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Editorial

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

As part of our continued effort to provide guidance on Ind AS, we have included an overview of certain important aspects related to interim reporting. The listed entities which are covered in the first phase of the Ind AS roadmap will be publishing their first quarterly results for June 2016 in accordance with Ind AS. These entities are required to prepare their financial results in accordance with the recognition and measurement principles of Ind AS 34, 'Interim financial reporting'. We also discuss SEBI's recent clarifications in the context of quarterly Ind AS reporting for listed companies.

The auditors' report is set to change with the introduction of new standards on auditing which are effective for audits of financial statements for periods beginning on or after 1 April 2017. The new reporting standards will enhance the communicative value and relevance of the auditors' report, primarily by describing the key areas of audit in the context of the financial reporting framework. We have summarised the impact of these new standards on companies, their auditors and other stakeholders in this edition.

The UK voters' decision to leave the EU has come as a surprise to many observers, as well as the markets. The vote has unleashed political, economic and financial uncertainty that will play out over the months ahead.

This will have a considerable impact on financial markets, both in the UK and across the world. In this edition, we examine the impact of Brexit on financial reporting for companies in India which have either investments in the UK or significant business transactions.

The ASB of the ICAI formed ITFG. ITFG issued its second and third bulletin addressing certain issues related to the applicability and implementation of Ind AS, which have been covered in this edition.

The CBDT issued an order to constitute a committee to suggest a framework for the computation of book profit for the purpose of levy of MAT under section 115JB of the Income-tax Act, 1961, for Ind AS-compliant companies in the year of adoption and thereafter. The committee discussed in detail the provisions of the Income-tax Act, Ind AS and relevant sections of the Companies Act, 2013, and provided its recommendations to CBDT on the framework for the computation of the book profit of Ind AS-compliant companies. We provide a summary of the recommendations and its potential impact on companies' tax liability under MAT.

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

Interim financial reporting

Ind AS 34, 'Interim financial reporting', prescribes the minimum content for an interim financial report and the principles for recognition and measurement in complete or condensed financial statements for an interim period. Ind AS 34 does not mandate which entities are required to publish interim financial reports, how frequently or how soon after the end of the interim period. This standard applies if an entity is required to or elects to publish an interim financial report in accordance with Ind AS.

The SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (SEBI Regulations) stipulate that the listed entity which has listed its equity shares or convertible securities shall submit the financial results (quarterly and year-to-date) to the stock exchange within 45 days of the end of each quarter, other than the last quarter. SEBI vide its circular no. CIR/CFD/FAC/62/2016 dated 5 July 2016 (the SEBI circular) has provided certain relaxations to companies following Ind AS such as (i) extension of timelines for submission of financial results by one month for the quarters ending June 2016 and September 2016; (ii) certain comparatives are not required to be presented in the financial results for the quarters ending June 2016, September 2016 and December 2016; (iii) audit or review of the comparatives is not mandatory for the quarters ending June 2016 and September 2016.

For the listed entities to which Ind AS Rules are applicable in subsequent phases (beginning from the financial year 2017–18, 2018–19 and 2019–20), these relaxations shall mutatis mutandis apply during their corresponding first year of Ind-AS implementation.

The SEBI circular also provides guidance on the financial results format for the companies which need to comply with Ind AS.

The article highlights the key requirements of Ind AS 34 and its interaction with the SEBI regulations and SEBI circular, key differences from the current Indian GAAP and considerations with respect to first-time adoption.

What is an interim financial report?

As per Ind AS 34, an interim financial report means a financial report containing either a complete set of financial statements (as described in Ind AS 1, 'Presentation of financial statements'), or a set of condensed financial statements (as described below) for an interim period.

The footnote to Ind AS 34 states that 'unaudited financial results required to be prepared and presented under clause 41 of the listing agreement with the stock exchanges is not an "Interim Financial Report" as defined in paragraph 4 of this standard'.

Minimum components of an interim financial report

As per Ind AS 34, an interim financial report shall include, at a minimum, the following components:

a. a condensed balance sheet;
b. a condensed statement of profit and loss;
c. a condensed statement of changes in equity;
d. a condensed statement of cash flows; and
e. selected explanatory notes.

The SEBI regulations only require the following statements to be submitted as part of the financial results:

a. The quarterly and year-to-date results (including segment reporting)
b. Statement of assets and liabilities as at the end of the half-year/year end

Periods required to be presented

Ind AS 34 requires interim reports to include interim financial statements for the periods listed below. Unlike AS 25 under the Indian GAAP, Ind AS 34 does not provide any exemption from the presentation of comparatives on the first occasion that an interim financial report is presented.

Statement	Current	Comparatives
Balance sheet	End of current interim period	End of immediately preceding financial year
Statement of profit and loss	Current interim period and cumulatively for the current financial year to date	Comparable interim period and year- to-date of the immediately preceding financial year
Statement of changes in equity	Cumulatively for the current financial year to date	Comparable year-to-date period of the immediately preceding financial year
Statement of cash flows	Cumulatively for the current financial year to date	Comparable year-to-date period of the immediately preceding financial year

As per the SEBI circular, quarterly financial results shall contain following:

Statement	Current	Comparatives
Statement of audited/ unaudited results (including segment reporting)	1. Current three months 2. Year–to-date figures for the current period	1. Preceding three months *(Note 1)* 2. Corresponding three months ended in the previous year 3. Year-to-date figures for the previous year 4. Previous financial year *(Note 2)*
Statement of assets and liabilities	As at half-year end/year end	As at previous year end *(Note 3)*

Note 1: Not mandatory for the quarter ended June 2016

Note 2: Not mandatory for the quarters ended June 2016, September 2016 and December 2016

Note 3: Not mandatory for the half-year ended September 2016

As per the SEBI circular, the audit or review of the comparatives is not mandatory for the quarters ended 30 June 2016 and 30 September 2016.

Form and content of interim financial statements

Complete set of financial statements: If an entity publishes a complete set of financial statements in its interim financial report, the form and content of those statements shall conform to the requirements of Ind AS 1 for a complete set of financial statements. This means that all of the items required to be presented in the financial statements by Ind AS 1 must be included in the interim financial statements.

Condensed financial statements: If an entity publishes a set of condensed financial statements in its interim financial report, those condensed statements shall include, at a minimum, each of the headings and subtotals that were included in its most recent annual financial statements and the selected explanatory notes as required by the standard. Additional line items or notes shall be included if their omission would make the condensed interim financial statements misleading.

On 6 April 2016, MCA amended Schedule III to include general instructions for the preparation of the financial statements of a company whose financial statements are required to comply with Ind AS. The amendment divides Schedule III into two parts, i.e. Division I and II.

- Division I is applicable to a company whose financial statements are required to comply with the current accounting standards.
- Division II is applicable to a company whose financial statements are drawn up in compliance with Ind AS.

The SEBI circular states that financial results for the period ending on or after 31 March 2017 shall be as per the formats for the balance sheet and statement of profit and loss (excluding notes and detailed sub-classification) as prescribed in Schedule III to the Companies Act, 2013. The existing formats prescribed by SEBI shall continue till the period ending 31 December 2016. In case of any technical difficulty in the interpretation of any specific item in the formats, listed companies shall be guided by the relevant provisions of the Ind AS Rules and Schedule III to the Companies Act, 2013 and may make suitable modifications, as applicable.

The SEBI regulations require listed entities to prepare financial results in accordance with the recognition and measurement principles laid down in Ind AS 34, 'Interim financial reporting'.

Impact of first-time adoption of Ind AS

As per Ind AS 101, where an entity presents an interim financial report in accordance with Ind AS 34 for part of the period covered by its first Ind AS financial statements, the entity shall explain its transition to Ind AS in the following manner, in addition to the requirements of Ind AS 34.

The following reconciliations are required to be given in the interim financial report prepared under
Ind AS 34.

Quarter	Type of reconciliation	Required as per Ind AS 34	Required as per SEBI circular
First quarter interim financial report for period ending 30 June 2016	Reconciliation of equity	1 April 2015 30 June 2015* 31 March 2016	NA
	Reconciliation of profit or loss	1 April, 2015 to 31 March 2016 1 April 2015 to 30 June 2015*	1 April 2015 to 30 June 2015
Second quarter interim financial report for period ending 30 September 2016	Reconciliation of equity	30 September 2015*	Refer to Note 1 below
	Reconciliation of profit or loss	1 July 2015 to 30 September 2015* 1 April 2015 to 30 September 2015*	1 July 2015 to 30 September 2015
Third quarter interim financial report for period ending 31 December 2016	Reconciliation of equity	31 December 2015*	NA
	Reconciliation of profit or loss	1 October 2015 to 31 December 2015* 1 April 2015 to 31 December 2015*	1 October 2015 to 31 December 2015

Note 1: Reconciliation of equity for the previous year ended 31 March 2016 shall be provided in case the listed entity intends to provide the same while submitting the unaudited/audited Ind-AS compliant half-yearly balance sheet for the period ended 30 September 2016.

