluntary unbundling of other components is prohibited.



The measurement model

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability-weighted cash flows.



For presentation and measurement, entities are required at initial recognition to disaggregate a portfolio (i.e. contracts that are subject to similar risks and managed together as a single pool) into three groups of contracts: onerous, no significant risk of becoming onerous and remaining contracts. Contracts that are issued more than one year apart should not be in the same group.

Changes in cash flows related to future services should be recognised against the CSM. The CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss. Interest is accreted on the CSM at rates locked in at initial recognition of a contract. To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time.

Under IFRS 17, entities have an accounting policy choice to recognise the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income (OCI). The OCI option for insurance liabilities reduces some volatility in profit or loss for insurers where financial assets are measured at amortised cost or fair value through OCI under IFRS 9.

The variable-fee approach is required for insurance contracts that specify a link between payments to the policyholder and the returns on underlying items, such as some 'participating', 'with profits' and 'unit-linked' contracts. The interest on the CSM for such contracts is accreted implicitly by adjusting the CSM for the change in the variable fee. The variable fee represents the entity's share of the fair value of the underlying items less amounts payable to policyholders that do not vary based on the underlying items. The CSM is also adjusted for the time value of money and the effect of changes in financial risks not arising from underlying items such as options and guarantees.

The measurement model

Requirements in IFRS 17 align the presentation of revenue with that in other industries. Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components (i.e., amounts repaid to policyholders even if the insured event does not occur) are excluded from revenue and claims.

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts. The disclosure requirements are more detailed than currently required under IFRS 4.

On transition to IFRS 17, an entity applies IFRS 17 retrospectively to groups of insurance contracts, unless it is impracticable. In this case, the entity is permitted to choose between a modified retrospective approach and the fair value approach. In applying a modified retrospective approach, the entity achieves the closest outcome to retrospective application using reasonable and supportable information and choosing from a list of available simplifications. Alternatively, the CSM at transition can be based on fair value at transition. In practice, using different approaches to transition could result in significantly different outcomes that will drive profit recognised in future periods for contracts in force on transition.

Requirements in IFRS 17 align the presentation of revenue with other industries. Investment components, that is, amounts repaid to policyholders even if the insured event does not occur are excluded from revenue and claims.

Ind AS shall apply to insurers in India from FY 2020–2021 in line with applicability date of IFRS 17. IFRS 17 will impact insurers well beyond the finance, actuarial and systems development areas (e.g. product design and distribution, development of revised incentive and wider remuneration policies and reconfigured budgeting and forecasting methodologies feeding into business planning). Gap analysis and impact assessments to develop an implementation roadmap will enable insurers to begin the detailed implementation project. Insurers will need to carefully consider their 'IFRS 17 story' for investors and analysts, as well as the key metrics that they will apply in the new world.

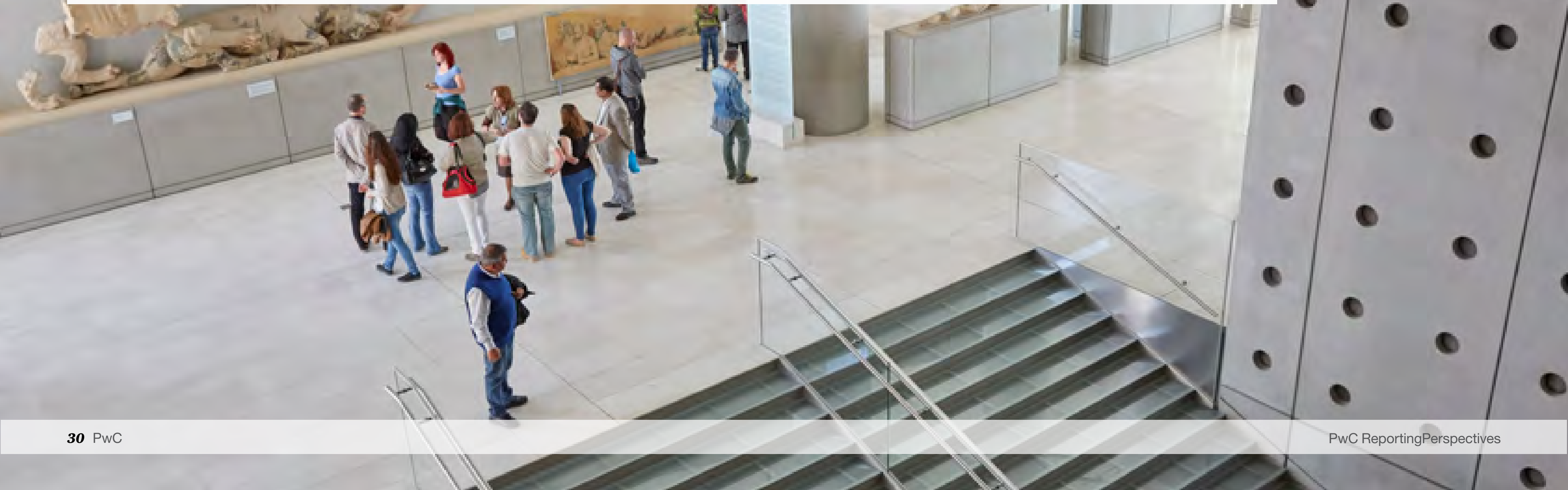
The Ind AS Transition Facilitation Group (ITFG) has been constituted for providing clarifications on a timely basis on various issues related to the applicability and/or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015, raised by preparers, users and other stakeholders. This section summarises the clarifications issued by the ITFG on Ind AS in its eighth, ninth and tenth bulletins and the issues withdrawn/reconsidered by the ITFG.

The clarifications from these bulletin provide implementation guidance on some very important matters and have a wide-ranging impact, including 1) accounting for dividend distribution tax in the consolidated financial statements, 2) accounting for common control merger transactions and 3) deemed cost of PP&E.

Issues withdrawn:

1. In its second bulletin, the ITFG clarified that in case a company has, in the past, utilised securities premium for providing for the premium payable on redemption of debentures and the debentures are outstanding on the date of transition to Ind AS, then such a company is required to retrospectively calculate the amortised cost of debentures from the date of its issue. To the extent the securities premium account was utilised in the past towards premium on redemption of debentures, the company should credit the securities premium account, with the corresponding debit to the relevant account which was credited earlier.

The Institute of Chartered Accountants of India (ICAI) recently issued a FAQ on a similar issue which replaces the above clarification issued by the ITFG. The guidance issued by the ICAI is largely consistent with the clarification issued by the ITFG, except the fact that the ITFG clarification required transition adjustment to be recognised in the securities premium account, whereas the ICAI FAQ requires it to be recognised in other equity under capital reserve. The ICAI FAQ is summarised below:



Question:

A company had issued non-convertible debentures redeemable at premium, which were outstanding as on 31 March 2015. The company has measured this financial liability at amortised cost in accordance with Ind AS 109, 'Financial instruments'. In the past, the company had utilised the securities premium account for providing for the debenture redemption premium payable and writing off debenture issue expenses in view of the requirements of section 78 of the Companies Act, 1956, and section 52 of the Companies Act, 2013 (such utilisation is not allowed once Ind AS becomes applicable).

