PwC ReportingPerspectives

April 2017

Editorial

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

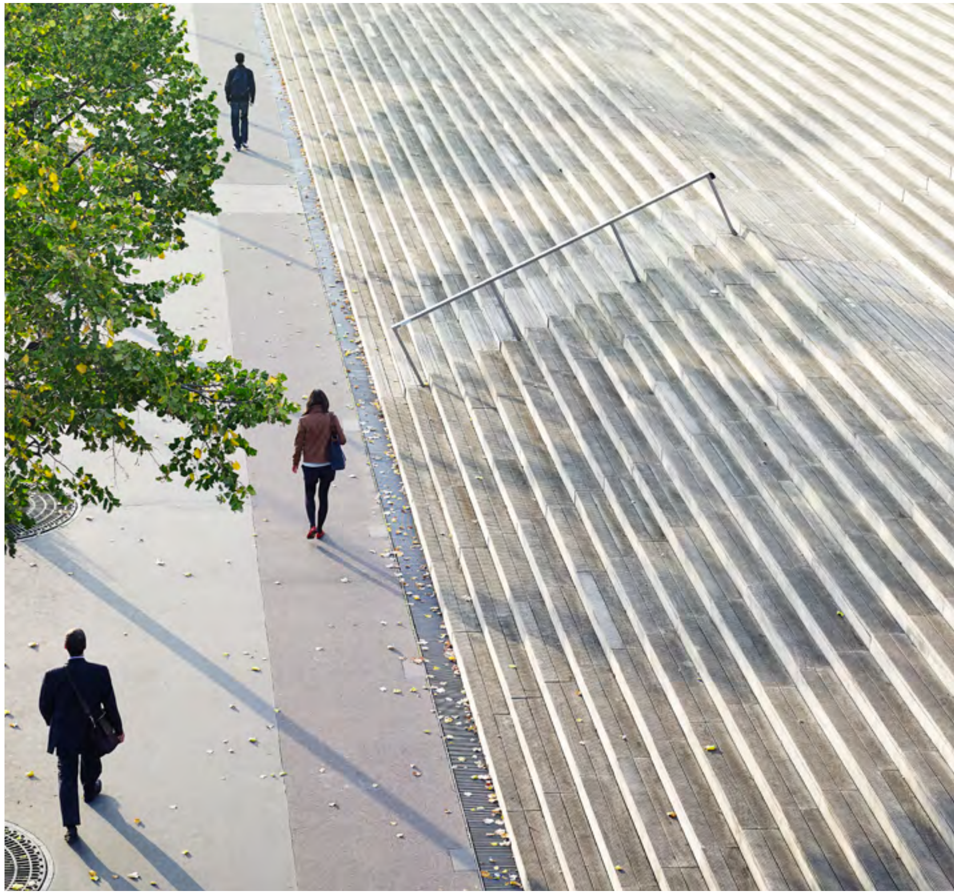
Ind AS 113, *Fair value measurement*, defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Ind AS 113 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Challenges arise in practice when determining where measurements fall within the fair value hierarchy. This publication sets out our views on some of the key considerations in determining the appropriate classification of fair value measurements, such as: a) the meaning of observable and unobservable inputs; b) key differences between Level 1 and Level 2 inputs; and c) when an unobservable input is significant enough to make the whole fair value measurement Level 3. This may be helpful as companies plan preparation of their first Ind AS financial statements as of 31 March 2017.

The Institute of Chartered Accountants of India (ICAI) recently issued two new guidance notes: (i) guidance note on reports in company prospectuses and (ii) guidance note on audit of consolidated financial statements. These guidance notes supersede the old ones issued on the subject matter. Since the issuance of the old guidance notes, significant developments such as notification of Ind AS, replacement of the Companies Act, 1956, with Companies Act, 2013, have taken place. These developments necessitated revision in the guidance notes. We discuss the key takeaways from both the guidance notes in this edition.

ICAI formed the Ind AS Transition Facilitation Group, which issued its sixth and seventh bulletin addressing certain issues related to the applicability and/or implementation of Ind AS. This edition also summarises the clarifications from these bulletins.

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



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Challenges arise in practice when determining where measurements fall within the fair value hierarchy. This article sets out some of the key considerations in determining the appropriate classification of fair value measurements, such as:

a. the meaning of observable and unobservable inputs;

b. key differences between Level 1 and Level 2 inputs; and

c. when an unobservable input is significant enough to make the whole fair value measurement Level 3.

1 Q&A

What is the 'fair value hierarchy'?

Ind AS 113 requires a fair value measurement to be categorised within the three levels of the fair value hierarchy for disclosure purposes. The categorisation within the fair value hierarchy is based on the inputs to valuation techniques used to measure the fair value. In principle, the observability and market activity determine the categorisation of an input. Ind AS 113 notes that valuation techniques should maximise the use of observable inputs and minimise the use of unobservable inputs.

When inputs used to measure the fair value of an asset or a liability are categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Some examples of inputs and their respective categorisation are outlined below:

Hierarchy	Description	Examples
Level 1	Unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date.	• Financial instruments (for example, shares, exchange traded options and future contracts) traded on active markets.
Level 2	Other observable inputs not included within Level 1 of the fair value hierarchy.	• Recently observed prices in markets that are not active (for example, quoted prices in inactive markets). • Quoted prices for similar assets or liabilities in active markets (for example, inputs derived from yield curves when observable at commonly quoted intervals). • The unadjusted price per square metre for a building derived from observable market data (for example, prices derived from observed transactions involving comparable buildings in similar locations).
Level 3	Unobservable inputs for the asset or liability.	• Management's cash flow projections (for example, future revenue level and other financial forecasts). • Adjustments to the price per square metre for similar buildings derived from observable market data (for example, adjustments reflecting differences in physical conditions and location of the properties).

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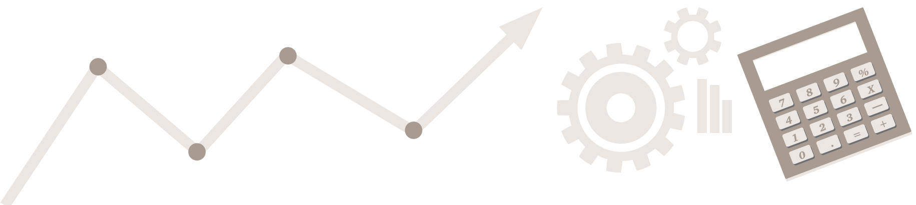
2 Q&A

Why is the classification within the three levels of the fair value hierarchy important?

Classification of fair value measurement into the three levels drives the disclosure requirement of Ind AS 113. Additional disclosures are required for fair value measurements falling within level 3. The classification within the three levels of the fair value hierarchy increases the consistency and comparability of fair value measurements among different financial reports.

The classification within the lowest level of the fair value hierarchy does not suggest that the quality of the fair value measurement is poor. The fair value hierarchy provides users with useful information on the nature of inputs used to develop fair value measurements.

Common issues that arise in practice are discussed in the following Q&As.



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Q&A

What is the meaning of observable and unobservable inputs?

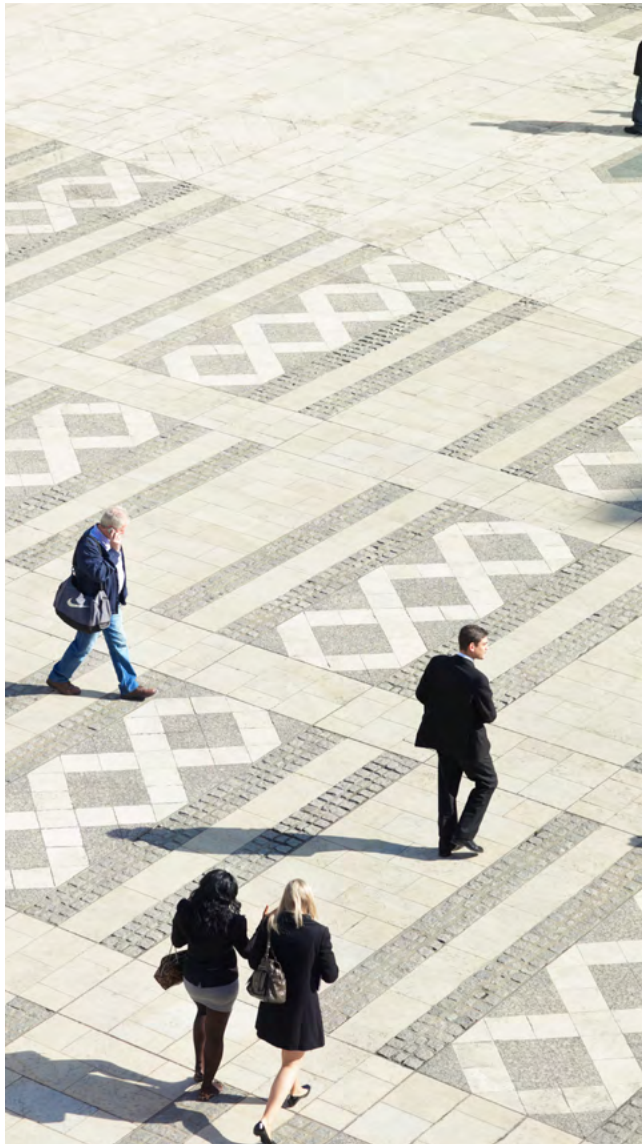
Both Level 1 and Level 2 of the fair value hierarchy consider the use of observable inputs, while all unobservable inputs will fall in Level 3. So, the question is how to determine whether an input is observable or unobservable.

Observable inputs are publicly available information about actual events or transactions. Such inputs include those developed using market data.

Unobservable inputs are inputs for which there is no market data available. They are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. In other words, unobservable inputs reflect the reporting entity's own view on the assumptions that market participants would use.

The table below summarises the main characteristics of observable and unobservable inputs, and it provides illustrative examples of what those could be.

Input	Characteristic	Examples
Observable	Publicly available information about actual events or transactions.	• Securities traded on stock exchanges. • Prices for identical or similar assets in markets that are not active (for example, market data for sales of comparable land and buildings). • Quoted prices of future contracts available on commodities exchanges. • Available market data for rentals of properties.
Unobservable	Management's assumptions that cannot be corroborated with observable market data.	• Internal forecast of cash flows from intangible assets. • Internal historical data used to calculate counterparty's probability of default. • Adjustments to current prices for similar properties (for example, physical conditions and location). • Estimates of growth expectations and profitability when calculating goodwill impairment test. • Profit margin expectations.