Note 2: Reconciliation of equity for the previous year ended 31 March 2016 shall be mandatorily provided while submitting the audited yearly balance sheet for the period ended 31 March 2017.

** These reconciliations are required to be presented when an entity has presented an interim financial report for the comparable interim period of the immediately preceding financial year.*

Ind AS 101 requires an entity to prepare and present an opening balance sheet as a primary statement at the date of transition to Ind AS. Ind AS 101 does not require an entity to present an opening balance sheet in its interim financial report in the year of first-time adoption. However, this is good information for users and can be included in the interim financial report.

Disclosure of accounting policies

Ind AS 34 requires that interim financial reports prepared in accordance with its requirements should include a statement that the same accounting policies and methods of computation are followed in the interim financial statements as were followed in the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change in the accounting policy. On an ongoing basis, therefore, Ind AS 34 does not require a complete description of all of the entity's accounting policies in its interim financial reports.

However, in the period of first-time application, we would recommend that a full description of the entity's accounting policies under Ind AS be included in the entity's interim reports. Since those policies will inevitably differ from the policies disclosed in the most recent annual financial statements (prepared under previous Indian GAAP), it is important for a user of the interim financial report to understand the basis of accounting under Ind AS.

If during the period covered by its first Ind AS financial statements, an entity changes its accounting policies or its use of the exemptions contained in Ind AS 101, it shall explain the changes between its first Ind AS interim financial report and its first Ind AS financial statements and it shall update the required reconciliations.

Consolidated financial statements

As per Ind AS 34, if the entity's most recent annual financial statements were consolidated statements, then the interim financial report should also be prepared on a consolidated basis. If the entity's annual financial report included the parent's separate financial statements in addition to consolidated financial statements, Ind AS 34 neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report.

As per the SEBI regulations, the listed entity shall mandatorily submit quarterly and year-to-date stand-alone financial results to the stock exchange. However, in case the listed entity has subsidiaries, the listed entity may also submit quarterly/year-to-date consolidated financial results in addition to the stand-alone financial results subject to certain conditions given in the SEBI regulations.

As per the latest SEBI circular, during the first year of adoption, the option to submit consolidated financial results can be selected by the second quarter and shall remain unchanged during the remaining part of the year.

Basis of preparation of interim financial reports

Ind AS 34 requires the use of the discrete period approach; that is, items of income and expenses should be recognised and measured on a basis consistent with that used in preparing the annual financial statements. No adjustments should be made for events expected to occur subsequent to the end of the interim period. It notes that the frequency (annual, half-yearly or quarterly) of an entity's interim reporting should not affect the measurement of its annual results.

Use of estimates

Preparing financial information at any cut-off date, even at the financial year end, involves making judgements and estimates. Such judgements are necessary because no accounting period can be entirely independent from those preceding or following it and some items of income or expenditure will always be incomplete. However, at the end of the interim period, the preparation of the interim financial report will require a greater use of estimates than would be required at the year end.

- **Classification of current and non-current assets and liabilities**: The classification of assets and liabilities as either current or non-current should be carried out on the same basis at the date of the interim report as it would at the year end. Liabilities should be treated as current if the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the interim balance sheet date. That said, entities may perform less rigorous measurement estimates at the interim date, for example, of the portion of a long-term liability that will become payable within the next 12 months. Of course, where a less rigorous estimate would lead to unreliable information—for example, when a bank covenant is close to being breached—the more thorough year-end approach should be adopted.
- **Revaluations:** Accounting at fair valuation for non-financial assets is permitted by Ind AS 16. Reliably estimating fair values can be time-consuming and requires the involvement of experts. It may be appropriate for entities preparing interim financial reports to use directors' estimates of fair values, based on the most recent independent valuation, rather than obtaining an independent valuation at each interim balance sheet date. However, the principle outlined in Ind AS 34 that interim financial reports need to be sufficiently

reliable for users' needs should be considered. In volatile economic environments, directors may be less able to reliably estimate fair values and, therefore, entities should consider the need to obtain independent valuations at the interim date.

Explanatory notes: Significant events and transactions

The disclosure requirements of Ind AS 34 are based on the assumption that anyone reading the interim financial report will have access to the most recent annual financial statements. Therefore, not all of the supplementary notes in the annual financial statements are required for interim reporting purposes, because this would result in repetition, or the reporting of relatively insignificant changes. The explanatory notes included with the interim financial information are intended to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Ind AS 34 lists down the list of transactions for which disclosures would be required if they are significant. The list is not exhaustive.

Explanatory notes: Other disclosures

In addition to disclosing significant events and transactions mentioned above, an entity shall include the following information in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report

a. a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;
b. explanatory comments about the seasonality or cyclicality of interim operations;
c. the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence;
d. the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
e. issues, repurchases and repayments of debt and equity securities;
f. dividends paid (aggregate or per share) separately for ordinary shares and other shares;
g. segment information (disclosure of segment information is required in an entity's interim financial report only if Ind AS 108, 'Operating segments', requires that entity to disclose segment information in its annual financial statements);
h. events after the interim period that have not been reflected in the financial statements for the interim period;
i. the effect of changes in the composition of the entity during the interim period, including business combinations, obtaining or losing control of subsidiaries and long-term investments, restructurings, and discontinued operations; in the case of business combinations, the entity shall disclose the information required by Ind AS 103, 'Business combinations';
j. for financial instruments, the disclosures about fair value required by paragraphs 91–93(h), 94–96, 98 and 99 of Ind AS 113, 'Fair value measurement', and paragraphs 25, 26 and 28–30 of Ind AS 107, 'Financial instruments: Disclosures';
k. for entities becoming, or ceasing to be, investment entities, as defined in Ind AS 110, 'Consolidated financial statements', the disclosures in Ind AS 112, 'Disclosure of interests in other entities', paragraph 9B.

Materiality

In deciding how to recognise, measure, classify or disclose an item for interim financial reporting purposes, materiality shall be assessed in relation to the interim period financial data. In making assessments of materiality, it shall be recognised that interim measurements may rely on estimates to a greater extent than measurements of annual financial data.

Recognition and measurement principles

Same accounting policies as annual financial statements:

The accounting policies applied in the interim financial statements should be consistent with those applied in the most recent annual financial statements, except for accounting policy changes made after the date of the most recent annual financial statements that are to be reflected in the next annual financial statements. Entities are required to disclose in their interim financial reports that this requirement has been met.

Other principles

We discuss below the recognition and measurement principles with respect to certain key financial statement line items/ transactions below:

Particulars	Accounting treatment
Seasonality of revenue or costs	It is recognised that, in certain businesses, there is significant and recurring variation between the levels of profit in the interim period and for the year as a whole. Such seasonal businesses might prefer a more integral approach to interim reporting where expenditure could be allocated to interim periods based on the estimates of the total annual revenues and expenses. This would smooth the effect of seasonality. However, Ind AS 34 requires that each interim financial report is prepared for a discrete period and that no adjustments be made for events that are expected to occur subsequent to the end of the interim period. Ind AS 34 clarifies this principle with respect to revenues or costs that are received or incurred unevenly during the year. Expected revenues or costs should not be anticipated or deferred at an interim date if such anticipation or deferral would not be appropriate at the end of the entity's financial year. **Example: Advertising costs and seasonal revenues** A travel operator has a September year end. Despite the increasing popularity of winter breaks, a majority (75%) of the holiday sales are in summer and most of these are booked in January and February. The accounting policy for revenue is that it is recognised when the holiday is taken. Each year, the travel company runs a television advertising campaign in December and January, just before most holidays are booked. The operator publishes an interim financial report for the half-year to 31 March. The cost of the advertising campaign will be recognised in the income statement in the first half of the year as it does not meet the definition of an asset at the end of the interim period despite the entity recognising the majority of its revenue in the second half of the year. The entity will have a significantly different net result in each half of the year and explanation to that effect will be required.
Planned but irregular expenditure	During the year, many costs are incurred by an entity regularly but not evenly—for example, maintenance costs, employee training costs and charitable contributions. Although these are planned, they are generally discretionary and will not be recognised as an obligation at the date of the interim financial report, unless the costs meet the definition of a liability as defined by Ind AS 37.
Major planned periodic maintenance or overhaul	The cost of a planned major periodic maintenance or overhaul or other seasonal expenditure that is expected to occur late in the year is not anticipated for interim reporting purposes, unless an event has caused the entity to have a legal or constructive obligation. The mere intention or necessity to incur expenditure related to the future is not sufficient to give rise to an obligation.
Provisions	Ind AS 34 requires that an entity should apply the same recognition and measurement criteria to a provision in an interim financial report as would be applied at the year end in accordance with Ind AS 37. The recognition and measurement of provisions and contingencies should be reassessed at each interim reporting date, as they would at each year end. This may necessitate obtaining formal reports and opinions from independent experts and may result in the recognition, derecognition or remeasurement of a provision, contingent liability or contingent asset. However, based on the facts and circumstances, the entity may consider obtaining formal opinions in cases where a triggering event has been observed, indicating that a significant recognition, derecognition or remeasurement may be required.
Employee costs: Year-end bonuses	Employee bonuses differ greatly between different entities and between different bonus schemes within the same entity. Bonuses may be based on service over a period of months or years, or based on the attainment of a number of performance criteria or objectives. They may be contractual, purely discretionary or based on historical precedent. Consequently, it is essential to understand the principles underlying the recognition of year-end bonuses in interim financial reports so that they can be applied to individual bonus schemes. A bonus (which may or may not be a year-end bonus) is anticipated and recognised in the interim report only if a reliable estimate of the bonus can be made and: • the bonus is a legal obligation; or • past practice has made the bonus a constructive obligation from which the entity cannot realistically withdraw.