As the amount of securities premium account had been utilised to provide for debenture redemption premium payable and to write off debenture issue expenses, what retrospective accounting adjustments in this regard are required to be done in the books under Ind AS on transition date?

Response:

Non-convertible debentures (financial liability) are classified as subsequently measured at amortised cost under Ind AS 109. Accordingly, the company will have to arrive at the amortised cost at the date of transition by applying the effective interest method (EIM) with retrospective effect from the date of issue of debentures. In view of the requirements of Ind AS 109, amortised cost computation using EIM includes all transaction costs that are directly attributable to the acquisition or issue of debentures, such as expenses incurred on issue of debentures and premiums and discounts, if any.

The use of the securities premium account under previous Indian GAAP, as described above, may result into a higher carrying amount of non-convertible debentures as per Indian GAAP compared to the amortised cost carrying amount required as per Ind AS 109 as on transition date. The excess amount needs to be reversed into an appropriate component of equity.

Ind AS 101, 'First-time adoption of Indian Accounting Standards', states that:

'The accounting policies that an entity uses in its opening Ind AS Balance Sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to Ind ASs. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind ASs.'

In view of the above-mentioned requirement of Ind AS 101, the excess of carrying value of financial liability as per Indian GAAP provided through securities premium over the amortised cost amount arrived at by using EIM as per Ind AS 109 as on transition date should be reversed by crediting other equity under capital reserve with corresponding debit to the relevant account which was credited earlier.

2. In its fifth bulletin, the ITFG clarified that an electricity company shall classify the security deposits which are refundable when the connection is surrendered by customers as current liability despite the fact that most of the customers will not surrender their connection and the deposit need not to be refunded within 12 months. It was noted that surrendering of the connection is a condition that is not within the control of the entity. Therefore, the electricity company does not have a right to defer the refund of deposit. The expectation of the company that it will not be settled within 12 months is not relevant to classify the liability as a non-current liability. This clarification has now been withdrawn by the ITFG. The ITFG noted that the concept of current and non-current classification of assets and liabilities already existed under previous GAAP and is already explained in the 'General instructions for preparation of balance sheet' pursuant to the requirements of Division II - Schedule III to the Companies Act, 2013. Since the issue does not pertain to transition from previous GAAP to Ind AS, the issue was withdrawn.

Revised clarification on certain issues:

The ITFG reconsidered certain issues on the basis of representation received from stakeholders and revised its fifth bulletin. The revised issues are discussed below:

1. In its fifth bulletin, the ITFG clarified that if a first-time adopter chooses to continue with the carrying value of all of its property, plant and equipment (PP&E) as at the date of transition measured as per the previous GAAP and use that as its deemed cost at the date of transition, then no further adjustments to the deemed cost of PP&E shall be made for transition adjustments that might arise from the application of other Ind ASs. Accordingly, processing fees on the loans which were capitalised as part of the relevant fixed assets under previous GAAP shall remain capitalised as part of the deemed cost of PP&E. The adjustment related to the outstanding loans to bring these in conformity with Ind AS 109 shall be recognised in the retained earnings on the date of transition. It has now been clarified that to restate the carrying amount of a loan, the carrying amount of fixed assets as at the date of transition should also be reduced by the amount of processing cost (net of cumulative depreciation impact). Since the adjustment to fixed assets is only consequential and arising because of applying the transition requirements of Ind AS 101, it would not be construed as an adjustment to the deemed cost of PP&E as envisaged under paragraph D7AA of Ind AS 101.

2. The ITFG, in its fifth bulletin, had also clarified that government grants which were deducted from the carrying amount of PP&E under previous GAAP shall not be added back to the carrying amount of PP&E in case entities elect to continue the carrying amount of PP&E as per previous GAAP on the date of transition to Ind AS. The adjustment related to the government grant should be recognised retrospectively as deferred income with corresponding adjustments in the retained earnings on the date of transition. It has now been clarified that the amount of unamortised deferred income as at the date of the transition in accordance with paragraph 10 of Ind AS 101, the corresponding adjustment should be made to the carrying amount of PP&E (net of cumulative depreciation impact) and retained earnings, respectively, as the grant is directly linked to PP&E. Since the adjustment to PP&E is only consequential and arising because of applying the transition requirements of Ind AS 101, it would not be construed as an adjustment to the deemed cost of PP&E as envisaged under paragraph D7AA of Ind AS 101.

ITFG bulletin 8:

1

The Companies Act, 2013, (the Act) requires a company to spend a certain amount as expenditure towards corporate social responsibility (CSR). It also provides that if the specified amount is not spent by the company during the year, the directors' report should disclose the reasons for not spending the amount. In accordance with the above, provision for the amount which is not spent, i.e. any shortfall in the amount that was expected to be spent as per the provisions of the Act on CSR activities and the amount actually spent at the end of a reporting period, may not be required in the financial statements.

2

Ind AS 8, 'Accounting policies, changes in accounting estimates and errors', requires certain disclosures in respect of Ind AS that has been issued but is not yet effective. An entity is not required to make disclosures prescribed by Ind AS 8 with respect to Ind AS 115, 'Revenue from contracts with customers', for the financial year ended 31 March 2017 as Ind AS 115 has been omitted from the Companies (Indian Accounting Standards) Rules.

3

Phase II companies are required to prepare balance sheet as on 1 April 2016 (date of transition). As per Ind AS 101, balance sheet will be prepared for the financial position as at the beginning of business on 1 April 2016 (or, equivalently, close of business on 31 March 2016) instead of close of business on 1 April 2016.

4

The option of deemed cost exemption (Ind AS 101 para D7AA) can be availed of for PP&E measured as per previous GAAP. This exemption cannot be availed for assets arising from incorrect capitalisation of the item of PP&E which did not meet the definition of asset under previous GAAP.

5

An entity may elect to measure its PP&E at its deemed cost measured as per previous GAAP revaluation on or before date of transition, if the revaluation was broadly comparable to fair value or cost or depreciated cost in accordance with Ind AS. The amount so elected as deemed cost is the cost and any accumulated depreciation and provision for impairment under previous GAAP have no relevance. Accordingly, provision for impairment provided before the date of such measurement as per previous GAAP cannot be reversed in later years. However, from the deemed cost determination date to the date of transition, the entity shall apply appropriate Ind AS accounting policies and depreciation policies to that asset. The depreciation policy applied during the intervening period from the deemed cost determination date to the date of transition would have to be in accordance with the requirements of applicable Ind AS. Accordingly, the impairment loss for the period between the deemed cost determination date to the date of transition can be reversed, if permitted as per the provisions of Ind AS 36, 'Impairment of assets'.

Where an entity chooses to apply Ind AS 16, 'Property, plant and equipment', retrospectively for the purpose of transition to Ind AS then the impairment loss can be reversed, if permitted by Ind AS 36.