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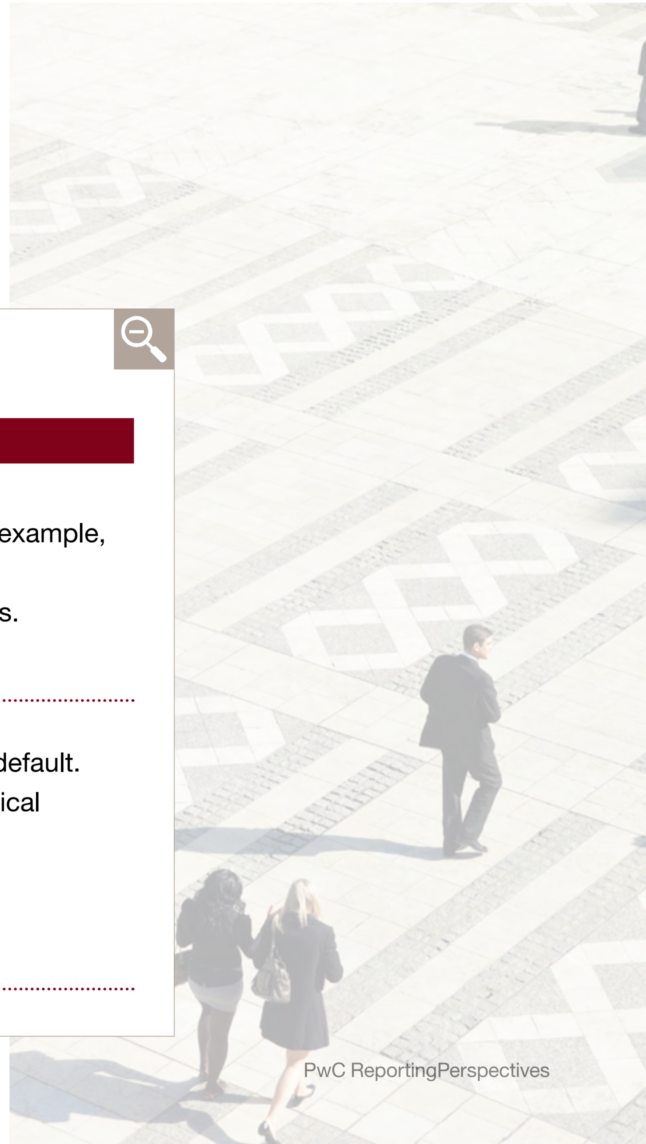

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Q&A

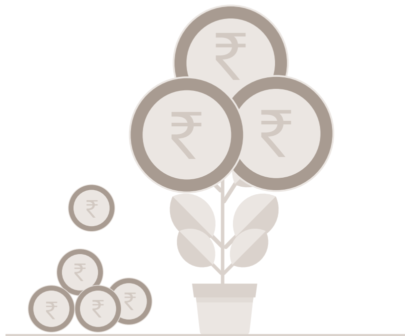
As both Level 1 and Level 2 inputs consider observable information, what is the difference between them?

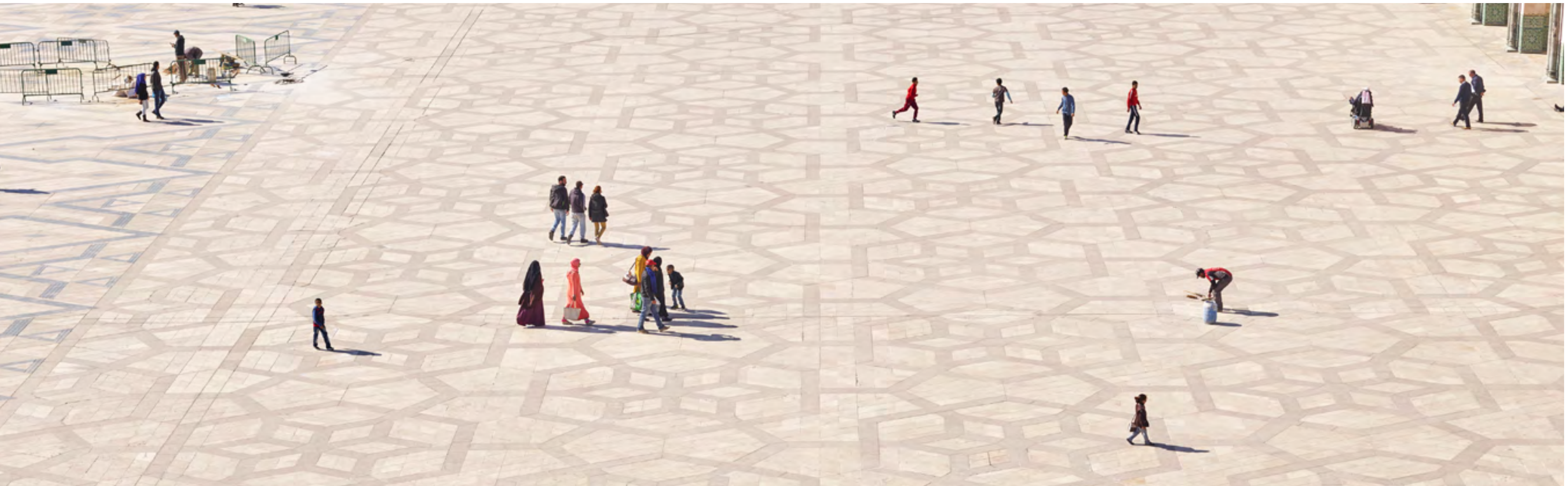
Ind AS 113 defines Level 1 inputs as quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date, while Level 2 inputs are defined as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Both definitions consider observable inputs in different ways, and the table below summarises such differences.

	Level 1	Level 2
Characteristic	i. The price must be for an asset or liability that is identical to the asset or liability being measured. ii. The price must be unadjusted.[1] iii. The price must be quoted. iv. The entity must have access to the market at the measurement date.	i. The price can be for an asset or liability that is similar to the asset or liability being measured if it is a quoted price. ii. The price can be adjusted.[2] iii. The price can be quoted in inactive markets. iv. The price does not need to be directly observable, but it must be corroborated by observable market data.

[1]Any adjustment to a Level 1 input results in a fair value measurement categorised within a lower level of the fair value hierarchy.

[2]If the adjustment is significant to the entire fair value measurement, the whole fair value measurement would fall in Level 3 category.





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(i) Identical vs. similar assets or liabilities:

In order to be categorised as Level 1, the price must be for an asset or liability that is identical to the asset or liability being measured. One example is when the asset is a share actively traded on a stock exchange – the quoted price is for an identical asset, so it would be categorised as Level 1.

When the price for an identical asset or liability is not available, an entity can use a quoted price for an asset or liability that is similar to the asset or liability being measured. As a result, the input would be classified as Level 2 within the fair value hierarchy.

In these situations, assets or liabilities being compared should be similar enough in order to provide an appropriate starting point for the fair value measurement. It is important to understand the characteristics of the asset or liability being measured when compared to the item being used as a benchmark. Differences between the items can affect the fair value, and adjustments might be required in order to reflect such differences. However, if a Level 2 input requires an adjustment which is unobservable and significant to the entire fair value measurement, the measurement would be categorised within Level 3 of the fair value hierarchy.

Example of identical financial assets:

An entity bought American Depositary Receipts (ADRs) of an Indian Bank trading on the New York Stock Exchange (NYSE). The Bank's ADRs are identified by the code 'ITUB' on NYSE (each ADR traded on NYSE is identified by a unique code). At the closing date, the entity obtains available prices published by NYSE, and the price under the code 'ITUB' represents the fair value for that specific financial asset. Such a price meets the definition of a Level 1 input.

Example of similar non-financial assets:

An entity owns a property located in the centre of Mumbai for which fair value is being determined. At the reporting date, the entity obtains price per square metre information derived from observed transactions involving comparable properties. The comparable properties are similar assets, but not identical. The price per square metre is therefore a Level 2 input. Further adjustments to reflect differences in physical conditions and location of the properties are likely to be needed, which would normally result in the classification of the entire measurement as Level 3.

(ii) Adjustments to inputs:

Any adjustment to a Level 1 input results in a fair value measurement categorised within a lower level of the fair value hierarchy.

A price must be unadjusted in order to be categorised as Level 1. For example, financial instruments traded on active markets are categorised as Level 1 when no adjustments are made to the publicly available prices.

However, as discussed in section (i) above, Level 2 inputs consider prices for items that are similar (but not identical) to those being measured. Therefore, an entity should consider which adjustments to a price for a similar asset or liability are necessary to reflect the differences between the items being compared. Adjustments to Level 2 inputs might vary depending on factors specific to each asset or liability. Those factors include the following:

a. the condition or location of the asset (for example, adjustments to price per square metre data in order to reflect differences in the location and physical conditions of properties); and

b. the level of activity in the markets within which the inputs are observable (see section (iii) for adjustments to prices traded on inactive markets).

Please note that if a Level 2 input requires an adjustment which is unobservable and significant to the entire fair value measurement, the measurement would be categorised within Level 3 of the fair value hierarchy.

Example of adjustments to observable inputs: Non-financial assets

An entity owns an office building which is classified as investment property and its fair value is being determined for disclosure purpose. Some similar properties in close proximity have been traded during the year, providing a reasonable starting point in order to determine the fair value of the building owned by the entity. Management concluded that the average price per square metre should be adjusted to reflect differences in physical characteristics (for example, location, physical conditions and size). The judgement as to whether such adjustments are significant or not will drive the conclusion on whether the whole fair value measurement should be categorised in Level 2 or Level 3.

(iii) Active vs. inactive market:

A price must be quoted in active markets in order to be categorised as Level 1 within the fair value hierarchy. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When the price is quoted in a market that is not active, quoted prices might not be indicative of fair value, because they could include transactions that are not orderly (for example, forced liquidations or distress sales). Some common indicators of inactive markets include low volume of recent transactions and when price quotations are not based on current information. In this situation, the price should be adjusted in order to reflect the assumptions that market participants would use in pricing an asset or liability in an orderly transaction at the reporting date.

Example of prices quoted in inactive markets

An entity holds 1% equity interest in a public company. The equity interest is classified as fair value through other comprehensive income. The volume of trading for this equity instrument on the stock exchange was relatively low during the reporting period (for example, there were only a few widely dispersed transactions during the year). There is a wide bid-ask spread, and price quotations vary substantially among market-makers. The most recent trade happened two months before the closing date. Management has concluded that the effects due to passage of time over the last months are not significant and uses the available quoted price as the best estimation for the fair value of the non-controlling equity interest at the closing date.

Because the information relates to a quoted price in an inactive market, the price does not meet the definition of Level 1 input.

(iv) Access to the market at the measurement date and observability:

Under Ind AS 113, management determines fair value based on a transaction that would take place in the principal market or, in its absence, the most advantageous market. The principal market is the market with the greatest volume and level of activity for the asset or liability.

An entity must have access to the market at the measurement date in order to categorise the measurement as Level 1 within the fair value hierarchy. An entity would have access to the market if: a) it has the ability to transact at that quoted price in an exchange market; or b) there are dealers standing ready to transact with the entity at that price.

The definition of Level 2 inputs includes inputs that are not directly observable but are corroborated by market data. Such market-corroborated inputs could be determined through mathematical or statistical techniques, such as correlation and interpolation. Ind AS 113 does not provide specific guidance on the application of such techniques.

Example of access to a market at the measurement date

A commodities trader holds commodity Q for which it has access to a wholesale market. The retail and wholesale markets have a similar volume and level of activity for the commodity. However, the retail market selling prices are usually higher. The commodities trader cannot use the higher retail price as the fair value of commodity Q, because the commodities trader cannot access the retail market.

5

Q&A

Can an investor classify as Level 1 its units in an open-ended investment fund that is redeemable at any time and for which a daily NAV is reported?

It depends. Level 1 inputs are unadjusted quoted prices in the active market for identical assets and liabilities that the entity can access at the measurement date. Accordingly, if subscriptions and/or redemptions at the fund's net asset value (NAV) take place with sufficient frequency and volume to provide observable pricing information on an on-going basis, the participating units of the fund valued at the NAV should be classified in Level 1.

However, with less frequent subscriptions and/or redemptions, the NAV may be considered as a Level 2 input. Since, the unit of account are the investment fund units and not the underlying assets of the investment fund, investment fund units for which the underlying investments are all valued using Level 2 or Level 3 inputs might nonetheless be considered a Level 1 valuation for the fund. In determining whether an active market exists, the following questions are helpful considerations: • How frequently is the reported NAV available? • Is the price based upon recent subscriptions and/or redemptions? • What volume of subscriptions and/or redemptions exists? • Are there any indications that the investor would not be able to redeem the investments at NAV at the reporting date (i.e. due to illiquidity of investments)?

6

Q&A

Can an investor classify as Level 2 its investments in a closed-ended investment fund that cannot be redeemed at any time but for which a secondary market exists?

