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PwC ReportingPerspectives

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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.

Phase 1 companies are getting ready to adopt the new Indian Accounting Standards (Ind AS) beginning 1 April 2016. As part of our continued effort to provide guidance on Ind AS, we have included an overview of certain important aspects related to accounting for share-based payments under Ind AS 102. We discuss how the accounting regime for share-based payments will change for corporate India under Ind AS, and how this is expected to have a significant impact, especially for companies which use such plans as an important component of their total employee remuneration package.

The new leasing standard of the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) will require lessees to recognise virtually all leases on the balance sheet by recording a right-of-use asset and liability based on the cash flows associated with the lease. We have covered some of the key concepts of the new/proposed leasing standard.

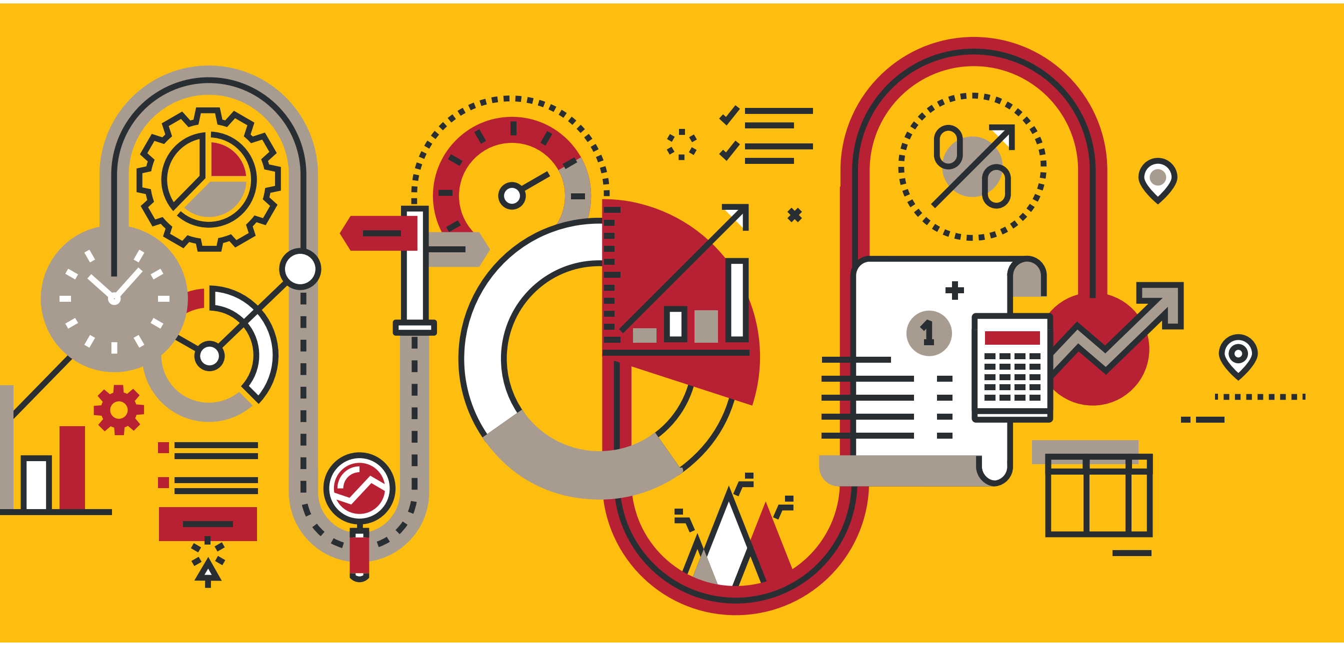
We have discussed recent updates from regulators—RBI, IRDA and SEBI—in the context of Ind AS implementation. These are welcome developments, with all regulators actively engaged in moving forward the Ind AS agenda and providing guidance for corporates, including regulated and specialised sectors such as financial services and insurance.

The Ministry of Corporate Affairs (MCA) constituted a High Level Committee to suggest measures for monitoring the progress of the implementation of corporate social responsibility (CSR) policies by companies at their level and by the government. The key recommendations of the committee are summarised in this edition. We also provide an overview of the base erosion and profit shifting (BEPS) project, along with the measures proposed under each action.

The 2015 AICPA National Conference on Current SEC and PCAOB Developments was held in December 2015. Presenters comprising representatives from regulatory and standard-setting bodies, auditors, preparers, securities counsel, and industry experts expressed views on a variety of accounting, auditing, and financial reporting topics. The key highlights of this conference are included 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 primer on ***accounting*** for share-based payments under Ind AS"

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Background

Share-based payment plans have become increasingly common and form an important component of the total employee compensation package. In the absence of any specific accounting standard under Indian generally accepted accounting principles (GAAP), the Guidance Note on 'Accounting for employee share-based payments' (hereinafter 'Guidance Note') issued by the Institute of Chartered Accountants of India (ICAI) establishes financial accounting and reporting principles for employee share-based payments, leaving out other analogous share-based arrangements—for example, with suppliers and customers. Furthermore, listed companies are required to comply with the Guidance Note under the new Securities and Exchange Board of India (SEBI) regulations.

Under Ind AS, accounting for all types of shared-based arrangements is prescribed by Ind AS 102, 'Share-based payment', including those for employees, suppliers and customers.

Ind AS 102 contains comprehensive accounting guidance and it can sometimes be complex to apply to specific circumstances and arrangements. In this article, we analyse certain important aspects related to accounting for share-based arrangements under Ind AS 102 that companies, especially those planning new arrangements or modification of existing plans, should be aware of.

What are share-based payment arrangements?

A share-based payment transaction is one in which goods or services are received as part of a share-based payment arrangement. These goods or services represent the consideration received for issuing equity instruments or for incurring liabilities (to pay cash, for example) for amounts that are based on the market price (or fair value) of the entity's shares (or other equity instruments of the entity).

Share-based payment arrangements entitle a party to receive equity instruments (such as shares) or cash based on the value of the equity instruments of the entity. The equity instruments exchanged could also be those of the entity's parent company (or those of any other member within the same group of entities).

The most traditional form of employee share-based payment arrangement involves employee services and granting employees an option to purchase a fixed number of shares at a stated price during a specified period, sometimes at a discount on the market price of the entity's shares. This arrangement may involve employees who are also shareholders and have been granted additional benefits in their capacity as an employee.

A share-based payment transaction that is settled in cash should be based on the market price or fair value of the shares themselves, in order to fall under Ind AS 102.

Example

Cash payments that are not based on the market price of equity instruments

An entity makes a cash payment to an employee that is based on a fixed multiple of the entity's earnings, such as earnings before interest, tax, depreciation and amortisation (EBITDA).

As the cash payment is not based on the entity's share price, it is not within the scope of Ind AS 102. The cash payment is an employee benefit, which is accounted for under Ind AS 19, 'Employee benefits'.

Which share-based payment arrangements are within the scope of Ind AS 102?

Ind AS 102 should be applied to every share-based payment arrangement. In practice, the identification of arrangements that fall within the scope of Ind AS 102 may not always be straightforward. Identifying arrangements that fall within or outside of the scope of Ind AS 102 becomes more complex when:

- there is judgement involved in determining whether or not the associated contract for the purchase of goods/service is subject to Ind AS 32/Ind AS 109 (and represents a financial instrument),
- equity instruments are issued in a business combination in exchange for both control of the acquiree entity and post-combination employee services, and
- equity instruments are issued to employees of another entity within the group.

Ind AS 102 contains the relevant guidance to be applied.

Are there any specific exclusions?

Yes. Certain specific exclusions are:

- shares issued to an employee in his/her capacity as a shareholder (e.g. right issue of shares to all shareholders, including employees who are shareholders),
- shares issued in a business combination in exchange for control of the acquiree entity, and
- shares issued for goods other than those needed to be used in the business and/or arrangements entered into for speculative purposes.

Does a share-based payment arrangement always involve an employer and an employee?

No. Entities typically use share-based plans for the purpose of employee remuneration, but the scope of the standard is much broader. It only requires the exchange of equity instruments, or cash amounts based on the value of these equity instruments, with another party in return for goods or services. Share-based payment arrangements may be used to procure goods in addition to being used with employees and other parties to purchase services. All such transactions are within the scope of Ind AS 102.

Share-based payments in a business combination

Ind AS 103, 'Business combinations', provides guidance to determine accounting for replacement share awards issued in a business combination. The key issue is whether such awards should form part of the consideration for a business combination and therefore be included in the calculation of goodwill or whether they should be accounted for as an expense for post-combination services.

Is it a share-based payment if an acquirer makes a grant in connection with a business combination?

It depends on what the acquirer receives in return for the share-based awards:

- If the acquirer receives control of the acquired entity, the arrangement is excluded from the scope of Ind AS 102. Ind AS 103 requires the acquirer to measure the shares at their fair value on the date of exchange.
- If the acquirer issues awards to employees in return for post-combination employee services (e.g. to encourage them to continue working for the acquiree after acquisition), Ind AS 102 applies.

In practice, it may be difficult to determine whether the shares have been issued in return for control of the acquired entity (Ind AS 103) or for future employee service (Ind AS 102). Often, such grants are a mixture of both types, i.e. for acquiring control and for post-combination services, which means that both Ind AS 103 and Ind AS 102 will apply. Accordingly, in such situations, a portion of the fair value of the awards will be included in business combination accounting and the remaining portion will be considered for recognising employee share-based payment expense in the post-combination period.

Typically, where the grant is made to employees of the acquired entity in their capacity as shareholders, it forms part of the cost of the business combination and falls outside the scope of Ind AS 102. On the other hand, in cases where the grant requires the provision of post-combination services, Ind AS 102 applies.

It is also important to note that the cancellation, replacement or modification of existing share-based payment arrangements as result of a business combination should be accounted for under Ind AS 102.

Classification of share-based payment arrangements

The classification of a share-based payment will determine its recognition and measurement, which is not always straightforward.

In case of equity-settled plans, the fair value of equity instruments granted is not remeasured. However, the estimate of the number of equity instruments that are likely to vest is revised, if necessary, until the instruments actually do vest. For cash-settled transactions, the fair value of the liability is remeasured on each reporting date through the date of settlement. Any changes in fair value are recognised in profit or loss for the period.

This is an important area which can have a significant impact on the reported profits and net worth of an entity using share-based arrangements to compensate employees.

What are the different types of share-based payment?

There are three types of share-based payment arrangements:

01 Equity-settled share-based payments

Transactions in which the entity (a) receives goods or services as consideration for its own equity instruments (including shares or share options), or (b) receives goods or services but has no obligation to settle the transaction with the supplier

The issue of options to employees that give them the right to purchase the entity's shares at a discounted price in exchange for their services is one of the examples of equity-settled share-based payments.

02 Cash-settled share-based payments

Transactions in which the entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity

Share appreciation rights that entitle employees to cash payments based on the increase in the employer entity's share price are one of the examples of cash-settled share-based payments.