Intangible assets	The costs of creating an internally generated intangible asset should be capitalised from the date when the recognition criteria set out in Ind AS 38 are met in full. Ind AS 38 does not permit an entity to use hindsight to conclude retrospectively that these recognition criteria are met. Deferral of costs at the interim date in the hope that the recognition criteria will be met by the end of the year is not justified. Furthermore, Ind AS 38 specifically prohibits the reinstatement of costs that have been expensed in an interim period as an intangible asset in the annual financial statements.
Employee costs: Defined benefit scheme	Neither Ind AS 34 nor Ind AS 19 specifies how frequently the assets and liabilities of a defined benefit scheme should be revalued. This will depend on the facts and circumstances specific to the pension scheme and requires the exercise of professional judgement. However, Ind AS 19 does require an entity to determine the net defined benefit liability or asset with sufficient regularity so that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period. In other words, unless the extent of any actuarial gains and losses since the last valuation is expected to be immaterial, a valuation should be performed. In a volatile economic environment, it may be necessary for an entity to obtain a valuation at each interim balance sheet date.
Share-based payments	In respect of cash-settled share-based payment transactions, Ind AS 102 requires that the liability recognised is remeasured at each balance sheet date. Where the impact is likely to be material to the results of the interim period (or the year-to-date information, if reported), this remeasurement should also be performed at the interim balance sheet date. Where the amount of the liability is determined by reference to a share for which no reliable market price is available (for example, because the share is unquoted or so thinly traded that the price for the last transaction does not represent a reliable fair value), an estimation technique is required. In such circumstances, it may be appropriate for management to estimate the share's fair value.
Depreciation	The depreciation or amortisation charge in an interim period should be based only on assets that were owned during the period reported. It should not take into account asset acquisitions or disposals that are planned later in the financial year.
Inventories	The measurement of inventories in interim financial reports is based on the same measurement principles as those at the year end. That is, inventories should be measured at the lower of cost and net realisable value. The net realisable value of inventories should be determined by reference to selling prices and related costs to complete and dispose at the interim balance sheet date.
Taxation	Taxation is assessed based on annual results and, accordingly, determining the tax charge for an interim period will involve making an estimate of the likely effective tax rate for the year. The tax charge or benefit cannot be properly determined until the end of the financial year (or, if different, the tax year) when all allowances and taxable items are known. Calculating tax on the basis of the results of the interim period in isolation could result in recognising a tax figure that is inconsistent with the manner in which tax is borne by the entity. Therefore, the calculation of the effective tax rate should be based on an estimate of the tax charge or benefit for the year expressed as a percentage of the expected accounting profit or loss. This percentage is then applied to the interim result, and the tax is recognised ratably over the year as a whole. Consistent with the requirements of Ind AS 12, the estimation of the tax charge or benefit should use the tax rates and laws applicable to the full year that have been enacted or substantively enacted by the end of the interim reporting period. The standard requires that, to the extent practicable and where more meaningful, a separate estimated average annual effective income tax rate should be determined for each material tax jurisdiction and applied individually to the interim period pre-tax income of the relevant jurisdiction. Similarly, where different income tax rates apply to different categories of income, a separate rate should, where practicable, be applied to each category of pre-tax income. However, the standard recognises that although this level of precision is preferable, it is not always achievable. Where this is the case, a weighted average of rates across a number of jurisdictions or categories should be applied to the aggregate result of those jurisdictions or categories. This alternative method of calculating the tax charge or benefit for the period should be adopted only where it gives a reasonable approximation of the effect of the more specific calculation. The tax effect of 'one-off' items should not be included in the likely effective annual rate, but should be recognised in the same period as the relevant 'one-off' item. The estimated annual effective tax rate (excluding 'one-off' items) will in that case be applied to the interim profit or loss, excluding the 'one-off' items.
Impairment	Ind AS 34 requires that the recognition and measurement of impairments (including reversals of impairments) are determined by the same criteria that are applied at the year end, which are laid out in Ind AS 36. It is not always necessary, however, for an entity to perform detailed impairment calculations at each interim date: The entity should review its assets for indicators of significant impairment since the end of the most recent financial year to determine whether such calculations are required. Ind AS 36 prohibits the reversal of an impairment of goodwill recognised in accordance with Ind AS 36 at the interim balance sheet date.

Ind AS 34.41 requires that measurement procedures used in interim financial reports produce information that is reliable, with all relevant material financial information being appropriately disclosed. It nevertheless acknowledges that, while reasonable estimates are often used for both annual and interim financial reports, interim reports generally will require a greater use of estimation methods than annual financial reports.

Restatement of previously reported interim periods

A change in accounting policy, other than one for which the transitional provisions are specified by a new Ind AS, should be reflected by:

- restating the financial statements of prior interim periods of the current financial year, and the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with Ind AS 8; or
- when it is impracticable to determine the cumulative effect at the beginning of the financial year of applying a new accounting policy to all prior periods, adjusting the financial statements of prior interim periods of the current financial year and comparable interim periods of prior financial years to apply the new accounting policy prospectively from the earliest date practicable.

Ind AS 8 states that retrospective application of a new accounting policy is impracticable when an entity cannot apply it after making every reasonable effort to do so.

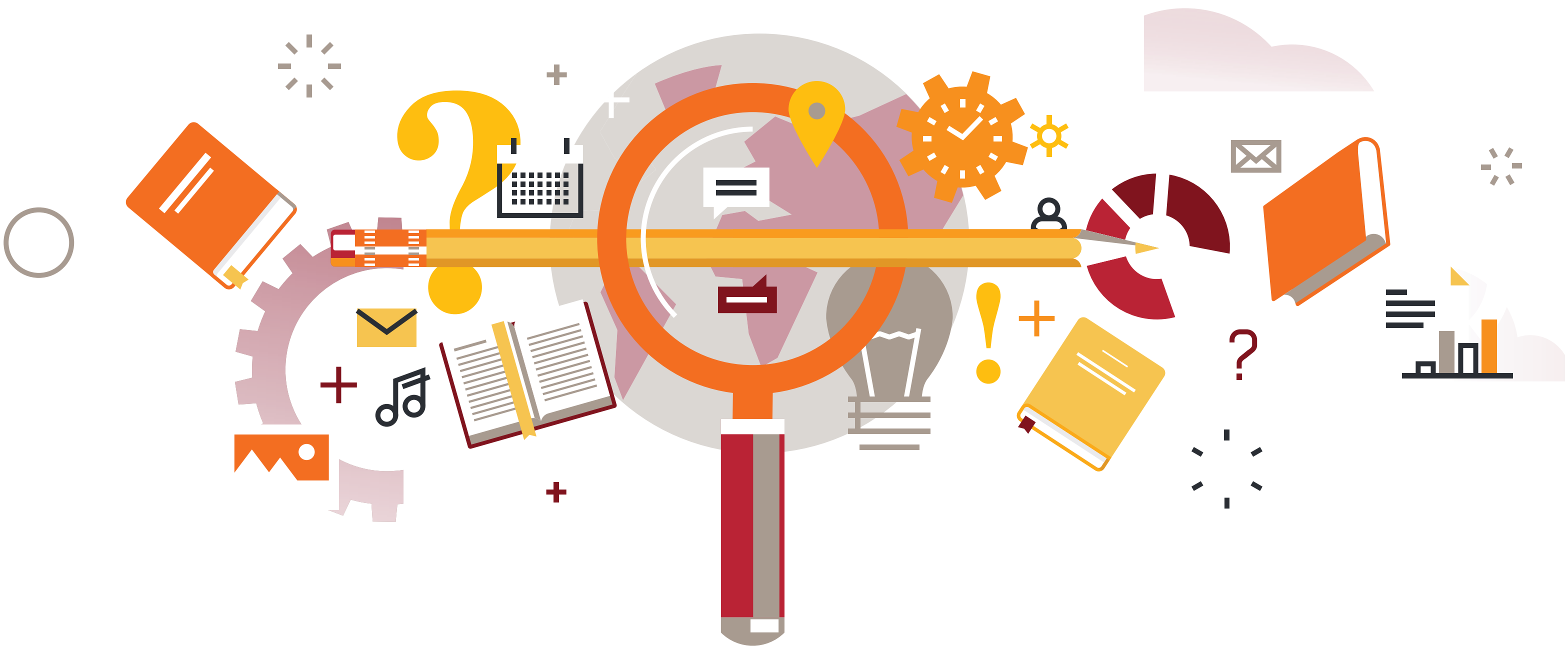
Ind AS 34 states that the objective of these principles is to ensure that a single accounting policy is applied to a particular class of transactions throughout an entire financial year.