It depends. Level 2 inputs are inputs that are observable either directly or indirectly. Closed-ended funds with recent transactions on a secondary market are classified as Level 2 if the observed price is used for valuation purposes, whereas closed-ended funds that cannot be redeemed or traded at the reporting date are classified as level 3 if the valuation technique applied uses significant unobservable inputs.

Closed-ended investment fund: Fair value hierarchy

Level 1:
Closed-ended funds with a secondary market for which the trading volume supports the assessment that an active market exists and the investor can access that market at the measurement date.

Level 2:
Closed-ended funds with recent transactions in a secondary market, if the observable price represents fair value or is used as an input to value the fund units.

Level 3:
Closed-ended funds that cannot be redeemed by the reporting entity at all until maturity. Examples:

a. Fixed-life private equity fund with no secondary market.

b. Closed-ended funds that are valued using a valuation technique (significant unobservable inputs) and/or for which no current net asset value (NAV) is reported. Examples: Private equity fund with only quarterly reporting.

7 Q&A

When is an unobservable input significant enough to make the whole fair value measurement Level 3?

There is no specific guidance in Ind AS 113 regarding how to assess the significance of unobservable inputs. The absence of bright lines allows an entity to develop an internal methodology for determining significance, which should be applied consistently.

Either a qualitative or a quantitative approach, or a combination of both, could be applied for this purpose. Developing a qualitative approach will require judgement and consideration of facts specific to the asset or liability being measured. For example, projected cash flows are generally a key input in an income approach measurement. Therefore, where those cash flows are unobservable and cannot be corroborated by market data, the whole fair value measurement will be categorised as Level 3.

The determination of which inputs are significant to a fair value measurement depends on facts and circumstances.

Example: Future rental cash inflows

The fair value of an investment property can be measured using discounted cash flow projections based on reliable estimates of future rental income and expenditure, supported by the terms of existing lease contracts. When practicable, external evidence should also be used, such as current market rents for properties of a similar nature, condition and location. The use of the income approach to measure the fair value of investment properties is likely to result in a Level 3 measurement, because the most significant inputs to the valuation technique will be the projected rental income and expenditure which are unobservable inputs.

Example: Growth expectations

An entity is applying the income approach to estimate the fair value of a non-controlling interest in an unlisted company. Management estimates the terminal value based on long-term sustainable growth rates ranging from 2% to 4%. Growth rates are applied in order to extrapolate cash flow projections. Management's assumption is supported by the expected relevant average industry growth rate, which is based on observable market data.

The growth rate meets the definition of a Level 2 input, as it can be corroborated by observable market data. Another example of a Level 2 input is inflation, which is used as a starting point when developing the growth expectation of some industry sectors. However, the expected future cash flows are one of the most significant inputs to the valuation technique. These are unobservable inputs and meet the definition of a Level 3 input. Therefore, the whole fair value measurement will often be categorised within Level 3 of the fair value hierarchy when applying discounted cash flow analysis to measure the fair value of unquoted equity instruments.

8

Q&A

What are examples of Ind AS 113 disclosures?

Ind AS 113 requires extensive disclosures related to fair value measurements. However, the measurement requirements of Ind AS 113 apply to the following items, while the disclosure requirements do not:

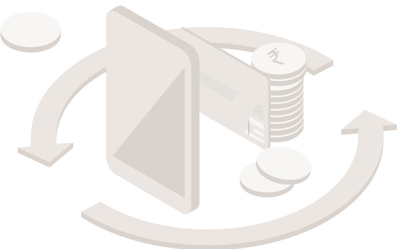
i. defined benefit plan assets measured at fair value under Ind AS 19, *Employee benefits*; and

ii. assets tested for impairment using fair value less costs to sell under Ind AS 36, *Impairment*.

Some examples of key disclosure requirements include:

- fair value at end of reporting; level within hierarchy;
- description of valuation technique;
- reconciliation of opening and closing balances;
- quantitative information about significant unobservable inputs;
- sensitivity to changes in unobservable inputs; and
- unrealised gains/losses from remeasurement.

Entities should also disclose the fair value hierarchy, valuation techniques and inputs for each class of assets and liabilities not measured at fair value in the Balance sheet but for which the fair value is disclosed.



The takeaway

Ind AS 113 aims to bring transparency in fair values reported in the financial statements. In particular, the standard will clarify which fair values are based on quoted market prices and which are derived from other valuation models/techniques. The additional information about the assumptions used when fair values are measured using unobservable inputs (Level 3) will give investors a better understanding of the relative subjectivity involved in the fair value measurement.

Background

A company's consolidated financial statements (CFS) present the financial position of the parent company and its subsidiaries as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources. All companies having a subsidiary/associate/joint venture are required to prepare CFS under section 129(3) of the Companies Act, 2013 (the Act). However, in accordance with the amended Rule 6 set out in the Companies (Accounts) Amendment Rules, 2016, with regard to CFS prepared on or after 27 July 2016, a company satisfying all the following conditions is not required to prepare its CFS:

i. the company is a wholly-owned or partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing (for which the proof of delivery of such intimation is available with the company), do not object to the company not presenting consolidated financial statements; and

ii. the company's securities are neither listed nor in the process of listing on any stock exchange in or outside India; and

iii. its ultimate or any intermediate holding company files its CFS in compliance with the applicable accounting standards, with the Registrar of Companies. (Refer to section 2(46) for the definition of holding company.)

Section 129(4) of the Act further states that the provisions of the Act, as applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to CFS. The principal auditor of CFS is, therefore, responsible for expressing an opinion on whether CFS are prepared in accordance with the applicable financial reporting framework in addition to reporting on other matters as required under the Act, and any other statute, to the extent applicable.

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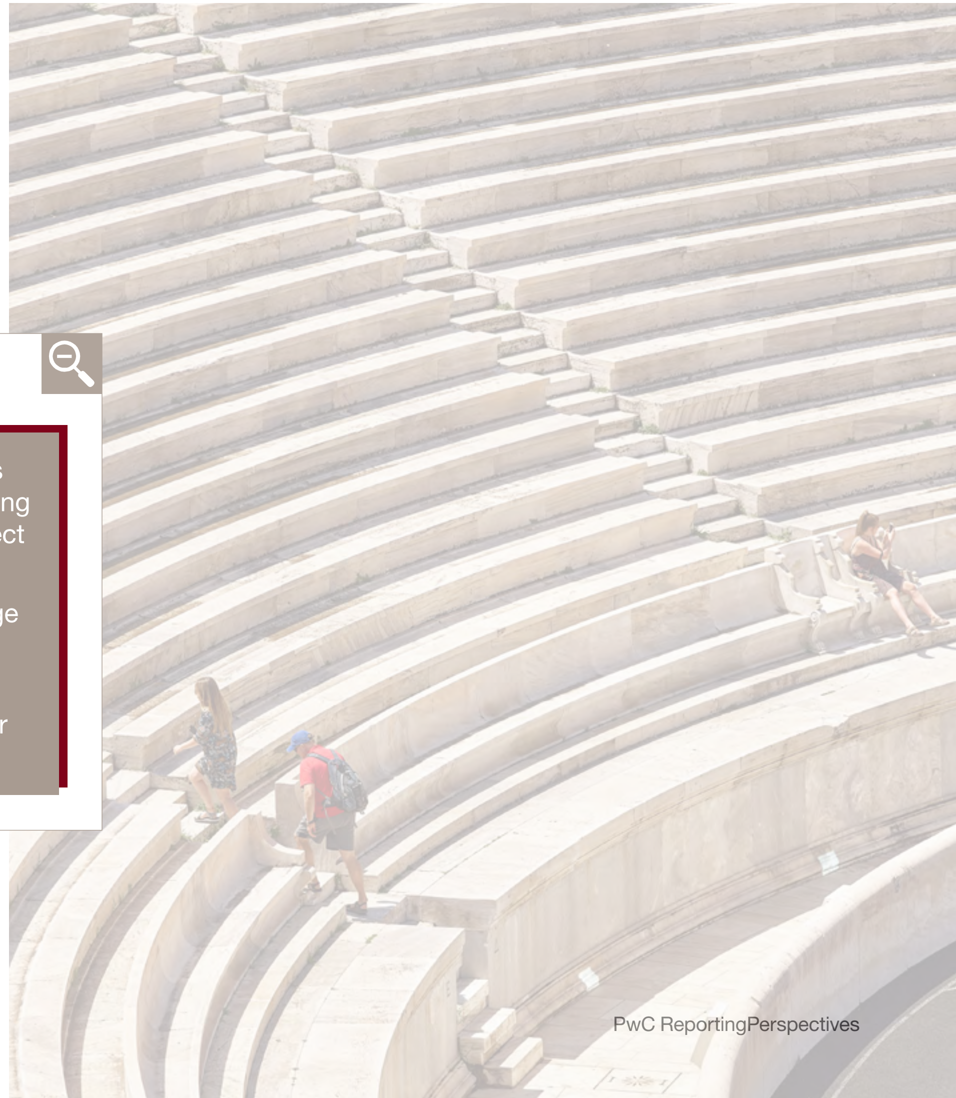

Preparing CFS

The preparation of CFS, in accordance with the applicable financial reporting framework, is the responsibility of the parent company. The applicable financial reporting framework may be:

a. The Companies (Indian Accounting Standards) Rules, 2015 (the Ind AS) (or)

b. The Companies (Accounting Standards) Rules, 2006 (the AS).

For companies covered by Ind AS, the relevant accounting standards are Ind AS 27, *Separate financial statements*; Ind AS 28, *Investments in associates and joint ventures*; Ind AS 110, *Consolidated financial statements*; Ind AS 111, *Joint arrangements*; and Ind AS 112, *Disclosure of interest in other entities*, notified under the Companies (Indian Accounting Standards) Rules, 2015.

For companies not covered by Ind AS, the relevant accounting standards are AS 21, *Consolidated financial statements*; AS 23, *Accounting for investments in associates in consolidated financial statements*; and AS 27, *Financial reporting of interests in joint ventures*, notified under the Companies (Accounting Standards) Rules, 2006.

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Auditing CFS

By way of the Guidance Note on Audit of Consolidated Financial Statements (revised in 2016), the Institute of Chartered Accountants of India (ICAI) provides the following guidance to auditors in carrying out the audit of CFS.

(a) Objectives

In auditing CFS, the objectives of the auditor include:

- To satisfy himself that CFS are prepared in accordance with the applicable financial reporting framework
- To enable himself to express an opinion on the true and fair view of CFS
- To enquire into the matters specified in section 143(1) of the Act
- To report on the matters given in section 143(3) (a) to (i) of the Act; for other matters under section 143(3)(j) read with rule 11 of the Companies (Audit and Auditors) Rules, 2014, to comment on the matters specified in sub rules (a), (b) and (c) to the extent applicable.

The auditor carries out his audit of CFS in accordance with the Standards on Auditing as specified in section 143(9) and (10) of the Act, and other authoritative pronouncements issued by ICAI. The auditor is therefore expected to:

- Plan his work to enable the conduct of an effective audit in an efficient and timely manner;
- Obtain an understanding of the accounting and internal control systems, including IT systems, to determine the nature, timing and extent of audit procedures;
- Use professional judgement to assess the audit risk and design audit procedures to ensure that the risk is reduced to an acceptable level.

CFS are prepared on the basis of the separate financial statements of the parent and its components using the consolidation procedures set out in the applicable financial reporting framework. The parent auditor may use the work of other auditors as per the Standards on Auditing, including SA 600, *Using the work of another auditor*, unless the auditor of CFS is also the auditor of the other components of the group.

(b) Materiality

In carrying out the audit of CFS, with respect to materiality, the following considerations are applied:

- The materiality for the group as a whole is computed to assess the appropriateness of the consolidation adjustments (permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.
- The materiality computed on a group level can also be used to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components and consider using the work of other auditors as applicable.

