PwC
ReportingPerspectives

April 2019

pwc

Contents

Editorial

We are pleased to bring you the 18th edition of our quarterly newsletter covering the latest developments in financial reporting as well as other regulatory updates.

Ind AS 116, 'Leases', effective from accounting periods beginning on or after 1 April 2019, will impact accounting and financial reporting for entities in the pharmaceutical and life sciences (PLS) industry in many areas. This edition highlights key considerations regarding evaluation of contract manufacturing arrangements for potential embedded leases.

The software industry is one of the industries that is significantly affected by the adoption of Ind AS 115, 'Revenue from Contacts with Customers'. We will provide our insights on some of the key judgements involved in application of Ind AS 115 in the software industry.

We will also discuss key updates to the Guidance Note on Reports in Company Prospectuses (Revised 2019) issued by the Institute Chartered Accountants of India (ICAI) and the clarifications issued by the Ind AS Technical Facilitation Group (ITFG) in its bulletin 18.

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

We hope you find this newsletter informative and of continuing interest to you.

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

Ind AS 116: Does your contract manufacturing arrangement contain an embedded lease?

At a glance

Ind AS 116, effective from accounting periods beginning on or after 1 April 2019, will impact accounting and financial reporting of entities in the pharmaceutical and life sciences (PLS) industry in many areas. This article highlights key considerations regarding the evaluation of contract manufacturing arrangements for potential embedded leases. The new leases standard requires lessees to record an asset and a liability on the balance sheet for nearly all leases. This requirement also applies to any leases embedded in other arrangements. To identify embedded leases, companies will need to consider arrangements not typically thought of as leases, including supply contracts, data centre agreements, outsourcing contracts and contract manufacturing arrangements.

This article focuses on the latter as an example of an arrangement that might contain an embedded lease. Determining whether an arrangement contains an embedded lease often requires a detailed analysis involving significant judgement.

What is the issue?

Contract manufacturing agreements can take many different forms. Generally, these agreements are structured such that a pharmaceutical company (Pharma) outsources manufacturing of product to a contract manufacturing organisation (CMO). The general rule under the new leases standard is that an arrangement contains a lease if (1) there is an explicitly or implicitly identified asset in the contract, and (2) the customer controls the identified asset over the period of its use.

1. Identified asset

Contract manufacturing agreements can have tangible assets that are explicitly specified in the contract, e.g. machinery, production lines, and/or dedicated space in a facility. Even where no asset is explicitly specified in a contract, a tangible asset may be implicitly specified at the time when the asset (such as a machine or production line) is made available for use, provided that no alternative assets exist for the supplier to fulfil its obligations under the contract. If an asset is explicitly or implicitly identified, the existence of substitution rights by the supplier needs to be evaluated. Where such rights are substantive, despite the existence of a specified asset, the customer will not have the right to use an identified asset, and thus, a lease would not exist. A supplier's right to substitute an asset is considered substantive only if both the following conditions exist: (1) the supplier has the practical ability to substitute alternative assets throughout the period of use; and (2) the supplier would benefit economically by exercise of its right to substitute the asset. This assessment is completed at the inception of an arrangement, based on facts and circumstances that exist as of that date.

The following factors are examples that may indicate that an arrangement does not contain a substantive substitution right and therefore includes the use of an identified asset:

- A contractual arrangement prevents the CMO from substituting an identified asset.
- A contractual arrangement allows the CMO to substitute the identified asset. However, designed aspects of the production line are highly specialised for Pharma's product.
- Alternative machines or production lines are not readily available to the supplier, or cannot be sourced by another entity within a reasonable period of time and without incurring costs that exceed the related benefits from substitution.
- The cost for relocating the manufacturing process to a different production line or machine exceeds the related benefits. This may be the case, for example, where the manufacturing process is highly specialised, complicated or temperature controlled. Pharma should carefully assess each contract manufacturing agreement for these and similar terms. A supplier's ability to use alternative assets temporarily, while it repairs or upgrades a production line, does not represent a substantive substitution right.

Where Pharma is unable to readily determine whether there is a substantive substitution right, it is presumed that no substitution right exists.

2. Right to control the use of an identified asset over the period of its use

If Pharma concludes that the arrangement implicitly or explicitly identifies an asset, it must then evaluate whether it controls the use of that asset throughout the period of its use. Pharma should assess whether, throughout the period of its use, it has (1) the right to obtain substantially all the economic benefits from use of the identified assets and (2) the right to direct the use of the identified asset. Both criteria must be met for an arrangement to contain a lease. The following are among the factors that should be considered to determine whether Pharma controls an asset:

- The frequency and timing of purchase orders generated: Where this substantially determines whether and when the related machine or production line produces output, this might indicate that the customer (Pharma) effectively has the right to direct the use of the related identified assets.
- Pharma's role in the operating decisions. If Pharma can dictate specific operating instructions or must approve operating decisions, this may be an indicator that the customer has the right to direct the use of the asset.
- Whether the CMO has the right and ability to sell the product to another customer: If the CMO can sell the product to anyone other than to Pharma (for example, to a collaborative partner), this may be an indication that the CMO (and not Pharma) has the right to direct the use of the asset.

Lease arrangements that contain variable payments

Once a lease (including embedded leases) has been identified, accounting is affected by whether the payments are fixed or variable. Fixed payments required under the lease can be in many forms, such as fixed annual payments or fixed monthly payments, to guarantee capacity (often described as 'capacity fees' in lease arrangements). Companies will need to carefully review their lease agreements to ensure that all fixed payments have been identified by them. Variable lease payments are payments made by a lessee to a lessor for the right to use an underlying asset that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time. Any payments that vary based on an index or a rate should initially be measured by using the index or rate at the commencement date. Other variable lease payments do not impact the initial accounting for a lease (unless these payments are in-substance fixed lease payments). This means that they are not included in the value of the initial lease liability and the right-of-use (ROU) asset recorded at the inception of a lease.

Example #1:

Facts: Customer A enters an arrangement with a CMO to produce medical equipment and disposables (the Products) that customer A then sells to outside customers. The CMO has multiple production lines that it uses to fulfil orders for multiple customers. The arrangement allows the CMO to select the production line used to fulfil customer A's orders. Even after the production of the products commences on a product line, a CMO can easily change to a different production line, with minimal transfer costs, because other production lines are available. Customer A submits legally binding purchase orders quarterly to the CMO, and it is contractually required to provide an annual non-binding production forecast. The products are generic and can easily be stored, and the CMO has full discretion over the operating process, including the selection of materials to use in production.

Question: Does this arrangement contain a lease?

Discussion: This arrangement is not likely to contain a lease under Ind AS 116. While the use of an asset (the production line) is implicit in the contract, it is likely that there is no identified asset, because substantive substitution rights exist (assuming that the CMO can benefit from the substitution). Even if there was no substantive substitution, it is likely that there is no lease, because the CMO has the right to change the operating process and decide when the output is to be produced.

Example #2:

Facts: Assume the same facts as in Example#1, except that there is a dedicated production line for the products. The CMO is contractually unable to use any other production line, the products are highly specialised, and purchase orders are very frequent and effectively determine whether, when and how much output is produced. In addition, key operating decisions are standardised and any changes in the operating procedures are subject to approval by customer A.

Question: Does this arrangement contain a lease?

Discussion: This arrangement is likely to contain a lease under Ind AS 116. An identified asset is explicit in the contract (the production line), and there are no substitution rights. There is a dedicated production line, and customer A appears to effectively control the decision-making rights over its use, because customer A's purchase orders effectively determine whether, when and how much output is produced by the dedicated production line. The CMO does not have the right to change operating instructions, including types of materials or components, the overall production process and other decisions related to the output, without prior authorisation by customer A. Customer A also has substantially all of the economic benefits from use of the production line.

Provision	Type of payment	Impact
Per unit price defined but no contract minimum	Variable payments	Excluded from the initial measurement of lease liability and ROU asset, but disclosed
Per unit price defined with contract minimum	Minimum payments are fixed	Minimum payment allocated to lease component is included in initial measurement of lease liability and ROU asset; anything above the minimum payment allocated to the lease component to be disclosed

Example #3:

Facts: Pharma enters a two-year contract manufacturing agreement with Supplier, a CMO, to manufacture a drug. Pharma has concluded that it has an embedded lease for the production line. Pharma pays Supplier a fee for each batch of the drug produced. The contract specifies the minimum monthly volume of the drug that needs to be purchased by Pharma according to the contract. The specified volume cannot be changed by Pharma during the term of the arrangement.

Question: How should Pharma account for this embedded lease under Ind AS 116?

