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Editorial

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

As part of our continued effort to provide guidance on Ind AS, we have included an overview of certain important aspects related to segment reporting. This is an important standard that may assist companies in providing decision-useful information to investors through management's eyes. We have explained the key requirements of Ind AS 108, 'Operating segments', and discuss practical issues that might arise during the course of implementation.

The Ministry of Corporate Affairs (MCA) constituted the Companies Law Committee (the 'CLC') for making recommendations on issues arising from the implementation of the Companies Act, 2013, and examining the recommendations received from the Bankruptcy Law Reforms Committee, the High Level Committee on Corporate Social Responsibility, the Law Commission of India and other agencies. Based on the recommendations of CLC, the central government has proposed amendments to the Companies Act, 2013, and brought out another Amendment Bill, 2016. The key amendments to the Act have been summarised in this edition.

Schedule II to the Companies Act, 2013, specifies useful lives for the purpose of computation of depreciation. There are several key changes in Schedule II to the Companies Act, 2013, as compared to the erstwhile Schedule XIV of the

Companies Act, 1956. In February 2016, the Institute of Chartered Accountants of India (ICAI) issued a Guidance Note (GN) on Accounting for Depreciation in companies in the context of Schedule II to the Companies Act, 2013, with a view to establishing a consistent practice regarding accounting for depreciation. We discuss the key takeaways from the GN, including the key differences from the Application Guide issued earlier.

The Accounting Standards Board (ASB) of the ICAI formed the Ind AS Transition Facilitation Group (ITFG) on 11 January 2016. ITFG issued its first clarification bulletin addressing certain issues related to applicability of Ind AS/implementation, which have been covered in this edition.

We also discuss the recent changes to accounting standards and the SEBI clarification on Ind AS applicability to the information in offer documents 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

A fresh look at Ind AS 108, 'Operating segments'

At a glance

In this section, we explain the key requirements of Ind AS 108, 'Operating segments', and discuss certain practical issues that might arise during implementation. Segment reporting, which is viewed merely as a compliance exercise, can be used as an effective tool for telling the 'whole story' of an entity and providing decision-useful information to investors through management's eyes.

Why it is important

Almost all information contained in a set of consolidated financial statements is focussed on providing users with

- the position of the entity as a whole, and
- the key transactions during a recent period.

This information is useful because it helps investors to assess overall metrics (for example, sales trends, ability to control costs, liquidity and success of major transactions such as a business combination). However, that information alone may not tell the whole story.

The earnings release of a large entity generally discusses market share by product or geography, a significant contract with an individual customer or capital expenditure in a growing business division. All of this indicates that the business is typically managed at a level lower than the consolidated entity.

Management needs visibility into cross-sections of the entity to make strategic and operating decisions—i.e. where to make investments, reduce overheads or expand marketing efforts. It is also at this level that investors would like to have detailed financial information.

Investors want to see the business through the eyes of management, so that they can make more accurate and reliable assessment of future cash flows. They are interested in evaluating management's positioning within a certain industry or growth potential in a certain region. To do so, they require information at the level at which management is making those decisions.

Segment reporting bridges the gap between the consolidated picture of the entity and management's perspective of underlying businesses—often referred to as linking external reporting with internal reporting. Segment reporting connects the financial statements with the information reported in management commentaries such as the operating and financial review (OFR) or management discussion and analysis (MD&A). Additionally, segment disclosures provide a detailed look into:

- the level at which management allocates resources and assesses performance,
- how management distinguishes key product lines or service offerings,
- the geographical layout of key operations,
- customer concentration and dependence, and
- the status and/or performance of the business based on each of the above.

Operating segments

The foundation of segment reporting is the identification of operating segments. These represent the lowest level at which management monitors operations and makes decisions for the consolidated entity. All other aspects of segment reporting are driven by the operating segment determination.

An operating segment is defined as a component of an entity

- that engages in business activities from which it may earn revenues and incur expenses,
- whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM) to assess performance and allocate resources, and
- for which discrete financial information is available.

There are four key steps to determine an entity's operating segments:

1. Identify the chief operating decision maker (CODM).
2. Identify their business activities.
3. Determine whether discrete financial information is available for the business activities.
4. Determine whether that information is regularly reviewed by the CODM.

CODM

The CODM is a function that allocates resources to, and assesses the performance of, the operating segments. Although the position varies from entity to entity, the pertinent responsibilities are almost always maintained at the highest level of management.

The CODM might be an individual or a committee, depending on the organisation. Common examples include the chief executive officer (CEO), chief operating officer (COO), executive committee or board of directors. However, a supervisory committee that simply approves management decisions is unlikely to be the CODM. The title(s) of the person(s) identified as CODM is not relevant, as long as it is the person(s) responsible for making strategic decisions about the entity's segments.

Business activities

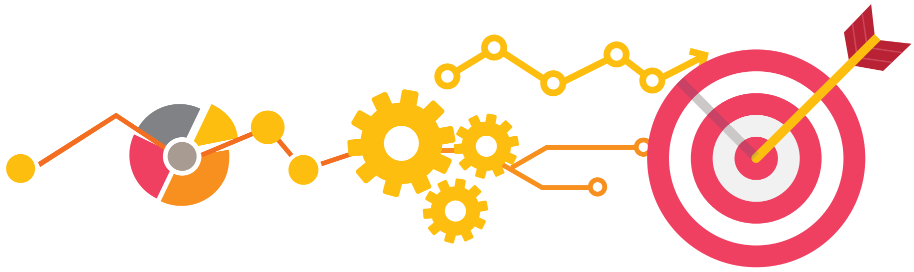
Business activities in the context of segment reporting must be *capable* of earning revenue and/or incurring expenses for consideration of separate operating segments. Thus, the lack of any revenue and/or expense being allocated to a division does not preclude it from being a separate operating segment. Care should be exercised when determining whether an internally reported activity constitutes an operating segment.

Illustrative example 1: Cost centres

Manufacturing entities that are managed with reference to operating cost centres might not record cost centre revenues because the entity's total customer revenues are not allocated on that basis. As long as discrete financial information is prepared and reviewed by the CODM, such components would be considered operating segments.

Illustrative example 2: Vertically integrated operations

An entity might charge transfer prices between its stages of production (for example, oil and gas entities). The fact that those transfer prices are not assessed by the CODM would not exempt such activities from being considered individual operating segments. The components of an oil and gas entity might include exploration, development, production, refining and marketing (if the CODM manages the entity in this way). Although some of these components might not have external revenues, this does not exempt them from being considered operating segments.



Discrete financial information

The definition of an operating segment requires discrete financial information to be available. The review of revenue-only data for a particular area of a business is unlikely to meet this definition for most entities. Yet, a full set of financial statements is not required to identify an operating segment. So, what qualifies as discrete financial information?

The simple answer is that the CODM must have sufficient information to assess performance and allocate resources for the entity's business activities.

Sufficiency of the discrete financial information is a judgemental area, but a few general guidelines have been observed in practice:

- A segment balance sheet is not necessary to conclude that discrete financial information is available.
- The requirement for discrete financial information can be met with operating performance information only, such as gross profit by product line or operating profit by region.
- Revenue-only data could be representative of the operating results in cases where product sales or service provisions involve minimal costs. Such circumstances are expected to be rare.

Reviewed regularly by the CODM

Identification of operating segments is driven by the discrete financial information that is reviewed regularly by the CODM (commonly referred to as the 'CODM pack'). This can often be a straightforward process for entities, as it might simply be the standard reporting pack provided to the CEO or the board on a recurring basis (e.g. monthly). As the CODM will sometimes have access to a significant amount of readily available information, however, determining the discrete financial information used to assess performance and allocate resources might require further consideration. Entities with matrix-style or overlapping reporting might also need to do a further assessment.

For example, assume that the CODM reviews two sets of operating results—one by a major product line and the other by geographical region. Ind AS 108 provides three factors to consider when this situation arises:

1. the nature of business activities of each component,
2. the existence of managers responsible for each component,
3. the information provided to the board of directors (when the board is not the CODM).

Assessment of the above factors will typically draw out the prevailing 'management view' of the business; that is, one set of operating results will generally have more prominence in the internal reporting and/or management infrastructure. It would be rare for operating segments to lack clarity even after these factors are considered. Those situations require significant judgement, and robust documentation of conclusions is recommended.