(c) Audit procedures

The principal auditor should plan his work appropriately and understand the group structure, the accounting policies of the parent and its components, the internal controls, including that of IT systems, and so on. He should also ensure that all the components, other than those for which exceptions have been provided, have been consolidated in CFS, in line with the applicable accounting framework.

While preparing CFS, the management makes adjustments, which are in the nature of either permanent consolidation adjustments (such as determination of goodwill or capital reserve and amount of equity attributable to minority interests) or current period consolidation adjustments (such as elimination of intra-group transactions and account balances and subsequent events). These adjustments are made in the memorandum records, which are reviewed by the auditor.

(d) Management representations

The auditor of CFS should obtain evidence that the parent company's management acknowledges its responsibility for the preparation of CFS and written representations on matters material to CFS, including matters such as completeness of components included and identification of reportable segments.

(e) Reporting

The auditor reports on whether CFS gives a true and fair view of the state of affairs of the group as on balance sheet date, and as to whether the consolidated profit and loss statement gives a true and fair view of the consolidated profit or losses of the group for the period under audit; and where applicable, on the true and fair view of the cash flows presented by the consolidated cash flow statement. The auditor includes an Other Matter paragraph in his report to indicate the division of responsibility where he has used the work of another auditor who has audited the component along with the magnitude of the portion audited by the other auditors; or to indicate where any of the components have not been subjected to audit. With respect to the latter, the auditor also considers whether the inclusion of unaudited components results in a modification of his report.

In brief

The Auditing and Assurance Board of ICAI had earlier issued a guidance note on the subject matter in 2003. Since the issuance of the guidance note in 2003, a number of key developments such as notification of the Act, and issuance of the Indian Accounting Standards have taken place. The new guidance note aims to provide guidance to the practitioners in view of these developments. Among other matters, it provides guidance on additional reporting responsibilities under the Act, determining materiality for CFS, principal auditor's responsibilities, audit procedures to be performed on the CFS and illustrative formats of the auditor's report on CFS based on the applicable Standards on Auditing issued by ICAI.

Introduction

Recently, ICAI revised the earlier Guidance Note on Reports in Company Prospectuses issued in the year 2006. The primary objective of the revised guidance note is to harmonise it with the updated accounting framework, laws and regulations like the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations), the Companies Act, 2013 (the Act), Companies (Prospectus and Allotment of Securities) Rules, 2014 (the Rules) and Ind AS. We have highlighted the key requirements of the revised guidance note in this article.

Applicability

The Guidance Note on Reports in Company Prospectuses (Revised 2016) (GN) is issued for providing guidance to the practitioners on the reporting requirements in relation to financial information to be included in the prospectus in case of initial public offering (IPO). The GN, apart from the IPO, is also applicable to other type of filings for the issue of securities (equity shares, debentures and notes etc.) such as letter of offer (in case of right issue), placement document (in case of Qualified Institutional Buyers 'QIBs') etc. and filings for the issue of units under Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014, as amended (InvITs) and Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014, as amended (REITs) to the extent applicable.

The GN is drafted considering the offer or sale of the securities in India. Accordingly, the guidance or formats included in the GN may need to be modified based on other international guidance or practices, in case an offer or sale of the securities is made outside India. The GN is applicable in relation to an initial offer document such as Draft Red Herring Prospectus/Draft Letter of Offer/Preliminary Placement Document filed on or after 1 January 2017. Earlier application is voluntary.

Restated financial information under ICDR Regulations

Reporting requirements

The ICDR Regulations require issuer companies to disclose financial information for five historical financial years immediately preceding the filing of their offer documents while following uniform accounting policies for each of the financial years.

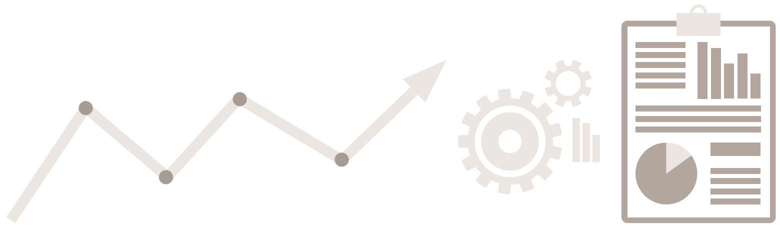
Before applicability of Ind AS, a company in the process of listing is required to disclose financial information for five historical financial years in accordance with Indian GAAP. Further, SEBI, on 31 March 2016, issued a circular (reference no. SEBI/HO/CFD/DIL /CIR/P/2016/47) clarifying the applicability of Ind AS for the financial statements to be included in the offer document based on the **phase** in which Ind AS is applicable to the issuer companies as per the Ministry of Corporate Affairs (MCA) Roadmap and period in which the issuer companies will **file** their offer document. SEBI circular has provided the following requirements:

Phase 1 Companies:

For issuer companies to which Ind AS is applicable in Phase 1 of the MCA Roadmap (beginning from FY 2016–17):

Period of filing of offer document	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
Up to 31 March 2017	Indian GAAP (FY 2015–16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013–14)	Indian GAAP (FY 2012–13)	Indian GAAP (FY 2011–12)
Between 1 April 2017 and 31 March 2018	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Ind AS* (FY 2014–15)	Indian GAAP (FY 2013–14)	Indian GAAP (FY 2012–13)
Between 1 April 2018 and 31 March 2019	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Indian GAAP (FY 2014–15)	Indian GAAP (FY 2013–14)
Between 1 April 2019 and 31 March 2020	Ind AS (FY 2018–19)	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Indian GAAP (FY 2014–15)
On or after 1 April 2020	Ind AS (FY 2019–20)	Ind AS (FY 2018–19)	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)

* To be disclosed by making suitable restatement adjustments to the accounting heads from their values as on the date of transition following accounting policies consistent with those used at the date of transition to Ind AS



Restated financial information under ICDR Regulations

Reporting requirements

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Phase 1 Companies:
For issuer companies to which Ind AS is applicable in Phase 1 of the MCA Roadmap (beginning from FY 2016–17):

Period of filing of offer document	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
Up to 31 March 2017	Indian GAAP (FY 2015–16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013–14)	Indian GAAP (FY 2012–13)	Indian GAAP (FY 2011–12)
Between 1 April 2017 and 31 March 2018	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Ind AS* (FY 2014–15)	Indian GAAP (FY 2013–14)	Indian GAAP (FY 2012–13)
Between 1 April 2018 and 31 March 2019	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Indian GAAP (FY 2014–15)	Indian GAAP (FY 2013–14)
Between 1 April 2019 and 31 March 2020	Ind AS (FY 2018–19)	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Indian GAAP (FY 2014–15)
On or after 1 April 2020	Ind AS (FY 2019–20)	Ind AS (FY 2018–19)	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)

* To be disclosed by making suitable restatement adjustments to the accounting heads from their values as on the date of transition following accounting policies consistent with those used at the date of transition to Ind AS

Phase 2 Companies:
For issuer companies to which Ind AS is applicable in Phase 2 of the MCA Roadmap (beginning from FY 2017–18), the above timelines will apply with a time lag of one year.

SEBI has also permitted companies to **voluntarily** prepare financial statements for all historical five financial years preceding the filing in accordance with the Ind AS framework.

Accounting aspects
Schedule VIII. Part A.IX.B.9 of ICDR Regulations further requires that Statements of Assets and Liabilities and Profit and Loss or any other financial information shall be incorporated in the offer document after making the following adjustments, wherever quantification is possible:

a. Adjustments/rectification for all incorrect accounting practices or failures to make provisions or other adjustments which resulted in audit qualifications. Audit qualifications, which have not been given effect to, if any, shall be highlighted along with the management comments. If the impact of non-provisions is not considered ascertainable, then a statement to that effect by the auditors;

b. Material amounts relating to adjustments for previous years shall be identified and adjusted in arriving at the profits of the years to which they relate irrespective of the year in which the event triggering the profit or loss occurred;

c. Where there has been a change in accounting policy, the profits or losses of the earlier years (required to be shown in the offer document) and of the year in which the change in the accounting policy has taken place shall be recomputed to reflect what the profits or losses of those years would have been if a uniform accounting policy was followed in each of these years;

d. If an incorrect accounting policy is followed, the recomputation of the financial statements shall be in accordance with correct accounting policies; and

e. Statement of profit or loss shall disclose the profit or the loss arrived at before considering extraordinary items and after considering the profit or loss from extraordinary items.

Issuer companies should make suitable deferred tax adjustments in relation to adjustments made in preparation of restated financial information in accordance with the applicable accounting standards.

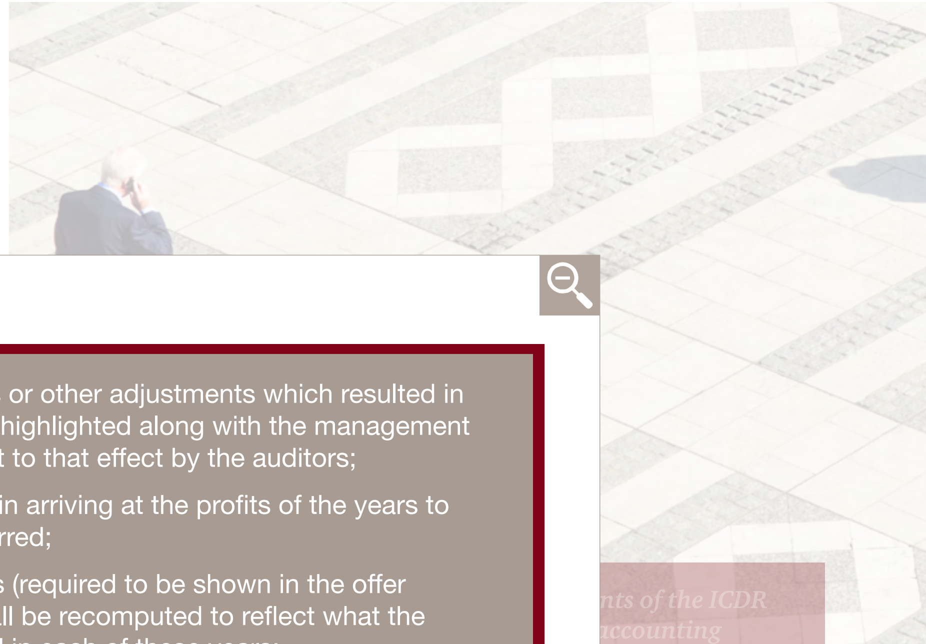
The Ind AS are quite well aligned with the requirements of the ICDR Regulations. For example, under Ind AS, changes in accounting policies and errors are required to be restated, which was not the case under Indian GAAP. However, Ind AS do not permit disclosure of any extraordinary items.

Phase 2 Companies:
For issuer companies to which Ind AS is applicable in Phase 2 of the MCA Roadmap (beginning from FY 2017–18), the above timelines will apply with a time lag of one year.

SEBI has also permitted companies to **voluntarily** prepare financial statements for all historical five financial years preceding the filing in accordance with the Ind AS framework.