Discussion: Pharma needs to purchase minimum volumes throughout the two-year period of use. As a result, although the total consideration is variable, the minimum volumes establish a fixed minimum consideration. First (assuming that Pharma has not elected to account for non-lease components as part of the lease component), Pharma should allocate the fixed consideration between the leased production line (lease component) and drug product (non-lease component), based on their relative standalone price at commencement of the lease. Thereafter, Pharma will record an ROU asset and a lease liability on its balance sheet at the present value of the amount allocated to the lease.

Example #4:

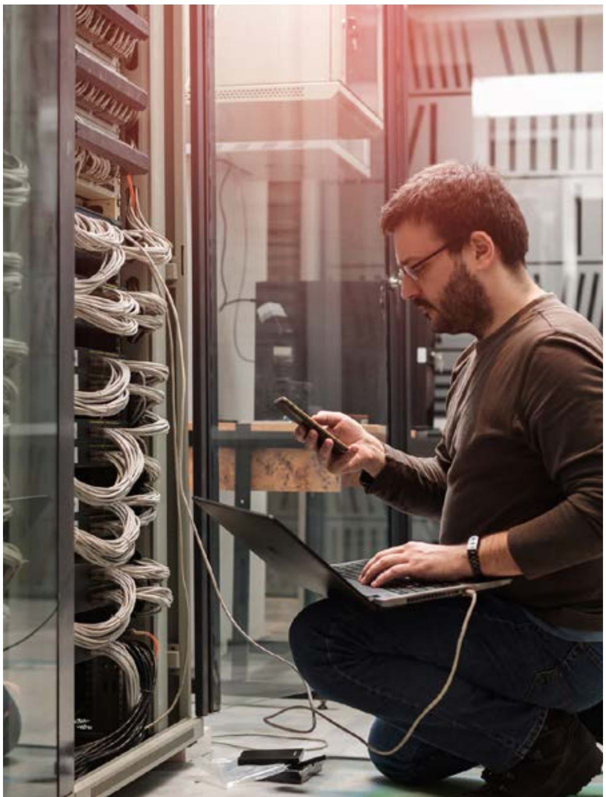
Facts: Assume the same facts as in Example #3, except that the contract has no minimum monthly volume.

Question: How should Pharma account for this embedded lease under Ind AS 116?

Discussion: While this contract manufacturing agreement contains an embedded lease, the consideration is 100% variable. Because variable consideration is excluded from the value of the initial ROU asset and lease liability, there will be no initial lease liability for this agreement. Instead, Pharma will record a variable lease expense for the embedded lease component over the two-year period. Under the new leases standard, Pharma can elect not to separate lease components from non-lease components, and, instead, to treat the entire drug product cost as lease expense when the drug is produced or delivered.

Key takeaway

Ind AS 116, will fundamentally change accounting for lease transactions of lessees and is likely to have significant business-related implications. Lease accounting guidance applies to any arrangement that provides control over an identified asset to another party. Entities in the PLS industry often enter arrangements that may contain embedded leases. Under the current lessee guidance, i.e. Ind AS 17, ‘Lease’, embedded leases may often be off-balance sheet operating leases, and as such, application of lease accounting may not have had a material impact on the statement of profit and loss. Determining whether to apply lease accounting to an arrangement under Ind AS 116 is likely to be far more important, since virtually all leases will result in recognition of a right-of-use asset and lease liability.



Impact of Ind AS 115 on the software industry

At a glance

The software industry is one of the industries more significantly affected by adoption of Ind AS 115. This is because current guidance under Ind AS 18, 'Revenue', in particular for licence revenue, is limited.

Even if there is no significant change in the pattern of revenue recognition, management will need to make a number of new judgements and estimates under Ind AS 115.

This article provides additional insight into some of the key judgements involved in application of Ind AS 115 in the software industry.

Judgements and estimates

Determining whether a licence is distinct

Software licences are commonly sold in a bundle that includes updates, also known as post-contract customer support (PCS). It is common that a software is a distinct 'right to use' licence, with revenue recognised at the point in time when it is transferred, while PCS is delivered over time. However, there may be limited circumstances where the licence and updates are combined into a single performance obligation. The determination of whether licence and updates are separate performance obligations requires judgement. It is common for updates to improve the effectiveness of software. However, for the updates to be combined with the licence, they should fundamentally change the functionality of the software or be essential to its functionality. A combination of a number of factors should be considered, including:

- Nature of software: Software that can function on its own without updates is likely a performance obligation that is separate from the updates. There may be limited cases where updates are essential to the customer's ability to benefit from the licence because of the function of the software or the industry in which it operates.

- Significance of updates: Updates that change the functionality of the software may indicate that such updates significantly modify a licence. This may be the case for any significant update to the software, but this factor should be considered, along with the other indicators about the nature or frequency of the updates, to determine whether such an update is essential to the functionality of the software.

- Frequency and acceptance of updates: Frequent updates may indicate that these are essential to the operation of the software. (However, management should consider not only the frequency but also whether the customers accept the updates.) Updates that are made available but not used may indicate that the software is functional without updates.

If a licence and updates are combined, the outcome is generally a performance obligation that is delivered over time. There may be other performance obligations included as part the PCS package that require separate identification. However, these are often delivered over time and over a similar period as the combined service of the software and updates, and in practice, any allocation of the transaction price may not have a significant effect on the timing and amount of revenue recognised.

Facts: Software Co. has entered a contract with a customer for a time-based software license, unspecified software updates and technical support for two years. The vendor frequently provides updates that are critical for the continued utility of the software, such that the updates significantly modify the functionality of the software, and without the updates, the customer's ability to benefit from the software declines significantly.

Is the software license distinct from the updates? Is the technical support distinct?

Analysis: Software Co. concludes that the software and the updates are not distinct from each other, but are distinct from technical support . Although the license and updates are capable of being distinct, the updates significantly modify the functionality of the software and are integral to maintaining the utility of the software.

As a result, Software Co. would recognize revenue for the combined license and updates service over time by using an appropriate measure of progress that reflects transfer of control of the combined promise.

The measures of progress may include time-based measures or measures based on the costs of delivering the updates, amongst others. The technical support provided will also be recognised over time, which may or may not have the same measure of progress.

Although the updates are critical in this example, we expect that in many arrangements they will not be critical to maintaining the ongoing utility of a software.

Set-up and integration activities

Arrangements involving software often include a promise to provide implementation support, such as data conversion, software design or development, and customisation. Entities need to apply judgement to determine whether such activities are accounted for as a separate performance obligation and when revenue should be recognised (at a point in time when the service is complete or over time as the service is performed).

Software as a Service (SaaS) arrangements also often include implementation services. It may be more challenging to conclude that the customer is receiving a separate service in the context of an SaaS arrangement. The service often involves configuring the customer's system to interact with the vendor's software to enable it to provide the service. It is difficult to demonstrate that the customer receives and consumes the service in connection with that implementation, given that the customer never takes control of the vendor's software. This could be an indication that the vendor's activities do not transfer anything to the customer, and so they do not represent a separate performance obligation. However, there may be circumstances in which implementation activities provide a separate benefit to the customer, which can be used with another product or service (such as software provided by another supplier), in which case they do represent a separate performance obligation.

Facts: Software Co. licenses enterprise resource planning (ERP) software to its customer. Software Co. also agrees to provide implementation support by performing set-up activities for the customer. The customer can use Software Co. or another service provider for implementation services. The implementation services do not significantly customise or modify the software.

How many performance obligations are in the arrangement?

Analysis: The license to the ERP software and implementation services are separate performance obligations. The customer can benefit from the ERP software on its own or together with readily available resources because the customer has the ability to obtain the implementation services from another vendor. Further, the promise to deliver the license is separately identifiable from the promise to provide implementation services because implementation services do not significantly customise or modify the software.

Estimating standalone selling price

In software arrangements, entities will often provide multiple distinct goods and services (for example, licences and updates) together as a single package, and they will need to allocate the transaction price based on the relative standalone selling prices of these distinct goods and services. In many cases, the standalone selling price will not be directly observable, and so it must be estimated. Ind AS 115 does not prescribe a specific method to estimate, but the allocation should faithfully represent the price if the items were sold separately.

The most appropriate approach to estimating standalone prices depends on facts and circumstances, including the extent of the observable selling-price information. We believe that it is acceptable to use a range of prices when determining standalone selling prices, provided the range reflects the reasonable pricing of each item as if it were priced on a standalone basis for similar customers.

It is common for entities to only sell software and PCS as a package or to only sell maintenance separately as a renewal. Ind AS 115 only permits the use of a residual approach in limited circumstances. An entity may use the renewal price to determine the amount to be allocated to the software if certain criteria are met and the outcome faithfully represents the price if the software was sold separately. For example, let us assume that an entity sells licensed software and maintenance to a customer for INR 1.1 million, and it regularly sells PCS for INR 1 million and licenses software on a standalone basis for between INR 0.5 million and INR 5 million. It would not be appropriate to apply the residual approach and allocate INR 0.1 million to the software. This is because the residual approach results in nominal allocation of the selling price to the software licence, which does not faithfully reflect the standalone selling price.