Entities can confirm their operating segments by asking the following questions:

- Do the identified operating segments realistically represent the level at which the CODM is assessing performance and allocating resources?
- Do these segments provide users of the financial statements with the information needed to evaluate the entity's business activities and the environment in which it operates?
- Are the identified operating segments consistent with other information that the entity produces, such as press releases, interviews with management, organisational charts, information on entity websites, management discussions and other public information about the entity?

Common components to consider

The determination of operating segments will be unique for each entity: Each entity has an individual structure, management reporting, and other facts and circumstances to consider. However, industry trends and common practices around internal functions should be considered for comparability and consistency, especially because regulators often use this view as a basis for raising questions.

Illustrative example 3: Can it be an operating segment?

Head office (corporate office)
Yes. A head office function that undertakes business activities (for example, a treasury operation that earns interest income and incurs expenses) could be an operating segment if its revenues earned are more than incidental to the activities of the entity and discrete financial information is reviewed by the CODM. A head office that only has incidental revenue and expense (for example, accounting, IT, HR and an employee restaurant) is unlikely to be an operating segment.

Research and development (R&D)
Yes, if discrete information is reviewed by the CODM. An entity's R&D function can be a vertically integrated operation in which the R&D activities serve as a component of the entity's business. The more integral R&D is for the business, the more likely it will be a driver of the operating segment determination. For example, in the pharmaceutical and life science industry, it is common to have operating segments identified by the type of R&D performed.

Discontinued operation
Yes. A discontinued operation can meet the definition of an operating segment if it continues to engage in business activities that have discrete financial information reviewed by the CODM. A significant disposal (or disposal that is part of a broader reorganisation plan) would trigger a reassessment of operating segments for the business on a go-forward basis.

Reportable segments

Not all operating segments need to be disclosed separately. Reportable segments are the basis for disclosure of segment information in financial statements, and they can comprise single operating segments or an aggregation of operating segments.

The process for determining reportable segments can be complex. A summary of the key steps follows:

- Identify the operating segments.
- Determine whether any operating segments meet *all* of the aggregation criteria and, if so, aggregate them (if desired).
- Review the identified operating segments and aggregated groups of operating segments to see if they individually meet the quantitative thresholds. Those that do are treated as reportable segments.
- For the remainder, check whether any of the identified operating segments or aggregated groups of operating segments have similar economic characteristics and meet a *majority* of the aggregation criteria. If they do, aggregate them and treat as reportable segments (if desired). Individual operating segments can also be treated as reportable segments, even if they are not aggregated with another segment or do not meet the quantitative threshold.

- Test whether the external revenues of the reportable segments identified represent 75% or more of the entity's external revenue. If they do, the remaining segments can be combined into a segment called 'all other segments'. If they do not, additional reportable segments must be identified until the total of reportable segments reaches the 75% point.

Aggregation

Aggregation of one or more operating segments into a single reportable segment is permitted (but not required), based on certain criteria. Two or more operating segments can be aggregated if *all* of the following conditions are met:

- Aggregation is consistent with the core principle that the result is to provide information that enables users to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which it operates.
- The segments have similar economic characteristics.
- The segments are similar in each of the following respects:
  - the nature of products and services;
  - the nature of production processes;
  - the type or class of customer for the products and services;
  - the methods used to distribute the products or provide the services; and
  - where applicable, the nature of the regulatory environment—for example, banking, insurance or public utilities.

The aggregation assessment requires significant judgement. Typical areas of challenge include disclosures that there is only a single reportable segment, or instances where information is presented with a higher level of disaggregation in the front half of the annual report.

Emphasis should be given to 'similar economic characteristics', as the phrase implies a very high degree of similarity across all key characteristics in practice. Management might deem a few economic characteristics to be the most relevant for a given industry or geography; however, this judgement should not override a broad assessment of all criteria above, especially if several of the other economic characteristics are dissimilar.

Illustrative example 4: Can it be aggregated?

Operating segments based on geography

Yes. Operating segments determined on a geographic basis can be aggregated if they meet the aggregation criteria. However, this might present a problem for combining individual countries since, in addition to assessing the financial performance and risks of the underlying products comprising the segment, an entity must also consider the economic conditions (including inflation), exchange control regulations and underlying currency risks associated with the countries when it is determining whether the economic characteristics are similar. Furthermore, even if individual countries were to be aggregated, the entity-wide disclosures required by Ind AS 108 mean that revenues and assets are required to be disclosed for each material foreign country.

Start-up with mature business

Yes. Economic characteristics of a start-up are unlikely to align with any portion of a mature business. However, the 'similar characteristic' criterion might be met if the future financial performance (including the competitive and operating risks) of the start-up business is expected to converge and be similar to that of one of the entity's mature business segments.

Quantitative thresholds

Single operating segments or aggregation of operating segments (where permitted) must be treated as reportable segments when they exceed certain quantitative thresholds. These limits are based on a comparison of segment revenues, profit or loss and assets with comparable figures for all segments.

The thresholds are used as minimum reporting requirements; an entity is permitted to report smaller operating segments (or aggregated groups of operating segments) if it chooses to do so. Reporting smaller segments is common in the technology and media industries as a way of highlighting a new line of business that does not have significant assets or revenues in an early period of operation.

Information about an operating segment or about a permitted aggregation of operating segments is required to be reported where it meets *any* one of the following quantitative thresholds:

- The operating segment's reported revenue, including both sales to external customers and inter-segment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments.
- The absolute amount of its reported profit or loss is 10% or more of the greater (in absolute amount) of:
  - the combined reported profit of all operating segments that do not report a loss, and
  - the combined reported loss of all operating segments that report a loss.
- Its assets are 10% or more of the combined assets of all operating segments.

Consistent measures

Some doubt may arise about which level of profit or loss should be used when assessing these thresholds. Entities often use 'operating profit' and other measures in internal reporting. Common examples include (but are not limited to):

- earnings before interest, taxes, depreciation and amortisation (EBITDA),
- adjusted EBITDA,
- core earnings,
- profit before tax,
- profit for the period after tax, and
- profit adjusted to exclude certain unusual items.

All of the above metrics are considered 'non-generally accepted accounting principles' (GAAP) and would not be included in the financial statement disclosures without reconciliation. However, segment reporting relies on the management view of the business. One of the above measures might be the only profit measure reviewed by the CODM on a regular basis (without reconciliation) and, as such, that measure should be used to assess the quantitative thresholds.

Additional questions might arise when segments report different profitability or balance sheet metrics to the CODM. A consistent measure should be developed to assess the quantitative thresholds in these cases. Regular reports to the CODM do not need to be altered, but the consistent metric must be evaluated to determine appropriate disclosure.

Aggregation at a smaller level

Multiple operating segments that do not meet any of the quantitative thresholds (and are not otherwise deemed as separate reportable segments by management) could be aggregated into a single reportable segment when they have similar economic characteristics and share a *majority* of the aggregation criteria noted above.

Note: This second assessment is different from the initial aggregation of operating segments described above. The baseline for reportable segments has already been determined at this point in the process. Aggregation of operating segments at this level allows management to disclose together similar smaller pieces of the business that might be related or dependent.

One last threshold to test

External revenue attributable to identified reportable segments must represent at least 75% of the consolidated external revenue for the entity. Additional operating segments should be identified until this threshold is reached, if it was not met by the reportable segments identified up to this point. The guidance does not prescribe how additional operating segments are identified to reach this threshold, and an entity is not required to select the next largest operating segment. The entity should select the most meaningful operating segment, based on both quantitative and qualitative factors. However, disclosure of the most significant operating segments is likely to be the easiest to support.

What to do with everything else

Information on other business activities and operating segments that are not reportable segments should be combined and disclosed under a heading 'all other segments'.

The 'all other segments' category should be shown separately from other reconciling items (such as elimination of inter-segment revenue and profits) when reconciling the segment information to figures reported in the entity's income statement and balance sheet. The guidance also requires a description of the sources of revenue included in the 'all other segments' category.

Note: An immaterial non-reportable segment cannot be aggregated with a reportable segment unless the aggregation criteria have been met. The standard does not allow for a materiality decision to alter how reportable segments are identified.

Segment disclosure requirements

The segment reporting disclosure requirements focus on providing investors with information about the nature and financial results of business activities, as viewed by management, and insight into the economic environment in which an entity operates.

The disclosure requirements are summarised below (refer to Ind AS 108 for the full list).