Key differences from previous Indian GAAP:

1. As part of the condensed interim financial report, Ind AS 34 requires the inclusion of a condensed statement of changes in equity. AS 25 does not provide for such a statement.
2. Ind AS 34 prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill. There is no such specific prohibition in AS 25.
3. Under AS 25, if the annual report of an entity included both separate and consolidated financial statements, the interim financial report should also include both these statements. Ind AS 34 neither requires nor prohibits the inclusion of the parent's separate statements in the entity's interim report prepared on a consolidated basis.
4. AS 25 requires disclosures of contingent liabilities. Ind AS 34 requires disclosures of both contingent assets and contingent liabilities, if they are significant.
5. AS 25 does not require the presentation of comparative information on the first occasion that an interim financial report is presented. There is no such exemption available in Ind AS 34.
6. Ind AS prohibits disclosure of any item as an 'extra-ordinary item'. AS 25 allows for such disclosure.
7. Under AS 25, a change in accounting policy is reflected by restating the financial statements of prior interim periods of the current financial year. Ind AS 34 additionally requires the restatement of the comparable interim periods of prior financial years that will be restated in annual financial statements in accordance with Ind AS 8.

Conclusion

SEBI regulations require financial results to be published/submitted on a quarterly basis within 45 days from the end of the quarter. This timeline has been extended for Phase I companies by 1 month for the quarters ending June 2016 and September 2016. Further, certain other relaxations have also been provided by SEBI to facilitate Ind AS implementation in first year of adoption. This is a welcome step by SEBI.



Impact of new auditing standards

The revised standards on auditing requiring the auditor to report, among other matters, on key audit matters, were issued by the International Auditing and Assurance Standards Board in January 2015. They are effective for audits of financial statements for periods ending on or after 15 December 2016.

In India too, the auditors' report is set to change with the following standards on auditing coming into effect for audits of financial statements for periods beginning on or after April 1, 2017:

- 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 standards will change the form and content of the audit report:

- The report will now start with the auditors' opinion paragraph, followed by the basis of opinion, the management's responsibility for the financial statements, and the auditors' responsibility and the other elements as set out in the revised SA 700.
- Inclusion of a statement on the auditors' independence and fulfilment of relevant ethical responsibilities
- Inclusion of a paragraph on KAMs which, as described in SA 701, are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period. These matters are selected from the matters communicated to those charged with governance and are applicable to the audits of listed companies, although they can also be used voluntarily by others.

New standards: The objectives

The new reporting standards enhance the communicative value and relevance of the auditors' report, primarily by describing the key areas of audit in the context of the financial reporting framework. These matters provide the users of financial statements with more insight into matters which involve significant auditor attention in the audit, relating to areas of complexity and significant judgements in the financial statements.

Global acceptability

The international standards on auditing have gained wide acceptability across the world, in more than 110 countries. Most of these countries, including the United Kingdom, Singapore, Malaysia, Australia, Saudi Arabia and India, have already changed or are now preparing to adopt the new standards. While some countries have been early adopters, most of them will be applying these new requirements for December 2016 year end. A major part of the audit opinions issued in 2017 are expected to be compliant with the new standards based on the date of adoption by the respective country.

Impact of these new standards

The new standards have a wide-reaching impact on companies, their auditors and stakeholders. The expected impact is set out below:

For companies:

a. There is more responsibility on the board and the audit committee. The management's perspective, as included in the financial statements, is complemented by the disclosures under KAM, which provide transparency to users and also highlight the impact on the auditors' approach to the audit. The auditors' disclosures on KAM, therefore, lead to increased focus and attention by the management and audit committee to the matters presented in the auditors' report.
b. The draft auditors' report given to the board describes the matters considered by the auditor and necessitates discussion within the audit committee and the board to ensure appropriate disclosures in the financial statements and the board report.
c. The matters included in the audit report support the governance function of the company and lead to meaningful dialogues between the auditor and management in key areas.

Auditors

a. For recurring engagements, the auditor, being familiar with the company's operations, would be able to flag off the areas which present the highest risk and complexity, thereby enabling an upfront discussion with the company's audit committee and management on matters likely to be disclosed as a KAM in the audit report.

b. The audit opinion may no longer contain boilerplate language, as each audit opinion would be unique to the specific facts and circumstances.

c. The requirement to include a KAM could lead the auditor to deliberate with himself on whether the judgements and assumptions which are described as significant to, say, a critical accounting estimate, are consistent with the company's disclosures about the underlying judgements, and whether the audit work carried out and related audit documentation are consistent with the disclosures in the audit report on the work done to address the KAM.

d. The auditors' determination of a KAM to be included in the audit report is important, as these matters are communicated to the users of the financial statements. Further, the number of KAMs which can be included in the audit report is not restricted; hence, the auditor needs to exercise professional judgement in determining the matters that need to be disclosed as KAMs.

e. As the overall aim of the revised reporting standards is that of transparency, KAMs are usually included in the audit report unless the law or regulation precludes public disclosure, or, in rare circumstances, the auditor has determined that the matter should not be communicated in the auditors' report as the adverse consequences of such disclosure outweighs the benefit of information provided to the users.

f. The revised reporting standards result in enhanced audit quality and more informative audit reports.

Stakeholders

a. Stakeholders will benefit from the additional KAM included in the audit report, which results in increased transparency to them. The audit report provides an insight to the users that the matters included therein have been considered by the auditor and discussed with the management.

b. The two-way communication between the auditor and the audit committee/ board, with the report disclosing the insight into the auditors' judgement, adds value to the shareholders.

c. The stakeholders' confidence in the company's financial reporting and audit process is enhanced as a result of the additional communication of the auditor.

d. The matters included in the audit report are an indicator of the focus areas considered by the auditor, which are also relevant to the stakeholders.

Example of a KAM:

Area of focus	How the scope of our audit addressed the risk
Under Ind AS, the group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of XX, as of 31 March 20XX, is material to the financial statements. In addition, the management's assessment process is complex and highly judgmental and is based on assumptions, specifically cash flow projections, growth rate and discount rate which are affected by expected future market or economic conditions, particularly in India and China.	Our audit procedures included, among others, involving a valuation expert to assist us in evaluating the assumptions and methodologies used by the group, and in particular, those relating to the forecasted revenue growth and profit margins for engineering business. We also focused on the adequacy of the group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive—that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

Conclusion

The look and feel of the audit report is changing globally, and India is following suit. The reactions from stakeholders around the world highlight the increased value of additional transparency of disclosures regarding the audit and the areas of focus of the auditor. The developments are being continuously monitored by standard setters and regulators around the world to determine whether, in public interest, there are any further enhancements to the auditors' reporting which need to be considered to increase the audit report's communicative value to stakeholders.

Impact of Brexit on financial reporting

What happened?

The UK voters' decision to exit the EU came as a surprise to many observers, as well as the markets, with the Leave campaign even hinting at defeat as the polls closed. The vote has unleashed political, economic and financial uncertainty that will play out over the months ahead. This uncertainty will likely impact all UK businesses and those that do business/invest in the UK. There has been an immediate impact on the financial markets, both in the UK and across the world, with the pound significantly weakening against other currencies and share prices fluctuating, as the market reacts to the decision.