03 Choice of settlement

Transactions in which the entity receives or acquires goods or services, and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments

How should an entity classify a share-based payment that has a choice of settlement?

Choice of settlement	Type of share-based payment and appropriate accounting treatment
Entity	The terms of a share-based payment may provide an entity with the choice to settle in cash or by the issue of equity instruments. The share-based payment is cash-settled if the entity has a present obligation (legal or constructive) to settle in cash. The entity has a present obligation if the choice of settlement has no commercial substance (e.g. because the entity is legally prohibited from issuing shares) or if the entity has a past practice or stated policy of settling in cash.
Employee	This is a compound instrument that is similar to convertible debt because it has both a debt and equity component. An example of a compound instrument is where an employee has the choice of receiving share options or cash-settled share appreciation rights. In accounting for this type of share-based payment, management should measure the fair value of the debt component (accounted for as a cash-settled liability) and that of the equity component, taking into account the fact that the counterparty must forfeit the right to receive cash in order to receive the equity instrument.

How does an entity account for a change in the classification of a share-based payment?

This requires careful consideration both at the time of modification and subsequent recognition of expense.

On reclassification from cash-settled to equity-settled	On reclassification from equity-settled to cash-settled
The entity immediately reclassifies the amount recognised as a liability, up to the modification date, as equity. The expense for the remainder of the vesting period is based on the fair value of the award, measured on the modification date and not the original grant date.	The entity measures the liability initially using the reclassification date fair value of the equity award based on the elapsed portion of the vesting period. This amount is recognised as a credit to the liability and a debit to equity. The entity then remeasures the liability at each subsequent reporting date and recognises any additional expense from increases in the liability.

Reclassification of a share-based payment award may occur because:

- An entity is de-listing. To provide greater liquidity to employees, the entity might change the share-based payment from equity-settled to cash-settled.
- The entity has changed its settlement practice.

Recognition and measurement of share-based payments

As per Ind AS 102, management must determine the fair value of a share-based payment at the grant date, the period over which this fair value should be recognised (the vesting period) and the charge that should be recognised in each reporting period. Understanding the various conditions attached to share-based payments may prove challenging in practice, and no two share-based payment arrangements are the same.

The goods or services received or acquired in a share-based payment are recognised when the goods are obtained or as the services are received. A corresponding increase in equity is recognised if the goods or services are received in an equity-settled transaction.

A liability is recognised if the goods or services are acquired in a cash-settled transaction.

Does an entity recognise share-based payment from the grant date?

Not necessarily. The initial measurement of the share-based payment is at the grant date, i.e. the date when the parties have a shared understanding of the terms and conditions of the arrangement; however, the share-based payment expense is to be recognised as services are received. Accordingly, in some cases, the grant date might occur after the employees have begun rendering services.

What are vesting conditions and the vesting period in a share-based payment?

Vesting conditions affect the measurement and recognition of a share-based payment arrangement. Ind AS 102 defines vesting conditions as the criteria that determine whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity under a share-based payment arrangement. Vesting conditions include the following:

- service conditions, which require the other party (such as an employee) to complete a specified period of service
- performance conditions, which require that specified performance conditions are met before the counterparty becomes entitled to the grant. Performance conditions can be market-based (such as those that relate to the market price of the entity's equity) or non-market-based (such as those that relate to the entity's profit or revenue)

Other conditions attached to the award are referred to as non-vesting conditions (such as a requirement to save or requirement to hold shares).

The vesting period is the period during which all the specified vesting conditions of a share-based payment are to be satisfied. The vesting period is generally specified in the terms and conditions of an arrangement. However, the vesting period should be estimated when an employee must stay in service until a particular event occurs (such as an initial public offering). The services are accounted for as they are rendered by the counterparty during the vesting period. The expense is recognised over the vesting period with a corresponding increase in either equity or a liability.

How are share-based payments measured?

The fair value of goods or services received in exchange for a share-based payment is measured directly unless the fair value cannot be estimated reliably. In this case, the fair value is measured by reference to the fair value of the equity instruments granted as consideration. Services provided by employees are always measured by reference to the fair value of the equity instruments granted.

The measurement date for equity-settled share-based payments depends on the other party to the transaction. For example, if the share-based payment is between the entity and:

- employees or others providing similar services, the expense is measured on the basis of fair value at the grant date, and
- parties other than employees (and those providing similar services), the measurement date is the date that the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, the goods or services acquired and the liability incurred is measured at the fair value of the liability. Such awards are subsequently remeasured.

What is the appropriate accounting treatment for vesting conditions?

The following table summarises the implications of various vesting and non-vesting conditions in accounting for share-based payments. This is often a complex area requiring careful analysis of the key terms of the plan, especially when there are conditions other than the straightforward service vesting condition.

	Vesting conditions			Non-vesting conditions		
		Performance conditions				
	Service Conditions	Performance conditions that are market conditions	Other performance conditions	Neither the entity nor the counterparty can choose whether the condition is met	Counterparty can choose whether to meet the condition	Entity can choose whether to meet the condition
Example conditions	Requirement to remain in service for three years	Target based on the market price of the entity's equity instruments	Initial public offering with a specified service requirement	Employee will receive shares if a commodity index increases by a minimum percentage. (eg, 50%)	Paying contributions towards the exercise price of a share-based payment	Continuation of the plan by the entity
Include in grant date fair value?	No	Yes	No	Yes	Yes	Yes *
Accounting treatment if the condition is not met after the grant date and during the vesting period	Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest (paragraph 19).	No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period (paragraph 21).	Forfeiture. The entity revises the expense to reflect the best available estimate of the number of equity instruments expected to vest (paragraph 19).	No change to accounting. The entity continues to recognise the expense over the remainder of the vesting period (paragraph 21A).	Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period (paragraph 28A).	Cancellation. The entity recognises immediately the amount of the expense that would otherwise have been recognised over the remainder of the vesting period (paragraph 28A).

** In the calculation of the fair value of the share-based payment, the probability of continuation of the plan by the entity is assumed to be 100%.*

Modifications, cancellations and forfeitures of share-based payments

Entities often make changes to their share-based payment arrangements. Here are some common examples:

- where the share price falls, an entity might modify the terms and conditions on which equity instruments were granted to maintain an incentive to the employee
- where entities or employees cancel and settle a grant of equity instruments during a vesting period (e.g. an entity cancels an award and settles in cash on a pro rata basis)
- where employees leave their employment with an entity and forfeit their rights to share-based payments—a forfeiture occurs when either a service or a non-market performance condition is not met during the vesting period, as this affects the number of awards that vest

How should an entity account for a modification to a share-based payment?

When a share-based payment is modified, the management should determine whether the modification:

- affects the fair value of the instruments granted,
- affects the number of equity instruments granted, or
- is otherwise beneficial to the employee.

Each of these possible impacts is detailed below.

Does the modification affect the fair value of the equity instruments granted?

An entity might reduce the exercise price of options granted to employees. If it does, the entity should recognise the incremental change in the fair value (along with the original fair value determined at the grant date) over the remaining vesting period as an expense and an increase in equity. Decreases in the fair value are not considered. To determine if an increase has occurred, management should compare the fair value of the modified award with the fair value of the original award at the modification date.

Does the modification affect the number of equity instruments granted?

Management should determine the fair value of the additional equity instruments granted, measured at the date of the modification, which is then included in the expense recognised for services received over the period from the modification date until the date when the additional equity instruments vest.

Note: Entities should consider whether the modification has decreased the number of equity instruments granted. If it has, the reduction is treated as a cancellation of that portion of the grant (i.e. the remaining unrecognised grant date fair value is recognised as an expense for the instruments that the employee has 'lost').

Is the modification otherwise beneficial to the employee?

For example, the employee may benefit from the entity reducing the vesting period or modifying or eliminating a non-market performance condition so that 100% of the award vests rather than say, for example, 50%. Any benefit to the employee should be taken into account in estimating the number of equity instruments that are expected to vest.

Group share-based payment arrangements

It is common for employees of an entity to receive shares or rights to shares in another entity within the consolidated group. Usually, this is shares or rights to shares in the parent entity. For example, within a multinational group, shares in the listed parent entity may be granted to the employees of various subsidiaries located across the world. Ind AS 102 is clear that these transactions are to be accounted as share-based payments.

This is particularly relevant in the Indian context, where subsidiaries' employees may receive share-based awards of its foreign parent company. Under Indian GAAP, such subsidiaries may not have accounted any share-based payment expense, which will no longer be possible under the Ind AS regime. Going forward, such subsidiaries will have to record a share-based payment expense in their separate and consolidated financial statements, irrespective of whether there is any recharge from the group company or not. This, in turn, could reduce the Ind AS reported results and performance measures of such subsidiaries.

What is a group share-based payment arrangement?

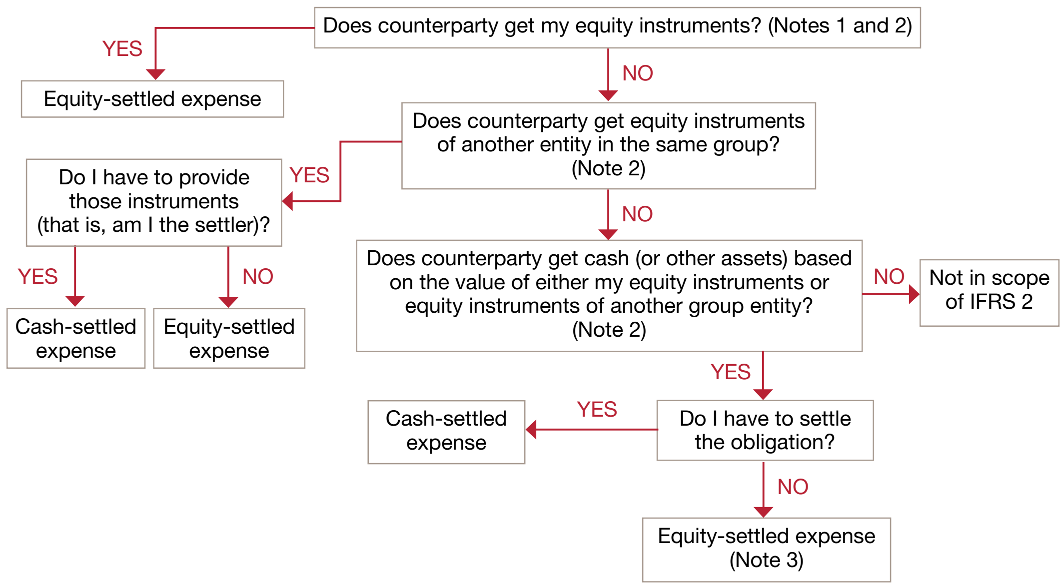
A group share-based payment arrangement is one that involves two or more entities within the same group. For example, employees of a subsidiary are granted rights to equity instruments of its parent entity for services provided to the subsidiary.