Type of requirement	Required disclosures
General information	• Description of the factors used to identify the reportable segments (including the overall basis of organisation—for example, geographical or product line) • Types of products and services from which each reportable segment earns its revenues • Management judgements in applying the aggregation criteria: – description of operating segments that have been aggregated, and – economic indicators that have been assessed.
Information about reportable segment profit or loss, assets and liabilities, and basis of measurement	• A measure of profit or loss • A measure of total assets and liabilities (if provided to the CODM) • Number of specific disclosures (for example, revenues from external customers) • Explanation of the measurement of the segment disclosures • The basis of accounting for transactions between reportable segments • The nature of differences between the measurements of segment disclosures and comparable items in the entity's financial report (for example, accounting policy differences)
Reconciliations	• Totals of segment revenue, segment profit or loss, segment assets and segment liabilities, and any other material segment items to corresponding totals within the financial statements
Entity-wide disclosures	• Revenues from external customers for each product and service, or each group of similar products and services • Revenues from external customers attributed to the entity's country of domicile and attributed to all foreign countries from which the entity derives revenues • Revenues from external customers attributed to an individual foreign country, if material • Non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts) located in the entity's country of domicile and in all foreign countries in which the entity holds assets • Non-current assets in an individual foreign country, if material • Extent of reliance on major customers, including details if revenue from any customer is greater than 10% of the entity's revenue

Key points to consider

Certain disclosure requirements may sometimes get overlooked or not fully applied. The following points highlight, for clarity, some specific aspects of the guidance:

- Disclosures that require the presentation of information that the CODM receives are mandatory, because the guidance presumes that the CODM is receiving the information for a reason and, as such, it is important enough to disclose.
- Specifically, entities are required to disclose profit and loss information if it is provided to the CODM, even if the item is not included in the CODM profit and loss metric. For example, the CODM might use an 'operating profit' metric for reportable segments that does not include depreciation. However, if depreciation is provided to the CODM in other information, it is a required disclosure.
- Interest income must be disclosed separately from interest expense, unless the majority of the reportable segment's revenue is from interest and the CODM relies on the net figure for decision-making.
- Segment disclosure information is not required to follow the same accounting policies as the consolidated financial statements. Segment information should be presented on the same basis that is provided to the CODM internally. This includes non-GAAP measures and currency selection. The reconciliations to the consolidated information will give visibility to the changes and might be complex if the CODM reviews information that is a significant departure from the financial statement balances.

- Multiple measures of profit, assets and/or liabilities might be provided to the CODM. The metric most relied on by the CODM for assessing performance and allocating resources should be used. When two or more measures are equally relied on, the measure most consistent with the information in the consolidated financial statements should be disclosed.
- Although an entity might consider information to be commercially sensitive, the standard does not contain a 'competitive harm' exemption.

Changes to the business

The standard does not specify a trigger, nor does it mandate timing, for the reassessment of reportable segments. However, at each reporting date, management should consider whether the current operating segment disclosure continues to be appropriate. Several types of changes to a business might alter an entity's segment reporting, including

- a change in the CODM,
- a change in the CODM pack,
- a change in organisational structure (for example, restructuring),
- a purchase or disposal of a significant group of business activities, or
- changes in the budgeting process and level at which budgets are set.

Many changes will be obvious because they have a significant impact on the management of the entity; some may be more subtle. Moves in an organisational chart might not be emphasised internally, especially if top-level oversight remains the same. However, changes in personnel can create new segment management (for example, where there was one, now there are two) or reduce it (one person promoted to oversee two others). All changes should be evaluated to determine if operating segments have changed. If they have, the effects of those changes on reportable segments should also be assessed.

Comparative periods must be restated to show the historical information on the basis of segment reporting in the current period.

What is changing from current Indian GAAP?

Indian GAAP requires identification of two sets of segments: one based on related products and services, and the other, on geographical areas based on a risks and returns approach. One set is regarded as primary segments and the other, as secondary segments. By comparison, Ind AS 108 is based on a 'management approach'—i.e. operating segments are identified based on the internal reports regularly reviewed by the entity's CODM.

Ind AS 108 prescribes specific criteria for the aggregation of two or more segments, whereas Indian GAAP does not include any specific guidance on this.

Changes to the code: The Companies (Amendment) Bill, 2016

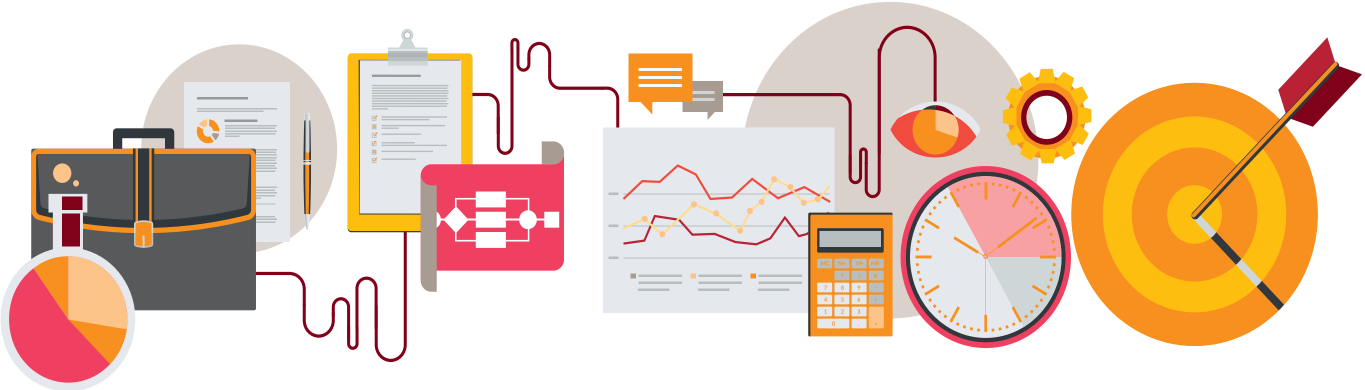
The Companies Act, 2013, which replaced the nearly sixty-year-old Act of 1956, is one of the most significant corporate-law reforms of recent times. Its key objectives are to bring Indian company law in line with global standards, and to improve corporate governance standards. The Act is being implemented in a phased manner, with 283 of its 470 provisions applicable effective 1 April 2014, and most of the remaining provisions—which are dependent on the establishment of the National Company Law Tribunal are likely to come into force in the next few months.

New requirements under the law contribute to improved accountability, disclosure, investor protection, financial reporting and governance.

However, the scale of the changes proposed has introduced many implementation-related challenges. Accordingly, the Ministry of Corporate Affairs (MCA) constituted the Companies Law Committee (CLC) in June 2015 to address these issues, including reviewing the recommendations and representations made by various stakeholders. The CLC submitted its report to MCA in February 2016.

Based on the report of CLC and comments received from the stakeholders and ministries/ departments, the central government decided to amend the Companies Act, 2013, (hereafter, the Act) and to bring out another Amendment Bill, 2016. This is pending approval by the Parliament.

Through the Companies (Amendment) Bill 2016 (hereinafter the 'Bill') which was introduced in the Lok Sabha on 16 March 2016, around 100 amendments have been proposed. The proposed changes are broadly aimed at addressing difficulties in implementation and are related to stringency of compliance requirements; facilitating ease of doing business in order to promote growth with employment; harmonisation with accounting standards, the Securities and Exchange Board of India Act, 1992 and the regulations made thereunder, and the Reserve Bank of India Act, 1934, and the regulations made thereunder including rectifying any omissions and inconsistencies in the Act.



Definitions

Associate, joint venture, and subsidiary

The Act contains certain inconsistencies vis-à-vis the accounting standards in its definitions of the terms 'associate', 'subsidiary' and 'joint venture'. It defines an associate as a company in which another company has significant influence—i.e., control of at least 20% of the total share capital, or of business decisions under an agreement. Further, it defines 'total share capital' as the aggregate of (a) paid-up equity share capital and (b) convertible preference share capital. In contrast, the definition under the accounting standards pertains only to voting power. The new definition is an issue for companies that have more preference share capital than equity capital, which potentially turns preference-capital lenders into associates.

Accordingly, the Bill proposes that significant influence should mean control over 20% of the total voting power, or control of or participation in business decisions under an agreement. Although it has fixed the issue around ownership of preference share capital, the concept of 'control of or participation in taking business decisions' creates some ambiguity. Generally, significant influence represents the ability to participate in—but not control—decision-making over the financial and/or operating policies of the other entity. This demands clarification and the redrafting of the proposed amendment.