Accounting aspects

Schedule VIII, Part A IX B 9 of ICDR Regulations further requires that Statements of



a. Adjustments/rectification for all incorrect accounting practices or failures to make provisions or other adjustments which resulted in audit qualifications. Audit qualifications, which have not been given effect to, if any, shall be highlighted along with the management comments. If the impact of non-provisions is not considered ascertainable, then a statement to that effect by the auditors;

b. Material amounts relating to adjustments for previous years shall be identified and adjusted in arriving at the profits of the years to which they relate irrespective of the year in which the event triggering the profit or loss occurred;

c. Where there has been a change in accounting policy, the profits or losses of the earlier years (required to be shown in the offer document) and of the year in which the change in the accounting policy has taken place shall be recomputed to reflect what the profits or losses of those years would have been if a uniform accounting policy was followed in each of these years;

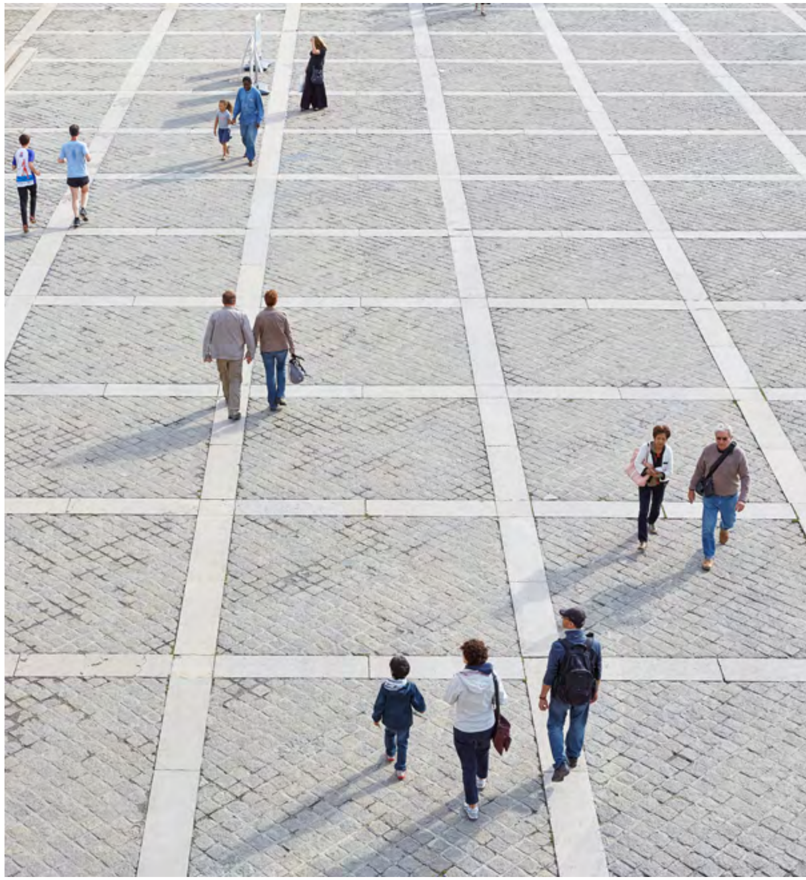
d. If an incorrect accounting policy is followed, the recomputation of the financial statements shall be in accordance with correct accounting policies; and

e. Statement of profit or loss shall disclose the profit or the loss arrived at before considering extraordinary items and after considering the profit or loss from extraordinary items.

Issuer companies should make suitable deferred tax adjustments in relation to adjustments made in preparation of restated financial information in accordance with the applicable accounting standards.

Requirements of SEBI in general for preparation of restated historical financial statements

Presentation	In the absence of specific requirements in relation to Restated Financial Information, the companies should follow the presentation requirements as mentioned in Schedule III to the Act, 'General instructions for preparation of balance sheet and statement of profit and loss of a Company' as applicable to the respective accounting standards (existing accounting standards or Ind AS) to be followed.
Disclosures	In the absence of the specific requirements in relation to Restated Financial Information, at a minimum, the companies should present disclosures as required by the applicable accounting standards. Disclosures of the interim financial information in the offer document (if any), shall be made in line with the accounting policies followed for the latest financial year.
Additional disclosures	Companies in the process of listing shall clearly disclose the fact that the financial information has been disclosed in accordance with Ind AS while suitably explaining the difference between Ind AS and the previously applicable accounting standards, and the impact of transition to Ind AS. SEBI has mandated the compliance with the requirements of paragraphs 22 to 26 and paragraph 32 of Ind AS 101, *First time adoption of the Indian Accounting Standards*).
Notes	In the absence of specific requirements in relation to Restated Financial Information, at a minimum, the companies should present notes for the line items appearing in the balance sheet, statement of profit and loss and cash flow statement as reported for annual reporting.



Some questions and answers to help issuer companies prepare for their IPO transactions:

1

Q&A

How should the change in accounting policies, estimates and errors be accounted for in preparation of restated past five years of the financial statements?

Ind AS 8, *Accounting policies, changes in accounting estimates and errors* requires material prior period errors to be corrected retrospectively by restating the comparative amounts for prior period presented in which the error occurred or if the error occurred before the earliest prior period presented, by restating the opening balance sheet and, if relevant, statement of changes in equity.

Ind AS 8 also requires a change in accounting policy to be applied retrospectively. An the entity is required to adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The issuer companies should follow the following principles while preparing historical five year financial statements (including presentation of Indian GAAP financial statements):

i. Companies should use the principles prescribed in Ind AS 8 in relation to the accounting treatment for change in accounting policies, estimates and errors. The companies **should not apply hindsight** while accounting for estimates and any change in accounting estimates should be treated prospectively for the purpose of preparation of restated financial information to be included in the offer documents.

ii. Any re-classification for the periods covered by the restated financial statements needs to be assessed in accordance with the principles prescribed in Ind AS 8;

iii. Any material re-classification and material prior period adjustment need to be disclosed separately as a note in the restated financial information; and

iv. Any item qualified in the auditors' reports and the Companies Auditors' Report Order, 2016, report for the periods covered by the re-stated financial statements needs to be assessed in accordance with the principles enumerated in Ind AS 8.

2

Q&A

How should the Ind AS financials statements for the earliest of the three years be prepared by issuer companies?

Assuming that Phase I issuer companies which are in the process of listing during the period from 1 April 2017 to 31 March 2018 would have prepared Ind AS financial statements for FY 2016–17 and FY 2015–16 for filing under the Act. Also, these companies would have prepared Indian GAAP financial statements for FY 2014–15 for filing under the Act. But, the SEBI circular requires these companies to prepare an additional Ind AS financial statements for FY 2014–15 for inclusion in the offer document.

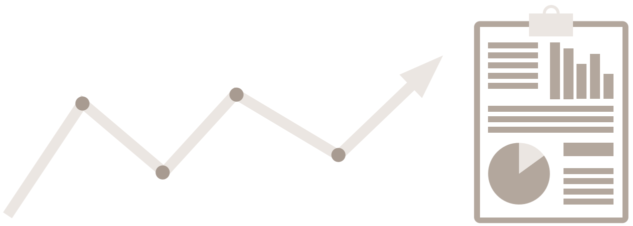
For the purpose of preparing Ind AS financial statements for FY 2014–15, the circular requires suitable restatement adjustments (both re-measurements and reclassifications) to be made in accounting heads from their values as on the date of transition (i.e. 1 April 2015) following accounting policies consistent with that used at the date of transition to Ind AS (i.e. 1 April 2015). It seems that the intent of the SEBI circular is not to push back the transition date (i.e. 1 April 2015) to 1 April 2014 and re-adopt Ind AS 101, *First time adoption of Ind AS* provisions again. Therefore, these companies are required to follow the same accounting policy choices (both mandatory exceptions and optional exemptions availed as per Ind AS 101) as initially adopted on the transition date (i.e. 1 April 2015) while preparing financial statements for FY 2014–15 and accordingly suitable restatement adjustments in the accounting heads need to be made. The financial statements for FY 2014–15 should be prepared on proforma basis (i.e. 'proforma Ind AS financial statements') for the purpose of inclusion in the offer document. The same is summarised in the table below:

Period of filing of offer document	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
Between 1 April 2017 and 31 March 2018	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Proforma Ind AS financial statements (FY 2014–15)	Indian GAAP (FY 2013–14)	Indian GAAP (FY 2012–13)

The GN also provides guidance for application of transition exceptions and exemptions available under Ind AS 101.

There may arise challenges in presenting two sets of accounting policies and notes, i.e. three years under Ind AS and two years under Indian GAAP together. Considering significant differences in classification, presentation and more importantly the consistency and comparability of financial information for investors, it would be helpful if the issuer company presents its five years financial information using one accounting framework, i.e. Ind AS. Of course, this would result in significant effort and planning.

The concept of 'proforma Ind AS financial statements' should be well understood. This does not result in an another earlier transition date from what is already applicable to a company. Instead, this is a suggested manner of preparing comparable Ind AS financial information for earlier years by pushing back the transition choices and exemptions from the transition date to the earliest period presented.



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The concept of 'pro forma Ind AS financial statements' should be well understood. This does not result in an another earlier transition date from what is already applicable to a company. Instead, this is a suggested manner of preparing comparable Ind AS financial information for ealier years by pushing back the transition choices and exemptions from the transition date to the earliest period presented.

3

Q&A

How should the financial statements be prepared if a company which has adopted Ind AS as per the MCA roadmap chooses to present financial statements of the past five years under the Ind AS accounting framework which is allowed under the circular?

SEBI has permitted companies to voluntarily prepare financial statements for all historical five financial years preceding the filing in accordance with Ind AS. Companies covered in Phase I have to prepare Ind AS financial statements for FY 2015–16 and FY 2016–17 for filing under the Act, and similarly, Phase II companies have to prepare Ind AS financial statements for FY 2016–17 and FY 2017–18. Companies which chose to present historical five year financial statements in accordance with Ind AS should prepare pro forma Ind AS financial statements for the remaining three years prior to the date of transition (i.e. remaining three years).

For example: A company covered in Phase I of the Ind AS roadmap is planning to file an offer document in FY 2017–18 and voluntarily prepares financial statements for all the historical five years in accordance with Ind AS. Assuming, the company would have prepared Ind AS financial statements for FY 2015–16 and FY 2016–17 for filing under the Act, for the remaining three years, the company should prepare pro forma Ind AS financial statements by making suitable restatement adjustments that are consistent with the accounting policies used on transition, i.e. 1 April 2015. This has been summarised below:

Period of filing of the offer document	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
Between 1 April 2017 and 31 March 2018	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Proforma Ind AS financial statements (FY 2014–15)	Proforma Ind AS financial statements (FY 2013–14)	Proforma Ind AS financial statements (FY 2012–13)
Between 1 April 2018 and 31 March 2019	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Proforma Ind AS financial statements (FY 2014–15)	Proforma Ind AS financial statements (FY 2013–14)
Between 1 April 2019 and 31 March 2020	Ind AS (FY 2018–19)	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Proforma Ind AS financial statements (FY 2014–15)
On or after 1 April 2020	Ind AS (FY 2019–20)	Ind AS (FY 2018–19)	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)

3

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For example: A company covered in Phase I of the Ind AS roadmap is planning to file an offer document in FY 2017–18 and voluntarily prepares financial statements for all the historical five years in accordance with Ind AS. Assuming, the company would have prepared Ind AS financial statements for FY 2015–16 and FY 2016–17 for filing under the Act, for the remaining three years, the company should prepare pro forma Ind AS financial statements by making suitable restatement adjustments that are consistent with the accounting policies used on transition, i.e. 1 April 2015. This has been

Period of filing of the offer document	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
Between 1 April 2017 and 31 March 2018	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Proforma Ind AS financial statements (FY 2014–15)	Proforma Ind AS financial statements (FY 2013–14)	Proforma Ind AS financial statements (FY 2012–13)
Between 1 April 2018 and 31 March 2019	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Proforma Ind AS financial statements (FY 2014–15)	Proforma Ind AS financial statements (FY 2013–14)
Between 1 April 2019 and 31 March 2020	Ind AS (FY 2018–19)	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)	Proforma Ind AS financial statements (FY 2014–15)
On or after 1 April 2020	Ind AS (FY 2019–20)	Ind AS (FY 2018–19)	Ind AS (FY 2017–18)	Ind AS (FY 2016–17)	Ind AS (FY 2015–16)

Reports and certificates

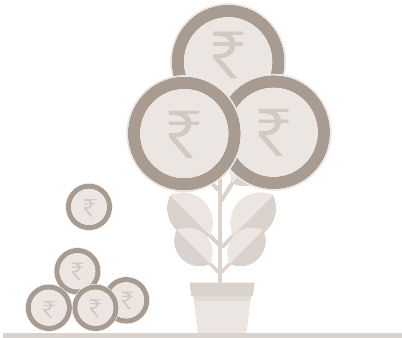
Bankers may request auditors to issue certificates in respect of non-GAAP measures or other financial information. However, auditors may decide based on professional judgment whether a certificate can be issued in respect of non-GAAP measures or other financial information (e.g. net worth, operating profit, net asset value, accounting ratios, etc.) as requested by the bankers or consider performing agreed upon procedures as agreed upon with bankers as per the Standard on Related Services 4400, '*Engagements to Perform Agreed-upon Procedures Regarding Financial Information*' and submit such agreed upon reports to the Company and address to the Board of Directors of the Company. Unless required by ICDR Regulations or regulators, auditors may not issue any certificate in relation to account balances, classes of transactions and disclosures of the financial statements for which they have already issued an audit opinion or review report for the purpose of Bankers due diligence obligation towards SEBI. Auditors may consider providing circle up comfort in relation to such items if requested by Bankers or consider performing agreed upon procedures as agreed upon with bankers.