How does an entity account for a group share-based payment arrangement?

The standard provides a clear basis to determine the classification of awards in both consolidated and separate financial statements by setting out the circumstances in which group share-based payment transactions are treated as equity-settled and cash-settled. The entity receiving goods or services should assess its own rights and obligations as well as the nature of awards granted, to determine the accounting treatment. The amount recognised by the subsidiary entity receiving the goods or services may not necessarily be consistent with the amount recognised in the consolidated financial statements. In group share-based payment transactions, the entity receiving the goods or services should account for awards as equity-settled by debiting share-based payment and crediting capital contribution in equity when:

- the awards granted are the entity's own equity instruments, or
- the entity has no obligation to settle the share-based payment transaction.

In all other situations, the entity receiving the goods or services should account for the award as cash settled using liability accounting. The following flowchart summarises the classification of both cash-settled and equity-settled share-based payment transactions in group situations.



Notes:

1. *'My equity instruments' include equity instruments of my subsidiaries (non-controlling interests) in consolidated financial statements, but not when equity instruments are accounted for as an investment in individual financial statements.*
2. *'Counterparty' includes employees and other suppliers of goods or services even where the goods or services are unidentifiable.*
3. *For the entity that settles the obligation, treatment will be as equity-settled only if the transaction is settled in equity instruments of that entity (including equity instruments of a subsidiary of that entity). For the entity receiving the goods or services, treatment will be as equity-settled unless there is an obligation to settle in cash or other assets.*

How does an entity account for a recharge from a subsidiary to the parent entity?

Certain group share-based payment arrangements include a recharge where the parent entity charges the subsidiary for the equity or cash it provides to the employees (or other providers of goods or services) of the subsidiary. Though this scenario is not specifically addressed under Ind AS 102 or any of the related guidance, an appropriate view could be that so long as there is a clear link between the recharge and the share-based payment, it may be appropriate to offset the recharge against the capital contribution in the separate financial statements of the subsidiary and the parent entity. There would, for example, be a clear link where the recharge is based on the intrinsic value or market value of the shares when they vest. When the intercompany charge exceeds the capital contribution, the excess should be treated as a distribution from the subsidiary to its parent entity. This is consistent with the principles applied to other shareholders' contributions. Absence of clear linkage may require a detailed and careful analysis to determine the appropriate accounting treatment, as it could result in 'double' reporting of expenses in the financial statements of the subsidiary, since this recharge will be treated in a similar manner as other management recharges and the subsidiary would have already recorded an expense for services received under Ind AS 102.

What disclosures are required in an entity's financial statements in relation to a group share-based payment arrangement?

Where a subsidiary entity accounts for a share-based payment transaction in relation to a group

share-based arrangement as discussed above, the disclosures prescribed by Ind AS 102 are required in full. The subsidiary entity's financial statements should stand by its own—that is, it is not possible, for example, to cross-refer to share-based payment disclosures given in the parent's (or group's) financial statements. This will require subsidiaries to prepare in advance and obtain necessary information from its parent/group company to comply with the Ind AS 102 disclosure requirements.

Key GAAP differences

What are the key differences from Indian GAAP?

Under Indian GAAP, an entity could have used the intrinsic value method or the fair value method of accounting. However, Ind AS requires all types of share-based payments and transactions to be measured at fair value and recognised over the vesting period.

Further, costs with respect to awards granted with graded vesting will have to be recognised on an accelerated basis under Ind AS, which could have been recognised on a straight-line basis under Indian GAAP.

Finally, Ind AS also includes detailed guidance in relation to group share-based payment arrangements.

In summary, entities having significant share-based payment arrangements are likely to report higher expense upon the adoption of Ind AS 102.

“*Leasing:* Off-balance sheet to on-balance sheet”

The FASB and IASB each issued a revised Leases Exposure Draft in May 2013 that attracted significant comments from stakeholders, and which prompted the boards to reconsider key elements of the proposed standard.

Though convergence between the FASB and IASB appears unlikely, the key objective, which is to bring most leases on the lessee balance sheet, has been met.

As re-deliberations draw to a close, the FASB has retained a dual income statement model with classification of different types of leases similar to today’s. The IASB, on the other hand, has decided to require lessees to reflect all leases as financings. Over the past two years, there have also been other changes to the initial proposals related to classification, measurement, transition and disclosure.

So what did the new proposal say about lessee accounting?

For lessees, the boards have continued to support balance sheet recognition for most leases and have retained, but clarified, previous proposals regarding how to determine whether an arrangement is (or contains) a lease. Although in agreement on how to identify a lease, the boards have been unable to arrive at a converged proposal regarding classification, with each board voting for different changes to the guidance proposed in their respective exposure drafts.

The FASB has continued to support a dual approach for classifying leases based on criteria similar to current US GAAP—rejecting classification based on the nature of the underlying asset, as had been proposed in the 2013 revised ED. The FASB will require a lease to be presented as financing (similar to capital leases today) in the income statement (referred to as Type A lease) when (1) payments represent substantially all of the fair value of the asset, (2) the lease term is for a major portion of the asset’s economic life, (3) purchase of the asset is considered a bargain, or (4) title transfer is automatic at the end of the lease. The fair value and economic life tests are expected to be similar to the 90% and 75% tests under the existing US GAAP guidance, albeit without the bright lines.

All other leases would be classified as Type B, with costs presented as lease expense (instead of amortisation and interest expenses) and recognised on a straight-line basis in the income statement over the lease term. To do so, entities would record lease rentals by making adjustments to the lease liability and the right-of-use asset. This would produce an expense recognition pattern that is similar to operating leases under current US GAAP.

In contrast, the IASB has decided to require all leases to be presented as financings for lessees, given their belief that this approach is conceptually superior and that a single model will be easier to apply than a dual approach.

Regardless of how the differences in lease classification will impact the income statement, the boards agree that on the balance sheet, lessees should initially recognise a right-to-use asset and lease liability based on the discounted payments required by the lease. The boards agreed to an exemption to this presentation for short-term leases (i.e. a term of one year or less), which would not

be recognised on a lessee's balance sheet. The IASB decided on an additional exemption for leases for which the underlying asset is of low value. Examples of low-value underlying assets can include tablets and personal computers, small items of office furniture, and telephones.

And about lessor accounting?

The boards agree that lessors with Type B leases should continue to reflect the underlying asset subject to the lease arrangement on the balance sheet similar to the classification of leases previously accounted for as operating leases.

For financing arrangements (Type A leases) or sales, the balance sheet should reflect the lessor's investment in the lease, which consists of the receivable and the lessor's residual interest in the underlying asset. With respect to the income statement, the FASB and IASB agree that an arrangement that is effectively a sale should result in recognition of a day-one profit. The FASB, however, believes that when the lessee does not obtain control of the underlying asset, the profit should be deferred and recognised over the lease term, even if the lease is classified as a Type A lease. This could occur when a lessor purchases residual value insurance, thereby transferring the risks and rewards but not control of the underlying asset to the lessee.

Lessors would consider all other leases to be Type B, with income statement and balance sheet treatment similar to today's operating leases.

Measurement

For both lessees and lessors, it is critical to determine which payments should be included in the calculation of their respective assets and, in the case of a lessee, the lease liability. The boards voted to include all fixed lease payments in the measurement of the lessor and lessee's assets and the lessee's lease liability. For variable payments (e.g. increases in rent based on CPI), the boards voted to include variable payments on the basis of the rate or index at lease commencement. The FASB decided that lease payments used to measure the right-to-use asset and lease liability would not be revisited if the rate or index changes unless the lease obligation was required to be remeasured for other reasons. In contrast, the IASB decided to require re-measurement whenever a change in the reference rate results in a change in cash flows. Variable payments based on performance (e.g. percentage rent on sales) or usage (e.g. the number of units produced) of the underlying asset would be recognised as incurred (lessee) or earned (lessor).

Transition

The 2013 Exposure Draft proposed a requirement to apply either a full retrospective transition approach, or a modified approach, for lessors and lessees. In their February 2015 meeting, the FASB voted against full retrospective transition, in favour of retaining only a modified retrospective approach.

The IASB elected to retain both full retrospective and modified retrospective transition approaches for lessees, which should be applied consistently across the entire portfolio of former operating leases. Further, the IASB decided lessors are not required to make any adjustments on transition for leases in which it is a lessor and shall account for those leases by applying this standard from the date of initial application (except for intermediate lessors in a sublease).

Entities applying the modified retrospective approach would use certain 'shortcut' calculations to initially measure lease-related assets and liabilities. They also would be able to use hindsight to determine the lease term. This modified retrospective approach is intended to approximate a full retrospective approach, but at a lower cost and with less effort than full retrospective adoption.

The IASB has provided transition guidance for different types of lease arrangements, and included provisions to simplify the initial application of the standard. FASB is expected to do the same.

In addition, the IASB decided to permit an entity to grandfather the definition of a lease for all contracts that are ongoing at the date of initial application of the new standard. An entity that chooses to grandfather the definition of a lease should do so for all contracts that are ongoing at the date of initial application. The entity should disclose that fact.

What's next?

The IASB issued IFRS 16 *Leases* on 13 January 2016 and decided to require an entity to apply the new leases standard for annual periods beginning on or after 1 January 2019. FASB is working on drafting the final standard, which could differ in some respects from tentative decisions discussed to date, and hopes to issue a final leasing standard shortly. FASB decided that for public companies, the upcoming standard will be effective for fiscal years (and interim periods within those fiscal years) beginning after 15 December 2018. For private companies, the standard will be effective for annual periods beginning after 15 December 2019.

Adoption of the new standard will have a significant impact on a lessee entity's financial statements, including supporting systems and controls. This is also expected to significantly change reported metrics, e.g. return on total assets, interest coverage and EBITDA, requiring proactive communication with stakeholders. This is because there will be more assets and liabilities on the balance sheet and lease rentals which may have been previously reported as an operating lease expense will now get reported as part of depreciation/amortisation and interest.

Finally, entities will have to carefully consider the effort and benefit from the transition options to develop a well-thought-out transition plan which best suits their particular circumstances.

3

Implementation of Ind AS: Updates from regulators ***RBI, IRDA and SEBI***

RBI

The Reserve Bank recommended to the MCA a roadmap for the implementation of Ind AS by banks from 2018–19 onwards and NBFCs in a phased manner (2018–19 and 2019–20).

RBI constituted a working group to address the issues arising from the implementation of Ind AS in the banking sector. The working group adopted a consultative approach, and outreach meetings were held with bankers to understand their issues and apprehensions with regard to Ind AS, especially in the context of current accounting practices. The working group also reviewed several extant RBI instructions and guidelines as well as Ind AS notified by the MCA to identify potential issues with regard to Ind AS implementation. The working group structured its recommendations into the following key areas with a focus on financial instruments.