Similarly, under the Act, a subsidiary is defined as an entity in which one controls more than one-half of the total share capital, including equity and convertible preference share capital. To address the practical issues discussed above, and to ensure consistency with the accounting standards, the Bill proposes to replace the term 'total share capital' with 'total voting power'. Finally, while the Act does not specifically define joint ventures, the Bill has now proposed to use the same meaning as under Ind AS 28. The aforesaid amendments were part of the CLC recommendations.

Financing and investing

Multi-layered investments

Under section 186 (1), the Act restricts companies, unless otherwise prescribed, from making investments through more than two layers of investment firms. The Bill proposes to remove the restrictions on layers of subsidiaries and investment companies in line with the recommendation made by CLC. This relaxation will surely help companies raise finance, and will also benefit investors who want exposure to specific projects or sectors. Such arrangements are quite common in the real estate and infrastructure sectors.

Private placement of securities

The Bill has accepted the recommendations of CLC and proposed various changes that simplify the process for the private placement of securities. Section 42 of the Act is proposed to be amended to allow private placement to be made to a selected group identified by the board. These provisions will encourage investment.

Directors and senior management

Loans

Section 185 of the Act includes restrictions on loans to directors, or to persons in whom the director has an interest. CLC had acknowledged that this can impact genuine transactions, such as where a firm provides loans to a subsidiary with common directors. Accordingly, the Bill has proposed that such loans can be made, so long as shareholders grant approval by way of a special resolution. Additionally, it has an anti-abuse provision which states that when such loans are extended to persons, including subsidiaries, falling within the restrictive purview of section 185, it should be used by the subsidiary only for its principal business activity, and not for further investment or the grant of loans.

Managerial remuneration

Section 197 prescribes that the total managerial remuneration payable by a public company should not exceed 11% of the net profit, except with the approval of shareholders and the central government. Similarly, when a company makes either no profit or inadequate profit, it is to pay directors in accordance with Schedule V, or else seek prior approval of the central government. CLC had noted that, although the limits of remuneration under Schedule V are higher than those in the erstwhile Companies Act, they are still insufficient to attract or retain senior talent. In line with global practices in other countries, the CLC had recommended increasing these limits and omitting the need for government approval. Instead, it suggested that shareholders be required to approve remuneration packages. The Bill has accepted these recommendations of CLC.

Forward dealing and insider trading of securities

The Bill proposes that the provisions relating to forward dealing and insider trading shall be omitted.

Independent directors

The Bill has accepted the recommendations of the CLC with respect to independent directors. It proposes the introduction of a materiality test to determine whether pecuniary relationships could impact the independence of an independent director. Section 149(6)(d) is proposed to be amended with respect to the scope of the restriction on a 'pecuniary relationship or transaction' entered into by a relative and also to be made more specific by clearly categorising the types of transactions.

Audits and financial statements

Appointment of auditor

The Bill has accepted the recommendation of the CLC and proposed to remove the requirement for annual ratification of appointment or continuance of the auditor. It also proposed to modify the definition of the term 'relative' for determining disqualification of an auditor by restricting it to a financially dependent relative. This is a positive change.

Unlisted companies

The Bill proposes relief to unlisted companies by proposing that only listed companies having a subsidiary or subsidiaries would be required to place separate audited accounts in respect of each of its subsidiaries on its website. At present all companies are required to comply with this requirement.

Foreign subsidiaries

It has been proposed that where a foreign subsidiary is not required to get its financial statement audited under any law of the country of its incorporation, and which does not get such a financial statement audited, the holding Indian listed company may place such an unaudited financial statement on its website.

Books of accounts

The Bill accepted the CLC's recommendation to propose that accounts cannot be reopened for a period exceeding 8 years, and that financial statements can be circulated in a period shorter than 21 days after obtaining shareholder approval.

Others

Finally, the Bill proposes certain changes and clarifications in the areas of corporate social responsibility (CSR), the incorporation process, dividend declaration, and related party transactions.

Guide to depreciation under Schedule II of the Companies Act, 2013

Background

Schedule II of the Companies Act, 2013, specifies the useful lives of assets for the purpose of computation of depreciation. There are several key changes in Schedule II to the Companies Act, 2013, compared to the erstwhile Schedule XIV of the Companies Act, 1956. On 10 April 2015, the Institute of Chartered Accountants of India (ICAI) had issued an 'Application guide on the provisions of Schedule II' (the application guide). The application guide addressed certain practical issues arising on the implementation of Schedule II.

On 11 February 2016, the ICAI issued a guidance note (GN) on 'Accounting for depreciation in companies in the context of Schedule II to the Companies Act, 2013'. The GN is similar to the application guide on various areas; however, there are certain differences. The GN is applicable for accounting periods beginning on or after 1 April 2016 and encourages early application.

This article summarises the key takeaways of the GN and also highlights the key differences from the application guide issued earlier.

Useful lives

Unlike Schedule XIV of the Companies Act, 1956, which specified the 'rate of depreciation of assets', Schedule II of the Companies Act, 2013, specifies the 'useful life of assets'. As per the GN, the useful life specified by Schedule II are indicative in nature and are not maximum or minimum. Depreciation should be recognised based on the useful life of an asset estimated by the management, considering the requirements of Accounting Standard (AS) 6: *Depreciation Accounting*. The useful lives given in Schedule II can be used when management estimation of the useful life of an asset is the same as that envisaged in Schedule II.

Change from application guide

The application guide issued by ICAI suggested that where the life estimated by the management is higher than what is envisaged in Schedule II, companies have an option to depreciate the asset using the useful life estimated by the management or that envisaged in Schedule II. This option is no longer available under the GN. Depreciation now needs to be computed based on the estimated useful life of an asset.

The requirement to depreciate assets based on the useful life as estimated by the management has brought the present Indian GAAP in line with Ind AS. Schedule II useful lives are mere indications and are neither minimum nor maximum thresholds.

Residual value

The GN clarifies that the residual value of 5% of the original cost mentioned in Schedule II is also indicative in nature. Residual value estimation of more than 5% should be supported by external or internal technical advice.

Change from application guide

The application guide issued by ICAI suggested that where the residual value estimated by the management under AS 6 is greater than 5% of the original cost, the company has an option to depreciate the asset using 5% residual value prescribed in the Schedule II or the estimated AS 6 residual value. This option is no longer available under the GN. Residual value needs to be based on management estimation supported by technical advice.

Management estimation of residual value supported by technical advice has also brought the present Indian GAAP in line with Ind AS. Companies are no longer required to adopt the fixed residual value of 5% of original cost.

Depreciation in case of revaluation of assets

The Companies Act, 1956, required depreciation to be provided on the **original cost of an asset**. Considering this, ICAI's guidance note on 'Treatment of reserve created on revaluation of fixed assets' allowed an amount equivalent to the additional depreciation on account of upward revaluation to be transferred to the statement of profit and loss. This guidance note was withdrawn by ICAI on 14 October 2015.

Schedule II now provides that the depreciable amount of an asset is the cost of an asset or **other amount substituted for cost,** less its residual value. As per the GN, the expression 'other amount substituted for cost' means that in case of revalued asset, the depreciable amount should be the carrying value of the asset after revaluation.

Considering the provisions of Schedule II and the requirements of the GN, depreciation in case of a revalued asset will be based on the revalued amount. Companies can no longer recoup additional depreciation as a credit to the statement of profit and loss. The same will have to be transferred as credit to revenue reserves.

This change will have an impact on the profit for the year and needs to be disclosed as 'change in accounting policy'. Requirement to recoup additional depreciation as credit to revenue reserves is in line with Ind AS.

Component approach

As per Schedule II, where the cost of a part of the asset is significant to the total cost of the asset and the useful life of that part is different from the useful life of the remaining asset, the useful life of that significant part shall be determined separately. This requirement is commonly known as 'component accounting' and is in line with the Ind AS. The present Indian GAAP did not mandate component accounting. The GN provides detailed guidance on component accounting approach similar to the application guide. Component accounting is mandatory from financial year commencing 1 April 2015.

Component accounting is mandatory for the financial year commencing 1 April 2015. Transition provision under Schedule II will be available to a company as at 1 April 2015.