Contract term and termination penalties

The contract term is the period during which the parties to the contract have present and enforceable rights and obligations. Determining the contract term could significantly affect accounting for software transferred at the beginning of the licence. This is because the portion of revenue allocated to the licence for the entire contractual term is recognised when the licence is transferred to the customer. If the contract term is shorter, it will decrease the amount of revenue recognised upfront.

Entities need to consider termination clauses when assessing their contract term. If an entity enters a contract for several years, but the contract can be terminated early for no compensation, the contract may, in substance, be a shorter term contract with a right to renewal. Management should assess the renewal option to determine if it provides a material right similar to other types of customer options. An option is a separate performance obligation if it provides a material right to the customer that the customer will not receive without entering the original contract. For example, an option to renew a contract at a discounted price may be a material right if the discount is incremental to the range of discounts typically given to other customers.

In contrast, a contract that can be terminated early, but requires payment of a substantive termination penalty, is likely to have a contract term equal to the stated term.

We believe that termination penalties could take various forms, including cash payments (which may be paid upfront) or the transfer of an asset to the vendor. Judgement should be applied in determining whether a termination penalty is substantive. A payment need not be labelled a 'termination penalty' for it to create enforceable rights and obligations. A substantive termination penalty may exist if a customer gives up, with no right to a refund, the rights to a licence that it has already paid a significant upfront fee to obtain.

Facts: On 1 April 20X8, Software Co. enters an agreement to provide a customer a term license and PCS for three years for an upfront, non-refundable fee of INR 350,000. The customer has the option to extend the term of the license and renew PCS for an additional three years for a fee of INR 300,000. The rest of the terms and conditions of the original agreement remain unchanged.

Software Co. typically increases its prices by 5% each year, and the renewal price is lower than the standalone selling price for similar customers.

How should the software vendor account for the renewal option?

Analysis: The renewal option provides a material right to the customer as it will be charged a lower price for the software license and PCS than similar customers if the agreement is renewed. Software Co. will account for the option as a separate performance obligation and allocate a portion of the INR 350,000 transaction price to the renewal right, based on its standalone selling price. However, as a practical alternative to estimating the standalone selling price of the option, Software Co. may determine the total consideration it expects to receive (including renewals) and allocate the estimated consideration to the goods and services it expects to provide.

Distinguishing usage-based royalties from additional rights

Many software licence arrangements include a variable fee that is linked to usage of the software. Entities need to distinguish between fees representing usage-based royalty (a form of variable consideration) and an option to acquire additional goods or services. Usage-based royalty is recognised when usage occurs or the performance obligation is satisfied, whichever is later. Fees received when an option to acquire additional rights is exercised are recognised when the additional rights are transferred; however, at contract inception, management would need to assess whether the option provides a material right. If it does, revenue might be recognised later, because a portion of the transaction price is allocated to the option and deferred until the option is exercised or expires.

Judgement might be required to distinguish between a usage-based royalty and an option to acquire additional goods or services. If a licensor is entitled to additional consideration based on the usage of software to which the customer already has rights, without providing any additional or incremental rights, the fee is generally a usage-based royalty. In contrast, if a licensor provides, for an incremental fee, additional or incremental rights that the customer did not previously control, the customer is likely exercising an option to acquire additional rights.

Capitalising and amortising commissions

Ind AS 115 requires entities to capitalise incremental costs of obtaining a contract (for example, sales commissions) in most situations. The asset is both assessed for impairment and amortised on a systematic basis that is consistent with transfer of the related services. Determining the amortisation period can be complex, because it does not necessarily reflect the length of the contract period. In particular, where there are anticipated renewals, the amortisation period should include anticipated renewals, unless the entity also incurs a commensurate cost for renewals.

Assessing whether costs incurred for contract renewals are 'commensurate with' costs incurred for the initial contract could require judgement. The assessment should not be based on the level of effort required to obtain the initial and renewal contracts. Instead, it should generally be based on whether the initial and renewal commissions are reasonably proportional to the respective contract values.

Where renewal commissions are paid but are not commensurate with the initial commissions, the initial commission should be amortised over a period longer than the initial contract term. An entity may amortise the initial commission over the average customer life and expense renewal commissions as incurred. It also might split the initial commission into two components: one reflecting an amount commensurate with the renewal commission, and the remainder treated as an upfront commission that is amortised over the estimated customer life. Other approaches may also be acceptable if they are consistent with the pattern of transfer of the services related to the asset. For example, where there is a term licence, and a large proportion of the revenue is recognised upfront, it may be appropriate to recognise a similar proportion of commission upfront.

Facts: A sales employee is paid a INR 500 commission for each initial annual SaaS contract obtained with a customer and INR 250 for each annual renewal. The services provided under the initial and renewal contracts are substantially the same. The company expects the customer to renew the contract. The average customer life is five years.

What is the amortisation period for the initial commission and renewal commission?

Analysis: Since the renewal commission is not commensurate with the initial commission, the initial commission should be amortised over a period longer than the initial contract term. The average customer life of five years could be a reasonable amortisation period in this example. The asset should be amortised on a systematic basis that is consistent with the transfer of the related services. To comply with this objective, the company could amortise the initial INR 500 commission over the average customer life of five years, or it could separate the initial commission of INR500 into two components and amortise INR 250 over the initial annual contract term and the remaining INR 250 over five years.

Determining the contract

The previous revenue guidance under Ind AS 18 did not provide explicit guidance on identifying a contract, but this is an important step in applying Ind AS 115. This might cause an entity to change the way that it thinks about contracting. A contract can be written, oral or implied by an entity's customary business practices. Generally, any agreement that creates legally enforceable rights and obligations meets the definition of a contract. Sometimes, the parties will enter into amendments or 'side agreements' to a contract that either change the terms (for example, contract term) of, or add to, the rights and obligations of that contract (for example, providing customers with options or discounts), or change the substance of the arrangement. All these have implications for recognition of revenue, and therefore, understanding the entire contract, including any amendments, is critical for the accounting conclusion.

Principal versus agent

It is common for software entities to enter arrangements that involve two or more unrelated parties that contribute to providing a specified good or service to a customer. For example, software entities may sell third party software, hardware or services in addition to their own products and services. Management needs to determine whether the entity is a principal or agent separately for each specified good or service promised to a customer. This will determine whether or not revenue is presented gross (when acting as a principal) or presented net (when acting as an agent).

Disclosures

In software arrangements, there can often be contract deliverables that are not yet billed (for example, future maintenance periods). Ind AS 115 requires these to be disclosed, in addition to an explanation of what comprises accrued and deferred revenue (contract liabilities and contract assets) and over what period the services have been or will be performed. The standard also requires an entity to disclose reconciliation of the amount of revenue recognised in its statement of profit and loss with the contracted price separately showing each of the adjustments made to the contract price, for example, on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc., specifying the nature and amount of each such adjustment separately.

Ind AS 1, 'Presentation of Financial Statements' requires entities to disclose certain information about significant judgements and estimates. Management may conclude that the judgements and estimates made in application of Ind AS 115 result in similar accounting to previous GAAP, but the thought process is likely to be different. This may mean that the judgements and estimates disclosed are different. It is important that entities update their accounting policies and disclosures on significant judgements and estimates to reflect the application of Ind AS 115.

Ind AS 115 also requires a number of new disclosures, relating to significant judgements that are applied, which supplement Ind AS 1. These include disclosing judgements made in applying the standard, which significantly affects the determination of the amount and timing of revenue from contracts with customers, in particular when performance obligations are satisfied as well as the transaction price and its allocation to performance obligations.

Key takeaway

As discussed above, accounting for software products and services is expected to be one of the areas most impacted by Ind AS 115, since it involves use of significant management judgement and estimates. Therefore, entities in the software industry need to carefully evaluate the terms of their contracts to determine the appropriate accounting treatment under Ind AS 115.

Guidance note on reports in companies' prospectuses (revised 2019)

At a glance

The Securities and Exchange Board of India (SEBI) notified the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR 2018) on 11 September 2018. The ICDR Regulations are effective from 10 November 2018 and have brought in significant changes to the decade-old SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR 2009).

Considering the changes brought in by ICDR 2018, ICAI has also updated its Guidance Note on Reports in Company Prospectuses (Revised 2019) (GN) which superseded the earlier Guidance Note on Reports in Company Prospectuses (Revised 2016). The updated GN is harmonised with the ICDR Regulations, amendments in the Companies Act, 2013 (the Act) and Ind AS.