Key areas	Topics covered
Classification and measurement of financial assets	Classification, recognition, measurement, reclassification, first-time adoption
Classification and measurement of financial liabilities	Initial recognition, subsequent measurement, de-recognition of financial liabilities, offsetting/netting, classification—equity versus liability
Hedge accounting and derivatives	Interest rate swaps and forward rate agreements, exchange traded interest rate derivatives, foreign currency—rupee options, credit default swaps (CDS), prudential norms for off-balance sheet exposures of banks
Fair value measurement	Fair value basis quoted prices, fair value basis market observable inputs, valuation of complex and highly illiquid instruments, valuation of unquoted and untraded instruments, comparison with RBI guidelines
Impairment of financial assets	Movement from 12-month expected losses to lifetime expected losses, rebuttable presumption of 30 days ‘past due’ for determining significant increase in credit risk, definition of default, estimation of 12-month expected credit losses, estimation of lifetime expected credit losses, internal ratings-based approaches, low credit risk exemption, application of impairment requirements to financial guarantees and loan commitments, transitional requirements of Ind AS 109, extant guidelines on restructuring
Presentation of financial statements and disclosure	Review of international practices, formats
De-recognition, consolidation and other residuary issues	De-recognition, consolidation, residuary issues: segment reporting, accounting for effects of changes in foreign exchange rate, depreciation, related party disclosure, business combinations, discontinuing operations, materiality threshold for prior period items, revenue recognition in the case of non-performing assets, deferred tax liability (DTL) on special reserve under section 36(1)(viii) of the Income-tax Act, 1961, availability of other comprehensive income (OCI) for distribution of dividend

In addition to the above, the recommendation report also includes the following items:

- formats for financial statements of banks under Ind AS and application guidance thereon
- an instrument-wise comparison of valuation requirements under existing GAAP and Ind AS along with recommendations thereon
- RBI instructions which need review in light of the issues considered in the report
- areas where educational material could be issued by the ICAI
- legislative amendments which may be required

The RBI has placed the report on its website.

The report was open for comments until 30 November 2015.

IRDA

The Standing Committee on Accounting Issues (SCAI) of IRDA has also issued a discussion paper on the approach towards convergence to Ind AS in the insurance sector. The committee has recommended a draft of the regulations on financial statements and auditors' report, which are compliant with Ind AS except certain standards. In some cases, certain carve-outs have been recommended for the insurance sector.

The date of applicability of this recommendation along with any other recommendations of the implementation group on Ind AS will be notified in due course. The draft is open for comments from all stakeholders.

The entire discussion paper can be found on IRDA's website.

SEBI

SEBI issued a circular dated 30 November 2015 prescribing the formats for publishing financial results under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. This also includes provisions related to Ind AS accounts. The key highlights of the circular on application of Ind AS in interim results are produced below:

A. *Comparative information and reconciliation in interim results:*

- Companies adopting Ind AS for the first time will ensure that comparatives filed in such quarterly/annual financial results are also Ind AS compliant.
- A company which presents quarterly financial results in accordance with Ind AS 34 Interim Financial Reporting for the period covered by its first Ind AS financial statement will comply with the requirements of paragraph 32 of Ind AS 101 First-time Adoption of Indian Accounting Standards.

Paragraph 32 of Ind AS 101 requires reconciliation of equity, total comprehensive income and explanation relating to changes in its accounting policies and use of exemptions, etc. For example, a company that will publish its first 30 June 2016 quarterly results will be required to provide reconciliation information between Indian GAAP and Ind AS for its equity as of 1 April 2015, comparative period ended 30 June 2015 and annual year ended 31 March 2016. Similarly, income will be reconciled for the comparative period ended 30 June 2015 and annual year ended 31 March 2016.

B. *Classification/disclosures:*

The circular provides that the classification/disclosure of items in the financial results will be in accordance with the Schedule III of the Companies Act, 2013, or its equivalent formats in other statutes, as applicable. It is to be noted that the revised Schedule III format to cover Ind AS compliant accounts is yet to be notified.

These are welcome developments, as all the regulators are actively engaged in moving forward the Ind AS agenda and providing necessary guidance for corporates, including complex, regulated and specialised sectors such as financial services and insurance.

“High-level committee’s ***recommendations*** to improve monitoring and implementation of ***CSR policies***”

4

Background

Section 135 of the Companies Act, 2013 (referred to as the Act hereon), effective from 1 April 2014, requires every company meeting certain criteria of net worth or turnover or net profit to constitute a corporate social responsibility (CSR) committee which would formulate and recommend a CSR policy to the board of directors and monitor the CSR policy from time to time.

Schedule VII to the Act specifies activities that may be included by companies in their CSR policies. Further, for central public sector enterprises, the Guidelines on Corporate Social Responsibility and Sustainability issued by the Department of Public Enterprises (DPE guidelines) would need to be considered.

During the first year of implementation of the CSR regime, there have been several queries from various stakeholders regarding the extent of compliance by the companies, about amount spent/activities undertaken/ geographical area covered under companies’ respective CSR policies, etc. The queries range from monitoring quality and efficacy of the CSR expenditure by companies to institutional mechanism for monitoring implementation of CSR by companies.

With this backdrop, the MCA constituted a six-member high-level committee (the ‘committee’) to suggest measures for monitoring the progress of implementation of CSR policies by companies and by the government under the provisions of the Act and rules made thereunder.

Recommendations of the committee

The committee adopted a consultative process and invited views from various stakeholders representing diverse industries, civil societies, private corporates, government companies and professional institutes and issued its report in September 2015.

The committee identified certain issues in implementation of the existing provisions and has recommended the following solutions:

- *Complexity of procedures:* The committee noted there are many compliances and disclosure requirements under the Act. Considering that CSR is a new legislation in India with no parallel elsewhere in the world or any prior experience, companies need some grace period for capacity building in this area. Accordingly, it was recommended by the committee that leniency may be shown to companies for any non-compliance during the initial two–three year learning period, enabling them to graduate to a culture of compliance. Also, it was recommended that this liberal view be taken at least for the smaller companies.
- *Scope of CSR activities:* Schedule VII to the Act specifies activities that may be included by companies in their CSR policies. Although it has been clarified vide MCA circular no. 21/2014 dated 18 June 2014 that the entries in the said schedule should be interpreted liberally, there has been persistent pressure on MCA to expand the list by including more activities. The committee deliberated on incorporating as far as possible all the ‘public goods’ in the list and recommended to provide an omnibus clause to cover those that are left

out. The committee is of the view that CSR activities must be for larger public good, for any activity that serves public purpose and promotes the well-being of the people with special attention to the needs of the underprivileged. However, a strong need to ring-fence companies' CSR resources is felt so that the objective of CSR is not defeated.

- *Ceiling on administrative costs:* During deliberations, it was noted that there has been a persistent request from various stakeholders regarding increasing the cap on administrative costs/ overheads from 5% of the CSR expenditure to 10–15%. Also, clarity was sought on whether this cap applies to the costs incurred by the company or also includes the cost of implementing agencies. With the increased concern around administrative costs, the committee recommended that the present limit of 5% should be increased to not more than 10% of the CSR expenditure, and overheads should not include costs incurred on capacity building of the implementing agencies.
- *Scale of operations of companies:* The committee noted that while large corporates are better equipped and would be able to implement the requirements easily, it would be difficult for the smaller companies to follow the prescribed CSR implementation requirements because of the size and nature of their operations. With a view to providing some relief to small companies, various options, such as relaxing the applicability of certain requirements or permitting pooling of funds by smaller companies, were deliberated. After deliberations, the committee recommended that there be two models for implementation strategies:
  - Companies having CSR expenditure of more than 5 crore INR to undertake programme-based CSR activities; and
  - Smaller companies with CSR expenditure less than 5 crore INR to take up project-based activities. It is also encouraged that such companies pool their funds and combine their CSR programmes with other similar small companies.
- *Tax provision/treatment:* The Income-tax Act does not allow the amount spent on CSR as a deductible expenditure. However, certain spends like contribution to the Prime Minister's National Relief Fund (PMNRF) are allowed under section 80G of the Income-tax Act. In this regard, the following concerns were raised:
  - Public sector undertakings (PSUs) are not allowed to contribute to PMNRF.
  - Companies would be tempted to direct all or a substantial part of their CSR expenditure towards PMNRF to avail of the associated tax benefits.

The committee noted that there is absence of uniformity in tax treatment for CSR expenditure, which could lead to distorted allocation of CSR funds across development sectors. Further, the board's decision could be guided

more by tax savings implications rather than compelling community social needs. Thus, it was recommended that uniformity in tax treatment should be brought in for CSR expenditure across all eligible activities, including for all companies whether in the public sector or otherwise.

- *Clarity on carry forward of unspent balance:* The committee noted that current provisions for CSR are based on the principles of 'comply or explain'. There is a need for clarity as to what will happen if the funds allocated for CSR are not fully spent in the financial year, particularly when the

spend is on programmes or projects that have long gestation periods. The Act does not talk about carrying forward of the unspent amount. However, the DPE guidelines (applicable for PSUs) mandate the unspent amount be carried forward to the next year and spent over and above the subsequent year's 2% requirement. Thus, there is lack of uniformity of provisions for government and non-government companies. With regard to carrying forward of the unspent amount, the committee recommended that the unspent amount be allowed to be carried forward to the next financial year with a sunset clause of five years for spending of the carried forward balance.

- *Applicability to the following:*
  - Section 8 companies: The committee noted that the basic objective of section 8 companies is working in the social and development sector and their 100% involvement in charitable and philanthropic activities. Accordingly, it was recommended that the provisions of CSR should not apply to these companies, since for such entities to undertake CSR activities 'outside the ambit of normal course of their business' would not be possible.
  - Foreign companies: The board of directors of the branch office/project office/liaison office of a company incorporated outside India is not likely to be located in India, and it would not be feasible for them to supervise and monitor the implementation. Accordingly, there is a need to clarify applicability of CSR provisions for foreign companies.
  - Entities created under specific statutes: In case of listed entities such

as mutual funds, which are neither incorporated under the Companies Act nor are PSUs (covered by the DPE guidelines), the provisions of CSR do not apply. The committee during its deliberation recommended that such entities should also be brought under similar provisions on a mutatis mutandis basis through listing conditions of SEBI or suitable amendments to the respective statutes.