Other clarifications of the GN:

(i)	Depreciation on low value items	**Question: Schedule XIV of the Companies Act, 1956, provided 100% depreciation for assets whose actual cost did not exceed 5,000 INR. In the absence of any such specific requirement in Schedule II, can a company continue to follow such a depreciation policy?** GN: A company may have a policy to fully depreciate assets up to certain threshold limits considering the materiality impact of such a charge. The size of the company will also be a factor to be considered while framing such a policy.
(ii)	Adoption of different methods for similar assets at different geographical locations	**Question: Can a company use different methods of depreciation for similar assets located at different locations?** GN: The selection of a method of depreciation is a matter of judgement by the management, taking into account various factors such as type of asset, the nature of the use of an asset and circumstances prevailing in the business. Depreciation should represent a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Different methods for similar assets at different geographical locations can be used if those methods are selected based on the above-mentioned factors.
(iii)	Intangible assets: Toll roads	**Question: Does Schedule II prescribe any specific method for depreciating intangible assets?** GN: Schedule II provides the option of revenue-based amortisation for toll roads. However, this method is not mandatory. Schedule II does not provide for any specific method for other intangible assets. The same needs to be amortised as per the applicable AS.
(iv)	Unit of production method of depreciation	**Question: Can a company adopt the unit of production method for depreciating an asset?** GN: The depreciation on an asset under Schedule II can be provided, where appropriate, on the basis of the units expected to be obtained from the use of asset. This method is commonly known as the unit of production method. The unit of production method is generally considered appropriate where the number of units that can be produced or serviced from the use of an asset is the major limiting factor for the use of an asset rather than time. For example, the useful life of aircraft engine is restricted by number of flying hours.

(v)	Regulatory depreciation rates	**Question: How should an asset be depreciated where a regulatory authority prescribes the useful life, rate of depreciation or residual value which is different than that of Schedule II or the management estimated useful life?** GN: Where a regulatory authority constituted under an act of parliament or by the central government prescribes useful life or residual value for any specific asset for accounting purposes, the company should use that useful life/residual value even though it is different from Schedule II or the management estimated useful life. For example, as per the tariff policy notified by Ministry of Power, rates of depreciation notified by the Central Electricity Regulatory Commission (CERC) is applicable for purposes of tariffs as well as accounting. Companies which are regulated by this tariff policy should apply the rate of depreciation notified by CERC.

Conclusion

The GN has provided clarifications on various practical issues arising on implementation of Schedule II. The GN is different from the application guide on certain aspects and is effective from accounting periods beginning on or after 1 April 2016 with early application encouraged. It would be advisable for companies to evaluate the requirements of the GN and prepare for compliance.

Ind AS transition facilitation group clarifications

Background

Pursuant to the roadmap for Ind AS implementation issued by the MCA vide notification dated 16 February 2015, Ind ASs are applicable to a certain class of companies from 1 April 2016 on a mandatory basis. In this regard, various issues related to the applicability of Ind AS and its implementation have been raised by preparers, users and other stakeholders. Considering the need to address various issues raised on an urgent basis, the Accounting Standards Board (ASB) of the ICAI formed the Ind AS Transition Facilitation Group (ITFG) on 11 January 2016.

On 11 February 2016, the ITFG issued its first clarification bulletin addressing certain issues related to applicability of Ind AS/implementation. These are summarised below:

	Area	Clarification
1	Ind AS applicability	**Question** Company X, on a standalone basis, had a net worth of above 250 crore INR but below 500 crore INR in the financial year 2013–2014 as well as financial year 2014 –2015 and is expected to exceed 500 crore INR in the financial year 2015–2016. From which year will the company be required to comply with Ind AS? **Response** Ind AS is applicable in Phase I, i.e., from FY 2016–2017 to companies having net worth exceeding 500 crore INR as at 31 March 2014. Companies with a net worth exceeding 250 crore INR but below 500 crore INR as at 31 March 2014 would apply Ind AS from FY 2017–2018. These are commonly referred to as Phase II companies. Applicability of Ind AS needs to be evaluated at each financial year end. Phase II companies, which meet the threshold of the 500 crore INR net worth subsequent to March 2014 but on or before 31 March 2016, will need to comply with Ind AS from financial year 2016–2017.
2	Ind AS applicability	**Question** Company A is a listed company and has three unlisted subsidiaries: Company X, Company Y and Company Z. As of 31 March 2014, the net worth of Company A is 600 crore INR; the net worth of Company X is 100 crore INR; Company Y is 400 crore INR; and Company Z is worth 210 crore INR. Company A sold of its entire investment in companies X, Y and Z on 31 December 2014, 31 December 2015 and 31 December 2016 respectively. Considering that Ind AS is also applicable to a holding company, subsidiary, joint venture (JV) and associates of companies with a net worth of 500 crore INR, will Company X, Y and Z need to comply with Ind AS? **Response** Company A has a net worth of 500 crore INR as at 31 March 2014 and hence Ind AS will be applicable to Company A and its subsidiaries from FY 2016–2017. However, since Company X and Y are no longer subsidiaries of Company A as at 1 April 2016 (date of adoption), Ind AS will not be applicable to these companies beginning 1 April 2016. Company Z was sold on 31 December 2016 and hence will need to comply with Ind AS beginning 1 April 2016.

3	First-time adoption	**Question:** Company XYZ having a net worth of 600 crore INR as at 31 March 2014 has taken a loan with a tenure of 5 years for importing fixed assets on the following dates: (i) 1 July 1 2014 (ii) 1 February 2016 (iii) 3 May 2016 The company has adopted the accounting policy available under the current Indian GAAP to capitalise the exchange differences on long-term foreign currency monetary items. Can the company continue to apply this policy based on the requirements of para D13AA of Ind AS 101, 'First-time adoption of Ind AS'? **Response** The exemption given in para D13AA of Ind AS is available only for those long-term foreign currency items which were recognised in the financial statements before the beginning of the first Ind AS reporting period. In the above illustration, the beginning of the first Ind AS reporting period for company XYZ is 1 April 2016 (since Ind AS is applicable from FY 2016–2017). Therefore, the option given in para D13AA of Ind AS 101 will be available for loans taken on 1 July 2014 and 1 February 2016; however, it will not be available for the loan taken after 31 March 2016.
4	First-time adoption	**Question** Company ZED having a net worth of 600 crore INR as at 31 March 2014 has assessed its functional currency under Ind AS to be USD. The company has taken a USD loan for importing fixed assets as at 31 March 2014 and has adopted the policy to capitalise exchange differences on such loan under the present Indian GAAP. Can the company avail the option of para D13AA of Ind AS 101 discussed in clarification 3 above? **Response** Since the functional currency of the company has changed from INR to USD, the USD loan will no longer be considered as foreign currency monetary items under Ind AS. Hence, Company ZED cannot continue the policy of recognising the exchange differences arising on the USD loans in the cost of fixed assets.
5	First-time adoption	**Question** ABC Ltd having a net worth of 600 crore INR as at 31 March 2014 wants to assess its functional currency under Ind AS. From which date should the company assess it—from date of transition or retrospectively? **Response** There is neither any exception nor any exemption available under Ind AS 101 for the assessment of functional currency. Accordingly, ABC Ltd will have to assess its functional currency retrospectively.

Conclusion

In its first bulletin, ITFG has attempted to clarify certain issues related to Ind AS applicability and implementation of Ind AS 101 on First-time adoption. There are surely other Ind AS implementation-related issues requiring clarification. ITFG clarifications would be helpful for companies and auditors as they navigate through Ind AS implementation.