ITFG bulletin 8:

6

If an entity decides to avail of the exemption for business combination as per Appendix C of Ind AS 101, in respect of all business combinations that occurred before the date of transition, then the entity shall apply the requirement of attributing the total comprehensive income to the owners of the parent and to the non-controlling interests prospectively. However, if it elects to apply Ind AS 103, 'Business combinations', retrospectively to past business combinations i.e. restating the business combinations that occurred before the date of transition to Ind AS from the date of its choice, then the entity should account for attribution of the total comprehensive income to the owners of the parent and to the non-controlling interest retrospectively from the date of application of Ind AS 103, in its consolidated financial statements as on the date of transition.

7

When an entity has availed of the deemed cost exemption (Ind AS 101 para D7AA) for its PP&E and elected the cost model for subsequent measurement then the balance outstanding in the revaluation reserve should be transferred to retained earnings or if appropriate, another category of equity disclosing the description of the nature and purpose of such amount in accordance with the requirements of paragraph 79(b), Ind AS 1, 'Presentation of Financial Statements'. The requirements of the Companies Act, 2013, have to be evaluated separately for the purpose of declaration of dividend from such reserve.

8

Deferred taxes are required to be recognised for all taxable and deductible temporary differences except in specified situations—for example, if they arise from the initial recognition of an asset or a liability. However, adjustment to the cost of the asset due to exchange difference is a subsequent transaction and does not arise on 'the initial recognition of an asset or liability'. In other words, capitalisation of the exchange differences (including the exchange differences prior to the date of transition) represents subsequent measurement of the liability which has been adjusted to the cost of the asset. Accordingly, in such situations, initial recognition exemption will not be available and deferred tax is required to be recognised on the temporary difference arising from capitalised exchange differences.

9

The dividend income on an investment in a debt instrument shall be recognised in the form interest. The recognition of income will depend on the category of investment in the debt instrument (e.g. amortised cost, fair value through other comprehensive income or fair value through profit or loss) determined as per the requirements of Ind AS 109.

ITFG bulletin 9:

1

The dividend distribution tax (DDT) paid by the subsidiary shall be recognised as an expense in the consolidated financial statements of the parent. If DDT paid by the subsidiary is allowed as a set off against the DDT liability of its parent (as per the tax laws), then the amount of DDT paid by the subsidiary should be recognised in the consolidated statement of changes in the equity of the parent company.

2

The deferred tax liability (DTL) is not recognised on the accumulated undistributed profits of the subsidiary company in the consolidated financial statements of the parent entity, if it is determined that such accumulated undistributed profits will not be distributed in the foreseeable future. However, if based on evaluation of facts and circumstances it is concluded that it is probable that the accumulated undistributed profits will be distributed in the foreseeable future, then DTL on accumulated undistributed profits of the subsidiary company should be recognised in the consolidated statement of profit and loss of the parent company. Where DDT paid by the subsidiary on the distribution of its accumulated undistributed profits is allowed as a set off against the parent's own DDT liability, then the amount of such DDT can be recognised in the consolidated statement of changes in the equity of the parent by crediting an equivalent amount to deferred tax expense in the consolidated statement of profit and loss of the parent in the period in which the set-off is availed of. In this regard, it may also be noted that the tax credit is not recognised until the conditions required to receive the tax credit are met. The tax credit on account of DDT paid by the subsidiary is recognised in the year in which it is claimed against the parent entity's DDT liability. This is important because the payment of dividend by the parent entity is decided by its shareholders and therefore not recognising a DTL or to recognising any tax credit prior to such shareholder actions may not be appropriate. For example, shareholders of the parent entity decide not to distribute or even reduce the amount of dividends proposed by the board of directors of the parent.

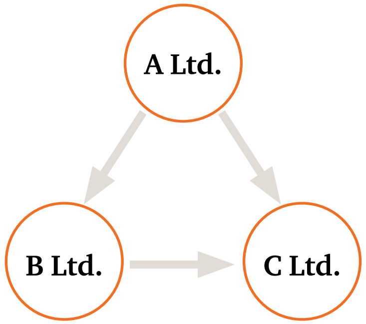
ITFG bulletin 9:

3

Business combinations of entities under common control:

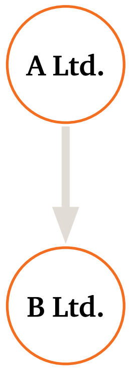
Situation 1:

A Ltd. has two subsidiaries B Ltd. and C Ltd. B Ltd. merges with C Ltd. In this case, in the separate financial statements of C Ltd., the carrying values of the assets and liabilities as appearing in the standalone financial statements of the entities being combined—that is, B Ltd. and C Ltd. shall be recognised.



Situation 2:

B Ltd. is the subsidiary of A Ltd. B Ltd. merges with A Ltd. In this case, since B Ltd. is merging with A Ltd. (i.e. the parent) nothing has changed and the transaction only means that the assets, liabilities and reserves of B Ltd., which were appearing in the consolidated financial statements of Group A Ltd. immediately before the merger, would now be a part of the separate financial statements of A Ltd. Accordingly, it would be appropriate to recognise the carrying value of the assets, liabilities and reserves pertaining to B Ltd. as appearing in the consolidated financial statements of A Ltd. Separate financial statements to the extent of this common control transaction shall be considered as a continuation of the consolidated group.



The legal merger of a subsidiary with the parent or legal merger of fellow subsidiaries is an intra group transaction and accordingly, it will have to be eliminated in the consolidated financial statements of the parent. Accordingly, in both the above situations, the effect of legal merger should be eliminated while preparing the consolidated financial statements of A Ltd.

4

Where it is concluded that the contributions are in the nature of government grants, the entity shall apply the principles of Ind AS 20, 'Accounting for government grants and disclosure of government assistance', retrospectively as specified in Ind AS 101. Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Unlike AS 12, 'Accounting for government grants', Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter contribution directly to shareholders' funds.

Where contributions in the nature of shareholder contributions are recognised in capital reserve under previous GAAP such contributions should be transferred to an appropriate category under 'other equity' at the date of transition to Ind AS.

ITFG bulletin 10:

1

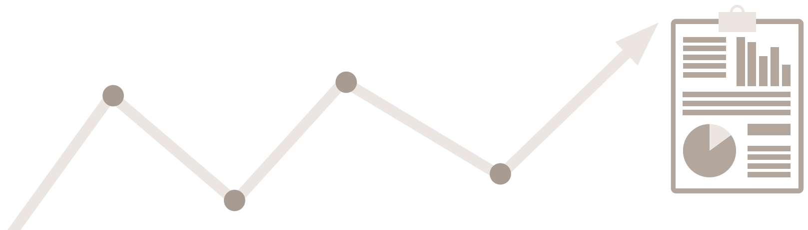
Where a parent has given an interest-free loan to its subsidiary, then the difference between the carrying amount of the loan under previous GAAP and present value of the loan shall be added to the investment in subsidiary notwithstanding whether the parent has elected to measure its investment in the subsidiary at the previous GAAP carrying amount at the date of transition.