The GN will be applicable in relation to initial offer documents and related subsequent filings which are filed on or after 21 January 2019.

In this article, we provide an overview of the key amendments to ICDR 2018 and discuss the key updates to the GN.

Overview of the key amendments in ICDR 2018

No.	Area	Nature of amendments
1	Financial information disclosure in offer documents	• Financial information disclosures in offer documents are to be made for three years as against five years earlier. The financial information will be disclosed on a consolidated basis only. • The audited standalone financial statement of the issuer and all its material subsidiaries to be disclosed on the issuer's website. The relevant link should be specified in the offer document.
2	Eligibility criteria for Initial Public Offering (IPO)	• The net tangible assets and net worth requirements of INR three crores and INR one crore, respectively, should be calculated on the basis of restated consolidated financial information. • Also, the requirement of an average operating profit of INR15 crores should be computed, based on the results of the preceding three years and not on the three most profitable years of the immediately preceding five years. • ICDR 2009 stipulated that an issuer may make an IPO only if the aggregate of the proposed issue and all previous issues made in the same financial year in terms of issue size does not exceed five times its pre-issue net worth as per the audited balance sheet of the preceding financial year. This requirement has now been removed.
3	Definitions	• The definition of 'promoter' has been made consistent with the Act. • The definition of 'relative' has been added, which is consistent with the Act. • ICDR 2018 requires the issuer company to disclose certain financial information of group companies in the offer document. The definition of group companies has been made more specific by clarifying that group company/ies will include such company/ies (other than promoter(s) and subsidiary/subsidiaries) with which there were related party transactions during the period for which financial information is disclosed (three years), as covered under the applicable accounting standards, as well as other companies considered material by the board of the issuer.
4	Promoter group	ICDR 2009 specified certain disclosure requirements for the promoter group that needs to be incorporated in the offer documents. The shareholding threshold for identifying a promoter group for the disclosures in the offer document has been now revised from 10% to 20%.
5	Minimum promoters' contribution	• A shortfall of up to 10% of the minimum promoter's contribution can now be met by institutional investors (foreign venture capital investor, scheduled commercial banks, public financial institution, alternative investment funds and registered insurance companies) without being identified as promoters. • Contributions received from such institutional investors will be locked in for a period of three years from the date of commencement of commercial production or the date of allotment in the IPO, whichever is later.
6	Price band	Where the issuer opts not to make the disclosure of the floor price or price band in the red herring prospectus, the issuer should announce the floor price or the price band at least two working days (earlier five working days) before the opening of the issue in the same newspapers in which the pre-issue advertisement was published.
7	Issue made through the book building process	The unsubscribed portion in the categories 'retail individual investors' and 'non-institutional investors' may be allocated to applicants in any other category.
8	Oversubscription	An allotment of not more than 1% (earlier 10%) of the net offer to public may be made for the purpose of making allotment in minimum lots.

Key accounting updates to the GN

Financial Reporting	Restatement Adjustments	a	Modifications in auditor's report	• Financial information in the offer document will be adjusted for all incorrect accounting practices or failure to make provisions or other adjustments, which resulted in a qualified opinion, an adverse opinion or disclaimer of opinion. • If the qualification cannot be quantified or estimated, appropriate disclosure should be made in the notes to the financial information, explaining why the qualification cannot be quantified or estimated.
		b	Other adjustments	• Financial information should be adjusted for significant errors, non-provisions, regrouping and other adjustments, if any, relating to previous years. The adjustment should be in the corresponding period while arriving at the profits or losses for the years to which they relate. • Changes in estimates, if any, need not be restated, as they are events of that corresponding year. • In the case of a merger or similar transactions, the issuer company should continue to account for such transactions in the restated financial information as accounted in its annual statutory financial statements.
		c	Accounting policy changes	The financial information (including for the stub period, if applicable) should be restated to ensure consistency of the presentation, disclosures and accounting policies for all the periods presented, in line with that of the latest financial year or stub period presented.
	Disclosures	d	Reconciliations	The restated financial information should present a reconciliation explaining the differences between: i. the total equity as per the audited financial statements and total equity as per the restated financial information presented in a columnar format and ii. the profit/(loss) after tax or total comprehensive income for the year as per audited financial statements and profit/(loss) after tax or total comprehensive income as per the restated financial information presented in a columnar format.
		e	Related party transactions	• ICDR 2018 requires that a list of the related parties and all related party transactions of the consolidated entities (whether eliminated on consolidation or not), which require disclosure under Ind AS 24/AS 18, 'Related Party Disclosures' and/or are covered under section 188(2) of the Act, as disclosed in the separate financial statements of the consolidated entities, should be disclosed in the restated financial information. • ICDR 2018 further states that all funding arrangements including inter-se guarantees among the entities consolidated, except the contribution to equity share capital, should be disclosed. The important terms and conditions of the funding arrangement and fund transfer restrictions, if any, should be disclosed in the restated financial information. • Generally, in consolidated financial statements, transactions that are eliminated at the time of consolidation are not disclosed in related party disclosures. However, considering the requirements of ICDR 2018, all such eliminated transactions should be included as an additional disclosure in the restated financial information.

Other financial information to be disclosed in offer document :

- Accounting ratios such as earnings per share (basic and diluted), return on net worth, net asset value per share and earnings before interest, taxes, depreciation and amortization (EBITDA) should be disclosed in the offer document and reconciled with the line items used in the restated financial information. Non-GAAP measures should be defined appropriately in offer document.
- A capitalisation statement showing total borrowings, total equity, total capital and non-current borrowings / total equity ratio before and after the issue is made should be incorporated in the offer document. The statement should prepared on the basis of the restated financial information for the latest financial year (or when applicable) at the end of the stub period.

Q&A

Question 1: If the issuer company has already filed its DRHP/RHP in accordance with ICDR 2009, can it continue to follow ICDR 2009 after 10 November 2018?

Response: In such situations, the issuer company may file the RHP/Prospectus in accordance with ICDR 2009, to ensure consistency in the RHP/Prospectus. Additionally, the statutory auditor may issue reports in accordance with the Guidance Note on Reports in Company Prospectuses (Revised 2016) as followed during previous filings.

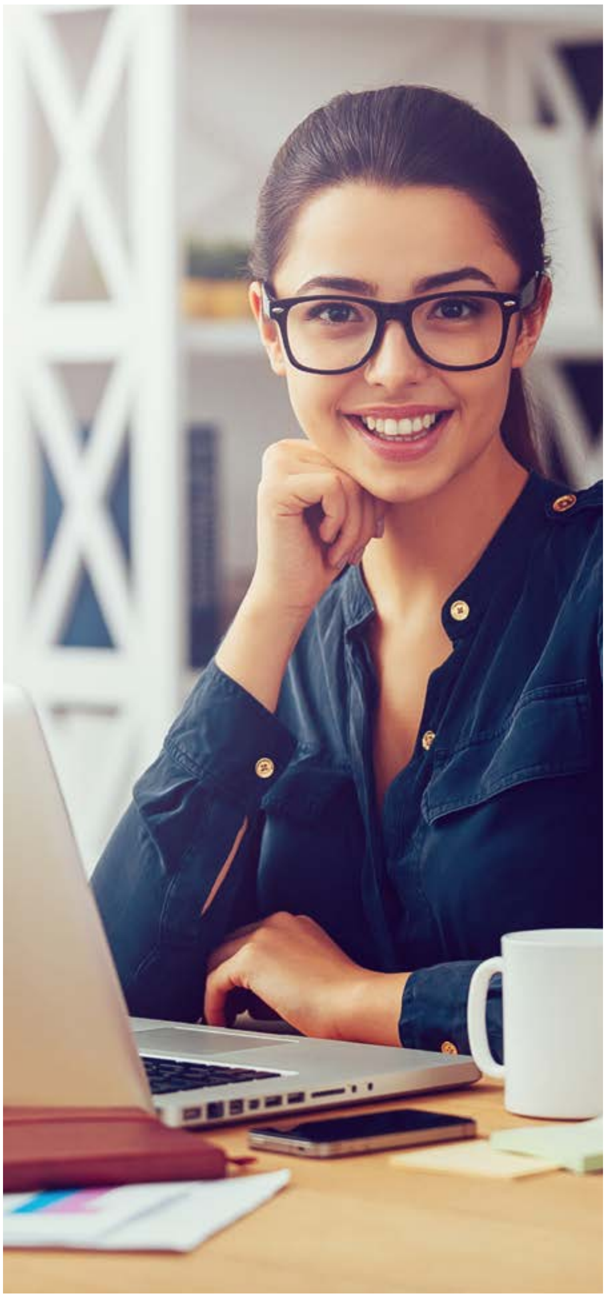
Question 2: The ICDR 2018 requires the issuer company to present restated consolidated financial information. In this case, is the issuer company required to prepare restated standalone financial information?