Update on changes to accounting standards

The MCA vide notification dated 30 March 2016 issued the Companies (Accounting Standards) Amendment Rules, 2016 (AS Rules, 2016), amending the Companies (Accounting Standards) Rules, 2006 (AS Rules, 2006). The AS Rules, 2016, have brought the following changes:

AS amended:

1. AS 2 on 'Valuation of inventories'
2. AS 4 on 'Contingencies and events occurring after the balance sheet date'
3. AS 13 on 'Accounting for investments'
4. AS 14 on 'Accounting for amalgamations'
5. AS 21 on 'Consolidated financial statements'
6. AS 29 on 'Provisions, contingent liabilities and contingent assets'

AS omitted:

AS 6 on 'Depreciation accounting'

Revised AS notified:

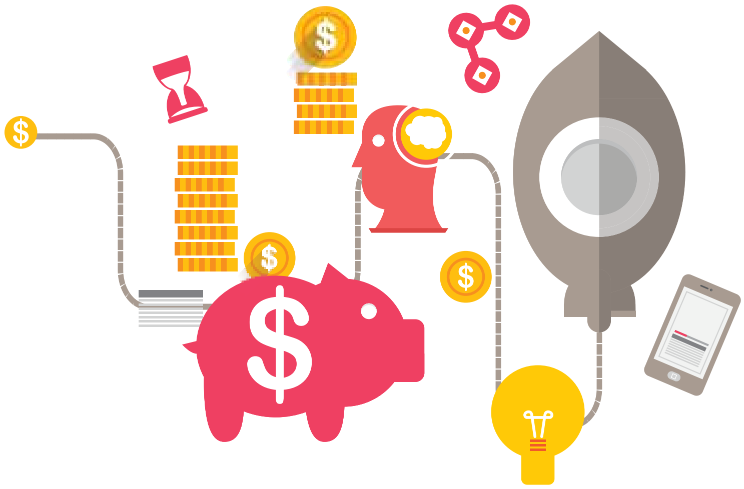
AS 10 on 'Property, plant, equipment' (PPE) notified in substitution of the previous AS 10 on 'Accounting for fixed assets'

The aforesaid changes have been brought in by the MCA to align the AS with the provisions of the Companies Act, 2013, and the Ind AS.

What has changed

AS	Amendment	Rationale	Transition guidance
AS-2	**Machinery spares:** Under the existing AS 2, machinery spares are usually treated as inventories. However, spare parts that can only be used in connection with a particular item of fixed assets and whose use is expected to be irregular were capitalised under AS 10. Under the new guidance, inventories shall not include spare parts, servicing equipment and standby equipment which meet the definition of PPE under the revised AS 10 (i.e. those which are intended to be used for a period of more than 12 months).	The amendment is to align with Ind AS 2, 'Inventories'.	Spare parts which are required to be capitalised under the new guidance will be capitalised at their respective carrying amounts and should be depreciated over the remaining useful life prospectively.
AS 4	**Proposed dividend:** Dividends declared after the balance sheet date but before the financial statements are approved for issue will not be recognised as a liability at the balance sheet date. Such dividends will be disclosed as part of notes to accounts.	The amendment is to align with Ind AS 10, 'Events after the reporting period'.	-

AS	Amendment	Rationale	Transition guidance
AS 10 revised	The key changes in the revised standard are summarised below: 1. **Expenditure incurred during construction period:** The revised standard provides guidance as to what constitutes the unit of measure for recognition, i.e. what constitutes an item of PPE. A unit of measure can be a project of construction of a manufacturing plant rather than individual assets comprising the project in appropriate cases for the purpose of capitalisation of expenditure incurred during construction period. Judgement needs to be applied in determining what constitutes the unit of measure. 2. **Subsequent measurement at cost or revaluation model:** The entity has to choose either the cost or revaluation model as its accounting policy for the subsequent measurement. Revaluations are required to be made with sufficient regularity. If an item of PPE is revalued, the entire class to which that asset belongs is revalued. Ad hoc revaluation permitted under the erstwhile AS 10 is no longer allowed. 3. **Deferred payment terms:** The cost of an item of PPE is its cash price at the date of recognition. If the payment is deferred beyond normal credit terms, the difference between cash price and total payment is charged as interest. 4. **Decommissioning, restoration and similar liabilities:** Cost of an item of PPE shall include the initial estimate of costs towards the aforesaid liabilities. 5. **Component accounting:** Component accounting has been made mandatory. 6. **Depreciation:** • Depreciation to be allocated on a systematic basis over the useful life of an asset. Useful life is defined in terms of expected utility to the entity. • Residual value and useful life of an asset has to be reviewed annually. • The change in the depreciation method is to be accounted prospectively as change in accounting estimates. • Recouping additional depreciation from revaluation reserve to a profit and loss account is not permitted.	Revised AS 10 is now substantially aligned with Ind AS 16, 'Property, plant and equipment'	a) Unit of measure: Where an entity has, in the past, recognised an expenditure in the statement of profit and loss which is eligible for capitalisation under the revised AS 10, and may do so retrospectively with adjustment to the revenue reserves b) Revaluation model: An enterprise which does not want to adopt the revaluation model as its accounting policy on adoption of revised standard should adjust the outstanding revaluation reserve against the carrying amount of that PPE item.
AS 13	**Investment property:** An investment property will now be accounted for in accordance with the cost model as prescribed in the revised AS 10 instead of AS 13.	Existing AS 13 did not contain any specific requirement to depreciate investment property. However, a circular of Department of Company Affairs required that depreciation be provided on investment property. The amendment to AS 13 clears the ambiguity with respect to depreciation of investment property.	-

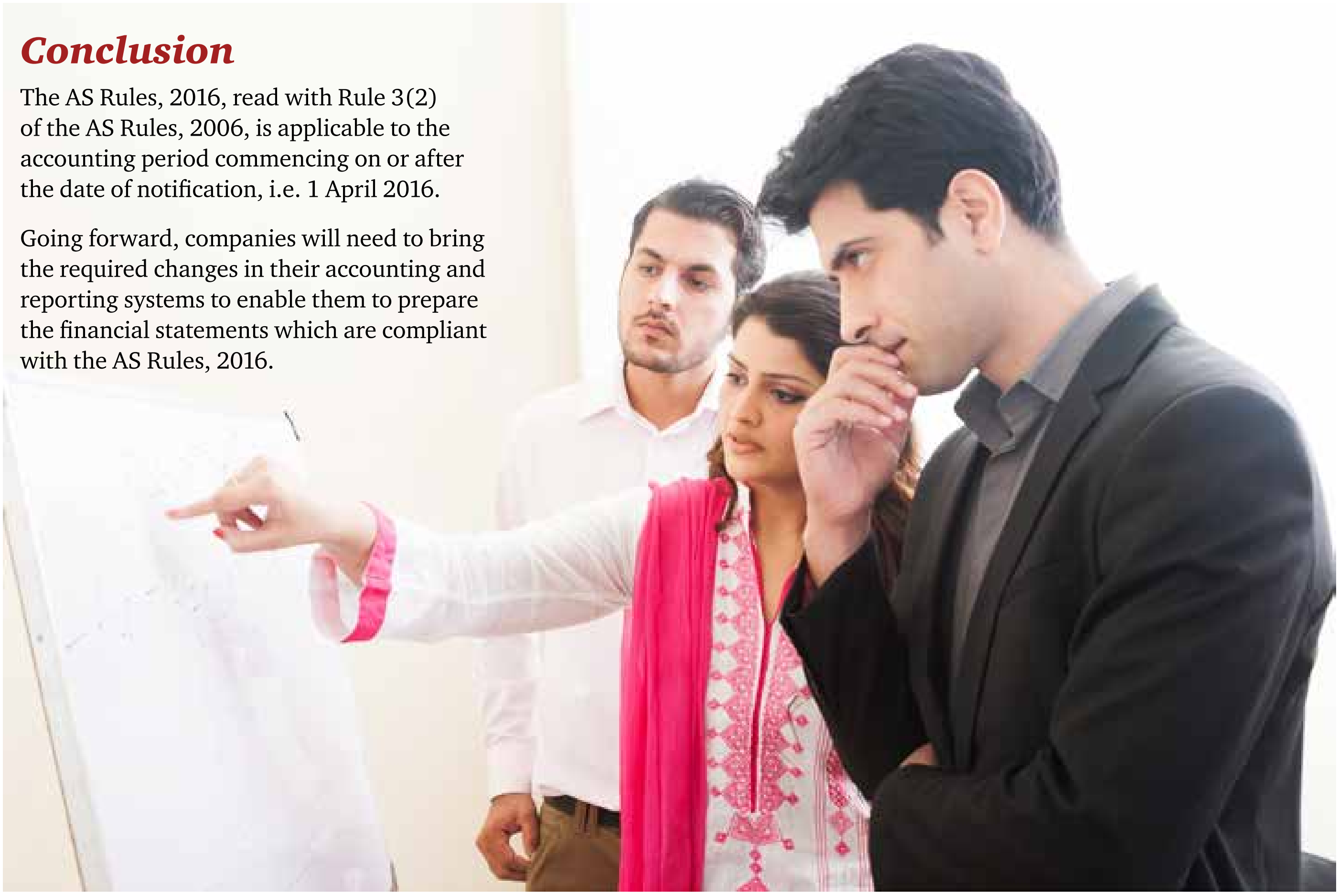


AS	Amendment	Rationale	Transition guidance
AS 14	**Guidance on treatment of reserves specified in a scheme of amalgamation:** The disclosure required in situations where the scheme of amalgamation prescribes a different treatment to be given to the reserves of the transferor company as compared to the requirement of the standard shall not apply to any scheme of amalgamation approved under the Companies Act, 2013.	Section 230* and 232* of the Companies Act, 2013, requires accounting treatment proposed in the scheme of compromise or arrangement to be in conformity with the AS. The amendment to AS 14 has been made considering the above requirement. * Not yet effective	-
AS 21	**Scope of consolidation:** Where an enterprise does not have a subsidiary but has an associate and/or JV, such an enterprise should also prepare consolidated financial statements in accordance with the applicable accounting standards.	Change has been made to align with the provisions of the Companies Act, 2013, which mandates consolidation where a company does not have a subsidiary but has an associate or JV.	-
AS 29	**Discounting of decommissioning liabilities:** The amount of provision recognised under the revised AS 10 with respect to decommissioning, restoration and similar liabilities should be discounted. The discount rate should be the pre-tax rate that reflect the current market assessment of the time value of money and the risks specific to the liability.	Change made consequent to the revised AS 10	Discounting to be done prospectively with adjustment to item of PPE