2

The processing fees on term loan are an integral part of the effective interest rate of such loan and shall be included while calculating the effective interest rate. To the extent there is evidence that it is probable that the undisbursed term loan will be drawn down in the future, the processing fee is accounted for as a transaction cost under Ind AS 109—that is, the fee is deferred and deducted from the carrying value of the financial liabilities when the draw down occurs and is considered in the effective interest rate calculations. However, if it is not probable that the undisbursed term loan will be drawn down in the future then the fees are recognised as an expense on a straight-line basis over the term of the loan.

3

Goodwill has been recognised on amalgamation of fellow subsidiaries in the separate financial statements of the surviving entity under previous Indian GAAP. This goodwill is tax deductible in the books of amalgamated entity. A question has been raised to determine whether deferred tax asset needs to be recognised in the Ind AS consolidated financial statements of the parent when there is no corresponding accounting goodwill in the consolidated financial statements. In response to the question, it has been clarified that deferred tax asset on the tax base of goodwill should be recognised in accordance with Ind AS 12, ‘Income taxes’, by crediting the consolidated statement of profit and loss, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised in the consolidated financial statements of the parent. Additionally, this will not qualify for the initial recognition exemption under Ind AS 12 as there is no initial recognition of an asset or liability arising from the amalgamation of subsidiaries in the consolidated financial statements of the parent (the impact of amalgamation of subsidiaries is eliminated in the consolidated financial statements of the parent).



ITFG bulletin 10:

4

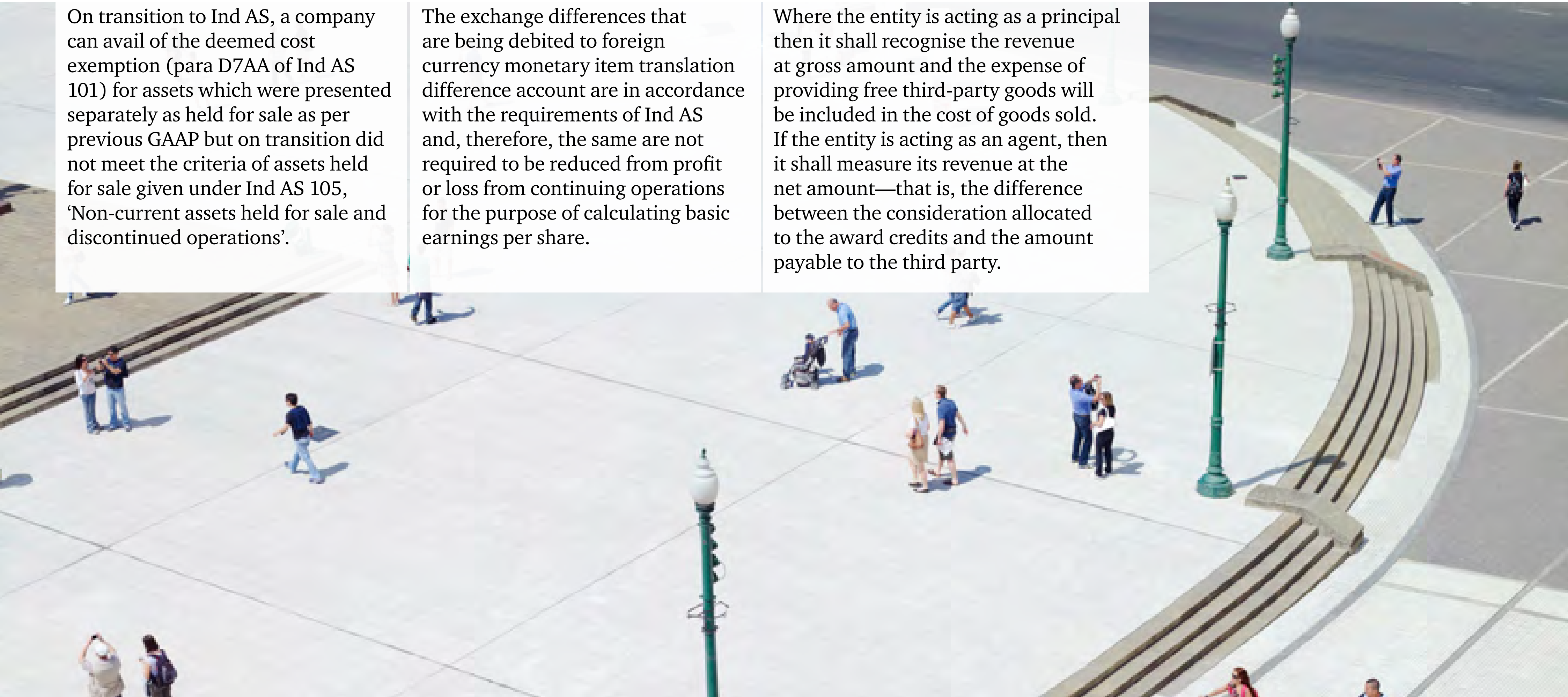
On transition to Ind AS, a company can avail of the deemed cost exemption (para D7AA of Ind AS 101) for assets which were presented separately as held for sale as per previous GAAP but on transition did not meet the criteria of assets held for sale given under Ind AS 105, 'Non-current assets held for sale and discontinued operations'.