Response: Although ICDR 2018 requires issuer companies to only present restated consolidated financial information in their offer documents, they should prepare special purpose restated standalone financial information as well to enable them to prepare restated consolidated financial information. Also, their branches, subsidiaries, associates, joint ventures and joint operations should prepare special purpose financial information, which will be used to prepare restated consolidated financial information. The respective auditors should also report on such standalone and components' special purpose restated financial information. In this case, the principal auditor should use the requirements of Standard on Auditing (SA) 600, 'Using the Work of Another Auditor', for relying on reporting done by components' auditors.

Question 3: An entity with a March year end has applied the modified retrospective approach of transition to Ind AS 115, 'Revenue from Contracts with Customers'. How should the impact of adoption of the new revenue standard be presented in the restated financial information?

Response: Adoption of Ind AS 115 is a change in accounting policy. Ind AS 115 permits an entity to apply modified retrospective approach wherein the comparatives are not adjusted and impact of adoption of Ind AS 115 is given to the opening equity as at the date of initial application (i.e. 1 April 2018 for entities with March 2019 year-end) in the annual financial statements. As per the requirements of ICDR 2018, a change in accounting policy would have to be applied throughout the period covered for the preparation of restated financial information. Accordingly, comparative information in the restated financial information shall be restated as if Ind AS 115 was applicable in each of these years.

In such a situation, there may be a possibility where restated equity balance as at the balance sheet date immediately prior to the date of adoption of Ind AS 115 (i.e. March 31, 2018) compared to the opening equity balance (as at April 1, 2018) of the annual statutory financial statements may be different due to applying transition provisions at different dates. In such case, the closing equity balance as at March 31, 2018 of the restated financial information should not be carried forward to opening equity balance as at transition date (i.e. April 1, 2018) used for adopting modified approach for annual statutory financial statement reporting purpose. However, an entity should provide appropriate disclosures in the offer document to explain the differences between the two. It should be noted that, if for any of these years, the change is not quantifiable, appropriate disclosure should be made in the notes to the restated financial information, explaining why the impact due to change in accounting policies cannot be quantified or estimated.



Question 4: Can the foreign entity consolidated in the restated consolidated financial information of the issuer company get its financial statement audited in accordance with International Standards on Auditing (ISA) or other similar standards, if local regulations of that foreign entity does not mandate the audit?

Response: The ICDR 2018 requires that the financial statements of foreign entities (consolidated) may be audited as per the requirements of the local regulation applicable in their jurisdictions. However, in cases where the local regulation does not mandate audit, financial statements should be audited as per the auditing standards / requirements applicable in India (Indian GAAS).

It is recommended that if the auditor is not conversant with Indian Generally Accepted Auditing Standards (GAAS), audit should be performed as per the GAAS of that jurisdiction if it is similar to Indian GAAS. If there are differences between Indian GAAS and the GAAS of a jurisdiction, the auditor of the holding company in India should have a discussion with the management of the holding company and follow the principles of the Guidance Note on Audit of Consolidated Financial Statements and SA 600.

Question 5: Should the financial information of material businesses or entities to be acquired from the proceeds be provided as per audited financial statements or restated financial information?

Response: ICDR 2018 requires that if the proceeds, fully or partly, directly or indirectly, are to be used for acquisition of one or more material businesses or entities, the audited statements of balance sheets, profit and loss and cash flows for the latest three financial years and stub period (if available), prepared as per the framework applicable to the business or subsidiary proposed to be acquired, should be included in the draft offer document or offer document.

The issuer company should present only audited statements of balance sheets, statement of profit and loss and statement of cash flows, which can be extracted from the financial statements audited for statutory purposes or otherwise. The issuer company may voluntarily present a complete set of audited financial statements of such businesses or entities for the benefit of readers.

Also, if the audited statements are not available for the stub period, the issuer company may not provide such information for stub period even if the latest full financial year included in the offer document is older than six months from the date of filing of the draft offer document/ offer document. However, it is recommended to provide the above mentioned statements for stub period as well for the benefit of readers.

Key takeaway

The updated GN aims to provide clarification to corporates that are planning to raise funds through the capital market and their auditors in light of the amendments brought in by ICDR 2018. The GN also provides various illustrative formats of auditors' reports, which will assist auditors in discharging their reporting obligations under ICDR 2018.

Ind AS Technical Facilitation Group (ITFG) Clarification Bulletin 18

The Ind AS Implementation group of the ICAI constituted the ITFG to address issues faced by preparers, users and other stakeholders on applicability and implementation of Ind AS. ITFG issues clarifications in the form of periodic bulletins.

This article provides an overview of the clarifications issued by the ITFG in its bulletin 18 and our insights on these clarifications and related interpretative issues.

1. Accounting for exchange differences on long-term foreign currency monetary items by a first-time adopter

Paragraph 46A of AS 11, 'The Effects of Changes in Foreign Exchange Rates', provides an irrevocable option to an entity to account for exchange differences on long-term foreign currency monetary items in the manner laid out in that paragraph rather than applying the general requirements in the Accounting Standards (AS). The Ministry of Corporate Affairs (MCA) had issued a circular clarifying that if an entity chooses to apply the option provided in paragraph 46A of AS 11, then it shall apply the requirements of paragraph 46A of AS 11 to those exchange differences also, that arise on long-term foreign currency borrowings which would be considered as an adjustment to interest cost in accordance with paragraph 4(e) of AS 16, 'Borrowing Costs'.

Paragraph D13AA to Ind AS 101 provides a policy choice to a first-time adopter of Ind AS to continue the policy adopted under the previous GAAP for accounting of exchange differences arising from translation of long-term foreign currency monetary items.

The ITFG has clarified that if a first-time adopter chooses to avail the policy choice provided in paragraph D13AA of Ind AS 101, it is not permitted to apply paragraph 6(e) of Ind AS 23, 'Borrowing Costs', to that part of the exchange differences arising on long-term foreign currency monetary items that can be considered as an adjustment to the interest cost.

2. Recognition of tax credit on DDT paid by a subsidiary in the consolidated financial statements of the parent

Recognition of DDT credit in the consolidated financial statements of the parent in the period in which the parent receives a dividend from a subsidiary is not precluded in circumstances where, based on a proper evaluation of attendant facts and circumstances, the parent reasonably expects at the reporting date that it would be able to avail the DDT credit upon declaration of the dividend at its annual general meeting to be held after the end of the financial year.

PwC's insights

ITFG had clarified in its Bulletin 7 that exemption under paragraph D13AA to Ind AS 101 is available only for exchange differences arising on translation of long-term foreign currency monetary items recognised in the financial statements immediately before the beginning of the first Ind AS financial reporting period.

Let's consider an entity which had entered into a loan agreement for 100 million USD for construction of property, plant and equipment (PPE). Entity had availed 70 million USD prior to the date of transition to Ind AS. Under Indian GAAP, entity applied paragraph 46A to AS 11 to recognise foreign exchange differences on long-term foreign currency monetary items. Upon transition, entity chooses to continue recognising the foreign exchange differences on long-term foreign currency monetary items in accordance with paragraph 46A to AS 11, as permitted by paragraph D13AA to Ind AS 101.

In this scenario, exchange differences arising on restatement of 70 million USD shall continue to be recognised in accordance with paragraph 46A to AS 11. However, foreign exchange differences arising on restatement of balance loan of 30 million USD may be recognised in accordance with paragraph 6(e) to Ind AS 23 to the extent such exchange differences are regarded as an adjustment to interest cost.

To summarise:

- At the time of distribution of a dividend by a subsidiary to its parent, the parent should recognise in the consolidated financial statements, DDT credit as an asset to the extent it is probable that the DDT credit can be utilised. To the extent it is not probable that the DDT credit can be utilised by the parent, the amount of DDT paid by the subsidiary should be charged to the consolidated statement of profit and loss.
- The carrying amount of DDT credit should be reviewed at the end of each reporting period and the credit should be reduced or a reduction made in a prior year should be reversed considering the probability of utilisation of the DDT credit to discharge the DDT liability of the parent.
- At the end of each reporting period, the parent should reassess any unrecognised DDT credit. Previously unrecognised DDT credit should be recognised to the extent it has become probable that a liability for DDT on distribution of dividend by the parent will arise against which the DDT credit can be utilised.

To the extent, DDT credit is utilised to discharge the liability of the parent for payment of DDT liability on distribution of dividend to its shareholders, DDT credit shall be reduced with a corresponding debit to the parent's liability for payment of DDT.