Conclusion

The AS Rules, 2016, read with Rule 3(2) of the AS Rules, 2006, is applicable to the accounting period commencing on or after the date of notification, i.e. 1 April 2016.

Going forward, companies will need to bring the required changes in their accounting and reporting systems to enable them to prepare the financial statements which are compliant with the AS Rules, 2016.



SEBI update: Ind AS applicability to financial information in the offer documents

SEBI Issue of Capital and Disclosure Requirements (ICDR) Regulations, 2009, as amended (the 'Regulations'), requires disclosure of financial information in the offer document for each of the five financial years immediately preceding the filing of the offer document.

SEBI through its circular dated 31 March 2016 (the 'circular') has aligned such disclosure requirements of financial information in the offer document with the requirements of Ind AS, as notified by MCA.

Applicability: The circular is applicable for all the companies which are required to disclose their financial information in accordance with Ind AS as per the MCA roadmap and whose offer document is filed with SEBI on or after 1 April 2016.

Key takeaways

SEBI has clarified the applicability of Ind AS based on the **phases** in which Ind AS is applicable to the issuer companies as per the MCA roadmap and period in which the issuer companies will **file** their offer document.

SEBI has provided the following requirements:

- **Phase I companies:** For issuer companies to which Ind AS is applicable in Phase I of the MCA roadmap (beginning from FY 2016–17):

Period of filing of offer document	Latest financial year	X-1	X-2	X-3	X-4
Up to 31 March 2017	Indian GAAP	Indian GAAP	Indian GAAP	Indian GAAP	Indian GAAP
Between 1 April 2017 and 31 March 2018	Ind AS	Ind AS	Ind AS*	Indian GAAP	Indian GAAP
Between 1 April 2018 and 31 March 2019	Ind AS	Ind AS	Ind AS	Indian GAAP	Indian GAAP
Between 1 April 2019 and 31 March 2020	Ind AS	Ind AS	Ind AS	Ind AS	Indian GAAP
On or after 1 April 2020	Ind AS	Ind AS	Ind AS	Ind AS	Ind AS

** To be disclosed by making suitable restatement adjustments to the accounting heads from their values as of the date of transition, following accounting policies consistently with that used at date of transition to Ind AS.*

- **Phase II companies:** For issuer companies to which Ind AS is applicable in Phase II of the MCA roadmap (beginning from FY 2017–18), the above timelines will apply with time lag of one year.
- **Alternatively**, the issuer companies, may voluntarily choose to present all the five year periods using Ind AS instead of AS otherwise applicable for such period(s).
- The issuer company shall clearly **disclose** the fact that the financial information has been disclosed in accordance with Ind AS while suitably explaining the difference between Ind AS and the previously applicable AS, and the impact of transition to Ind AS. For this purpose, the issuer company shall ensure compliance with the requirements of 'Ind AS 101' on 'First-time adoption'.
- All financial information disclosed in the offer document for any particular year shall be in accordance with consistent accounting policies (Ind AS or applicable accounting standards)
- All the information disclosed in the offer document as per Ind AS shall be **audited/reviewed** in accordance with requirements of the regulations.

Conclusion

The long-awaited circular from SEBI has clarified the applicability of Ind AS to the issuer companies. This will not only help the corporates in deciding the timing to file their offer document but also to plan their financial reporting requirements to be included in the offer document. Investors will also have transparent and comparable financial information in the offer document.

Recent technical updates

MCA

The Companies (Share Capital and Debentures) Amendment Rules, 2016

The MCA vide notification dated 10 March 2016 issued the aforesaid amendment rules. Pursuant to the above notification, where the audited accounts are more than 6 months old, the calculations with reference to buy-back under the Companies Act, 2013 shall be on the basis of unaudited accounts not older than 6 months from the date of the offer document, which are subjected to limited reviews by the auditors of the company.

Companies (Auditor's Report) Order, 2016

The MCA has issued the Companies (Auditor's Report) Order, 2016 (CARO 2016), on 29 March 2016. This order has been issued in supersession of the Companies (Auditor's Report) Order, 2015, and is applicable for reporting on financial statements of companies whose financial year commences on or after 1 April 2015. The MCA has relaxed the applicability of CARO 2016 to private companies by increasing applicability thresholds. CARO 2016 will not apply to the auditor's report on consolidated financial statements. The total number of clauses in the new CARO is 16. CARO 2016 has enhanced the auditor's reporting requirements in certain areas, such as related party transaction and managerial remuneration.

Amendment to Schedule III for Ind AS financial statements

The MCA has amended the existing Schedule III to incorporate the guidance and format for preparation of financial statements of companies required to comply with Ind AS. The amendment will come into effect from the date of its publication in the official gazette, i.e. 6 April 2016.

Draft Companies (Cost Records and Audit) Amendment Rules, 2016 (notice dated 21 February 2016)

The Draft Companies (Cost Records and Audit) Amendment Rules, 2016, has been placed for public comments on the ministry's website. The proposed changes include those relating to the appointment of the cost auditor and the prescribed time limit to forward the signed cost audit report to the board of directors of the company and its filing with the central government.

Companies (Indian Accounting Standards) Amendment Rules, 2016

The MCA notified the Companies (Indian Accounting Standards) Amendment Rules, 2016, on 30 March 2016. The rules have omitted the Ind AS 115 and notified the following Ind ASs:

1. Ind AS 11, 'Construction contacts'
2. Ind AS 18, 'Revenue'

The rules have also amended the existing Ind ASs to reflect the amendments made by the International Accounting Standard Board (IASB) as part of its disclosure initiative project and annual improvement cycle. Ind AS 101 has been amended to remove the option to use fair value for investment property as deemed cost on the date of transition.

Limits triggering notification to Competition Commission of India with respect to mergers and acquisitions (M&A) relaxed

The MCA has relaxed the limits which trigger notification to the Competition Commission of India under section 5 of the Competition Act, 2002, with respect to M&As by doing the following:

1. Enhancing, on the basis of wholesale price index, the value of assets and the value of turnover by 100%.
2. Exempting a 'group' exercising less than 50% of voting rights in other enterprises
3. Exempting an enterprise whose control, shares, voting rights or assets are being acquired and has either assets of the value of not more than 350 crore INR in India or a turnover of not more than 1,000 crore INR in India

The above-mentioned exemptions are available only for a period of five years from the date of publication of the notification in the official gazette.

Ministry of Labour and Employment

Provident fund: Withdrawal of grace period of five days

The employers were previously allowed a grace period of five days to remit the contributions as the system of calculation of wages of the employees and their corresponding dues under the three schemes (Employees' Provident Fund (EPF) Scheme, 1952, Employees' Pension Scheme (EPS), 1995, and Employees' Deposit Linked Insurance (EDLI) Scheme, 1976) were done manually and its remittances in the bank required additional time in the earlier manual setup.

Considering the fact that employers now compute the wages and EPF liabilities electronically and file Electronic Challan-cum-Return (ECR), it has been decided that a grace period of five days be given to employers to deposit their contribution and other dues be withdrawn. This decision will apply from February 2016 (contributions for the month of January 2016 and payable in the month of February 2016). Accordingly, the employers will now pay the contributions and other dues within 15 days of close of every month.