- *Computation of net profit:* For determining applicability of CSR provisions and computing the minimum amount to be spent, section 135 requires net profit to be calculated in accordance with section 198 (which primarily is 'profit before tax'), whereas Rule 2(1)(f) of CSR Rules defines it as "…the net profit calculated as per the company's financial statements prepared in accordance with applicable provisions of the act..." (i.e. section 129 and Schedule III to the Act). The rule 2(1)(f), as it stands now, gives an impression that section 198 is not attracted for computing 'net profit' for Indian companies for the purpose of section 135 of the Act. This is particularly because second proviso to the same rule explicitly states applicability of section 198 for foreign companies. In this regard, the committee recommended that clarity on the ambiguous definition of "net profit" is required, by making suitable amendments to section 135(1) or the relevant rule.
- *Interpretation of 'any financial year' as referred to in section 135(1):* The MCA vide circular no. 21/2014 dated 18 June 2014 clarified that section 135(1) of the Act read with rule 3(2) of the CSR Rules implies that 'any financial year' refers to any of the three preceding financial years. The committee felt this clarification was not sufficient as it brings retrospective application of the Act, whereas it has come into force only from 1 April 2014. This might be construed as 'rule exceeding the provisions of the Act' and, accordingly, it was recommended that MCA should re-examine the reference to 'any financial year' and make suitable amendment to section 135(1) or the relevant rule.
- *Distribution of goods and services manufactured/ rendered by companies as part of CSR spend and monetisation thereof:* Based on discussions with the stakeholders, the committee deliberated on whether contribution made in kind or in the form of service as part of CSR expenditure be permitted, after proper monetisation. The committee noted that allowing distribution of goods manufactured by companies as part of CSR could be used as a route to circumvent the CSR mandate by companies and they may distribute obsolete/ rejected/substandard/unsold products closer to date of expiry, which would defeat the purpose of the CSR provisions. The committee also noted that there would be practical difficulties in monetisation of services by allocating the employees' cost and time spent on CSR activities. Accordingly, it did not recommend monetisation of services of corporate employees, especially due to the subjectivity involved.
- *Implementing agencies:* Various stakeholders suggested that MCA should help in maintaining a data bank of credible CSR implementing agencies to undertake CSR activities on behalf of the companies, including developing clear-cut MOUs between companies and such agencies. In this regard, the committee felt that there is no need of handholding by the government and it should have no role to play in engaging external experts for monitoring the quality and efficacy of CSR expenditures by companies. This should squarely remain the responsibility of the board/CSR committee, which are sufficiently empowered to carry out due diligence with regard to engaging any external firm.
- The committee has also recommended setting up of annual awards, one each for the two categories of companies—large and small—

with a view to incentivising corporates to undertake their CSR mandate in earnest.

The way forward

The committee noted that the thrust and spirit of law is not to monitor but to generate a conducive environment enabling corporates to conduct their activities in a socially responsible manner while contributing towards the human development goals of the country. The rationale of the CSR legislation is not to generate financial resources, which could have been done by levying additional taxes/cess on the corporates. Instead, the objective is to involve corporates in discharging their social responsibility for larger development with their innovative ideas and management skills and with greater efficiency and better outcomes. The intent of the Act is to inculcate a sense of involvement and responsibility in the corporate sector for social development by utilising not just their funds but also their capabilities and managerial skills.

The committee is of the view that the current provisions of 'comply or explain' are sufficient for the time being to ensure compliance with law. Also, it has repeatedly emphasised in its report that the initial two–three years shall be a 'learning experience' for all stakeholders.

BEPS project: A new way to look at cross-border taxation

5

As cross-border trade and commerce has increased over a period of time, taxation of multinational enterprises has been a subject of significant debate. The debate revolves around the fact that cross-border transactions and multinational enterprises produce results that give rise to base erosion and profit shifting (BEPS) in several circumstances, resulting in unjustifiable low tax on account of the interaction between existing domestic laws and treaty rules. In light of this, the G20 Summit in 2012 launched the BEPS project. Since then, significant work has been undertaken by OECD member-countries and G20 countries together to develop actions to address BEPS issues in a coordinated and comprehensive manner. The BEPS project of OECD and G20 has broadly resulted in 15 action plans, with final reports released in October 2015.

An explanatory statement (the 'statement') issued by the OECD along with the final report recognises a variety of causes resulting into BEPS, which include aggressive tax planning by some multinational enterprises, interaction of domestic tax rules, lack of transparency and coordination between tax administrations, limited country enforcement resources and harmful tax practices. Also, the fact that international tax standards (almost-a-century-old standards) have not kept pace with the changing global business environment, and pervasive lack of relevant information at the level of tax administration and policymakers combine to provide opportunities for taxpayers to undertake BEPS strategies.

BEPS action plans identify treaty abuse as one of their most important concerns. A wide range of specific issues have been identified which require changes to model tax conventions as well as bilateral tax treaties based on those model tax conventions. It is often said that double taxation avoidance agreements often result in double non-taxation. Each action identifies measures that, once implemented with coordinated efforts of tax administration globally, will curtail schemes facilitating low or non-taxation.

The statement lays down that implementation of the BEPS project will better align the location of taxable profits with the location of economic activities and value creation, and improve the information available to tax authorities to apply their laws effectively. To minimise the incidence of double taxation, improving dispute resolution as well as establishing mechanisms to support and monitor the implementation of the measures are key, especially in the context of BEPS reforms.

An overview of the BEPS project with measures proposed under each of the actions follows.

Action 1

Addressing the tax challenges of the digital economy

Digital economy has been recognised in the report as the economy itself. The report acknowledges the problems in taxation of digital economy and BEPS risks associated with it. No concrete recommendations have been provided to tackle BEPS issues of digital economy, but technical options to deal with broader tax challenges raised by digital economy such as lack of nexus, characterisation of income derived from new business models, have been discussed and analysed. The impact of measures developed across the BEPS project on digital economy has also been analysed. The issues surrounding taxation of digital economy under the existing framework of tax standards go beyond BEPS, and this has been discussed and analysed in the report.

Action 2

Neutralising the effects of hybrid mismatch arrangements

The aim of this action is to simply prevent double non-taxation through interaction of domestic and treaty rules by eliminating tax benefits of mismatches and multiple deductions, deductions without corresponding taxation and multiple tax credits.

Action 3

Designing effective controlled foreign company (CFC) rules

The recommendation made in the report deals with effective implementation of CFC rules to prevent taxpayers from shifting profits to foreign subsidiaries. It recognises that while implementing CFC rules special treatment needs to be accorded to income from intellectual property, services and digital transactions. It recommends substantive reporting requirement for entities having CFCs.

Action 4

Limiting base erosion involving interest deductions and other financial payments

Multinational enterprises have taken interest deductions at multiplied rates, which far exceed actual by resorting to intragroup financing. The report recommends that an entity’s net interest deductions are directly linked to the taxable income generated by its economic activities.

Action 5

Countering harmful tax practices more effectively, taking into account transparency and substance

The report sets out a minimum standard based on an agreed methodology to assess whether there is substantial activity in a preferential regime to claim consequential benefits. In other words, the substantial activity test has been given prime importance in a preferential regime. Also, sharing of tax rulings having BEPS concerns has been suggested as a measure of garnishing transparency.

Action 7

Preventing the artificial avoidance of the permanent establishment (PE) status

Business profits are generally taxed based on the existence of a PE in a jurisdiction. Therefore, the evaluation of PE has been a key factor in determining taxability under the treaty. The report has recommended changes to the definition of PE used in tax treaties to address treaty abuse specific to taxation of business profits.

Action 6

Prevent the granting of treaty benefits in inappropriate circumstances

The report recommends measures to address treaty shopping and rules to provide safeguards to prevent treaty abuse. These measures include changes to the model tax conventions and consequential changes to the bilateral tax treaties necessary to deal with situations where the treaty inadvertently prevents the application of domestic anti-abuse rules. Also, the age-old debate on the treaty's purpose—whether it is avoidance of double taxation or whether it results in double non-taxation—has been dealt with in this report.

Action 11

Measuring and monitoring BEPS

The recommendations under this action relate to measuring BEPS globally through available data and steps that can be undertaken to improve data and methodologies to continually assess and monitor BEPS. For this purpose, six BEPS indicators have been constructed.

Action 8-10

Aligning transfer pricing outcomes with value creation

Action 8 looked at transfer pricing issues relating to controlled transactions involving intangibles, since intangibles are, by definition, mobile and they are often hard to value. Misallocation of the profits generated by valuable intangibles has heavily contributed to BEPS. Under Action 9, contractual allocations of risk are respected only when they are supported by actual decision-making and thus exercising control over these risks. Action 10 has focussed on other high-risk areas, including the scope for addressing profit allocations resulting from controlled transactions which are not commercially rational; the scope for targeting the use of transfer pricing methods in a way which results in diverting profits from the most economically important activities of the multinational group, and the use of certain type of payments between members of the multinational group (such as management fees and head office expenses) to erode the tax base in the absence of the alignment with the value creation. The combined report contains revised guidance which responds to these issues and ensures that transfer pricing rules secure outcomes that better align operational profits with the economic activities which generate them.

Action 12

Mandatory disclosure rules

Information on aggressive tax planning is a key to assess and avoid BEPS. The main challenge is to secure such comprehensive information in a timely manner. The recommendations in this report do not represent a minimum standard and countries are free to choose whether or not to introduce mandatory disclosure regimes. The framework is also intended as a reference for countries that already have mandatory disclosure regimes to enhance the effectiveness of those regimes.

Action 13

Guidance on transfer pricing documentation and country-by-country reporting

As per the report, improved and better-coordinated transfer pricing documentation will increase the quality of information provided to tax administrations and limit the compliance burden on businesses. The report contains the following three-tiered standardised approach to transfer pricing documentation, including a minimum standard on country-by-country reporting. This minimum standard reflects a commitment to implement the common template for country-by-country reporting in a consistent manner.

Master file: High-level information regarding global business operations and transfer pricing policies available to all relevant tax administrations.

Local file: Detailed transactional transfer pricing documentation to be provided to each country, identifying material related-party transactions, the amounts involved in those transactions, and the company's analysis of the transfer pricing determinations they have made with regard to these transactions.

Country-by-country reporting: Provided annually by the ultimate parent in its jurisdiction and for each tax jurisdiction in which business is undertaken with details of the amount of revenue, profit before income tax and income tax paid and accrued and other indicators of economic activities.

By adopting a consistent approach to transfer pricing documentation across countries and by limiting the need for multiple filings of country-by-country reports, by making use of information exchange among tax administrations, multinational enterprises will also see the benefits of a limited compliance burden.

Action 14

Making dispute resolution mechanisms more effective

The report on Action 14 is more in the nature of pre-meditated work that may be required as a consequence of implementation of the BEPS project. There is an apprehension that implementation of the BEPS project may result in increased double taxation. Recognising the importance of removing double taxation as an obstacle to cross-border trade and investment, countries have committed to a minimum standard with respect to the resolution of treaty-related disputes. In this respect, mutual assessment procedures (MAPs) have been recognised in particular, as a tool for timely resolution of disputes.