Investment by India in the UK

According to a report by UKTI, a government department, India is the third largest source of FDI in Britain after the US and France. Indian companies are estimated to have employed over 110,000 employees in the UK currently. The number of Indian companies in the UK has nearly doubled from 36 in 2014 to 62 firms in 2015, with a combined turnover of more than 26 billion GBP in 2015. Apart from direct investment, many Indian companies have significant transactions—purchases and sales—with the UK companies. Any challenges faced by the latter may have an adverse impact on the operations of Indian companies.

What you need to know

- On 23 June 2016, the UK voted to leave the EU.
- The specifics of how the UK will exit the EU will be the subject of negotiations for at least the next two years.
- Economists and market watchers anticipate market and currency volatility in the short term, but the long-term implications will depend heavily on the specifics of how the UK unravels its participation in the EU.
- Indian companies that participate in the UK or EU markets, either through the financial or stock markets, or by selling to, purchasing from, or having operations in those geographies, will likely experience some financial effects.

Impact on financial reporting

With such substantial investment and transactions in the UK, it is likely that companies that participate in this market will experience the financial effects of Brexit—some more than others. Another aspect to consider is the transition to Ind AS this year by companies which are covered under Phase I of the roadmap issued by the MCA. The extent of financial reporting considerations and resulting disclosures to be made by these companies are likely to be much higher.

Risk and uncertainty

An immediate impact of volatile currency markets is that the cost of imports into the UK could increase, which could be relevant to impairment and going concern judgements. Entities in the UK or those who trade with the UK will likely have to reassess their trading outlook once there is more clarity on the impact of the decision, as the impact could be substantial.

Risk disclosures (operational and financial) will undoubtedly need to take into account the volatility in financial markets. Ind AS 107, 'Financial instruments: Disclosures', requires a company to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date (Ind AS 107, para 31). This includes both quantitative and qualitative disclosure of market and credit and liquidity risks, with the market risk disclosure being broken down into interest rate risk, currency risk and other price risk. Companies should also consider impairment of financial assets and whether there has been a significant decline in the fair value of an investment in an equity instrument below cost.

Sensitivity calculations and related disclosures will also be affected. Ind AS 1 requires disclosure about 'sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity', along with 'explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved' (Ind AS 1, para 129). Both of these requirements clearly specify that any assumptions and related sensitivity calculations should be disclosed.

Ind AS 34 has additional disclosure requirements for interim financial reporting which should be considered. These are relevant to listed entities that need to publish their quarterly results. An entity is required to disclose 'changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities' (Ind AS 34 para 15B(h)).

Impairment testing

Irrespective of the accounting standards used, whether Ind AS or the accounting standards notified under Companies (Accounting Standards) Rules, 2006 (as amended), impairment is another aspect which will need to be considered in this context. One of the indicators of impairment is 'significant changes with an adverse effect in the technological, market, economic or legal environment'. While it might be too early to conclude whether the impact is 'adverse', in the short term, many entities will need to consider whether the vote does increase the risk of impairment.

For the purposes of impairment testing for non-financial assets, there are a number of areas to consider. Firstly, for value in use calculations, the present value of future cash flows denominated in a foreign currency must be translated to the entity's functional currency at the spot rate of exchange at the date of the calculation. The concept of functional currency is relevant to companies that will apply Ind AS. Over time, any significant swings in the foreign exchange rate could lead to impairment indicators in future accounting periods, which would lead to additional forecasts being prepared to support current asset values. Secondly, companies may need to reconsider cash flows that are included in the forecast.

Although the impact of the leave vote will only be known after some time, sales and cost projections may well need to be updated to reflect any initial impact on the demand and supply of the products or services underlying cash flows. Further, companies should also consider any impact on determining the discount rate used for impairment testing.

Other considerations

Additionally, Indian companies engaged in business transactions with UK (and potentially even the EU) entities will need to assess the typical financial reporting considerations that come with foreign currency volatility, such as impact on hedging strategies, treasury management, collectability of receivables and inter-company transactions.

Conclusion

The formal exit of the UK from the EU will take time and there is great uncertainty over specifics. The rules governing cross-border business conduct, prudential requirements and market operations are all to be negotiated once the UK has formally sought its exit.

EU member states are party to a number of treaties and agreements that facilitate the free movement of people, goods, services and capital across its member state borders. Even though it will leave the EU, the UK could remain party to some or all of these treaties and agreements. This scenario would eliminate much of the uncertainty around the potential negative impact on companies; however, it is unlikely to accomplish many of the changes that Britons were seeking when they voted to exit the EU.

If the UK negotiates new treaties or agreements, the period of economic uncertainty could be extensive due to the time it would take to negotiate with both the EU and non-EU countries (since the UK would no longer be party to the trade agreements the EU negotiated with non-EU countries). The possible implications for trade, economic growth, currency volatility, free movement of labour across borders, availability of credit, and other key business considerations are all tied to the specifics of how the UK moves forward. Much will depend on the tenor of the negotiations—if the EU wants to dissuade other member states from considering a similar referendum, it may take a tough negotiating position with the UK.

Clarifications from ITFG: Bulletins 2 and 3

Background

Pursuant to the roadmap for Ind AS implementation issued by the MCA vide notification dated 16 February 2015, Ind AS are applicable to a certain class of companies from 1 April 2016 on a mandatory basis, following which various issues related to the applicability and/or implementation of Ind AS were being raised by preparers, users and other stakeholders. Considering the need to provide clarifications on these issues, the ASB of the ICAI formed the ITFG.

This article summarises the clarifications issued by ITFG in its 2nd and 3rd bulletins:

(A) Applicability of Ind AS

i. When a parent company voluntarily or mandatorily adopts Ind AS, then its holding, subsidiary, joint venture or associate, whether through direct or indirect association, shall comply with Ind AS from the financial year in which the company starts complying with Ind AS.

ii. If a company that is required to apply Ind AS had an associate under the existing Indian GAAP, which no longer meets the definition of associate under Ind AS, then such an associate company is not required to comply with Ind AS and vice versa (unless the associate otherwise meets the thresholds of the Ind AS roadmap).

iii. If a company ceases to meet the threshold criteria specified in the Ind AS roadmap immediately before the mandatory Ind AS applicability date, then such a company is not required to comply with Ind AS even if the company met the criteria on an earlier date.

iv. Where a company becomes a holding, subsidiary, joint venture or associate of another company due to acquisition in the latter's year of Ind AS adoption, then the former company is required to comply with Ind AS in the year of acquisition. As far as quarterly financial results under SEBI regulations are concerned, the acquiree shall comply with Ind AS from the quarter in which the acquisition occurred.

v. The Ind AS roadmap for NBFC also applies to CICs exempted by RBI.

vi. The net worth of a foreign parent should not be the basis for determining the applicability of Ind AS to its Indian subsidiary.

(B) First-time adoption

i. If a company chooses to measure its investment in a subsidiary at fair value at the date of transition then that is deemed to be the cost of such investment for the company, and it can carry that investment at that amount (i.e. fair value at the date of transition) after the date of transition.

ii. A company which continues to carry the existing Indian GAAP policy of capitalisation of exchange differences on long-term foreign currency monetary items is not permitted to apply hedge accounting to such monetary items, since there is no exchange fluctuation in the statement of profit and loss.

iii. The balance of the foreign currency monetary item translation difference account as of the beginning of the first Ind AS reporting period should be amortised over the balance period of the long-term monetary item and should be routed through the profit or loss and not through other comprehensive income.

iv. Ind AS 101 permits an entity to select its transition date; however, the Companies (Indian Accounting Standards) Rules, 2015, specify the date of transition as the beginning of the earliest comparative period presented. Hence, the transition date cannot be voluntarily selected.

v. A first-time adopter has an option to continue the policy adopted for accounting for exchange differences arising from the translation of long-term foreign currency monetary items recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per the previous GAAP. In case such option is availed of, the first-time adopter needs to revise the balance of foreign currency monetary item translation difference account based on the amortised cost of the loan as per Ind AS 109.

(C) PP&E

i. If an item of spare part meets the definition of PP&E and recognition criteria of Ind AS 16, such an item of spare part has to be recognised as PP&E separately from the equipment. If that spare part does not meet the definition and recognition criteria as cited above, that spare part is to be recognised as inventory. Depreciation on spare parts recognised as PP&E should commence from the date when the spare parts are available for their use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

ii. The capitalisation of expenditure incurred on the construction of assets on land not owned by a company would depend on facts and circumstances of each case, in particular, considering paragraph 16(b) of Ind AS 16 on PP&E, which states that such an expenditure should be necessary for making the item of PP&E capable of operating in the manner intended by the management.

iii. Spares which meet the definition of PP&E under Ind AS 16 and were classified as inventory under the existing Indian GAAP can be included in the carrying value of PP&E on the date of transition even if a company has elected the previous GAAP deemed cost exemption for PP&E.

iv. Previous GAAP deemed cost exemption available to PP&E is also available to capital work in progress.

v. Where a first-time adopter has been computing depreciation as per rates prescribed under Schedule XIV of the Companies Act, 1956, under previous GAAP and chooses to measure its PP&E by retrospective application of Ind AS 16, then it will be required to recompute depreciation by assessing the useful life of an asset in accordance with Ind AS 16.