Ministry of Law and Justice

The Payment of Bonus (Amendment) Act, 2015

The Payment of Bonus (Amendment) Act, 2015, has been notified. Among other matters, it contains the following amendments:

- The scope of coverage has been extended by revising the salary ceiling from the existing 10,000 INR to 21,000 INR per month.
- The salary limit capped for the purpose of calculating the bonus has also been revised from the existing 3,500 INR to 7,000 INR per month, or the minimum wage for the schedule employment, as fixed by the appropriate government, whichever is higher.

These amendments will be deemed to have come into force with retrospective effect from 1 April 2014.

SEBI

SEBI board meeting: Mechanism to review the audit qualifications

SEBI in its board meeting, among other matters, has put in place a mechanism to review the audit qualifications contained in the audit reports. The said mechanism has been incorporated in the SEBI (Listing and Other Disclosure Requirements) Regulations, 2015 ('Listing Regulations').With the objective that the impact of the audit qualification is disseminated without any delay and to further streamline the process, the board approved the following revised procedure to deal with such matters:

- The listed entities shall be required to disclose the cumulative impact of all the audit qualifications on relevant financial items in a separate form called 'Statement on Impact of Audit Qualifications' instead of the present Form B. Such disclosure would be in a tabular form along with the annual audited financial results filed in terms of listing regulations.
- In cases where there are no audit qualifications, the existing requirement of filing Form A signed by top officials/directors of the company and auditors shall not be necessary.

- The management shall have the right to give its views on the audit qualifications in the new form.
- The existing requirement of adjustment in the books of accounts of the subsequent year shall not be necessary.

The new mechanism is applicable from FY ending March 2016 as well as for earlier cases.

Discussion paper on 'Brightline tests for acquisition of 'control' under SEBI takeover regulations'

The SEBI has issued a discussion paper titled 'Brightline tests for acquisition of 'control' under SEBI takeover regulations'. It was open for comments/ suggestions until 14 April 2016.

ICAI

Standard on Assurance Engagement (SAE) 3420, 'Assurance engagements to report on the compilation of pro forma financial information included in a prospectus'

The ICAI has issued Standard on Assurance Engagement (SAE) 3420, 'Assurance engagements to report on the compilation of pro forma financial information included in a prospectus'. This SAE deals with reasonable assurance engagements undertaken by a practitioner to report on the responsible party's compilation of pro forma financial information included in a prospectus. This SAE is effective for assurance reports dated on or after 1 April 2016.

Revised Standard on Auditing (SA) 610, 'Using the work of internal auditors'

The ICAI has issued Standard on Auditing (SA) 610 (Revised), 'Using the work of internal auditors'. This Standard on Auditing (SA) deals with the external auditor's responsibilities if using the work of internal auditors. This includes (a) using the work of the internal audit function to obtain audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor. This SA is effective for audits of financial statements for periods beginning on or after 1 April 2016.

Revised guidance note on reporting of frauds under section 143(12) of the Companies Act, 2013

The MCA vide notification dated 14 December 2015 amended Rule 13 of the Companies (Audit and Auditors) Rules, 2014. The amendment required the following:

1. Statutory auditors to report frauds under section 143(12) of the Companies Act, 2013, in case where the frauds involve or are expected to involve individually an amount of 1 crore INR and above.
2. In case of a fraud involving lesser amounts than 1 crore INR, the statutory auditor is required to report the fraud only to the audit committee/board of directors of the company.

Apart from the above, the amendment also brought in certain other changes with respect to procedure and particulars of reporting under section 143(12) of the Companies Act, 2013.

Considering the above amendment, the ICAI has issued the revised guidance note on reporting of frauds under section 143(12) of the Companies Act, 2013, to provide guidance to the auditors to comply with their reporting responsibilities under the section.

Insurance Regulatory and Development Authority (IRDA)

Implementation of Ind AS in the insurance sector

In accordance with the press release issued by the MCA, the IRDA has advised that insurers will follow the Ind AS, as notified under the Companies (Indian Accounting Standards) Rules, 2015, subject to any guideline or direction issued by the IRDA in this regard, in the following manner:

- Insurers will comply with the Ind AS for the financial statements for accounting periods beginning from 1 April 2018 onwards, with comparatives for the periods ending 31 March 2018 or thereafter.
  Ind AS will be applicable to both standalone financial statements and consolidated financial statements.
- Insurers will apply Ind AS only according to the above timelines and will not be permitted to adopt Ind AS earlier.
- Insurers are advised to set up a steering committee headed by an official of the rank of an executive director (or equivalent) comprising members from cross-functional areas of the insurer to immediately initiate the implementation process.
- Insurers also need to be in preparedness to submit pro forma Ind AS financial statements to the authority from the quarter ending 31 December 2016 onwards.
  Insurers shall disclose in the annual report, the strategy for Ind AS implementation, including the progress made in this regard.

Reserve Bank of India (RBI)

Fraud: Future approach towards monitoring fraud cases in non-banking financial companies (NBFCs)

The RBI has decided to revise the threshold for reporting of cases of fraud and submitting quarterly progress reports on fraud to the Central Fraud Monitoring Cell, RBI, and the Department of Banking Supervision, from 25 lakh INR to 1 crore INR with immediate effect.

Regarding the reporting of fraud cases and submission of quarterly progress reports on fraud, below is the revised threshold NBFCs will have to furnish the same to the Regional Office of Reserve Bank of India, Department of Non-Banking Supervision, under whose jurisdiction the Registered Office of the NBFC falls.

Implementation of Indian Accounting Standards (Ind AS) in banks

In accordance with the press release issued by the MCA, the RBI has advised that scheduled commercial banks (excluding regional rural banks (RRB)) will follow the Ind AS as notified under the Companies (Indian Accounting Standards) Rules, 2015, subject to any guideline or direction issued by the RBI in this regard, in the following manner:

- Banks will comply with the Ind AS for financial statements for accounting periods beginning from 1 April 2018 onwards, with comparatives for the periods ending 31 March 2018 or thereafter. Ind AS will be applicable to both standalone financial statements and consolidated financial statements.
- Banks will apply Ind AS only as per the above timelines and will not be permitted to adopt Ind AS earlier.
- The holding, subsidiary, JV or associate companies of banks will be required to prepare Ind AS-based financial statements for accounting periods beginning from 1 April 2018 onwards, with comparatives for the periods ending 31 March 2018 and thereafter.
- Banks will assess the impact of Ind AS implementation on their financial position, including the adequacy of capital, taking into account the Basel III capital requirements and place quarterly progress reports to their boards. Banks also need to be in prepared to submit pro forma Ind AS financial statements to the RBI from the half-year ending 30 September 2016 onwards. Banks will also disclose in the annual report, the strategy for Ind AS implementation, including the progress made in this regard from FY 2016–17 until implementation.

IFRS

IASB issues new standard on leases: IFRS 16

The IASB issued the new standard on leases: IFRS 16 in January 2016. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its earlier accounting standard—IAS 17. IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019.

Narrow-scope amendments to IAS 12, 'Income taxes'

The IASB has issued amendments to IAS 12, 'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after 1 January 2017.

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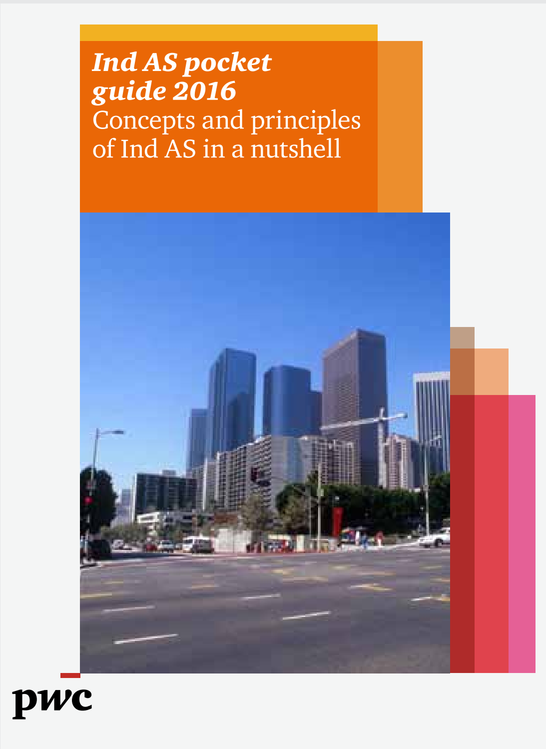

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