Consent letter

Section 26(7) of the Act requires that the Registrar shall not register a prospectus unless the prospectus is accompanied by the consent in writing of all the persons named in the prospectus. Section 26(1)(a)(v) of the Act requires that every prospectus issued by or on behalf of a public company shall be dated, signed and state consent of auditors, or from any person who is an expert in terms of section 26(5) of the Act. Accordingly, a chartered accountant whose report (including certificate) is included in the prospectus is to be treated as an expert (read with section 2(38) of the Act). Further, under section 26(5) of the Act, the expert should give his written consent to the issue of the prospectus. The prospectus should further state that the expert has not withdrawn his consent as aforesaid.

Comfort letter

In certain circumstances, the issuer company may request the auditor(s) to provide a comfort letter on the financial information of the company to the requesting parties (such as lead managers and other managers). The purpose of a comfort letter is to assist lead managers and other managers, in performing a 'due diligence review' process of the prospectus. The scope of a comfort letter is to be agreed with the underwriters, lead managers, etc. It is to be noted that comfort letters are not required under the ICDR Regulations, neither required to be filed with SEBI. The terms of the arrangement/ engagement letter should clearly mention that the procedures do not constitute an audit conducted in accordance with the Standards on Auditing issued by ICAI and, accordingly, the same might not reveal all matters of significance.



Key takeaway

The revised GN provides clarity on various financial reporting requirements in light of the regulatory changes in capital markets over the last decade. Apart from IPOs, the GN also covers issue of securities/units through rights issue, QIBs, REITs and INvITs. The GN provides various illustrative formats (such as the illustrative format of engagement/arrangement letter, consent letter, comfort letter and representation letter) and accounting guidance relevant to Ind AS transition, which will surely assist the issuers and practitioners.

Background

Ind AS Transition Facilitation Group (ITFG) has been constituted for providing clarifications on a timely basis on various issues related to the applicability and/or implementation of Ind AS under the Companies (Indian Accounting Standards) Rules, 2015, raised by preparers, users and other stakeholders. This article summarises the clarifications issued by ITFG in its 6th and 7th bulletins.

ITFG Clarifications

1. If a company meets the net worth criteria once, it shall comply with Ind AS notwithstanding the fact that net worth has subsequently fallen below the specified threshold.

2. Companies registered under Section 8 of the Companies Act, 2013 (the 'Act'), are not exempted from compliance with Ind AS, if Ind AS applicability criteria are met.

3. If a subsidiary falls under phase II of the corporate Ind AS roadmap (FY 17–18) and the parent non-banking financial companies (NBFCs) falls under phase II of the NBFC Ind AS roadmap (FY 19–20), the subsidiary shall prepare Ind AS financial statements for its statutory reporting purposes for FY 17–18 and FY 18–19 and also prepare financial statements as per existing accounting standards for the same periods for the purpose of the parent's consolidated financial statements.

4. Grants in the nature of promoter contribution accounted for as capital reserve under previous GAAP shall be included in net worth for determining Ind AS applicability. However, such an analogy should not be applied to other provisions of the Act.

5. If a foreign currency loan is partially drawn down before the beginning of the first Ind AS financial reporting period and the remaining amount is drawn down during the first Ind AS reporting period, then the option provided by Ind AS 101, para D13AA is available only for foreign currency loans drawn and recognised in the financial statements immediately before the beginning of the first Ind AS financial reporting period.

6. Where a company is statutorily required to present its financial statements in INR, which is different from its functional currency, i.e. USD, then it may do so by choosing INR as presentation currency and prepare and present its financial statements by applying the provisions of paragraphs 38 and 39 of Ind AS 21, *The effects of changes in foreign exchange rates*. Further, the auditor of such a company will be required to give an audit report on those financial statements prepared in INR.

7. When an entity opts for para D7AA exemption of Ind AS 101 by considering the previous GAAP carrying value of PPE as its deemed cost at the date of transition, it cannot make any adjustments to the carrying amount of PPE. Accordingly, in such cases, the entity cannot reverse the impact of exchange differences capitalised to PPE under paragraph 46/46A of Accounting Standard 11.

8. The exemption under para D13AA of Ind AS 101 option cannot be availed for long-term forward exchange contracts, as these contracts are not within the scope of Ind AS 21, and are to be accounted for in accordance with Ind AS 109, *Financial instruments*.

9. Classification of lease of land having a lease term of 99 years, at the end of which the lease can be either renewed or land can be returned back to the lessor, requires exercise of judgement based on evaluation of facts and circumstances in each case.

10. Accounting of dividend on financial instrument which is classified as financial liability (e.g. redeemable preference shares) is governed by classification of such instrument under Ind AS 109. If the liability is subsequently measured at amortised cost, dividend will be accrued as part of the interest expense based on Effective Interest Rate (EIR) method, even if it is declared after the end of the reporting period.

11. As per Ind AS 12, *Income taxes*, the recognition of deferred tax is dependent upon the tax consequences that will follow on the basis of the expected manner of recovery or settlement of the asset/liability by the entity. This will require the exercise of judgement based on evaluation of facts and circumstances, including consideration of substance to the management's expectation. Basis above, if in respect of freehold land carried at cost, the management expects to sell such land on a slump sale, then the tax base of such land will be the same as the carrying amount of the land (as indexation benefit is not available in case of a slump sale as per the Income-tax Act, 1961) and therefore, there will not be any temporary difference.

12. If the parent company invests in debentures issued by a subsidiary and such debentures meet the definition of equity as per Ind AS 32, *Financial instruments: presentation* from the issuer's perspective (i.e. subsidiary), then such investment can be considered to be part of the parent's investment in a subsidiary and can be accounted under Ind AS 27, *Separate financial statements*, else it will be accounted under Ind AS 109.

13. Para D22 of Ind AS 101 provides an exemption from retrospective change in accounting policy for amortisation of intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements before the beginning of the first Ind AS reporting period. Such exemption cannot be availed in cases where the intangible asset is in progress, not recognised before the start of the first Ind AS reporting period and for which the amortisation has not begun.

Key takeaway

ITFG clarifications are helpful for companies and auditors as they navigate through Ind AS transition and imminent preparation of the first annual Ind AS financial statements of companies as of 31 March 2017.

Ministry of Finance

Finance Act, 2017

The Finance Act, 2017, was approved by the parliament on 30 March 2017 and received presidential assent on 31 March 2017. Among other matters, it amended Section 115JB of the Income-tax Act, 1961, so as to provide the framework for the computation of book profit for Ind AS compliant companies in the year of adoption and thereafter.

Central Board of Direct Taxes (CBDT)

Clarifications on ICDS

CBDT has issued on 23 March 2017 clarifications in the form of FAQ on issues relating to the application of Income computation and disclosure standards (ICDS).

Ministry of Corporate Affairs (MCA)

Exemptions to Specified International Financial Services Centre (IFSC) public and private company under the Companies Act, 2013

MCA has granted exemptions from application of certain provisions of the Companies Act, 2013, to a private company and public company which are licenced to operate by RBI or SEBI or IRDAI from IFSC located in an approved multi-services special economic zone (SEZ) set-up under the Special Economic Zones Act, 2005 (28 of 2005), read with the Special Economic Zones Rules, 2006.

Notification of sections of Companies Act, 2013

The MCA has appointed 26 December 2016 as the date on which the following sections of the Companies Act, 2013, relating to the removal of the names of companies from the register of companies, come into effect:

- Section 248: Power of the registrar to remove a name of a company from the register of companies.
- Section 249: Restrictions on making an application under Section 248 in certain situations.
- Section 250: Effect of company notified as dissolved.
- Section 251: Fraudulent application for the removal of a company name.
- Section 252: Appeal to the National Company Law Tribunal.

Further, MCA vide Notification No. S.O. 3677(E) dated 7 December 2016, has enforced the provisions of the following sections of the Companies Act, 2013, w.e.f. 15 December 2016:

1. Clause (23) of Section 2: Definition of Company Liquidator
2. Clause (c) and (d) of sub-section (7) of section 7: Incorporation of a company
3. Sub-section (9) of Section 8: Formation of companies with charitable objects, etc.
4. Section 48: Variation of shareholders' rights
5. Section 66: Reduction of share capital
6. Sub-section (2) of Section 224: Actions to be taken in pursuance of an inspector's report
7. Section 226: Voluntary winding up of company, etc., not to stop investigation proceedings
8. Section 230 [except sub-section (11) and (12)]: Power to compromise or make arrangements with creditors and members
9. Section 231: Power of the National Company Law Tribunal to enforce compromise or arrangement
10. Section 232: Merger and amalgamation of companies.

Amendment of Schedule II to the Companies Act, 2013

The MCA has amended para 3(ii) of Schedule II to the Companies Act, 2013. The amended para shall read as follows:

'For intangible assets, the relevant Indian Accounting Standards (Ind AS) shall apply. Where a company is not required to comply with Ind AS, it shall comply with relevant accounting standards under the Companies (Accounting Standards) Rules, 2006, except in case of intangible assets (Toll Roads) created under "Build, Operate and Transfer", "Build, Own, Operate and Transfer" or any other form of public private partnership route in case of road projects'. The notification shall be applicable for the accounting period commencing on or after 1 April 2016.

The amendment was intended to remove any inconsistency between Ind AS 38, *Intangible assets*, and Schedule II. Ind AS 38 does not permit revenue-based amortisation for intangible assets, except under limited circumstances. The impact of this amendment is that companies adopting Ind AS cannot follow revenue-based amortisation for toll road intangible assets except under the limited circumstances permissible under Ind AS 38.

However, an entity may opt to amortise the intangible assets arising from service concession arrangements in respect of toll roads recognised in the financial statements for the period ending immediately before the beginning of the first Ind AS reporting period, as per the previous GAAP policy.