(D) Others

i. **Toll roads**: Amortisation principles of Ind AS 38 on intangible assets should be followed for all service concession arrangements, including toll roads, once Ind AS is applicable to a company.

ii. **Functional currency:** Assessment of functional currency needs to be performed at the entity level, considering the economic environment in which the entity operates and not at the divisional level.

iii. **Voluntary adoption of Ind AS:** A company which voluntarily adopts Ind AS for the financial year 2015–2016 may use the format specified in Schedule III-Division II of the Companies Act, 2013.

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

Conclusion

ITFG clarifications are helpful for companies and auditors as they navigate through Ind AS implementation.

MAT-Ind AS Committee recommendations

Background

On 8 June 2015, the CBDT had issued an order to constitute a committee to suggest a framework for computation of book profit for the purposes of levy of MAT under section 115JB of the Income-tax Act, 1961 (the Act), for Ind AS-compliant companies in the year of adoption and thereafter.

After deliberating on the provisions of section 115JB of the Act, Ind AS, and relevant sections of the Companies Act, 2013 (the Companies Act), the committee issued a letter dated 27 July 2015 (Annexure A of the framework) requesting the CBDT to seek clarifications from the MCA regarding the differing requirements in the Companies Act for treatment of unrealised/notional profits and losses. The MCA responded vide a letter dated 11 January 2016 (Annexure B of the framework) intimating that all notional/unrealised gains included in net other comprehensive income are required to be excluded for the purposes of arriving at distributable profits for payment of dividend and calculation of profit for managerial remuneration. The MCA also suggested that the above principle may be extended for reckoning book profits for the purpose of MAT provisions.

Based on the above, the committee further deliberated on the issues and has now provided its recommendations (MAT-Ind AS Committee letter dated 18 March 2016).

We provide below a broad overview of the committee's recommendations.

In detail

The committee has recommended the following:

1. Since current year profits (excluding net other comprehensive income) will be available for distribution as dividends, and considering the implicit relation between the distributable profits available for payment of dividend under the Companies Act and the tax base to levy MAT, no further adjustments are required to be made to the net profits (excluding net other comprehensive income) under Ind AS-compliant companies, besides those already specified under section 115JB of the Act.
2. Net profits (excluding net other comprehensive income) under Ind AS may include a sizeable amount of notional/unrealised profits or losses. In case the MCA prescribes any further adjustments to the current year's profits (excluding net other comprehensive income) for computation of distributable profits, the requirement for any additional adjustments to the book profit under section 115JB may be examined.
3. The net other comprehensive income includes certain items that would permanently be recorded in reserves, and hence can never be reclassified to the statement of profit and loss account/included in the computation of book profits. It has been recommended that these items should be included in the book profits for MAT purposes at an appropriate point of time. Below is an illustrative list of such items along with the recommended treatment of MAT:

Sr. No.	Items	Recommended treatment
1	Changes in revaluation surplus (Ind AS 16 and 38)	**Inclusion in book profits at the time of realisation/disposal/retirement**
2	Remeasurements of defined benefit plans (Ind AS 19)	**Inclusion in book profits yearly as the remeasurement of gains and losses arise**
3	Profits and losses from investments in equity instruments designated at fair value through other comprehensive income (Ind AS 109)	**Inclusion in book profits when realised**

4. The accounting policies followed in the opening Ind AS balance sheet on first-time adoption may differ from those previously used in the Indian GAAP financial statements, i.e. pre-Ind AS. Therefore, when a company transitions from Indian GAAP to Ind AS, it has to record these adjustments directly in the retained earnings/reserves on the date of transition. It was noted that several of these items would subsequently never be reclassified to the statement of profit and loss/included in the computation of books profits. Accordingly, after due deliberations, the committee has recommended the following:

Sr. No.	Accounting treatment under Ind AS	Year of taxability
1	Adjustment recorded in reserves which subsequently would be reclassified to a profit and loss account	**Inclusion in book profits at the time of reclassification**
2	Adjustments recorded in net comprehensive income which would never be subsequently reclassified to a profit and loss account	**Inclusion in book profits at appropriate point of time**
3	Adjustments recorded in retained earnings which would never be subsequently reclassified to a profit and loss account	**Inclusion in book profits in the year of first-time adoption of Ind AS**

The above adjustments would be subject to existing provisions of section 115JB of the Act.

Key takeaways

- The report draws an implicit relation between the distributable profit which is available for payment of dividend under the Companies Act, 2013, and tax base for levy of MAT.
- It appears that there would be certain notional gain/losses which would be recorded in the statement of profit and loss which may impact MAT liability.
- For many companies, the MAT liability may increase/decrease due to the fair value changes routed through profit or loss (e.g. investments in equity and other securities, including derivatives carried at fair value through profit and loss).
- The treatment of adjustments in retained earnings, which have already been offered for MAT liability prior to date of transition, require more clarity for computing MAT liability in the year of adoption. For example, an entity has recognised revenue upfront for a particular contract under Indian GAAP; however, Ind AS may require such revenue to be recognised over the term of the contract. This adjustment will require reduction in retained earnings with a corresponding increase in the deferred revenue. The question is how such adjustments would be considered for computation of MAT liability based on the above-mentioned recommendations. A MAT incidence could occur twice.
- The computation of MAT due to Ind AS adjustments would require significant effort and consideration.
- These recommendations may lead to a scenario where two different taxpayers applying different accounting standards (Ind AS or existing AS) will be now taxed in a very different manner for MAT liability purposes.
- Taxpayers would also have to factor in the prescribed ICDS before a final current tax liability is determined.

Recent technical updates

MCA

MCA constitutes NCLT and NCLAT and notifies certain provisions of the Companies Act, 2013 (the Act), to make them operative.

NCLT and NCLAT were constituted by the central government with effect from 1 June 2016. This would effectively dissolve CLB as constituted under the Companies Act, 1956, from the same day.

NCLT will start functioning with 11 benches—two in New Delhi and one each in Ahmedabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata and Mumbai. The principal bench of NCLT will be in New Delhi.

Some provisions of the Act relating to powers of the tribunal have also been notified by the government (which were not effective due to non-constitution of NCLT), including the following:

1. Section 75 of the Act on damages for fraud.
2. Section 130 and 131 of the Act on reopening of accounts or voluntary revision of financial statements or board's report.
3. Section 169 of the Act on removal of directors.
4. Second proviso to sections 140(4) and 140(5) of the Act on removal, resignation of auditor and giving of special notice.

However, the provisions pertaining to compromise and arrangement, winding up, etc., have still not been notified.

Companies (Corporate Social Responsibility Policy) Amendment Rules, 2016

MCA has issued the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2016, to amend the Companies (Corporate Social Responsibility Policy) Rules, 2014. The amendment rules allow companies to undertake approved CSR activities through any other company, provided such a company, trust or society has an established track record of three years in undertaking similar programmes or projects, and the company has specified the projects or programmes to be undertaken, the modalities of utilisation of funds of such projects and programmes, and the monitoring and reporting mechanism. The amendment rules also allow companies to undertake approved CSR activities through a company established under section 8 of the Act or a registered trust, a registered society established by the central/state government or an entity established under an statute of Parliament or state legislature.

SEBI

Disclosure of the impact of audit qualifications by listed entities

SEBI issued the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2016, dated 25 May 2016. In addition, on 27 May 2016, SEBI also issued Circular No. CIR/CFD/CMD/56/2016.

Through the above-mentioned amendment regulations and the circular, SEBI, in consultation with SEBI advisory committees, ICAI, stock exchanges and industry bodies, has decided to streamline the existing process of reviewing the audit qualifications contained in the audit reports of the listed entities as follows:

1. To make listed entities disseminate cumulative impact of all the audit qualifications in a separate format simultaneously, while submitting the annual audited financial results to the stock exchanges
2. To dispense with the existing requirement of filing Form A or Form B for an audit report with unmodified or modified opinion respectively
3. To dispense with the existing requirement of making adjustment in the books of accounts of the subsequent year

The amendments will be applicable for all the annual audited standalone/consolidated financial results, as applicable, submitted by the listed entities for the period ending on or after 31 March 2016.