Action 15

Developing a multilateral instrument to modify bilateral tax treaties

Quick implementation of tax treaty-related BEPS measures has been recognised as a need of the day for the BEPS project to be successful. Amendment of thousands of bilateral tax treaties may be time-consuming and may not result in consistent implementation of BEPS measures which may result in the failure of the BEPS project. Therefore, the report states that development of a multilateral instrument for amending the bilateral tax treaty is feasible as well as desirable. Based on this analysis, a mandate has been developed for an ad-hoc group, which is open to the participation of all countries, to develop the multilateral instrument and open it for signature in 2016. So far, around 90 countries are participating in the work on an equal footing.

What's next?

Since the final reports on each of the 15 action plans of the BEPS project have been issued by the OECD, tax administrations of participating jurisdictions have to take the necessary steps to implement the recommendations contained therein. Some jurisdictions have already initiated the process of issuing draft legislation for the implementation of the BEPS project in their jurisdiction, while others are in the deliberation stages with anticipation of speedy actions to keep pace with the global urge. It appears that the Indian tax administration has set up internal groups to prioritise the implementation of BEPS measures; however, concrete steps for legislating the implementation is still awaited. In 2016, the outcome of the work on Action 15, i.e. multilateral instrument to modify bilateral tax treaties, will play a key role in changing the dynamics of international taxation.

AICPA Conference

Highlights of the 2015 AICPA National Conference on Current SEC and PCAOB Developments

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At a glance

The 2015 American Institute of Certified Public Accountants (AICPA) National Conference on Current Securities Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) Developments was held from 9–11 December 2015. The conference featured representatives from the regulatory and standard setting bodies along with auditors, preparers, securities counsel and industry experts. Presenters expressed their views on a variety of accounting, auditing and financial reporting topics. Each panel demonstrated their support for the differentiated roles that combine to generate financial reporting that provides users with useful information. It was stressed that although preparers are the lynchpins of high-quality financial reporting, auditors and audit committees are also critical participants.

Key takeaways

We have summarised certain key takeaways which may be relevant from an Indian perspective:

Internal control over financial reporting (ICFR)

The SEC staff reminded registrants of the importance of giving ongoing consideration to implementing or redesigning controls, as necessary, in connection with the application of the new accounting standards and policies. They also reminded registrants of the requirement to consider their quarterly obligation to disclose material changes in ICFR. Interim disclosure may be warranted in advance of the adoption of a new accounting standard or policy, or when actions are taken to remediate prior material weaknesses.

A panel of representatives from the SEC, PCAOB, public accounting firms and public companies discussed various hot topics in ICFR, including the identification of management review controls and how to test them, assessing the population of key controls, and the sufficiency of evidence to satisfy ICFR. The panel stressed the responsibility of the management and the auditor to gain an understanding of processes where review controls are operating, in order to assess the ability of the control to address the associated risk at the appropriate level of precision.

SEC observations

Use of non-GAAP measures

The conference highlighted that the use of non-GAAP measures is an area that deserves close attention. Issuers need to make sure they comply with the current rules, while the SEC should consider whether these rules are sufficiently robust in light of current market practices. The SEC chairman commented that finance and legal teams along with audit committees should consider why non-GAAP measures are being used, how they provide investors with useful information, how they are being described, and whether there are appropriate controls over the calculation of such measures. The SEC deputy chief accountant in the division of corporation finance cautioned companies that since pension obligations are generally expected to be settled in cash, it would not be appropriate to label pension-related adjustments in non-GAAP measures as 'non cash'.

Furthermore, IASB Chairman Hans Hoogervorst discussed the use of non-GAAP measures in IFRS financial statements. He mentioned that while the IASB has no desire to eliminate the use of these measures, reconciliation to GAAP measures and ensuring that GAAP measures have equal prominence are key. Hoogervorst also acknowledged that less specificity under IFRS regarding the definition and composition of financial statement line items under IFRS can create greater disparity in non-GAAP measures used under IFRS.

Segment reporting

The conference highlighted that during 2015, the three topics of most frequent consultation with the SEC's office of the chief accountant were related to revenue recognition, business combinations and segments. It was further mentioned that some segment consultations are troubling when the registrants contend that they should not be required to apply a GAAP standard because the result would be 'competitively harmful' or 'misleading'. It was suggested that a registrant's focus should be on what information is useful to investors and determining how that information can be appropriately reported.

The SEC staff provided key reminders regarding the identification of the chief operating decision-maker (CODM) and segments as well as considerations when aggregating operating segments into reportable segments. They also emphasised the need for effective controls specific to segment reporting.

> *In identifying the CODM, the SEC staff pointed out that registrants will often indicate that an individual is the CODM because they have the 'ultimate decision-making authority'. This concept, however, is not included in the standard, and therefore is not determinative in identifying the CODM.*

When certain criteria are met, two or more operating segments may be aggregated into a single reportable segment. This process involves the application of reasonable judgement along with a thorough understanding of an entity's specific facts and circumstances. One of the criteria for aggregating operating segments is that the segments are 'similar', which should involve careful evaluation of the company's product lines. It may also be helpful to consider publicly-available industry reports and other analysis to better understand how a reasonable investor would expect to view operating segments. Registrants often focus only on this criterion, sometimes referred to as the qualitative requirement, coupled with the additional quantitative need to demonstrate similar economic characteristics. However, the third requirement—to aggregate segments only if such aggregation is consistent with principles of the standard—is often overlooked.

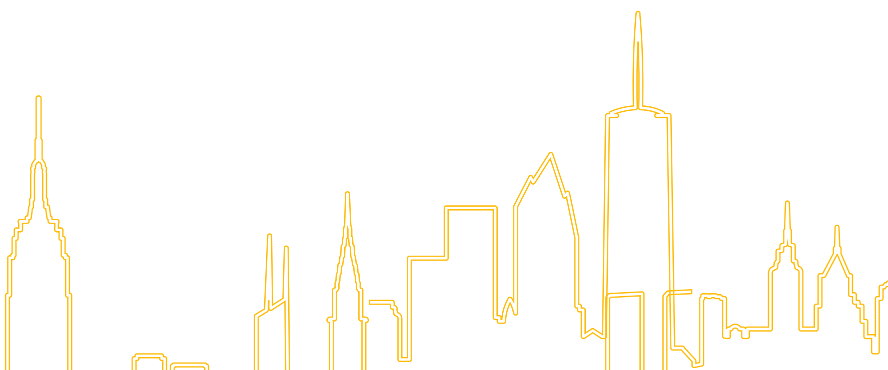
Other technical accounting topics

Guidance on financial instrument impairment

The FASB's forthcoming guidance on financial instrument impairment is expected to be released in early 2016. It was clarified that there are extensive misconceptions about the impact of this standard, chief among them being that it will require companies to develop and install costly, complex new systems. The FASB chairman said that he would be 'very surprised' if the lending institution was not already making some type of assessment similar to what is required by the forthcoming impairment model.

Exposure draft on materiality

The FASB stated that the recent exposure drafts relating to materiality are not intended to change the working definition of materiality. The board has proposed amendments to both the description of materiality in the conceptual framework and ASC 235 and notes to financial statements, referring to it as a legal concept. Specifically, the concept statement will serve as a framework for the board as part of its standard setting process. The proposed accounting standards update is intended to provide a framework to guide preparers' judgements about what information to include in the notes to the financial statements. These exposure documents are part of a broader project to improve disclosure-related guidance, and to make the level of detail required for disclosures more consistent across standards.



Revenue recognition: Customer incentives

Professional Practice Fellow Christopher Semesky noted that within the current revenue recognition standard, the guidance in US GAAP subtopic 605-50, 'Customer payments and incentives', requires that a vendor consider how to account for payments made not only to its direct customers but also to other parties in its distribution chain such as its customer's customers. With a growing number of intermediaries and facilitators through various technologies, questions have arisen regarding how a vendor should account for payments made to parties outside its direct distribution chain.

Semesky detailed a specific fact pattern and indicated that this is an area where judgement is required. Coming to a conclusion, it was noted that companies would need to consider the objectives of the payments and whether:

- the vendor was in substance granting a broad pricing concession to its customers,
- there was a contractual requirement between the vendor and its customer to make the payment, and
- the vendor was acting as an agent of its customer in making the payment.

In a survey of users of financial statements, it was noted that there was broad consensus that regardless of how a company reported such incentives or payments, clear disclosure of its policy, assumptions and alternatives were critical to the decision usefulness of the financial statements.

Discontinued operations

The FASB's new guidance on discontinued operations states that the disposal of a component or a group of components is a discontinued operation if 'the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results'. Associate Chief Accountant Barry Kanczuker observed that judgement will be required when evaluating whether a disposal represents a strategic shift. It was discussed that the detailed examples provided in the guidance were intended to provide bright lines or safe harbours.

Entities will also need to exercise judgement when identifying the 'financial results' that should be considered when evaluating whether there is a 'major effect'. Among other factors, entities should consider the prominence and frequency of the applicable financial results or metrics in periodic filings. It was also noted that 'major effect' is not just a numerical assessment. Even if the quantitative financial impact of the disposal is minimal, issuers will need to evaluate the magnitude of other qualitative factors when determining whether to classify a component as a discontinued operation.

The revised guidance on discontinued operations provides examples that may be used by companies to aid the evaluation of whether an entity has undergone a strategic shift. In considering the examples and their own facts and circumstances, companies should give careful consideration not only to the historic and current actions but also to the future plans and intentions of the organisation.

Consolidation guidance: Foreign exchange restrictions

It was noted that in the past year, certain registrants determined that they no longer controlled subsidiaries domiciled in Venezuela, and therefore deconsolidated. These conclusions appear to be based on the lack of currency exchangeability being other-than-temporary and the severity of government-imposed controls over the subsidiary's operations.

In such situations, it would be expected that after the deconsolidation, entities would have effective internal controls in place to continue to evaluate the factors that caused the deconsolidation. The same parameters used to reach a deconsolidation conclusion should be considered in determining whether the foreign exchange restrictions or government-imposed controls have been sufficiently removed or loosened to once again merit the consolidation. Additionally, where equity holders determine that they do not have control, they should consider whether the entity would be deemed a variable interest entity (VIE) and if the additional disclosures for unconsolidated VIEs would be required.

Fair value

The determination of fair value involves identification of the principal or most advantageous market. The fair value measurement guidance indicates that if the reporting entity cannot transact in a particular market on the measurement date, then that market may not constitute the principal or most advantageous market. Professional Accounting Fellow Kris Shirley noted certain situations that may prevent an entity from accessing the observable market on the measurement date at the price observed within the market. These generally relate to differences between the reporting entity's asset or liability and the asset or liability in the observable market. A reporting entity's principal or most advantageous market will not necessarily be the same as that in which the initial transaction occurred.

A reporting entity is not precluded from using observable prices from a market that is not the principal market as one input into its fair value measurement. It was noted that appropriate adjustments must be made to any differences in the characteristics of the asset or liability being measured and the price observed within a market.

It was also noted that fair value is an exit price concept. Therefore, an entity's transaction price, which is an entry price, is not a substitute for a fair value measurement.

