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Companies (Indian Accounting Standards) (Amendment) Rules, 2016

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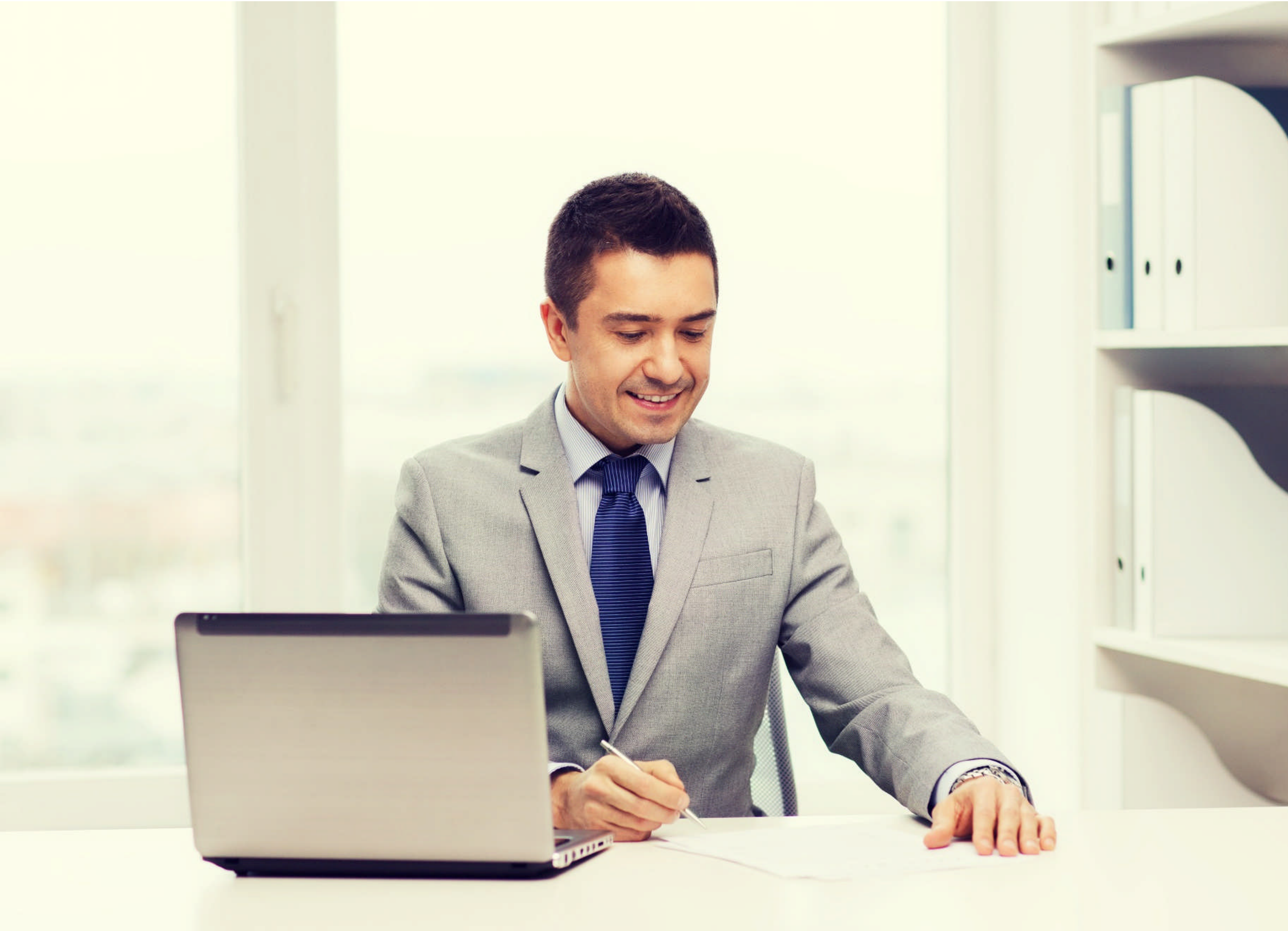

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Background

The Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) (Amendment) Rules, 2016 (hereinafter 'Rules'), on 30 March 2016. These rules have come into force on the date of publication in the official gazette, i.e. 30 March 2016.