Companies (Indian Accounting Standards) (Amendment) Rules, 2017

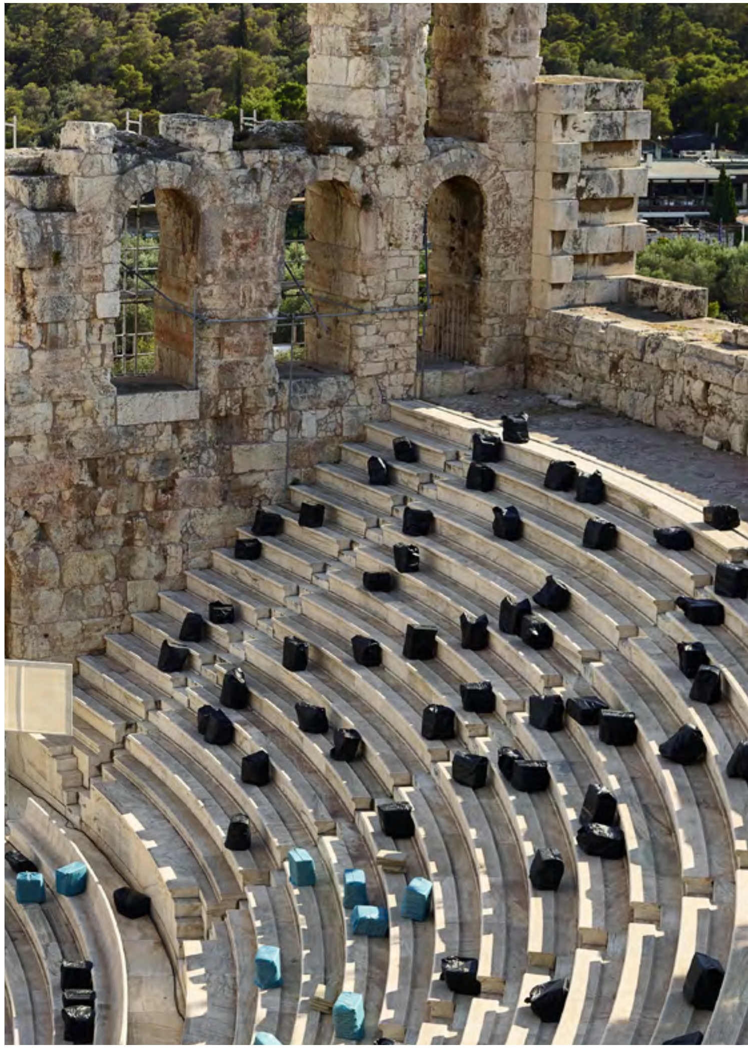
MCA issued the Companies (Indian Accounting Standards) (Amendment) Rules, 2017, amending Ind AS 102, *Share-based payment*, and Ind AS 7, *Statement of cash flows*. The amendments are consequent to amendments in corresponding IFRS as issued by IASB. These amendments shall come into force from 1 April 2017.

Amendment to Schedule III of the Companies Act, 2013 and the Companies (Audit and Auditors) Amendment Rules, 2017

The MCA has amended division I and division II of the Schedule III of the Companies Act, 2013. As per the amendment, each company needs to disclose the details of Specified Bank Notes held and transacted during the period from 8 November 2016 to 30 December 2016 in the prescribed format. Further, the MCA has issued Companies (Audit and Auditors) Amendment Rules, 2017. As per the amendment rules, the auditors are required to report on whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8 November 2016 to 30 December 2016 and, if so, whether these are in accordance with the books of accounts maintained by the company.

Competition Act, 2002

The MCA vide notification dated 27 March 2017 has exempted certain enterprises from application of the Competition Act, 2002. Among other matters, where a portion of an enterprise or division or business is being acquired, taken control of, merged or amalgamated with another enterprise, the value of the said portion or division or business will be determined by taking the book value of the assets as shown, in the audited books of accounts of the enterprise and the turnover of the said portion or division or business shall be as certified by the statutory auditor on the basis of the last available audited accounts of the company.



Securities and Exchange Board of India (SEBI)

Integrated reporting by listed entities

The SEBI has mandated the requirement of submission of the Business Responsibility Report (BRR) for the top 500 listed entities under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The key principles that are required to be reported by the entities pertain to areas such as environment, governance, stakeholders' relationships, etc. Towards the objective of improving disclosure standards, in consultation with industry bodies and stock exchanges, the listed entities are advised to adhere to the following:

- Integrated reporting may be adopted on a voluntary basis from FY 2017–18 by the top 500 companies that are required to prepare BRR.
- The information related to integrated reporting may be provided in the annual report separately or by incorporating management discussion and analysis or by preparing a separate report (annual report prepared as per the integrated reporting framework).
- In case the company has already provided the relevant information in any other report prepared in accordance with the national/international requirement/framework, it may provide appropriate reference in its integrated report so as to avoid duplication of information.
- As a green initiative, companies may host the integrated report on their website and provide an appropriate reference in their annual report.

Circular on schemes of arrangement by listed entities and relaxation under rule 19(7) of the Securities Contracts (Regulation) Rules, 1957

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, place obligations with respect to the scheme of arrangement on listed entities and stock exchanges. SEBI has decided to revise the regulatory framework for such schemes of arrangement. Schemes filed after the date of this circular i.e. 10 March 2017 will be governed under this circular. Among other matters, it requires an auditors' certificate to be filed to the effect that the accounting treatment contained in the scheme is in compliance with all the Accounting Standards specified by the Central Government under section 133 of the Companies Act, 2013, read with the rules framed thereunder or the Accounting Standards issued by ICAI, as applicable, and other generally accepted accounting principles. For this purpose, mere disclosure of deviations in accounting treatments as prescribed in the Accounting Standards and other generally accepted Accounting Principles will not be deemed as compliance.

Clarification on circular on schemes of arrangement by listed entities and relaxation under rule 19(7) of the Securities Contracts (Regulation) Rules, 1957

SEBI has issued clarification on the circular on schemes of arrangement by listed entities and relaxation under rule 19(7) of the Securities Contracts (Regulation) Rules, 1957, dated 10 March 2017. It provides that the pricing provisions of Chapter VII of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, shall be followed in case of issuance of shares to a select group of shareholders or shareholders of unlisted companies pursuant to schemes of arrangement.

It is now clarified that the ‘relevant date’ for the purpose of computing pricing shall be the date of the board meeting in which the scheme is approved.

SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2017

The SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2017, state that regulation 37 on draft scheme of arrangement and scheme of arrangement will not apply to the draft scheme for merger of a wholly-owned subsidiary with its holding company and such scheme should be filed with the stock exchanges for the purpose of disclosures.

Disclosure of financial information in offer document for REITs

The SEBI (Real Estate Investment Trusts) Regulations, 2014, prescribe disclosures to be made in an offer document, which include disclosures for financial information of the Real Estate Investment Trusts (REITs) as well as of the Manager and the Sponsor. SEBI has issued a circular containing the detailed requirements for disclosure of financial information in the offer document.

Guidelines for public issue of units of REITs

SEBI has issued detailed guidelines for public issue of units of REITs. The guidelines, among other matters, deal with:

- Appointment and obligations of the merchant banker and others
- Filing of the offer document
- Allocation in public issue
- Application and abridged version of the offer document
- Maintenance of books and records
- Opening of an issue and subscription period.

Continuous disclosures and compliances by REITs

Regulation 23 of the SEBI (Real Estate Investment Trusts) Regulations, 2014 ('the REIT Regulations'), prescribes disclosures to be made by a REIT to the stock exchange(s) where its units are listed. These include disclosures for financial as well as non-financial information. Accordingly, SEBI has issued a circular on continuous disclosures and compliances by REITs, which includes the requirements for disclosure of financial and non-financial information and pertinent compliances on a continuous basis.

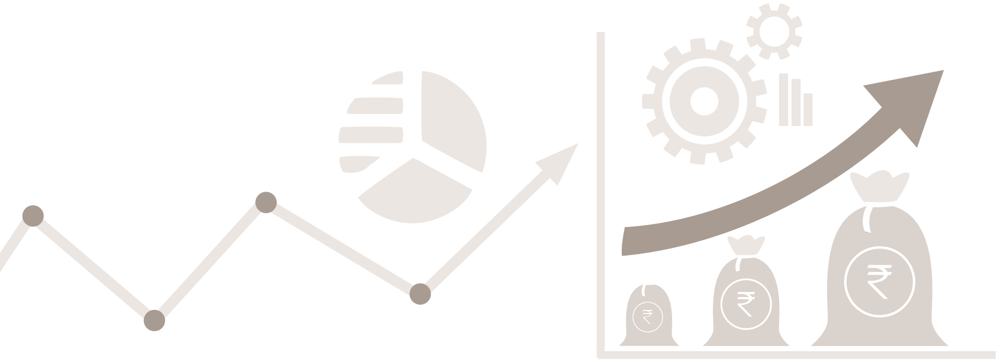
Guidance Note on Board Evaluation

The Companies Act, 2013, and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, contain broad provisions on board evaluation, i.e. evaluation of the performance of: (i) the board as a whole, (ii) individual directors (including independent directors and the chairperson) and (iii) various committees of the board. The provisions also specify responsibilities of various persons/committees for conduct of such evaluation and certain disclosure requirements as a part of the listed entity's corporate governance obligations. Considering the need to provide further guidance to listed entities on the process of board evaluation, SEBI has issued a guidance note on the subject matter. The guidance note elaborates the various aspects of board evaluation that may help to improve the evaluation process, derive the best possible benefit and achieve the objective of the entire process. The guidance note covers all major aspects of board evaluation including the following:

a. Subject of evaluation, i.e. who is to be evaluated;
b. Process of evaluation including laying down of objectives and criteria to be adopted for evaluation of different persons;
c. Feedback to the persons being evaluated;
d. Action plan based on the results of the evaluation process;
e. Disclosure to stakeholders on various aspects;
f. Frequency of board evaluation;
g. Responsibility of board evaluation; and
h. Review of the entire evaluation process periodically.

SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2016

SEBI has issued the SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2016, relating to obligations with respect to employees including senior management, key managerial persons, directors and promoters. The amendment regulations state that no employee including key managerial personnel or director or promoter of a listed entity shall enter into any agreement for himself or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing in connection with dealings in the securities of such listed entity, unless prior approval for the same has been obtained from the board of directors as well as public shareholders by way of an ordinary resolution.



Enhanced Standards for Credit Rating Agencies

SEBI has issued guidelines on Enhanced Standards for Credit Rating Agencies (CRAs). Among other matters, the guidelines include guidance on strengthening and enhancing the relevance of the Internal Audit of CRAs namely appointment and rotation of auditors and scope of the audit. The CRAs are required to effectively implement these guidelines within 60 days from the date of issue of this circular.

Disclosures in case of listed insurance companies

SEBI had issued a circular on Revised Formats for Financial Results and Implementation of Ind AS by listed entities dated 5 July 2016 which states that insurance companies shall follow the formats as prescribed under the respective Acts/Regulations as specified by their Regulators. Accordingly, SEBI in consultation with IRDAI, has now vide circular dated 24 October 2016 clarified that:

a. The insurance companies (life and non-life) will submit the following disclosures for quarters ending 30 September 2016 and 31 December 2016 in the format as specified by IRDAI:

   i. Format for quarterly financial results

   ii. Format for Reporting of Segment wise Revenue, Results and Capital Employed along with the quarterly results

b. With respect to the format for Newspaper Publishing Purpose (Standalone/ Consolidated), the insurance companies are required to continue to follow the format as specified under the aforesaid circulars issued by SEBI. Additional disclosures may also be made as prescribed by IRDAI.

c. The other requirements specified under the aforesaid circular will continue to apply to insurance companies.

Insurance Regulatory and Development Authority of India (IRDAI)

Report of the implementation group on Ind AS in the insurance sector in India

As per the roadmap laid down by MCA for the insurance sector for implementation of Ind AS, insurers/ insurance companies are required to prepare Ind AS based financial statements for accounting periods beginning from 1 April 2018 onwards with comparatives for the periods ending 31 March 2018 or thereafter.

In order to prepare the insurance industry for Ind AS, IRDAI had constituted the Implementation Group (IG) on 17 November 2015 to examine the implications of implementing Ind AS, address the implementation issues and facilitate formulation of operational guidelines to converge with Ind AS.

The IG has submitted its report which is published on IRDAI's website.