Notwithstanding, entities may use the transaction price as a starting point when determining the fair value for certain assets or liabilities that do not have readily observable markets or when the entity does not have access to those markets.

The fair value measurement guidance specifies that the assumed transaction for an asset or liability is one that is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. As such, when using the transaction price as a starting point, entities should consider changes in market conditions since the transaction date (e.g. interest rates or market participants),

as well as in the specific asset (e.g. expected cash flows or time value of money). In all situations, entities should ensure that they not only appropriately support their conclusion of fair value but also maintain appropriate internal controls over the process. Further, even when third-party services are retained to assist with the valuation, management must maintain effective internal controls over the process.

Share-based payment awards: Post-vesting restrictions

Share-based payment arrangements may include post-vesting restrictions such as transfer or sale restrictions that apply for a period of time after an award vests. ASC 718, 'Stock compensation' under US GAAP states that post-vesting restrictions should be considered when estimating the grant-date fair value of an award. Kanczuker noted that assumptions used in determining the value of the share-based award should be attributes related to the underlying award that a market participant would consider. Attributes like the tax position of the employee, however, are related to the individual holding the award and would therefore not be considered in determining fair value.

Further, while a post-vesting restriction may result in a discount relative to the market value of common stock without a restriction, entities should continue to look to the guidance in ASC 718-10-55-5, which states that "…if shares are traded in an active market, post-vesting restrictions may have little, if any, effect on the amount at which the shares being valued would be exchanged." Registrants should consider consulting with the SEC staff when they determine that post-vesting restriction results in a significant discount being applied to the grant-date fair value of a share-based award.

Defined benefit plan discount rates

Many companies, together with their actuaries, use a weighted-average approach when determining a discount rate. This approach derives a single, constant effective rate from the computation of the projected benefit obligation. This rate is then applied to the calculation of interest and service cost. Professional Accounting Fellow Ashley Wright noted that as an alternative, some preparers use a disaggregated approach referred to as the 'spot rate' approach. This involves the use of individual, duration-specific spot rates from the yield curve, which are applied to the present value of projected benefit payments in individual

periods. The approach used will impact the amount of interest and service cost.

In a recent consultation, the SEC staff did not object to a registrant changing from the use of the single weighted-average approach to the spot rate approach. The SEC staff also did not object to the registrant accounting for the change as either a change in the estimate or as a change in the estimate inseparable from a change in the accounting principle.

Wright explained that a number of entities do not use the full yield curve to measure the pension benefit obligation but use other approaches such as a bond match approach which utilises a hypothetical portfolio of bonds constructed to match the plan's projected benefit payments. Because this approach does not incorporate a full set of individual discount rates, questions have arisen as to whether such companies could adopt a yield curve approach to measuring the projected benefit obligation to apply the spot rate approach to determine interest and service cost. Wright noted that the focus of assessing a potential change in the approach should be on the measurement of the benefit obligation and determination of the best estimate for settling the obligation rather than on the calculation of components of net benefit costs. A company must also consider its prior basis and reasons for selecting the bond match approach and whether those are still relevant, and what economic facts and circumstances have changed to warrant a change in approach.

Loan loss, decision-maker fees and collateralised manager vehicles:

The conference also discussed the recent PCAOB inspection findings which highlighted the need for both auditors and management to consider the guidance in SEC's SAB No. 102, 'Selected loan loss allowance methodology and documentation issues' (SAB 102). SAB 102 establishes expectations for management related to the development, documentation and application of a systematic methodology for determining allowance for loan loss estimates in accordance with GAAP.

The conference addressed implementation questions related to the revised consolidation guidance issued in February 2015 and whether decision-maker fees should be deemed variable interests. It was further noted that since adoption of the final rules relating to risk retention receivables for asset-backed securities, the SEC staff has received a number of accounting consultations related to collateralised manager vehicles (CMV), which are designed to sponsor various types of securitisation transactions. It was highlighted that the consolidation analysis in such cases can be complex and the most significant factors in arriving at an accounting conclusion may vary greatly from CMV to CMV.

Standard setting update

The conference also included sessions dedicated specifically to the new revenue recognition and leasing standards.

Revenue recognition

The SEC staff discussions on the new revenue recognition standard noted that the comparability between registrants, both domestic and international, may be achieved through continued collaboration among a global Transition Resource Group (TRG) process, industry groups (including those formed by the AICPA), and the many other informal groups that have been created. Good company practice is to ensure that the audit committee, executive management and auditor incorporate timely and candid discussions about not only the appropriateness of the design and status of management's detailed revenue implementation plans and impact assessments but also the sufficiency of resources needed to complete the work time.

Certain companies have been identifying practice issues related to the new revenue standard through a bottoms-up approach with good results. This involves reviewing individual revenue streams and contracts as well as historical policies. Through this process, companies may reach different accounting conclusions from that of other companies, despite the existence of similar facts and circumstances.

The participants expressed interest in continuing to have a group in place to address specific implementation issues once companies progress in their implementation, but stressed the need for a stable standard setting environment to finalise their implementation efforts.

Leasing

Among the most recent conclusions, the FASB and IASB have agreed on a 2019 effective date. The FASB will allow private companies to adopt the standard in 2020. The FASB will allow early adoption upon issuance, while the IASB will permit early adoption only concurrent with the adoption of the new revenue standard. In another difference, the FASB has approved a single method for the transition—the modified retrospective approach—whereas the IASB will permit both retrospective and simplified retrospective approaches. In order to ease the burden of adoption, both the boards have included elements of specific relief to address their particular implementation concerns.

FASB Practice Fellow Scott Muir acknowledged that ultimately, the FASB and IASB did not completely align on a number of matters due to differing feedback received from the two standard setters' constituents, perhaps most significantly with regard to the single vs dual approach for classifying how leases are recorded in the income statement. Similar to the current guidance, the new standard will require judgements in a number of areas, including determining when an arrangement is or includes a lease, assumptions related to lease term and discount rate, and the allocation of consideration to lease and non-lease components.

The new standard will require lessees to recognise virtually all leases on the balance sheet by recording a right of use asset and liability based on the cash flows associated with the lease. As a result, judgements such as the determination of whether an arrangement is or contains a lease and the applicable discount rate may be more impactful than under current guidance. It was highlighted that judgements such as those related to inclusion or exclusion of optional renewal periods would need to consider objective evidence and not rely only on management's historical practices. In addition, the expanded disclosure requirements will warrant thoughtful consideration.

To help preparers make key judgments, the FASB will provide more guidance and examples than the ones that exist today.

Other panelists described the challenges of implementation and said that it will require the involvement of a wide range of individuals within an organisation. It will likely also require significant changes to processes, systems and controls—the extent of which should not be underestimated.

International: Use of IFRS by US issuers

The SEC chairman mentioned that the SEC staff was discussing a proposal with the commission to allow domestic US issuers to voluntarily submit IFRS financial information without reconciliation in addition to their US GAAP financial statements.

Division of enforcement

Director Andrew Ceresney and Chief Accountant Michael Maloney, of the SEC's Division of Enforcement provided an overview of enforcement action trends, noting that fiscal year 2015 set a record for independent actions for violations of the federal securities laws and included a number of first-of-their-kind cases. Financial reporting actions increased 44% from the prior year and have more than doubled since 2013, reflecting the focus on this area post-financial crisis.

Examples of financial reporting cases are related to a broad range of topics, including contract accounting, valuations, impairments, concealment of covenant breaches, earnings management, and failure to disclose executive perks. Fraud cases may be attributed to poor tone at top, insufficient oversight on multi-locations and over reliance on processes.

Focus on audit committees

The role of the audit committee received increased focus in this year's conference. The SEC chairman discussed her growing concern about the increased work required of some audit committees given their need to focus not just on their core responsibilities and oversight of financial reporting but also to oversee additional risks in important areas such as cyber security. She commented that companies and directors should carefully choose who serves on their audit committees, selecting only those that have the time, commitment and experience to do the job well.

Cyber security

The conference also focussed on how cyber security is considered in organisations. As the use of technology continues to become more ingrained in businesses, the potential for a cyber security attack increases. The role of key decision-makers in management and the board of directors is also evolving. In the absence of formal guidance or requirements, the panel suggested that management needs to be doing more to understand the cyber security risks in their environment and respond to those risks before a breach occurs.

Audit quality indicators

During 2015, the Centre for Audit Quality (CAQ) completed its pilots of audit quality indicators (AQIs) and quantitative metrics designed to help define audit quality. The findings included: (1) audit committees value engagement-level AQIs more than firm-level AQIs; (2) two-way communication between the audit committee and the engagement team provides context that is critical for a proper understanding of AQIs; and (3) the use and reporting of AQIs should be voluntary and flexible. The CAQ is in the process of completing a new report that integrates the findings from the pilot testing and related roundtables which it expects to issue in early 2016.

PCAOB update

Many presenters expressed their appreciation for the role the PCAOB has played in enhancing audit quality and addressing the needs of the capital markets. The PCAOB chairman provided details of the number of US and non-US firms and engagements inspected, noting that abroad, the PCAOB is working jointly with a local audit oversight body in 18 jurisdictions.

Standard setting update

PCAOB's chief auditor and director of professional standards described some of the requirements of the new Auditing Standard 18 (AS 18), which requires auditors to obtain sufficient appropriate audit evidence to determine whether related party relationships and transactions with related parties have been properly identified, accounted for, and disclosed in the financial statements.

Several presenters discussed the proposal to improve transparency by requiring disclosure of the engagement partner's name and additional information about certain other participants in the audit. The final standard, which will mandate disclosure of this information on a new PCAOB form, Form AP, Auditor Reporting

of Certain Audit Participants, is expected to be approved by the board in the coming week, and then will be subject to approval by the SEC.

Inspection results and findings

PCAOB director of registration and inspections, gave an update on the state of the inspection programme, highlighting the five areas in which she believes the audit profession has improved: tone at the top, training, new practice aids and checklists, coaching and support, and monitoring. It was noted that firms with fewer inspection findings may have a tendency to lessen their focus on audit quality.

She discussed the PCAOB's areas of focus for the 2016. Although the overall inspection process will remain consistent, she expects the following areas to receive focus in 2016: (1) technology risks ('cyber security'), (2) AS 18 (3) recurring audit deficiencies, and (4) how economic and environmental risks are addressed.

Conclusion

The foundation of the current year's AICPA conference laid emphasis on the role of all parties involved in financial reporting, together with insights on how to enhance such reporting and highlights of several technical accounting topics. The primary focus was on how internal controls over financial reporting and the roles of management, auditors and audit committees combine to create high-quality, reliable financial reporting.