3. Initial recognition of an interest-free loan provided by a parent to its subsidiary

S Ltd received an interest-free loan from H Ltd, its parent. S Ltd is under an obligation to repay the loan and therefore the loan meets the definition of a financial liability in accordance with Ind AS 32, 'Financial Instruments: Presentation'. In accordance with Ind AS 109, 'Financial Instruments', S Ltd is required to recognise the loan at its fair value upon initial recognition. Based on the substance of the transaction and in the absence of any factors that could lead to a different conclusion about its nature, the excess of the loan amount over the fair value of the loan at initial recognition should be recognised as an equity contribution from H Ltd. The excess should therefore be credited to the equity in the standalone financial statements of S Ltd.

PwC's insights

Let's consider an example of an interest-free loan provided by H Ltd to S Ltd, its subsidiary. The agreement includes a fixed term for repayment. There are no transaction costs incurred on issuance of the loan.

The loan has a fixed repayment term and therefore meets the definition of a financial liability in accordance with Ind AS 32. The subsidiary should recognise the loan initially at its fair value, which is equal to the present value of the cash to be paid in the future, discounted using the prevailing market rate for a similar instrument (for example, currency, term, type of interest rate, security and other factors) with a similar credit rating. The difference between the fair value of the loan and the amount of loan received from H Ltd should be recognised in accordance with the substance of the transaction. Commonly the substance is addition to S Ltd's equity. In rare circumstances, the substance may be that the difference represents the consideration for something other than the parent acting in the capacity of a parent / shareholder.

In the books of H Ltd, the difference should be reflected as an additional investment in S Ltd. The loan amount should be subsequently measured at its amortised cost and also be subject to impairment-related requirements under the Expected Credit Loss (ECL) model of Ind AS 109.

4. Restatement of a court-approved scheme of amalgamation effected prior to transition to Ind AS

Pursuant to a scheme of amalgamation sanctioned by a High Court order during financial year 2011-12, XYZ Ltd had recognised a particular item belonging to the transferor company as an asset. This item does not meet the definition of an asset under Ind AS. XYZ Ltd is transitioning to Ind AS from 1 April 2017. XYZ Ltd has chosen the policy to retrospectively restate business combinations that have occurred before the date of transition to Ind AS.

In this connection, it has been clarified that:

- Where a business combination occurs on or after the date of transition to Ind AS and the scheme prescribes an accounting treatment that differs from Ind AS 103, the accounting treatment prescribed by the scheme will override the requirements of Ind AS 103.
- Where the business combination had occurred before the date of transition to Ind AS (through a court order or NCLT approval), the question of whether restatement is permissible requires careful evaluation of the stipulations in the scheme. Where it is evaluated under law that the scheme approved by the relevant authority does not preclude restatement upon transition to Ind AS, the restatement is permissible subject to complying with the conditions laid down in this behalf in Ind AS 101.

In the fact pattern above, XYZ Ltd needs to independently examine the legal permissibility of the proposed restatement if it wishes to retrospectively apply Ind AS 103.

5. Applicability of Ind AS to a Limited Liability Partnership (LLP)

An LLP is governed by the Limited Liability Partnership Act, 2008. The Companies (Indian Accounting Standards) Rules, 2015 (the Rules) have been issued by the Central Government pursuant to powers conferred on it by Section 133 read with Section 469 to the Companies Act, 2013.

If a company is converted into a LLP, the provisions of the Companies Act, 2013 and the rules framed thereunder cease to apply to it. Accordingly, Ind AS will not be applicable to an LLP on its conversion.

PwC's insights

In its Bulletin 11, the ITFG had clarified that non-corporate entities are required to follow accounting standards issued by the Institute of Chartered Accountants of India (ICAI). Such entities cannot adopt Ind AS even voluntarily. Therefore, Ind AS is not applicable to partnership firms, LLPs and other forms of non-corporate entities.

If a non-corporate entity is a subsidiary, an associate of a parent or an investor who is required to prepare consolidated financial statements in accordance with Ind AS, then the non-corporate entity should produce financial information separately, which will comply with Ind AS requirements. Therefore, such non-corporate entities may be required to maintain a dual set of accounts to meet both Indian GAAP and Ind AS requirements.

Ind AS 101 provides guidance for transition from the previous GAAP to Ind AS. There is no similar accounting standard under Indian GAAP, which provides guidance for transition from another GAAP to Indian GAAP. Accordingly, this is an area where additional guidance would be helpful.

The takeaway

Clarifications by ITFG are useful for companies and other stakeholders on their journey through Ind AS. The current bulletin provides clarity on some of the key issues commonly faced by stakeholders, e.g. accounting for foreign exchange differences on long-term foreign currency monetary items, recognition of tax credit on DDT in consolidated financial statements, accounting for intra-group financing arrangements, accounting treatment to be followed under a court or NCLT approved scheme of amalgamation and the applicability of Ind AS to an LLP. The clarifications will promote consistency in interpretation and implementation of Ind AS. Entities should however exercise their judgement and carefully evaluate ITFG clarifications when applying these to their specific facts and circumstances.

Recent technical updates

ICAI

Expert Advisory Committee's (EAC's) opinions

1. Accounting treatment of free land provided by Bangalore Metropolitan Transport Corporation (BMTC) for setting up of a CNG station at BMTC depots

Facts: An entity is engaged in manufacturing and sale of Compressed Natural Gas (CNG) as fuel for vehicles and distribution of Piped Natural Gas (PNG) to domestic, commercial and industrial customers. The entity has set up CNG stations for which land was purchased or provided wherein various equipment was installed and commissioned to operationalise the CNG stations. To set up a CNG station at one location in Bengaluru, BMTC provided the land, free of cost, for laying gas pipelines up to the CNG station area inside the BMTC depots on the condition it would only fill CNG gas in BMTC buses. The ownership of the land remains with BMTC.

Query: How should the entity account for free land provided by BMTC?

Opinion: The EAC was of the opinion that the transfer of land by BMTC to the entity in the extant case cannot be treated as a government grant/assistance since government grant/assistance is generally non-gratuitous and non-reciprocal. The Committee also noted that, the ownership of the land was with BMTC and only right to use of land for limited purpose of supplying gas to BMTC buses has been transferred to the entity. Furthermore, EAC noted that the entity could use the land only for setting up CNG station and not for any other purpose such as, exchange, lease, use it to settle liability, or to distribute it to the owners . Moreover, the entity could use the CNG station set up on the land only for supplying CNG to the BMTC buses and it could not use the same station to supply CNG to other customers. Therefore, the Committee opined that the entity would not control the land transferred to it by BMTC and accordingly, it could not recognise the land as an asset in its financial statements. The Committee also stated that the substance of the transaction was that the entity's assets (CNG station) are located at the customer's location to provide services exclusively to the customer and to facilitate the company in earning revenue from supply of CNG and from which BMTC is getting an exclusive availability of CNG for its buses on its own premises. Thus, this arrangement was made to meet the business exigencies needs of both the parties involved for which an appropriate disclosure needs to be made in the notes to the financial statements of the entity.

2. Accounting for Funded Interest Term Loan (FITL) subsequent to restructuring of a loan taken from a shareholder

ABC Ltd. adopted Ind AS from FY 2016-17, with a transition date of 1 April 2015. It had taken loans from B Ltd. (which is also a financial institution and a 26% shareholder of ABC Ltd) from 2002-03 to 2007- 08. During this period, ABC Ltd. was unable to pay interest on the loan amount. So after discussion with B Ltd. an agreement was signed with B Ltd. in 2009, as per which, B Ltd. converted the unpaid interest into a FITL. The FITL was interest free and had to be repaid in instalments as per the stipulated schedule. The auditors of the Comptroller and Auditor General of India (CAG) observed in their review of the company's financial statements that the interest-free loan should be fair valued by discounting all future cash flows at the market interest rate as per Ind AS 113, 'Fair Value Measurement' and the resultant gain should be recognised in the statement of profit and loss account of the entity for FY 2015-16 along with the imputed interest cost on the discounted loan amount.

The EAC opinion on the queries raised is summarised below:

i. The company is not required to reassess whether its derecognition of the old term loan and the interest accrued and due thereon and the recognition of a new term loan (including the interest free FITL) on modification of the contractual terms is appropriate under Ind AS because of the first-time adoption exemption.

ii. Considering the requirements of Ind AS 109, the company is required to determine the fair value of the FITL on the date of the financial restructuring as its initial recognition amount.

iii. If ABC Ltd. determines that B Ltd. was acting in its capacity as a shareholder when providing interest-free financial support to the company, the difference between the nominal amount and the initial recognition amount of the FITL should be recognised in an appropriate component of equity on transition to Ind AS. However, if ABC Ltd. determines that B Ltd. is acting as a lender, then the difference between the nominal amount and the initial recognition amount of the FITL would generally be recognised in the statement of profit or loss.

iv. The amortised cost of the FITL on the date of transition to Ind AS should be determined by unwinding the discount from the date of initial recognition to the transition date. Unwinding of the discount should be recognised as an adjustment in retained earnings on transition.

v. The benefit of an interest-free loan provided by B Ltd., a government undertaking, is not in the nature of a government grant or government assistance, since B Ltd. is not acting in its capacity as a government in this case.