Dividend distribution policy for listed companies

In its board meeting, SEBI, among other matters, took the following important decision:

The SEBI board approved the proposal for the top 500 listed companies (by way of market capitalisation) to formulate and disclose their dividend distribution policies in the annual reports and on their websites. Such a policy may include the following:

- Circumstances under which their shareholders can or cannot expect dividend
- Financial parameters that will be considered while declaring dividends
- Internal and external factors that would be considered for declaring dividends
- Policy as to how the retained earnings will be utilised
- Provisions in regard to various classes of shares

When the company proposes to declare the dividend on the basis of parameters other than those mentioned in such a policy, or proposes to change its dividend distribution policy, the same along with the rationale shall be disclosed. This step will help the investors in taking well-informed investment decisions.

RBI

RBI notification on implementation of Ind AS

RBI had directed banks to submit pro forma Ind AS financial statements from the half-year ended 30 September 2016 latest by 30 November 2016. On 23 June 2016, RBI issued further clarification on the matter. Banks will be guided by the Ind AS notified by the MCA under the Companies (Indian Accounting Standards) Rules, 2015 (as amended) and the Report of the Working Group on 'Implementation of Ind AS by Banks in India'.

- The pro forma Ind AS financial statements will include the following:

1. Balance sheet, including statement of changes in equity
2. Profit and loss account
3. Notes
4. Reconciliations of equity and total comprehensive income in accordance with Ind AS
5. Significant accounting policies

RBI has prescribed the formats for the requirements mentioned in points 1 to 3 above.

- Banks have been requested to note that Ind AS 109 is not specific in terms of the approach to be followed when measuring ECLs and RBI will finalise the policy on ECL provisioning, taking into account the impairment requirements under Ind AS 109, after due deliberations, and considering various factors.
- The formats as prescribed above are solely for the preparation and submission of pro forma Ind AS financial statements to RBI. The formats for the Ind AS financial statements for the accounting periods beginning 1 April 2018 will be notified separately. RBI does not require the pro forma Ind AS financial statements to be audited.
- To begin with, banks which are not in a position to submit both stand-alone and consolidated pro forma Ind AS financial statements for the half-year ended 30 September 2016 are permitted to submit only standalone financial statements. However, banks shall submit both pro forma Ind AS standalone and consolidated financial statements in the subsequent periods.

Prudential norms on income recognition, asset classification and provisioning pertaining to advances: Shortfall on sale of NPAs to SCs/RCs

As an incentive for early sale of NPAs to SCs/RCs created under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, banks were allowed to spread any shortfall, if the sale value is lower than the NBV, over a period of two years for NPAs sold up to 31 March 2015. This was subject to necessary disclosures in the notes to account in the annual financial statements of the banks. This facility of spreading over the shortfall was later extended for NPAs sold up to 31 March 2016. RBI has decided to extend the dispensation of amortising the shortfall on sale of NPAs to SCs/RCs up to 31 March 2017. However, for assets sold from 1 April 2016 to 31 March 2017, banks will be allowed to amortise the shortfall over a period of only four quarters from the quarter in which the sale took place.

Further, where a bank chooses to make the necessary provisions over more than one quarter and this results in the full provisioning remaining to be made as on the close of a financial year, banks should debit 'other reserves' (i.e. reserves other than the one created in terms of Section 17(2) of the Banking Regulation Act, 1949) by the amount remaining unprovided at the end of the financial year, by credit to specific provisions. However, banks should proportionately reverse the debits to 'other reserves' and complete the provisioning by debiting the profit and loss account in the subsequent quarters of the next financial year. Banks are to make suitable disclosures in notes to accounts with regard to the quantum of provision made during the year to meet the shortfall in sale of NPAs to SCs/RCs and the quantum of unamortised provision debited to 'other reserves' as at the end of the year.

ICAI

Guidance note on accounting for real estate transactions

ICAI issued a guidance note on accounting for real estate transactions for entities to whom Ind AS is applicable on 10 May 2016. The objective of this guidance note is to recommend the accounting treatment to be followed by the entities dealing in 'real estate' as sellers or developers. The guidance note covers all forms of transactions in real estate.

FAQs issued by the ASB regarding requirements to prepare consolidated financial statements

The ASB of ICAI has issued FAQs on the preparation of consolidated financial statements. The purpose of these FAQs is to illustrate and assist in clarifying the requirements regarding the preparation of consolidated financial statements.

The FAQs are listed below:

i. Would company H Ltd be required to consolidate its subsidiary which is an LLP or a partnership firm?

   Response: Yes, Company H Ltd will need to consolidate the LLP or a partnership firm.

ii. Would the answer to (i) be different if the LLP is an associate or joint venture of H Ltd?

   Response: No

iii. Company H Ltd has no subsidiaries but has an investment in an associate and a joint venture. Will H Ltd be required to prepare consolidated financial statements for the year ending 31 March 2016 in the context of the Companies (Accounting Standards) Rules, 2006.

   Response: Yes H Ltd is required to prepare consolidated financial statements.

FAQs issued by ASB on deemed cost of PPE under Ind AS 101, 'First-time adoption of Indian accounting standards'

As per the FAQ, the provision for impairment provided before the date of transition as per previous GAAP cannot be reversed in later years in case entities choose to continue with the carrying value for all of its PP&E measured as per previous GAAP and use that as deemed cost on the date of transition.

The information regarding gross block of assets, accumulated depreciation and provision for impairment under previous GAAP can be disclosed by way of a note forming part of the financial statements. This information can only be disclosed as additional disclosures and the same cannot be considered for subsequent recognition and/or measurement purposes.

IRDA

Committee on risk-based capital approach and market consistent valuation of liabilities

IRDA has decided to form a committee to review the risk-based capital approach and liability valuation methods in light of the latest developments in Ind AS in the insurance sector. Among other matters, the committee will be examining the changes required in the method of valuation of liabilities, following the decision of the working group on the implementation of Ind AS in the insurance sector to value assets at marked to market/fair value. The committee is expected to submit its report on the matter stated above by 31 October 2016.

IRDA (assets, liabilities and solvency margin) regulations

IRDA has issued following regulations:

- Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of General Insurance Business) Regulations, 2016
- Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin of Life Insurance Business) Regulations, 2016

These regulations came into effect from 1 April 2016.

Guidelines for corporate governance for insurers in India

In view of the extensive changes to the governance of companies brought about by the Companies Act, 2013, IRDA has decided to review the various guidelines relating to the governance of insurance companies. IRDA has drawn out the revised guidelines on corporate governance for insurance companies. These are applicable from FY 2016–17. The revised guidelines combine the stipulations regarding corporate governance practices, appointment of MD/CEO/WTD and other KMPs, as well as the appointment and rotation of statutory auditors of insurers. The guidelines also stipulate a ceiling on the total number of audit assignments of insurers that can be undertaken by audit firms at a time. The new stipulations, regarding the ceiling on number of audit assignments and that of associate/ affiliate or network firms and those using the same brand name or trade mark, may necessitate a change of auditors in some cases. With a view to allowing smooth transition between the auditors and considering the fact that it will require some time for insurers to identify suitable eligible auditors, a one-time extension of one year is being granted.

Insurers, who need to change their auditors in view of the guidelines may continue with their existing auditors for one more year, i.e. FY16–17. Such insurers will ensure adherence to the stipulations regarding appointment of auditors from FY17–18 onward. All other stipulations as regards the appointment and rotation of auditors by insures remain unchanged, and need to be complied with by all insures.

IFRS: IASB

IASB issues narrow-scope amendment to IFRS 2, 'Share-based payment'

IASB has issued amendments to IFRS 2, 'Share-based payment', clarifying how to account for certain types of share-based payment transactions. The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for the following:

a. Effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
b. Share-based payment transactions with a net settlement feature for withholding tax obligations
c. A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to

equity-settled

Companies are required to apply the amendments for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

IASB confirms amendments to current insurance contracts standard

IASB has confirmed it will amend the current insurance contracts standard, IFRS 4. This is to address issues that may arise from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard, which will replace IFRS 4.

The IASB has, following public consultation, confirmed that it will issue amendments to IFRS 4 that:

- Give companies that issue insurance contracts the option to remove from profit or loss the volatility that may be caused by certain changes in the measurement of financial assets when applying IFRS 9 before the new insurance contracts standard
- Give companies whose predominant activities are insurance-related an optional temporary exemption from applying IFRS 9 until 2021

The amendments to IFRS 4 will supplement existing options in that standard that could be used to address the volatility that may be caused by applying IFRS 9 before the new insurance contracts standard. The board expects to issue it around the end of 2016 with an effective date no earlier than 2020.