5

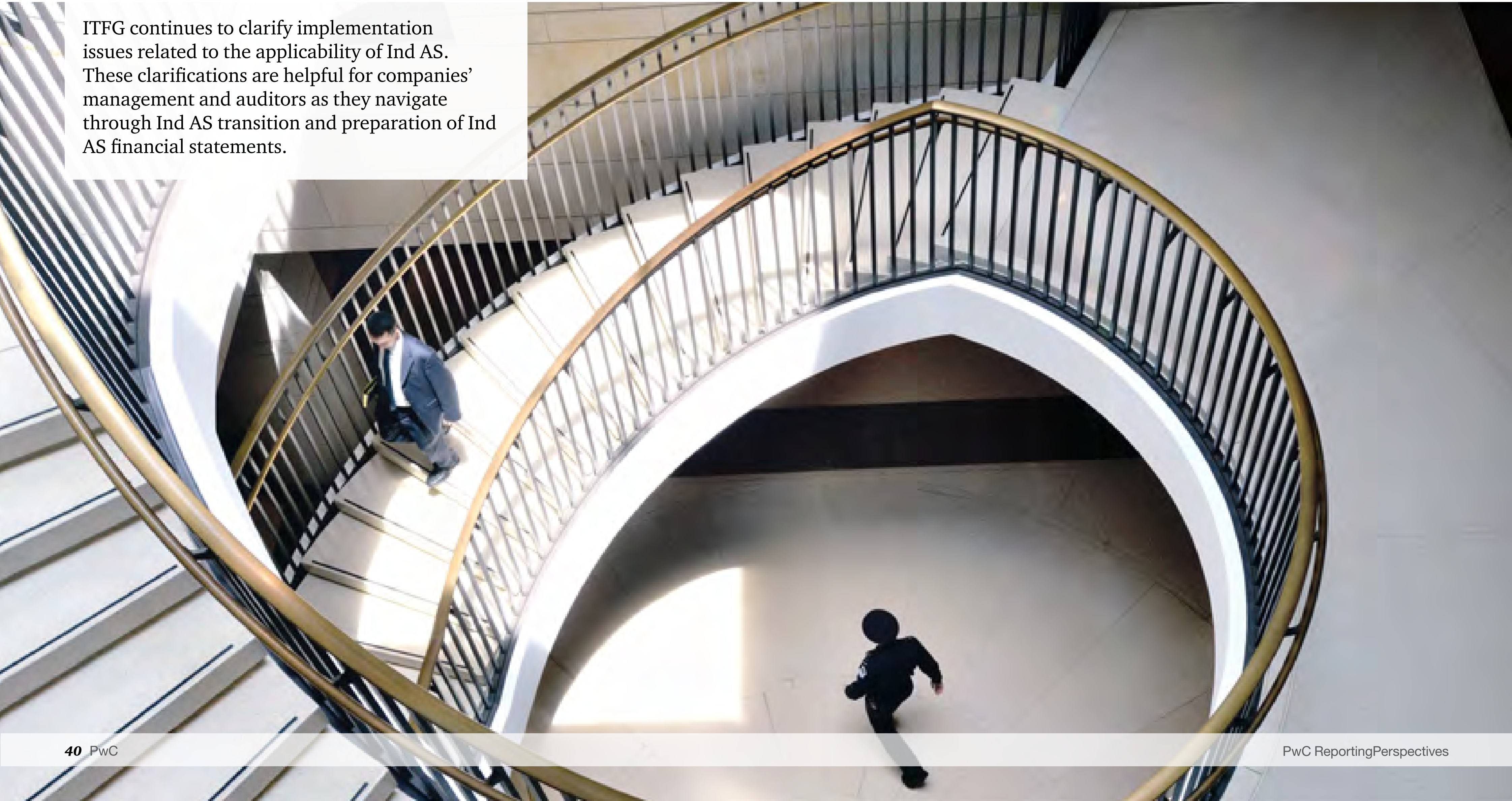
The exchange differences that are being debited to foreign currency monetary item translation difference account are in accordance with the requirements of Ind AS and, therefore, the same are not required to be reduced from profit or loss from continuing operations for the purpose of calculating basic earnings per share.

6

Where the entity is acting as a principal then it shall recognise the revenue at gross amount and the expense of providing free third-party goods will be included in the cost of goods sold. If the entity is acting as an agent, then it shall measure its revenue at the net amount—that is, the difference between the consideration allocated to the award credits and the amount payable to the third party.



ITFG continues to clarify implementation issues related to the applicability of Ind AS. These clarifications are helpful for companies' management and auditors as they navigate through Ind AS transition and preparation of Ind AS financial statements.



Accounting Standard Board (ASB)

Exposure Draft of Amendments to Ind AS 101, First-time Adoption of Indian Accounting Standards

The ASB of ICAI has issued the Exposure Draft of amendments to paragraph D7AA of Ind AS 101, 'First-time Adoption of Indian Accounting Standards'. Among other matters, the following amendments have been proposed in the said paragraph:

- Carrying value can be taken as the deemed cost for 'a class' of assets instead of 'all' assets on the transition.
- When the entity chooses to adopt the carrying value as at the date of transition to Ind AS as the deemed cost as per paragraph D7AA of Ind AS 101, consequential changes arising on the application of other Ind AS can be adjusted from the deemed cost of property, plant and equipment (PP&E).

Corporate Laws & Corporate Governance Committee (CLCC)

Exposure Draft of Guidance Note on Schedule III for Ind AS compliant companies

The CLCC has issued the exposure draft of the guidance note on Schedule III to the Companies Act, 2013, for Ind AS compliant companies. The objective of this guidance note is to provide guidance on the preparation and presentation of financial statements in accordance with various aspects of Ind AS Schedule III, for companies adopting Ind AS.

Recent publications

The following publications from the CLCC of the ICAI have been hosted on the ICAI website:

a. FAQs on the Companies Act, 2013 (February 2017 edition)

b. FAQs on the Insolvency and Bankruptcy Code 2016

Auditing and Assurance Board of India (AASB)

Implementation Guide on Auditor's Report under Rule 11(d) of Companies (Audit and Auditors) Amendment Rules, 2017 and Amendment to Schedule III to Companies Act, 2013

The above referred Guide has been issued by the AASB to provide guidance on the new reporting obligations cast on auditors pursuant to Ministry of Corporate Affairs (MCA) notifications dated 30 March 2017 notifying the Companies (Audit and Auditors) Amendment Rules, 2017, and the Amendment to Schedule III to the Companies Act, 2013 related to Specified Bank Notes.

Council of ICAI

Clarification on Amendment to Paragraph 17 of Revised Guidance Note on Audit of Consolidated Financial Statements

At its 365th meeting held from 17–19 May 2017, the Council of ICAI considered a matter regarding an amendment to paragraph 17 of the Revised Guidance Note on Audit of Consolidated Financial Statements issued in October 2016. At the meeting, the Council noted that the members had expressed concerns regarding the third bullet point of paragraph 17 of the Guidance Note (text given below) and requested that the guidance given therein needs to be clarified.

'However, while considering the observations (for instance, modification and/or emphasis of matter in accordance with Standard on Auditing (SA) 705, 'Modifications to the opinion in the independent auditor's report'/SA 706, 'Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report') of the component auditor in his report on the standalone financial statements, the concept of materiality would not be considered. Thus, the component auditor's observations, if any, on the component's financial statements, irrespective of whether the auditors of the component are also the auditors of the consolidated financial statements or not, are required to be included in the parent auditor's report on the consolidated financial statements, regardless of materiality. (Refer paragraph 46 of this Guidance Note).'

After detailed deliberations, the council concluded that the third bullet point of paragraph 17 of the Guidance Note needs to be amended to clarify that the intent of the Guidance Note was also to ensure compliance with SA 600, 'Using the work of another auditor', in such matter. Accordingly, the council decided to amend the aforesaid third bullet in the following manner:

'While considering the observations (for instance modification and /or emphasis of matter/other matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the parent auditor should comply with the requirements of SA 600'.