3. Recognition and measurement of provision for wage revision

Salary or wage revision for an entity's executive and non-executive level employees is due from 1 January 2017. The salary revision for executives is subject to affordability, condition as issued by the Department of Public Enterprises (DPE) i.e. linked to the performance of the entity. Salary revision for non-executive employees is subject to the condition that pay scales of the non-executives should not exceed the pay scales of Executives at any grade.

The querist sought the opinion of the EAC as to whether any provision was needed in the books of account towards wage revision of nonexecutive employees of the entity if the affordability clause has not been fulfilled.

Opinion

The EAC opined that as per the requirements of Ind AS 19, 'Employee Benefits', employee benefits, which are expected to be paid in exchange for employees' services during a period are required to be provided for as a liability. Furthermore, as per the requirements of the Framework for the Preparation and Presentation of Financial Statements in accordance with Indian Accounting Standards (Framework), a liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, and a provision should be recognised where liability can be measured by using a substantial degree of estimation. In the absence of detailed guidance for application of these requirements in Ind AS 19 and the Framework, the requirements of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', should be applied. Accordingly, the entity should determine whether there exists a present obligation, and therefore, whether a provision needs to be recognised in the specific facts and circumstances, considering all the evidence or factors available on the reporting date. If it is determined that a present obligation (legal or constructive) exists and other conditions as per paragraph 14 of Ind AS 37 are met, provision should be recognised. However, where it is determined that a 'present obligation' does not exist or due to any other reason, provision could not be recognised, then the company should also consider whether there is any need for disclosure as a 'contingent liability' (unless the possibility of an outflow of resources embodying economic benefits is remote), as per the requirements of Ind AS 37.

Ind AS Implementation Group

Educational Material on Ind AS 111, Joint Arrangements

The Ind AS Implementation Group of ICAI released the educational material on Ind AS 111, which establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. The standard defines the joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement by assessing its rights and obligations, and to account for those rights and obligations in accordance with that type of joint arrangement. This Educational Material contains a summary of Ind AS 111, discusses the key requirements of the Standard and includes Frequently Asked Questions (FAQs) and illustrations covering the issues, which are expected to be encountered frequently while implementing the Standard.

Valuation Standards Board

Valuation: Professionals' Insight (Series 2)

The Valuation Standards Board of ICAI, jointly with ICAI's Registered Valuers Organisation, has released the second series of its publication titled Valuation: Professionals' Insights to help professionals understand various aspects of business valuation such as valuation of purchase price allocations, options, share-based payments, financial guarantees and start-ups.

Refer https://resource.cdn.icai.org/54236vsb43545.pdf for further details.

Ministry of Corporate Affairs (MCA)

Companies (Indian Accounting Standards) Amendment Rules, 2019 and Companies (Indian Accounting Standards) Second Amendment Rules, 2019

The Ministry of Corporate Affairs has issued the Companies (Indian Accounting Standards) Amendment Rules, 2019 and the Companies (Indian Accounting Standards) Second Amendment Rules, 2019 on 30 March 2019. Both the Rules came into force on 1 April 2019. The Rules, among other amendments, notified the new lease standard Ind AS 116, 'Leases'. Ind AS 116 replaces Ind AS 17, 'Leases'.

Refer https://www.pwc.in/assets/pdfs/services/accounting-advisory/a-study-on-the-impact-of-lease-capitalisation.pdf for our publication on Ind AS 116.

Companies (Significant Beneficial Owners) Amendment Rules, 2019

On 13 June 2018, the MCA notified the amendment to section 90 of the Companies Act, 2013 (the Act) through the Companies (Amendment) Act, 2017, and issued the Companies (Significant Beneficial Owners) Rules, 2018 (Rules) outlining the requirements for declaration of significant beneficial owners (SBO) in an Indian company.

However, due to numerous representations from stakeholders expressing their difficulty in complying with the SBO disclosure, the MCA vide circular (dated 10 September 2018) stated that the reporting form would be revised and a new form would be notified in due course.

In this connection, the MCA issued the Companies (Significant Beneficial Owners) Amendment Rules, 2019 (Amendment Rules) on 8 February, 2019, making necessary amendments to the reporting form and the rules to address certain concerns raised by stakeholders.

For our detailed alert, refer https://www.pwc.in/assets/pdfs/news-alert-tax/2019/pwc_news_alert_11_february_2019_notification_of_the_companies_amendment_rules.pdf

Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019.

The Central Government, vide notification number 5.O.5622 (E) dated the 2 November 2018, directed that all companies that receive supplies of goods or services from micro and small enterprises and whose payments to micro and small enterprise suppliers exceed 45 days from the date of acceptance or the date of deemed acceptance of the goods or services as per the provisions of section 9 of The Micro, Small and Medium Enterprises Development Act, 2006, should submit a half-yearly return to the MCA stating the following:

(a) The amount of payment due; and

(b) The reasons of the delay

Every specified company shall file in MSME Form I the details of all outstanding dues to micro or small enterprises suppliers existing on the date of notification of this order within 30 days from the date of publication of this notification.

Every specified company shall file a return as per MSME Form I annexed to the Order by 31st October for the period from April to September and by 30th April for the period from October to March.

Companies (Acceptance of Deposits) Amendment Rules, 2019

The MCA has amended the Companies (Acceptance of Deposits) Rules to exempt real estate investment trusts from the definition of deposits. Additionally, every company other than a government company should file a one-time return of outstanding receipt of money or loan by a company (but not considered as deposits) in terms of clause (c) of sub-rule 1 of rule 2 from 1 April 2014 to the date of publication of this notification in the Official Gazette, as specified in Form DPT-3, within 90 days from the date of publication of this notification, along with the fee, as provided in the Companies (Registration Offices and Fees) Rules, 2014.

Ministry of Law and Justice

Banning of Unregulated Deposit Schemes Ordinance 2019

The Central Government passed the Banning of Unregulated Deposit Schemes Ordinance, 2019 on 21 February 2019 to ban unregulated deposits. The objective of the ordinance is to provide for a comprehensive mechanism to ban unregulated deposit schemes to protect the interest of the depositors and for matters connected therewith. It aims to prevent such unregulated deposit schemes or arrangements at their inception and at the same time makes soliciting, inviting or accepting deposits pursuant to an unregulated deposited scheme a punishable offence. The term 'Unregulated Deposit Scheme' is defined in the ordinance u/s 2(17), which provides that an unregulated deposit scheme is a scheme or arrangement under which deposits are accepted or solicited by any deposit-taker by way of business, and which is not a regulated deposit scheme, as specified in the First Schedule of the Ordinance.

Regulated scheme are those that are regulated by following regulators:

- SEBI
- Reserve Bank of India
- The Insurance Regulatory and Development Authority of India
- State Governments or Union Territories
- National Housing Bank
- Pension fund regulatory and development authority
- Employees Provident Fund Organisation
- Central Registrar Multi-state Co-operative Societies
- MCA

SEBI

Procedure and formats for limited review or audit report of the listed entity and those entities whose accounts are to be consolidated with the listed entity

The Kotak Committee Report on Corporate Governance, inter-alia, suggested certain changes in the regulatory framework for Group Audit. SEBI, while considering the recommendation of the Kotak Committee, decided to amend Regulation 33 of the SEBI (Listing Obligation and Disclosures Requirements) Regulations, 2015 (SEBI LODR Regulations), after considering public comments, with respect to this matter.

Accordingly, the following new sub-regulation was inserted under Regulation 33 of the SEBI LODR Regulations, which came into effect from 1 April 2019. "(8) The Statutory auditor of a listed entity shall undertake a limited review of the audit of all the entities/companies whose accounts are to be consolidated with the listed entity as per AS 21 in accordance with guidelines issued by the Board on this matter".

The SEBI has now vide circular dated 29 March 2019 has prescribed the procedures and format for limited review / audit report of the listed entity and those entities whose accounts are to be consolidated with the listed entity.