The rules clarify that banking and insurance companies shall apply the Indian Accounting Standards (Ind AS) as notified by the Reserve Bank of India (RBI) and the Insurance Regulatory Development Authority (IRDA) respectively. These rules have notified the applicability of Ind AS to non-banking financial companies (NBFCs) and have issued/omitted the following Ind AS:

- Ind AS 115, 'Revenue from contracts with customers', omitted

- Notification of Ind AS 11, 'Construction contracts', along with the appendices equivalent to IFRIC 12, 'Service concession arrangements', and SIC 29, 'Service concession arrangements: Disclosures'. IFRIC 15, 'Agreements for the construction of real estate' has not been included in Ind AS 11 and Ind AS 18. IFRIC 15 gives guidance on which standard applies when accounting for the construction of real estate. The Institute of Chartered Accountants of India (ICAI) has issued a guidance note on accounting for real estate transactions for entities to whom Ind AS is applicable. The objective of this guidance note is to recommend the accounting treatment to be followed by the entities dealing in 'real estate' as sellers or developers. This guidance note covers all forms of transactions in real estate.

- Notification of Ind AS 18, 'Revenue', along with the appendices equivalent to IFRIC 13, 'Customer loyalty programmes'; IFRIC 18, 'Transfers of assets from customers'; and SIC 31, 'Revenue: Barter transactions involving advertising services'

- Consequential amendments to other standards on the omission of Ind AS 115 and inclusion of Ind AS 11 and Ind AS 18

Furthermore, the rules also amended existing Ind AS to reflect the amendments made by the International Accounting Standards Board (IASB) to the International Financial Reporting Standards (IFRS). The summary of amendments to IFRS, which have been reflected in Ind AS, is given below:

- Narrow-focus improvements brought about by IASB to International Accounting Standard (IAS) 1, 'Presentation of financial statements', as part of the disclosure initiative project.

- Amendments made by IASB as part of the annual improvement cycle 2012–2014. The annual improvements process of IASB is a vehicle for making non-urgent but necessary amendments to the standards. These amendments are limited to the changes that either clarify the wordings in an IFRS or correct relatively minor unintended consequences, oversights or conflicts between the existing requirements of the IFRS.

- Amendments to IFRS 10, 'Consolidated financial statements'; IFRS 12, 'Disclosure of interests in other entities'; and IAS 28, 'Investments in associates and joint ventures', to address issues that have arisen in relation to the exemption from consolidation for investment entities.

In addition to the above, the rules also amended Ind AS 101, 'First-time adoption of Indian Accounting Standards', to remove the option to use fair value for investment property as the deemed cost on the date of transition.

The key amendments to Ind AS pursuant to these rules are listed below:

Standard	Summary of change	Reason for amendment
Ind AS 105, 'Non-current assets held for sale and discontinued operations'	The amendment clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. The amendment also clarifies that changing the disposal method does not change the date of classification.	Annual improvements to IFRS 2012–2014 cycle
Ind AS 107, 'Financial instruments: Disclosures'	**Servicing contracts** If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, Ind AS 107 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. Ind AS 107 provides guidance on what is meant by continuing involvement in this context. The amendment adds specific guidance to help management determine whether the terms of an arrangement to service a financial asset, which has been transferred, constitute continuing involvement.	Annual improvements to IFRS 2012–2014 cycle
Ind AS 19, 'Employee benefits'	**Actuarial assumptions: Discount rate** The amendment clarifies that when determining the discount rate for post-employment benefit obligations, it is the currency in which the liabilities are denominated that is important and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency and not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, the government bonds in the relevant currency should be used.	Annual improvements to IFRS 2012–2014 cycle
Ind AS 34, 'Interim financial reporting'	Ind AS 34 required entities to disclose information in the notes to the interim financial statements, 'if not disclosed elsewhere in the interim financial report'. However, the precise meaning of 'elsewhere in the interim financial report' was unclear. The amendment clarifies what is meant by 'information disclosed elsewhere in the interim financial report'. Ind AS 34 has also been amended to require a cross reference from the interim financial statements to the location of that information.	Annual improvements to IFRS 2012–2014 cycle