IASB issues amendments to the revenue standard

IASB has issued amendments to the revenue standard, IFRS 15, 'Revenue from contracts with customers', clarifying some requirements and providing additional transitional relief for companies that are implementing the new standard. The amendments to the revenue standard, which was issued in 2014, do not change the underlying principles of the standard but clarify how those principles should be applied. They arise as a result of discussions of the TRG. The TRG was set up jointly by IASB and the US national standard setter, FASB, to assist companies with implementation of the new standard.

The amendments clarify the following:

- Identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract
- Determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided)
- Determine whether the revenue from granting a licence should be recognised at a point in time or over time

In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The amendments have the same effective date as the standard, i.e. 1 January 2018.

US GAAP: FASB

FASB issues final impairment standard, i.e. 'Financial instruments—Credit Losses (Topic 326): Measurement of credit losses on financial instruments'

The amendments in this update replace the incurred loss impairment methodology in the current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

Revenue from contracts with customers (Topic 606): Narrow-scope improvements and practical expedients

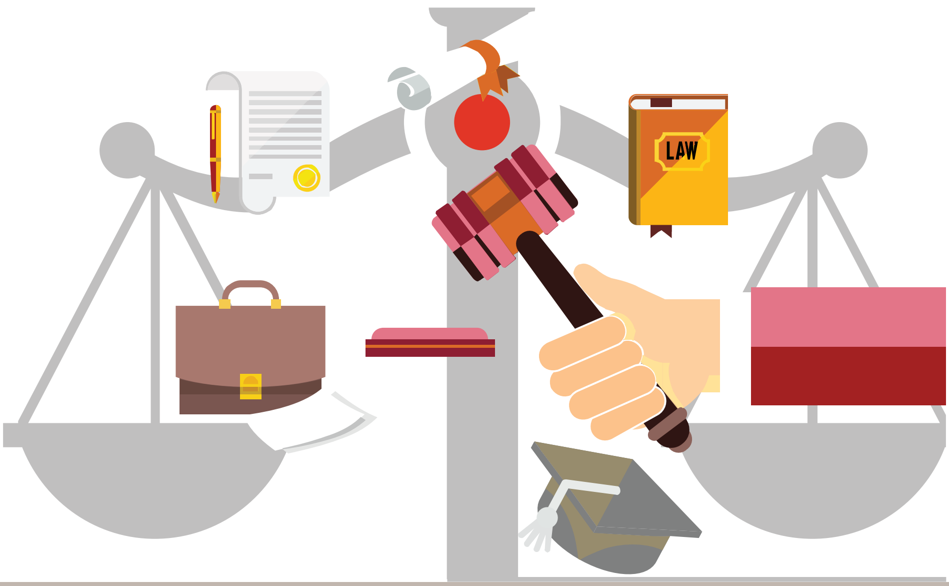
The amendments in this update affect entities with transactions included within the scope of topic 606. The scope of that topic includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments to the recognition and measurement provisions of Topic 606 also affect entities with transactions included within the scope of Topic 610, 'Other income'.

Empowered committee of state finance ministers

The Empowered Committee of State Finance Ministers released a draft of the 'Model GST Law' on 14 June 2016. The same is hosted on the website of Ministry of Finance, Government of India, for comments from stakeholders and public.

Abbreviations

AGM	Annual General Meeting
AS	Accounting Standard
ASB	Accounting Standard Board
CBDT	Central Board of Direct Taxes
CIC	Core Investment Company
CLB	Company Law Board
CODM	Chief Operating Decision Maker
CSR	Corporate Social Responsibility
ECL	Expected Credit Loss
ED	Accounting Exposure Drafts
EU	European Union
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
FVLCOD	Fair Value Less Cost Of Disposal
FVOCI	(Financial assets/liabilities at) Fair Value through Other Comprehensive Income
FVPL	(Financial assets/liabilities at) Fair Value through Profit or Loss
GAAP	Generally Accepted Accounting Principles
GN	Guidance Note
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICAI	Institute of Chartered Accountants of India
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Ind AS	Indian Accounting Standards
IRDA	Insurance Regulatory and Development Authority
ITFG	Ind AS Transition Facilitation Group
KAM	Key Audit Matter
MAT	Minimum Alternate Tax
MCA	Ministry of Corporate Affairs
NBFC	Non-Banking Financial Company
NBV	Net Book Value
NCI	Non-Controlling Interest
NCLAT	National Company Law Appellate Tribunal
NCLT	National Company Law Tribunal
NPA	Non-Performing Asset
OCI	Other Comprehensive Income
PP&E	Property, Plant and Equipment
RBI	Reserve Bank of India
SA	Standards on Auditing
SC/RC	Securitisation Companies/Reconstruction Companies
SEBI	Securities Exchange Board of India
SPPI	Solely Payments of Principal and Interest
TRG	Transition Resource Group
UKTI	United Kingdom Trade and Investment
US GAAP	US Generally Accepted Accounting Principles



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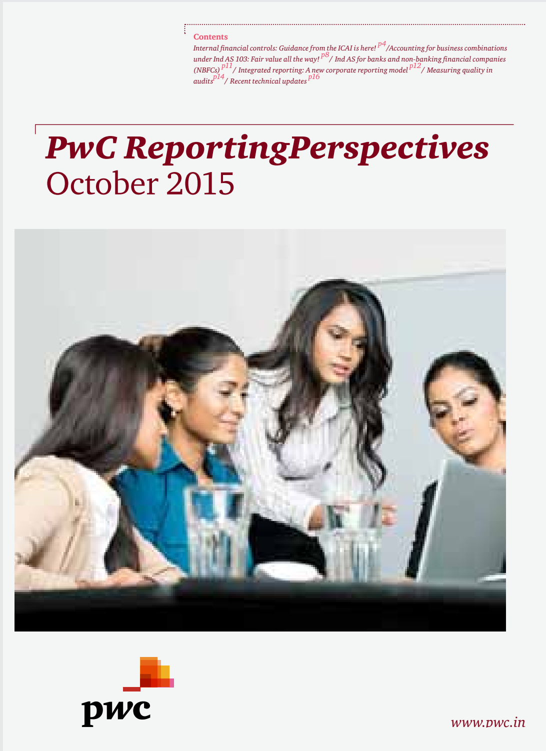


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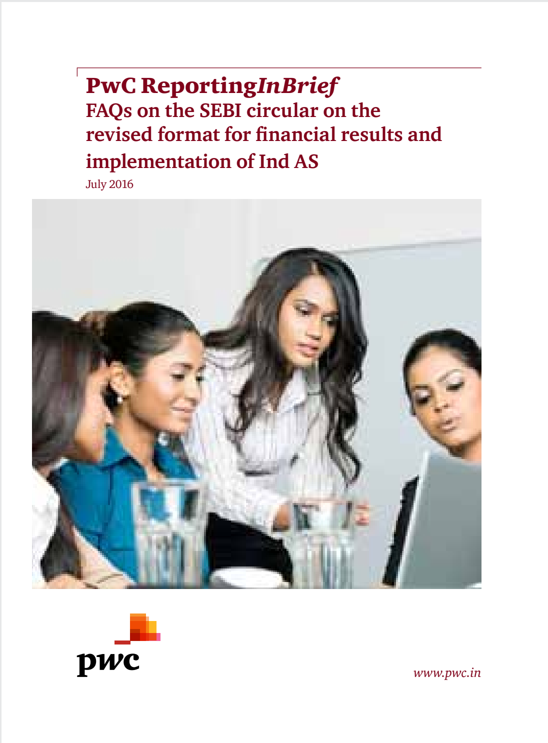
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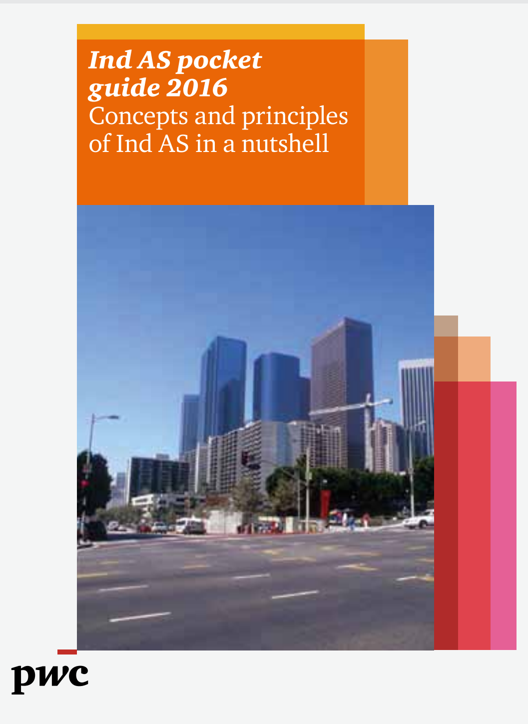
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