Post-implementation Review - IFRS 13, 'Fair Value Measurement'

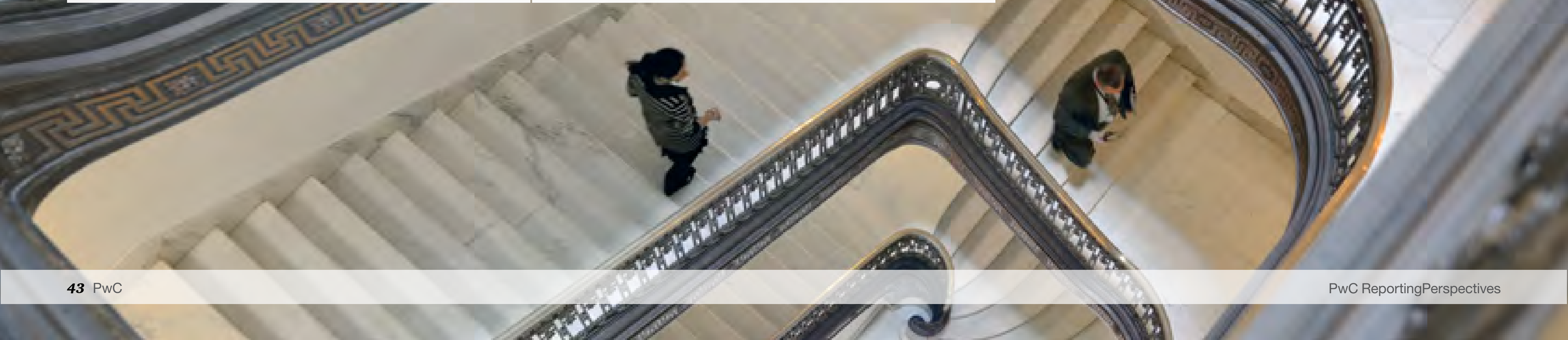
The IASB has issued a request for stakeholders to tell the board about their experience with the accounting standard that explains how to measure the 'fair value' of assets and liabilities, IFRS 13. The aim is to check whether the standard meets its objectives. This request is part of the IASB's post-implementation Review (PIR) of IFRS 13.

The Request for information issued by the IASB on post-implementation review – IFRS 13 is for comments only. Comments on the aforesaid document need to be submitted by 16 August 2017.

Disclosure Initiative - Principles of Disclosure

The IASB has published a discussion paper that suggests principles to make disclosures in financial statements more effective. This discussion paper, published by the IASB, could lead to amendments to IAS 1, 'Presentation of financial statements', the standard covering general disclosure requirements, or the development of a new general disclosure standard.

Discussion Paper issued by IASB on Disclosure Initiative - Principles of Disclosure is available for comments only. Comments on the discussion paper need to be submitted by 16 August 2017.



Companies (Audit and Auditors) Second Amendment Rules, 2017

The MCA has notified the Companies (Audit and Auditors) Second Amendment Rules, 2017. In accordance with the amendment, paid up share capital limit for rotation of auditors in case of private companies has been increased from 20-50 crore INR. There are no changes in other criteria.

Companies (Appointment and Qualification of Directors) Amendment Rules, 2017

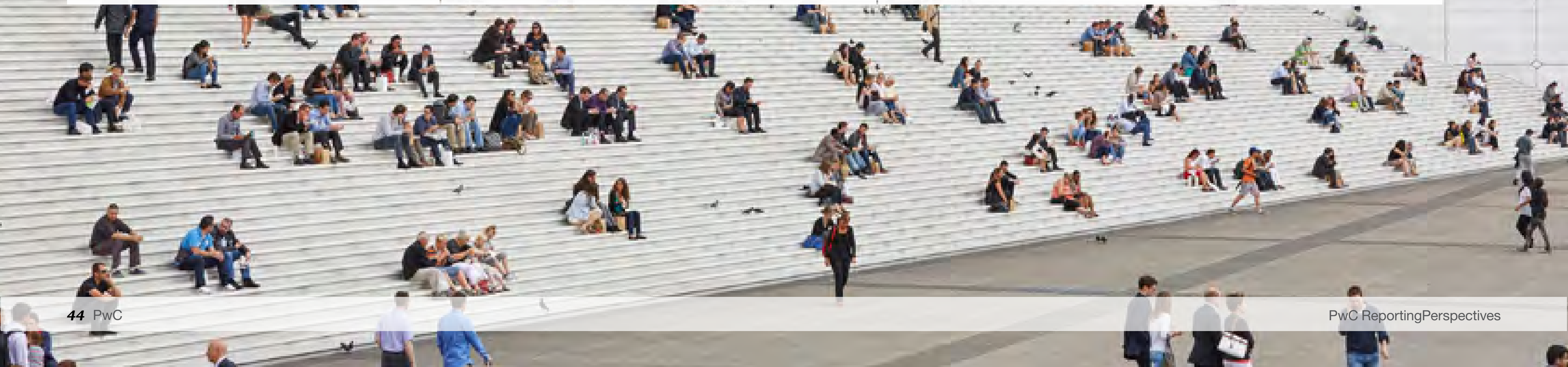
The MCA has notified the Companies (Appointment and Qualification of Directors) Amendment Rules, 2017. Among other matters, the amendment notifies certain classes of unlisted public companies (namely a joint venture, a wholly owned subsidiary and a dormant company) to which Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014, relating to the number of independent directors will not apply.

Amendment to Schedule IV to the Companies Act, 2013

The MCA has notified amendment to Schedule IV to the Companies Act, 2013. Schedule IV prescribes the code for independent directors. Among other matters, the amendment states/clarifies that:

i. A new independent director should be appointed within three months from the date of resignation or removal. Previously, the time limit for replacement was 180 days.

ii. At least one meeting of independent directors should be held in a financial year. The word in italics has been added in the amendment).



MCA Notification dated June 13, 2017 - Exemptions to Private Companies

The MCA vide notification dated 13 June 2017 has made certain amendments to notification no. GSR 464(E) dated 5 June 2015 which had given certain exemptions from the provisions of the Companies Act, 2013, to private companies. Key changes brought by the notification are:

i. The requirement on reporting on Internal Financial Control on Financial Reporting (IFCFR) under section 143(3)(i) of the Companies Act, 2013, shall not apply to (i) one person company, (ii) small company, or (iii) a private company having a turnover of less than 50 crore INR as per the latest audited financial statement and having aggregate borrowing from banks or financial institutions or any body corporate at any point of time during the financial year less than 25 crore INR.

ii. For the purpose of computing quorum under section 174(3) of the Companies Act, 2013 in case of a private company, an interested director may also be counted after disclosure of his interest pursuant to section 184 of the Companies Act, 2013.

Companies (Compromise, Arrangements and Amalgamations) Amendment Rules, 2017

The MCA has notified Section 234 of Companies Act, 2013 and issued rules thereunder, thereby paving the way for merger and amalgamation of a foreign company with an Indian company and vice versa. The newly inserted Rule 25A provides that:

i. a foreign company, incorporated outside India, may merge with an Indian company after obtaining prior approval of RBI and complying with the provisions of section 230–232 of the Companies Act, 2013, and rules made thereunder;

ii. a company may merge with a foreign company incorporated under jurisdictions (as referred in the notification) after obtaining prior approval of the RBI and complying with the provisions of section 230-232 of the Companies Act, 2013, and rules made thereunder;

iii. the application to the National Company Law Tribunal shall be made only after obtaining RBI approval as specified above.