Exposure Draft of IRDAI (Preparation of Financial Statements of Insurers) Regulations, 2017

In order to address the implementation issues of Ind AS, IRDAI had constituted the Implementation Group on Ind AS in the insurance sector in India. The group has submitted its report on 30 December 2016. Based on the report of the group, IRDAI proposes to replace the existing IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2002, with IRDAI (Preparation of Financial Statements of Insurers) Regulations, 2017, which shall be effective from 1 April 2018. Comments/suggestions on the draft regulations were due for submission by 31 March 2017.

Formats for publishing financial results by insurance companies as required by the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations, 2015)

In accordance with the SEBI circular dated 24 October 2016 on Disclosures in case of listed insurance companies, IRDAI has prescribed formats for the following to ensure compliance with the requirements of SEBI under LODR Regulations, 2015:

i. The quarterly financial results

ii. Reporting of Segment wise Revenue, Results and Capital Employed along with the quarterly results

iii. Limited review reports to be given by auditors

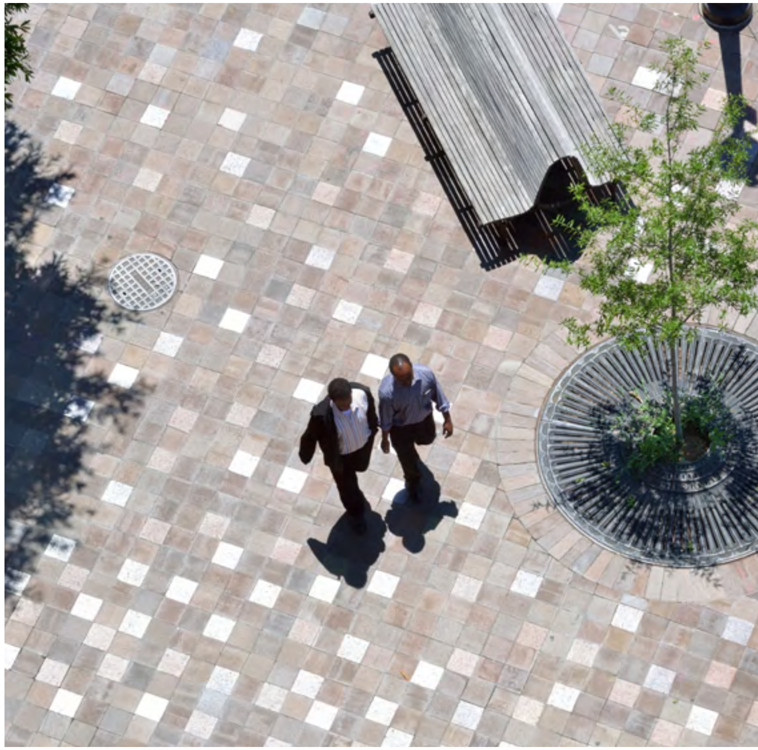
iv. In case of audited financial reports, the audit report to be given by the auditors

v. The financial results published in the newspapers in terms of Regulation 47(1)(b) of LODR Regulations, 2015.

Reserve Bank of India (RBI)

Schemes for Stressed Assets—Revisions

RBI has revised the guidelines relating to Schemes for Stressed Assets. The changes have been carried out with the objective of harmonisation of the stand-still clause as applicable in the case of the Strategic Debt Restructuring Scheme with other guidelines, clarifying on the deemed date of commencement of commercial operations and partial modification of certain guidelines based on the experience gained in using these tools in resolving the stressed assets as well as feedback received from stakeholders, and taking into consideration the requirements of the construction sector. All other provisions of the respective schemes remain unchanged.



Scheme for Sustainable Structuring of Stressed Assets—-Revisions

RBI had proposed to allow the portion of debt determined to be sustainable (under the Scheme for Sustainable Structuring of Stressed Assets) to be treated as a 'Standard' asset in all cases, subject to certain conditions. Accordingly, the Scheme for Sustainable Structuring of Stressed Assets has been partially modified. All other provisions of the Scheme remain unchanged.

Guidelines for computing exposure for counterparty credit risk arising from derivative transactions

RBI has issued guidelines for computing exposure for counterparty credit risk arising from derivative transactions. These guidelines contain the revised method which will replace the Current Exposure Method (CEM), being used by banks at present, for measuring exposure for counterparty credit risk arising from derivative transactions. These guidelines will be implemented from 1 April 2018.

Large Exposures Framework

The RBI has issued final guidelines on Large Exposures Framework (LEF). All aspects of the LEF must be implemented in full by 1 April 2019 and the extant exposure norms applicable to single/ group of connected counterparties will no longer be applicable from that date.

Institute of Chartered Accountants of India (ICAI)

Guidance Note on Accounting for Oil and Gas producing Activities (Ind AS)

ICAI has issued a Guidance Note on Accounting for Oil and Gas Producing Activities (Ind AS) for entities whose financial statements will be prepared and presented in accordance with Ind AS. The guidance note comes into effect in respect of accounting periods commencing on or after 1 April 2017 with its earlier application encouraged. The guidance note provides guidance in relation to accounting for costs incurred on activities relating to acquisition of interests in properties, exploration, development and production of oil and gas. The provisions of the guidance note are aligned with the overall framework of Ind AS.

Important announcement on Revised Effective Date of Standard on Auditing (SA) 701 and Revised SAs 700, 705, 706

The Council of ICAI at its 364th meeting held from 23–25 March 2017 decided that the effective date/applicability of the following standards on auditing:

- SA 700 (Revised), 'Forming an Opinion and Reporting on Financial Statements'
- SA 701, 'Communicating Key Audit Matters in the Independent Auditor's Report'
- SA 705 (Revised), 'Modifications to the Opinion in the Independent Auditor's Report'
- SA 706 (Revised), 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report'

be deferred by one year and consequently the standards shall now be effective/applicable for audits of financial statements for periods beginning on or after 1 April 2018 (instead of audits of financial statements for periods beginning on or after 1 April 2017).

Exposure drafts on proposed amendments to various Ind AS

The Accounting Standards Board of ICAI has issued the following exposure drafts for public comments:

- Transfers of Investment Property, amendments to Ind AS 40, *Investment property*
- Appendix B of Ind AS 21, *Foreign currency transactions and advance consideration*
- Annual improvements to Ind AS Standards 2014–2016 Cycle (amendments to Ind AS 112 and 28)

Comments can be submitted not later than 28 April 2017.

Exposure Draft of the Ind AS compliant Schedule III to the Companies Act, 2013, for Non-Banking Financial Companies (NBFCs)

The Accounting Standards Board of ICAI has issued an exposure draft of Ind AS compliant Schedule III to the Companies Act, 2013, applicable to NBFCs for public comments.

Withdrawal of AS 30 Financial Instruments: Recognition and Measurement, AS 31 Financial Instruments: Presentation and AS 32 Financial Instruments: Disclosures

The ICAI issued a Guidance Note on Accounting for Derivative Contracts, in June 2015, effective from accounting periods beginning on or after 1 April 2016; its earlier application was also encouraged. The guidance note stated that from the date it comes into effect, application of AS 30, stands withdrawn to the extent the guidance covered for accounting for derivatives is within the scope of the guidance note. Also, with the implementation of Ind AS, many companies will be preparing their financial statements as per Ind AS, which includes Ind AS on financial instruments based on current IFRS issued by the International Accounting Standards Board. In view of this, the Council of the ICAI noted that there may not be any users of AS 30, AS 31 and AS 32 and retaining these Accounting Standards will create confusion. Accordingly, the Council has decided to withdraw AS 30 *Financial Instruments: Recognition and Measurement, AS 31 Financial Instruments: Presentation and AS 32 Financial Instruments: Disclosures*. The announcement 'Application of (AS) 30, Financial Instruments: Recognition and Measurement' issued by the ICAI in March 2011 on the status of AS 30, AS 31 and AS 32 also stands withdrawn.

Guidance Note on Report Under Section 92E of the Income-tax Act, 1961 (Transfer Pricing) (Revised 2016)

The ICAI has revised the Guidance Note on Report Under section 92E of the Income-tax Act, 1961 (Transfer Pricing) based on the law as amended by the Finance Act, 2016.

Manual on Concurrent Audit of Banks (2016 edition)

The Internal Audit Standards Board of ICAI has issued a Manual on Concurrent Audit of Banks.

Guidance Note on Audit of Banks (2017 edition)

The Auditing and Assurance Standards Board of the ICAI has issued the 2017 edition of the Guidance Note on Audit of Banks.

US GAAP: Financial Accounting Standards Board (FASB)

Accounting Standards Update

FASB has issued the following Accounting Standard Updates:

Update 2017-01—Business Combinations (Topic 805): Clarifying the Definition of a Business

Update 2017-02—Not-for-Profit Entities—Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity.

Update 2017-03—Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September, 2016 and 17 November, 2016 EITF Meetings (SEC Update).

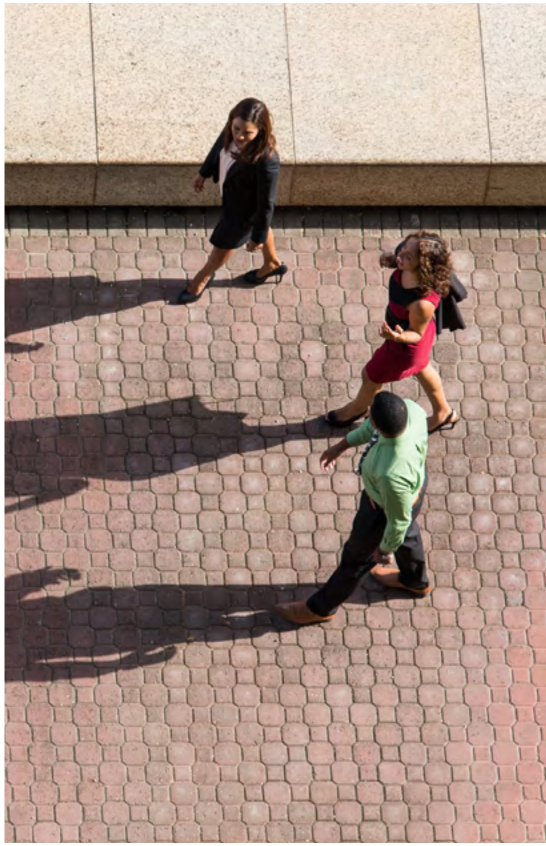
Update 2017-04—Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.

Update 2017-05—Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.

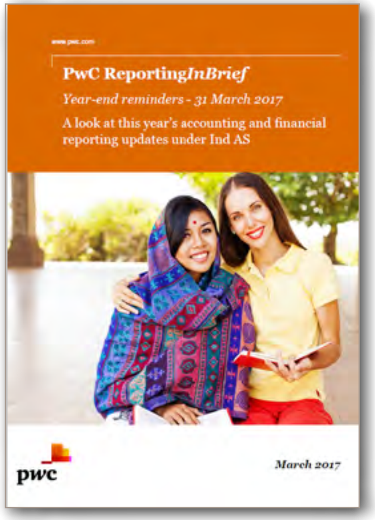
Update 2017-06—Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force).

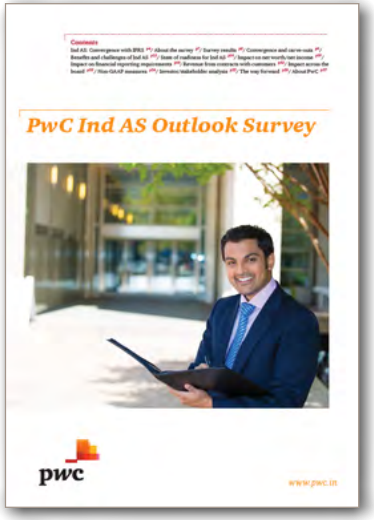
Update 2017-07 —Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

Update 2017-08—Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.



Publications





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