The objective of the procedures notified by the circular is to ensure that the statutory auditors undertaking the audit / review of the Consolidated Financial Statements / Results of the Parent Company obtain the desired information , as required under the Standard on Auditing (SA) 600, Using the Work of Another Auditor and the Guidance Note on Audit of Consolidated Financial Statements (Revised 2016) issued by the ICAI in order to rely on the work of the auditors of the Financial Statements / Results / Information of the Components, while forming and expressing an opinion / conclusion, as applicable, on the Consolidated Financial Statements / Results of the Parent Company under Regulation 33(8) of SEBI LODR Regulations.

However, the audit and limited review of the respective components that are being consolidated with the parent company will continue to be undertaken by the respective auditors of such components.

This circular came into force with effect from 1 April 2019, i.e. the date on which sub-regulation 8 of Regulation 33 of the SEBI LODR Regulations came into force.

Refer https://www.sebi.gov.in/legal/circulars/mar-2019/procedure-and-formats-for-limited-review-audit-report-of-the-listed-entity-and-those-entities-whose-accounts-are-to-be-consolidated-with-the-listed-entity_42537.html

SEBI board meeting

SEBI has issued a press release regarding decisions taken at its Board meeting held on 1 March 2019. The main points covered in the press release are as follows:

i. Amendments to SEBI (Infrastructure Investment Trusts) Regulations, 2014 and the SEBI (Real Estate Investment Trusts) Regulations, 2014

ii. Framework for Innovators Growth Platform

iii. Corporate Debt Restructuring

iv. Valuation of money market and debt securities by Mutual Funds

v. Participation of Institutional Investors in Commodity Derivatives Markets in India

vi. Amendments to SEBI (Debenture Trustee) Regulations, 1993, SEBI (Issue and Listing of Debt Securities) Regulations, 2008 and SEBI (Listing Obligations and Disclosure Requirements), 2015

vii. Permitting permanent registration to Custodians

viii. Revision of SEBI's fee structure

Refer https://www.sebi.gov.in/media/press-releases/mar-2019/sebi-board-meeting_42260.html

Disclosure of significant beneficial ownership in the shareholding pattern

SEBI had vide circular dated 7 December 2018 specified certain requirements with respect to disclosure of significant beneficial ownership in the shareholding pattern of listed entities which were based on Companies (Significant Beneficial Owners) Rules, 2018. Since MCA has issued the Companies (Significant Beneficial Owners) Amendment Rules, 2019, the SEBI vide circular dated 12 March 2019 has modified its original circular to bring the disclosures in line with the Companies (Significant Beneficial Owners) Amendment Rules, 2019. The changes in the circular shall come into force with effect from the quarter ended 30 June 2019.

Central Board of Indirect Taxes and Customs (CBIC)

CBIC clarifies treatment of sales promotion schemes under GST

The CBIC has recently issued a circular clarifying various issues relating to treatment of sales promotion schemes. The clarifications are summarised below:

Free samples and gifts

Goods or services or both, supplied free of cost, will not be treated as supply (except in the case of activities mentioned in Schedule I of the Central Goods and Services Tax [CGST] Act, 2017). However, input tax credit (ITC) will not be available on the inputs, input services or capital goods to the extent used in relation to such gifts or free samples, except in cases where such gifts or free samples are treated as a [deemed] supply under Schedule I of the CGST Act.

'Buy one, get one free' offers

- For offers such as 'buy one soap and get one soap free' or 'get one toothbrush free with the purchase of toothpaste', there is no individual supply of free goods, but is a case of two or more individual supplies with a single price being charged for the entire supply. It can at best be treated as supplying two goods for the price of one.
- The taxability of such a supply would depend on whether it is a composite supply or a mixed supply as defined in CGST Act.
- The supplier would be eligible to claim ITC on inputs, input services and capital goods used in relation to the supply of goods or services or both as part of such offers.

Discounts including 'buy more, save more' offers

- Discounts that would be eligible for deduction from the taxable value of the supplier include:
  i. Upfront discounts offered by suppliers (e.g. discounts on the invoice based on the quantity / value, which may be higher for high quantity / value procurements); or
  ii. Periodic discounts based on the total quantum of purchases, when established in the terms of agreement entered into at or before the time of supply.
- The recipient would need to reverse the ITC.
- The supplier will be eligible for availing full ITC on inputs, input services and capital goods used in relation to the supply of goods or services or both on such discounts.

Secondary discounts

For secondary market schemes, where discounts are announced after the original supply, the supplier can issue commercial credit notes. However, such discounts would not be eligible for any deduction from the value of the supply under section 15(3)(b) of the CGST Act, as it was

not known at or before the time of supply. Further, there would not be any impact on the ITC in the hands of the supplier.

The Public Company Accounting Oversight Board (PCAOB)

PCAOB finalises standards on auditing estimates and using specialists

On 20 December 2018, the PCAOB adopted a final standard, 'Auditing Accounting Estimates, Including Fair Value Measurements'. The Board also adopted amendments to its standards to address the auditor's use of the work of specialists. These new and revised standards are aimed at promoting consistent application in practice and improving audit quality. The new standard on auditing estimates replaces three existing auditing standards (AS 2501, Auditing Accounting Estimates, AS 2502, Auditing Fair Value Measurements and Disclosures, and AS 2503, Auditing Derivative Instruments, Hedging Activities, and Investments in Securities) and establishes a uniform, risk-based approach. The new standard is intended to change existing requirements by:

- Prompting auditors to devote greater attention to addressing potential management bias in accounting estimates, while reinforcing the need for professional skepticism;
- Extending certain requirements related to the testing of assumptions, data, and methods in the existing standard on auditing fair value measurements to all accounting estimates to reflect a uniform approach to substantive testing;
- Integrating the risk assessment standards to focus auditors on estimates with a greater risk of material misstatement; and
- Providing specific requirements and direction to auditing of the fair value of financial instruments as well as evaluating the adequacy of information obtained as audit evidence from third-party pricing services.

Subject to approval from the SEC, the new and revised standards will take effect for the audits of fiscal years ending on or after 15 December 2020. These standards will apply to all audits conducted under PCAOB standards.

American Institute of Certified Public Accountants (AICPA)

2018 AICPA Conference

The 2018 AICPA Conference on Current SEC and PCAOB Developments was held from 10 to 12 December 2018. The conference featured representatives from regulatory and standard-setting bodies, along with auditors, preparers, securities' counsel and industry experts. The presenters expressed their views on a variety of accounting, auditing, and financial reporting topics.

Consistent with prior years, the theme of the conference focused on collaboration and transparency. All participants in the financial reporting supply chain need to work together to provide investors with transparent and decision-useful information. This is especially important in today's dynamic financial reporting environment, with major new standards recently or soon to be adopted.

The topics discussed are summarised below:

i. New leases standard
ii. The new revenue standard
iii. Internal control over financial reporting
iv. SEC staff's observations
v. Auditor's reporting model
vi. Standard setting update
vii. Technical accounting topics
viii. International update
ix. Division of Enforcement
x. PCAOB update
xi. Technology

For our detailed publication refer https://www.pwc.com/us/en/cfodirect/assets/pdf/in-depth/us-2018-27-aicpa-conference-sec-pcaob-developments.pdf

Previous publications

Publications-1

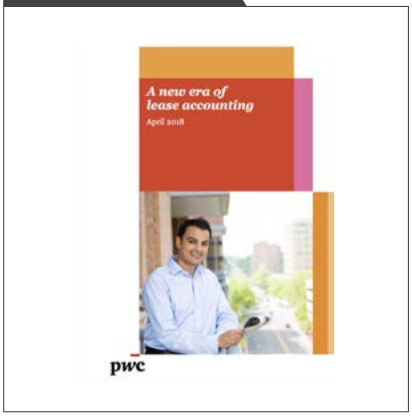
Publications-2

Publications-3

Publications-4

Publications-5

Publications-6



Publications-7

Publications-8

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with over 250,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com

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

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

© 2019 PwC. All rights reserved

Our offices

Ahmedabad

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

Bengaluru

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

Chennai

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

Delhi NCR

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

Hyderabad

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

Kolkata

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

Mumbai

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

Pune

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

pwc.in

Data Classification: DC0

This document does not constitute professional advice. The information in this document has been obtained or derived from sources believed by PricewaterhouseCoopers Private Limited (PwCPL) to be reliable but PwCPL does not represent that this information is accurate or complete. Any opinions or estimates contained in this document represent the judgment of PwCPL at this time and are subject to change without notice. Readers of this publication are advised to seek their own professional advice before taking any course of action or decision, for which they are entirely responsible, based on the contents of this publication. PwCPL neither accepts or assumes any responsibility or liability to any reader of this publication in respect of the information contained within it or for any decisions readers may take or decide not to or fail to take.

© 2019 PricewaterhouseCoopers Private Limited. All rights reserved. In this document, “PwC” refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity.
KS/April2019-17255