Standard	Summary of change	Reason for amendment
Ind AS 1, 'Presentation of financial statements'	**Materiality** The amendments clarify that an entity must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments re-emphasise that when a standard requires a specific disclosure, the information must be assessed to determine whether it is material, and consequently whether presentation or disclosure of that information is warranted. **Disaggregation and subtotals** The amendments clarify that it may be necessary to disaggregate some of the line items specified in Ind AS 1, paragraphs 54 (balance sheet) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance. The amendments address additional subtotals in the balance sheet or the statement of profit and loss. They give guidance on what additional subtotals are acceptable and how they are presented. The revised guidance captures common subtotals that are not specifically required by Ind AS, such as operating profit or profit before interest and tax. Additional subtotals should: • be made up of items recognised and measured in accordance with Ind AS, • be presented and labelled in a manner that makes the components of the subtotal understandable, • be consistent from period to period, and • not be displayed with more prominence than the subtotals and totals specified in Ind AS 1. The amendments require that additional subtotals in the statement of profit and loss should be reconciled to the subtotals and totals required by Ind AS 1. **Notes structure** The amendments clarify that management should consider the understandability and comparability of the financial statements when it determines the order of the notes. An entity is not required to present the notes to the financial statements in a particular order. An entity might, for example, present more significant notes first, or present linked areas sequentially. Such flexibility allows management to tailor their presentation to their circumstances.	Narrow-scope amendments to IAS 1, 'Presentation of financial statements'

Standard	Summary of change	Reason for amendment
	Disclosure of accounting policies The amendments have removed the current paragraph 120 of Ind AS 1 which included the examples of significant accounting policies, i.e., the income taxes accounting policy and the foreign currency accounting policy, as these were considered unhelpful in illustrating what the significant accounting policies could be. **Other comprehensive income (OCI) arising from investments accounted for under the equity method** The amendments require that the share of other comprehensive income arising from investments accounted for under the equity method is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income. **Insight** The amendments will affect every entity preparing Ind AS financial statements. The amendments do not require specific changes. However, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.	
Ind AS 110, 'Consolidated financial statements'	• Paragraph 31 of Ind AS 110 requires an investment entity to measure an investment in a subsidiary at fair value through profit or loss in accordance with Ind AS 109, 'Financial instruments'. It has been clarified that, as an exception to this, an investment entity would consolidate a subsidiary only if it is not an investment entity itself, and if it acts as an extension of the investment entity by providing services that support the investment entity's activities. All subsidiaries that are themselves investment entities are measured at fair value through profit and loss. • Ind AS 110 was amended to clarify that the exemption from preparing consolidated financial statements contained in paragraph 4(a) of Ind AS 110 is available to a parent entity that is a subsidiary of an investment entity (provided all other conditions in paragraph 4(a) are met) even when the investment entity measures all of its subsidiaries at fair value.	Amendments to IFRS 10, IFRS 12 and IAS 28—Investment entities: Applying the consolidation exception

Standard	Summary of change	Reason for amendment
Ind AS 28, 'Investments in associates and joint ventures'	The amendment states that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to its interest in subsidiaries.	Amendments to IFRS 10, IFRS 12 and IAS 28—Investment entities: Applying the consolidation exception
Ind AS 112, 'Disclosure of interests in other entities'	The amendment to Ind AS 112 is consequential to the amendments to Ind AS 110 and Ind AS 28. The amendment clarifies the application of the standard to investment entities. Paragraph 6(b) was amended to require an investment entity that prepares separate financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with Ind AS 109 to present the disclosures in respect of investment entities required by Ind AS 112.	Amendments to IFRS 10, IFRS 12 and IAS 28—Investment entities: Applying the consolidation exception
Ind AS 101, 'First-time adoption of Indian Accounting Standards'	Ind AS 101 has been amended to remove the option to use fair value for investment property as the deemed cost on the date of transition.	Ind AS 40 only permits the cost model for measurement of investment properties after initial recognition. Hence, the amendment has been made to remove the fair value option under Ind AS 101 on the date of transition.

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