Recent *technical updates*

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The Companies Act, 2013

Amendment to the Companies (Share Capital and Debentures) Rules, 2014

The MCA vide notification dated 6 November 6 2015 issued an amendment in Rule 18(1)(a) of Companies (Share Capital and Debentures) Rules, 2014, by inserting a new clause (iv) under the proviso which enables companies to issue secured debentures for a period exceeding 10 years if they are permitted by a ministry or department of the central government or by RBI or by National Housing Bank (NHB) or by any other statutory authority to issue debentures for a period exceeding 10 years.

SEBI

Format for compliance report on corporate governance to be submitted to the stock Exchange (s) by listed entities

SEBI vide circular dated 24 September 2015 prescribed the format for reporting on corporate governance in accordance with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Format of uniform listing agreement

SEBI has issued the format for the simplified 'listing agreement' in accordance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as the 'Listing Regulations'). This simplified listing agreement is uniform for the following categories of securities covered under the regulations mentioned below:

- 'Specified securities' (equity and convertible securities on main board or SME or ITP) or Indian depository receipts: Regulation 109 of Issue of Capital and Disclosure Requirements (ICDR) Regulations, 2009
- 'Non-convertible debt securities': Regulation 19A of Issue and Listing of Debt Securities (ILDS) Regulations, 2008
- 'Non-convertible redeemable preference shares': Regulation 16A of NCRPS (Issue and Listing of Non-Convertible Redeemable Preference Shares)
- 'Securitised debt instruments': Regulation 35A of SDI (public offer and listing of securitised debt instruments) Regulations, 2008
- 'Mutual funds': Regulation 31B of MF (mutual funds) Regulations, 1996.

Existing listed entities are also required to execute a fresh listing agreement within six months from 2 September 2015.

FAQ on SEBI (share-based employee benefits) Regulations, 2014

SEBI has clarified that the restriction on the granting of employee stock option plans (ESOPs) to independent directors applies only on fresh grants of ESOPs after commencement of the provisions of the aforesaid regulations and the Companies Act, 2013.

Relaxation to listed entities for filing financial results under IFRS

SEBI vide its letter dated 6 November 2015 has stated that the financial results for the quarters ended 31 December 2015 and 31 March 2016 and year ending 31 March 2016 may be filed under IFRS by listed entities which had exercised the option of preparing consolidated financial statements under IFRS for the first quarter of FY 2015-2016. The relaxation granted is without any prejudice to the requirements of the Companies Act, 2013, with respect to reporting of financial statements.

Business responsibility reporting (BPR)

SEBI, in its board meeting on 30 November 2015, has made BPR mandatory for the top 500 listed entities based on market capitalisation as on 31 March every year.

Scheme of arrangement by listed entities and relaxation under Rule 19(7) of Securities Contracts (Regulation) Rules, 1957

The listing regulations place obligations with respect to the scheme of arrangement on listed entities and stock exchange(s) in regulations 11, 37 and 94. Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957, (hereinafter referred to as 'the SCRR') provides that SEBI may, at its own discretion or on the recommendation of a recognised stock exchange, waive or relax the strict enforcement of any or all of the requirements with respect to listing prescribed by these rules. The additional requirements in order to achieve the intent of regulations 11, 37 and 94 and for availing exemption under sub-rule (7) of rule 19 of SCRR have been issued by SEBI vide circular no. CIR/CFD/CMD/16/2015 dated 30 November 2015.

Formats for publishing financial results

The formats for publishing financial results under Regulation 33 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, in respect of specified securities (i.e. equity shares and convertible securities), have been set out by SEBI vide circular CIR/CFD/CMD/15/2015 30 November 2015 dated 30 November 2015.

Institute of chartered accountants of India (ICAI)

ICAI's Announcement on the withdrawal of five guidance notes on accounting

The council, at its special (347th) meeting, held on 14 October, 2015, has decided to withdraw the following five guidance notes on accounting as the same are no longer relevant in the present day context in view of the requirements of the Companies Act, 2013:

GN (A) 3 (Issued 1982): Guidance note on treatment of reserve created on revaluation of fixed assets

GN (A) 7 (Issued 1989): Guidance note on accounting for depreciation in companies

GN (A) 8 (Issued 1994): Guidance Note on some important issues arising from the amendments to Schedule XIV to the Companies Act, 1956

GN (A) 26 (Issued 2008): Guidance note on applicability of accounting standard (AS) 20, earnings per Share

GN (A) 27 (Issued 2008): Guidance note on remuneration paid to key management personnel—whether a related party transaction

Auditing and Assurance Standards Board (AASB) issues exposure drafts of new/revised standards on auditing (SA) for comments

AASB has issued the following exposure drafts of new/revised standards on auditing for comments.

Revised SA 700, 'Forming an opinion and reporting on financial statements'

New SA 701, 'Communicating key audit matters in the independent auditor's report'

Revised SA 705, 'Modifications to the opinion in the independent auditor's report'

Revised SA 706, 'Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report'

Revised SA 260, 'Communication with those charged with governance'

Revised SA 570, 'Going concern'

These exposure drafts have been issued consequent to the updates in the international standards on auditing.

Exposure draft: Amendments in transitional provisions of accounting standards

The existing accounting standards, which were notified under the Companies Act, 1956, under the Companies (Accounting Standards Rules), 2006, have to be notified afresh under section 133 of the Companies Act, 2013. Certain existing Accounting Standards which were notified in 2006 contain 'Transitional Provisions'. The objective of these 'transitional provisions' is to prescribe the accounting treatment when an Accounting Standard becomes applicable for the first time. Accordingly, in 2006, there was some justification to include these 'transitional provisions'. As the accounting Standards are now being notified afresh, so from the perspective of their re-notification, 'transitional provisions' are being re-examined. For this purpose the accounting standards board of the ICAI has issued the aforementioned exposure draft of the amendments in transitional provisions of accounting standards.

Exposure draft: Draft guidance note on some important issues arising from Schedule II to the Companies Act, 2013

ICAI has issued the above referred exposure draft on 10 November 2015 with an objective to provide guidance on certain significant issues that may arise from the practical application of Schedule II with a view to establish consistent practice with regard to the accounting for depreciation.

Auditing and assurance standards board (AASB) seeks suggestions on the proposed new CARO

The MCA recently constituted a committee to formulate the Companies (Auditor's Report) Order (CARO) to be issued under section 143(11) of the Companies Act, 2013. This aforesaid Order is proposed to be made applicable for audit reports on the financial statements of the companies for the financial year 2015–16 and onwards. The aforesaid committee has requested the AASB of ICAI to develop a draft of the proposed CARO for the consideration of the committee. With a view to ensuring that the proposed CARO is a value add report for the managements, stakeholders as well as the relevant government agencies, and at the same time adequately balances public interest vis-à-vis nature and scope of an audit of financial statements under the standards on auditing, the AASB has requested thoughts on areas that can be included for reporting under the CARO.

IFRS

IFRS Interpretations Committee publishes two draft interpretations on uncertainty over income tax treatments and which exchange rate should be used when transactions are made in advance

IAS 12, 'Income taxes', provides requirements on the recognition and measurement of the current or deferred tax liabilities or assets but does not provide specific guidance for how uncertainty about a tax treatment should be reflected in the accounting for income tax. The IFRS IC proposes a draft interpretation to provide this guidance.

IAS 21, 'The effects of changes in foreign exchange rates', sets out requirements about which exchange rate to use when recording a foreign currency transaction on initial recognition in the entity's functional currency. However, the IFR IC observed diversity in practice in circumstances in which consideration was received or paid in advance of the recognition of the related asset, expense or income. The IFRS IC proposes a draft interpretation to provide guidance in these specific circumstances.

IASB publishes draft guidance on helping management apply the concept of materiality

The IASB has published draft guidance to help company management determine whether information is material. The guidance is part of the IASB's wider initiative to improve disclosures. The concept of materiality acts as a filter through which management sifts information to ensure that financial statements include all the financial information that could influence users' investment decisions. It also enables management to present material information in a clear and effective way, excluding information that is not material.

IASB publishes exposure draft on annual improvements 2014-2016

The IASB published the exposure draft 'Annual improvements to IFRSs 2014-2016 cycle' which covers proposed amendments to IFRS 1, 'First-time adoption of IFRS', IFRS 12, 'Disclosure of interest in other entities', and IAS 28, 'Investments in associates and joint ventures'.

IASB publishes exposure draft on amendments to IAS 40, 'Investment property', regarding transfers

The IASB has published the exposure draft transfers of investment property which proposes a narrow-scope amendment to IAS 40, 'Investment property', to clarify the guidance on transfers to, or from, investment properties.

US GAAP/GAAS

Financial Accounting Standards Board (FASB) simplifies balance sheet classification of deferred taxes

The FASB amended ASC 740 to remove the requirement of separation of deferred income tax liabilities and assets into current and noncurrent. The amendment requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This aligns US GAAP requirements with IFRS on presentation of deferred taxes.

AICPA issues Statement Auditing Standards (SAS) 130 on audit of internal control over financial reporting

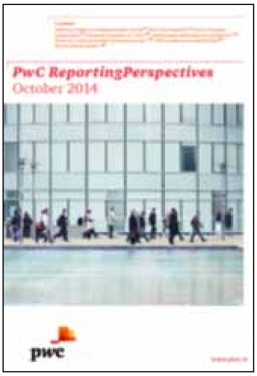
AICPA issued SAS 130 which establishes requirements and provides guidance that applies only when an auditor is engaged to perform an audit of ICFR that is integrated with an audit of financial statements (integrated audit). Generally accepted auditing standards (GAAS) are written in the context of an audit of financial statements but are to be adapted as necessary in the circumstances when applied to an audit of ICFR that is integrated with an audit of financial statements. This SAS includes special considerations related to performing an integrated audit. This SAS is effective for integrated audits for periods ending on or after 15 December 2016.

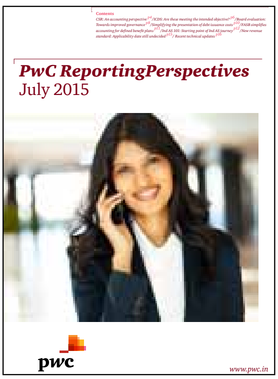
FASB finalises effective date for the proposed leasing standard

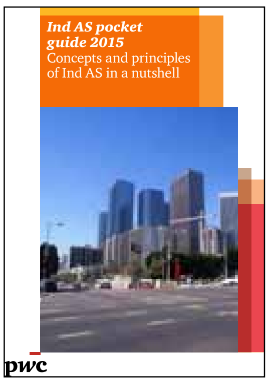
FASB voted to proceed with a new accounting standard that would require companies and other organisations to include lease obligations on their balance sheets. The final accounting standards update (ASU) is expected to be published in early 2016. The board decided that for public companies, the upcoming standard will be effective for fiscal years (and interim periods within those fiscal years) beginning after 15 December 2018; for private companies, the standard will be effective for annual periods beginning after 15 December 2019. Early adoption will be permitted for all companies and organisations upon issuance of the standard.

Publications

Previous publications







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