Companies (Acceptance of Deposits) Amendment Rules, 2017

The MCA has issued the Companies (Acceptance of Deposits) Amendment Rules, 2017. The amendment allows companies to accept deposits without a deposit insurance contract till 31 March 2018 or the availability of a deposit insurance product, whichever is earlier.

Non-compliance with certain provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ('ICDR Regulations')

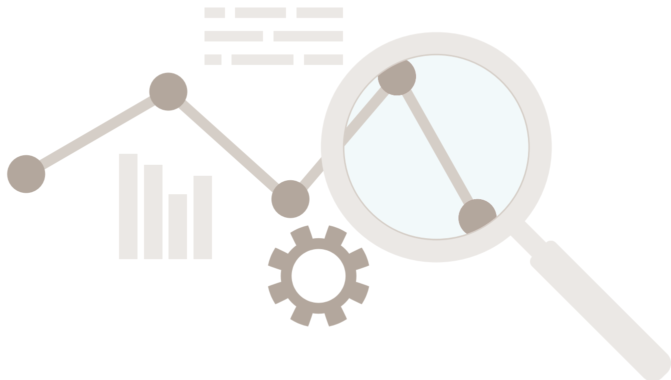
The SEBI vide Circular No. CIR/CFD/DIL/57/2017 dated 15 June 2017 has directed stock exchanges to impose fines on the companies for non-compliance with the following provisions of ICDR Regulations:

- Regulation 95(1): Delay in completion of bonus issue.
- Regulation 75: Companies not allotting the shares on conversion of convertible securities within 18 months.
- Regulation 108(2): Issuer not approaching the exchange for listing of equity shares within 20 days from the date of allotment.

The amount of fine realised as per the above structure shall be credited to the 'Investor Protection Fund' of the concerned recognised stock exchange.

SEBI issues guidelines for listing of NCRPS/ NCDs issued pursuant to a Scheme of Arrangement

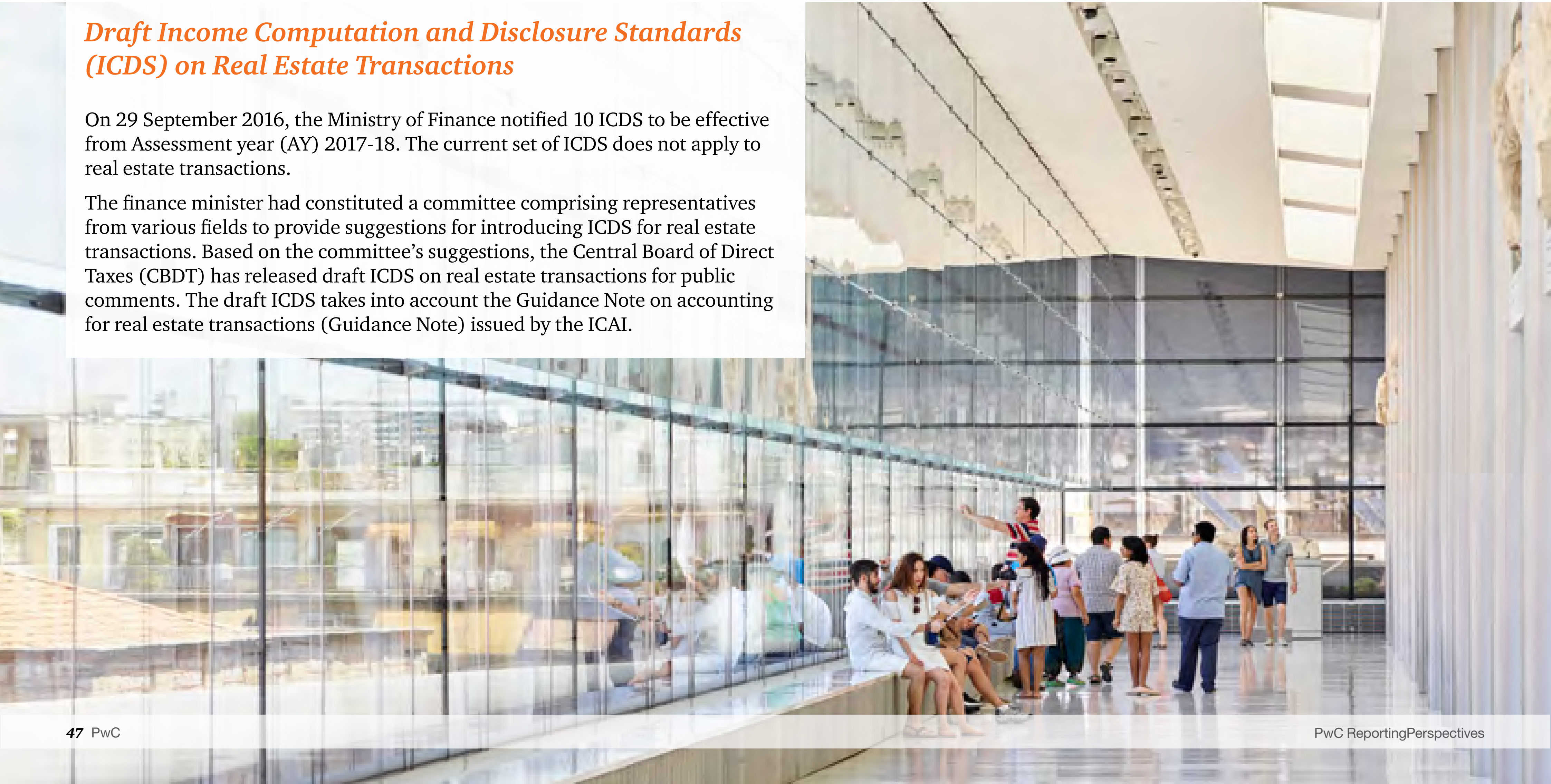
The SEBI vide its circular dated 26 May, 2017 has issued guidelines with respect to the listing of non-convertible redeemable preference shares (NCRPS)/ Non-Convertible Debentures (NCDs) that are issued in lieu of specified securities in a Scheme of arrangement (Scheme). The guidelines were required as the existing SEBI circular dated 10 March, 2017 did not cover procedures to be followed for the listing of NCRPS/NCDs that are issued pursuant to a Scheme.



Draft Income Computation and Disclosure Standards (ICDS) on Real Estate Transactions

On 29 September 2016, the Ministry of Finance notified 10 ICDS to be effective from Assessment year (AY) 2017-18. The current set of ICDS does not apply to real estate transactions.

The finance minister had constituted a committee comprising representatives from various fields to provide suggestions for introducing ICDS for real estate transactions. Based on the committee's suggestions, the Central Board of Direct Taxes (CBDT) has released draft ICDS on real estate transactions for public comments. The draft ICDS takes into account the Guidance Note on accounting for real estate transactions (Guidance Note) issued by the ICAI.



Guidelines on compliance with Accounting Standard (AS) 11, 'The effects of changes in foreign exchange rates', by banks - Clarification

The RBI has observed that banks have been recognising gains in the profit and loss account from foreign currency translation reserve (FCTR) on repatriation of accumulated profits / retained earnings from overseas branch(es) by treating the same as partial disposal under AS 11.The matter has been examined taking into consideration, inter alia, the views of the ICAI.

The RBI has clarified that the repatriation of accumulated profits shall not be considered as disposal or partial disposal of interest in non-integral foreign operations as per AS 11. Accordingly, banks shall not recognise in the profit and loss account the proportionate exchange gains or losses held in the foreign currency translation reserve on repatriation of profits from overseas operations.

Disclosure in the "Notes to Accounts" to the Financial Statements- Divergence in the asset classification and provisioning

The RBI assesses compliance by banks with extant prudential norms on income recognition, asset classification and provisioning (IRACP) as part of its supervisory processes. In order to ensure greater transparency and promote better discipline with respect to compliance with IRACP norms, the RBI has decided that banks shall make suitable disclosures as per Annexure to its circular dated 18 April 2017, wherever either (a) the additional provisioning requirements assessed by the RBI exceed 15% of the published net profits after tax for the reference period or (b) the additional gross NPAs identified by the RBI exceed 15% of the published incremental gross NPAs for the reference period, or both.

The disclosures, as above, shall be made in the notes to accounts in the ensuing annual financial statements published immediately following communication of such divergence by RBI to the bank. The first such disclosure with respect to the divergences observed by the RBI for the financial year 2015-16 shall be made in the notes to accounts of financial statements for the year ended 31 March 2017.

Additional Provisions for Standard Advances at Higher than the Prescribed Rates

The RBI has advised banks to make provisions at higher rates in respect of advance to stressed sectors of the economy so that there are adequate provisions for loans and advances at all times. Presently in view of the stressed financial conditions of the telecom sector, banks were advised to review the telecom sector latest by 30 June 2017 and consider making provisions for standard assets in this sector at higher rates.

Accounting Standards Update No. 2017-10—Service Concession Arrangements (Topic 853): Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force)

The FASB issued the amendment to address the diversity in practice in how an entity determines the customer of the operation services for transactions within the scope of Accounting Standards Codification (ASC) 853, 'Service concession arrangements'. The main provisions of this update are illustrated by the following example:

A public-sector entity grantor (government) enters into an arrangement with an operating entity under which the operating entity will provide operation services (which include operation and general maintenance of the infrastructure) for a toll road that will be used by third-party users (drivers). The amendments in this Update clarify that the grantor (government), rather than the third-party drivers, is the customer of the operation services in all cases for service concession arrangements within the scope of ASC 853.

Determining the customer in a service concession arrangement within the scope of IFRIC 12, 'Service concession arrangements', depends on the nature of the consideration received by the operating entity (i.e. a financial asset, an intangible asset, or both). Therefore, in certain circumstances, the amendment that the grantor is the customer of the operation services in all cases may result in additional differences in application between ASC 853 and IFRIC 12.

For an entity that has not adopted ASC 606 before the issuance of this update, the effective date and transition requirements for the amendments in this Update generally are the same as the effective date and transition requirements for ASC 606. For an entity, that has adopted ASC 606 before the issue of this update, the amendment shall be effective for fiscal years beginning after 15 December 2017 for public business entities and for fiscal years beginning after 15 December 2018 in the case of all other entities.

Accounting Standards Update No. 2017-09—Compensation—Stock Compensation (ASC 718): Scope of Modification Accounting

The FASB issued the amendment to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in ASC 718, 'Compensation—Stock Compensation', to a change to the terms or conditions of a share-based payment award. The amendments in this Update provide guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in ASC 718. An entity should account for the effects of a modification unless all the following are met:

i. The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.

ii. The vesting conditions of the modified award are the same as those of the original award immediately before the original award is modified.

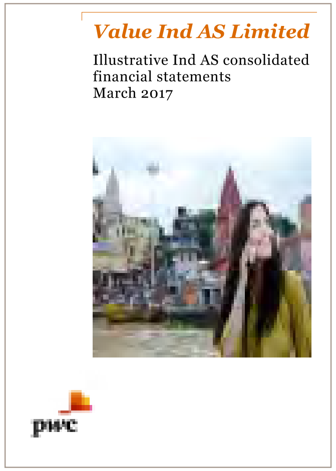
iii. The classification of the modified award as an equity instrument or a liability instrument is the same as that of the original award immediately before the original award is modified.

The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after 15 December 2017.

Publications

Publications -1

Publications -2



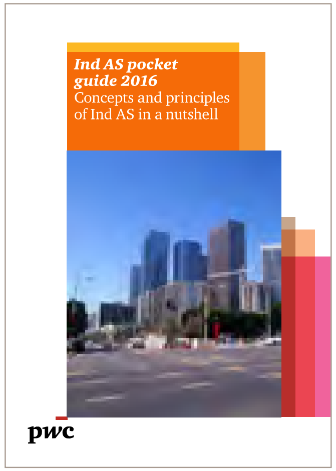
Publications - 3

Publications - 4

Publications -5

Publications - 6

Publications - 7



Publications - 8

Our offices

Ahmedabad
1701, 17th Floor, Shapath V
Opposite Karnavati Club
S G Highway
Ahmedabad, Gujarat 380 051
Phone: [91] (79) 3091 7000

Bengaluru
The Millenia, Tower D
#1 & 2 Murphy Road, Ulsoor
Bengaluru, Karnataka 560 008
Phone: [91] (80) 4079 4000

Chennai
Prestige Palladium Bayan,
8th Floor
129–140, Greams Road
Chennai, Tamil Nadu 600 006
Phone: [91] (44) 4228 5000

New Delhi/Gurgaon
Building 8, Tower B
DLF Cyber City
Gurgaon, Haryana 122 002
Phone: [91] (124) 462 0000

Hyderabad
Plot no. 77/A, 8-624/A/1
3rd Floor, Road no. 10
Banjara Hills
Hyderabad, Telangana 500 034
Phone: [91] (40) 4424 6000

Kolkata
Plot nos 56 & 57
Block DN-57, Sector V
Salt Lake Electronics Complex
Kolkata, West Bengal 700 091
Phone: [91] (33) 2357 9100

Mumbai
252 Veer Savarkar Marg
Next to Mayor's Bungalow
Shivaji Park, Dadar
Mumbai, Maharashtra 400 028
Phone: [91] (22) 6669 1000

Pune
Tower A - Wing 1, 7th Floor
Business Bay
Airport Road, Yerawada
Pune, Maharashtra 411 006
Phone: [91] (20) 4100 4444

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 2,23,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com

In India, PwC has offices in these cities: Ahmedabad, Bengaluru, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune. For more information about PwC India's service offerings, visit www.pwc.com/in

PwC refers to the PwC International network and/or one or more of its member firms, each of which is a separate, independent and distinct legal entity in separate lines of service. Please see www.pwc.com/structure for further details.

pwc.in

Data Classification: DC0

HS/July2017-10014