Exposure Draft

Further Amendments to

Indian Accounting Standards: Consideration of Carve outs/ins

(Last date for Comments: **October 15, 2014**)

Issued by
Accounting Standards Board

The Institute of Chartered Accountants of India

Introduction

The 35 IFRS-converged Indian Accounting Standards (Ind ASs) hosted on Ministry of Corporate Affairs' (MCA's) website contain certain carve-outs. However, the date of notification of the Ind AS was not announced due to certain issues including tax issues.

Shri Arun Jaitley, Hon'able Finance Minister, Government of India, in his Union Budget Speech 2014-15, proposed to implement Ind ASs from the financial year beginning on or after April 01, 2015, on optional basis and from April 01, 2016, onwards on mandatory basis. Accordingly, the Accounting Standards Board, at its 209th meeting, decided to reconsider the carve-outs and certain other issues for further possible carve-outs/ins in Ind AS.

This Exposure Draft sets out amendments to Indian Accounting Standards (Ind ASs) as decided by the Accounting Standards Board at its 212th meeting to finalise the Indian Accounting Standards.

Standards addressed

The following table shows the topics addressed by these amendments.

Standard	Subject of amendment
Ind AS 21, The Effects of Changes in foreign Exchange Rates	Recognition of exchange differences: paragraph 29A
Ind AS 110, Consolidated Financial Statements	Exemption from preparing consolidation Financial Statements: paragraph 4 (a)
Ind AS 27, Separate Financial Statements	• Exemption from preparing consolidated financial statements • Removal of option of equity method in Separate financial statements
Ind AS 28, Investments in Associates and Joint Ventures	• Exemption from applying equity method

Exposure Draft

Further Amendments to *Indian Accounting Standards: Consideration of Carve outs/ins*

The Accounting Standards Board had issued an Exposure Draft on September 17, 2014 proposing amendments in certain Indian Accounting Standards (Ind ASs). This Exposure Draft proposes amendments to the following Indian Accounting Standards: Consideration of carve-outs/ins issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments:

i) *Ind AS 21, The Effects of Changes in foreign Exchange Rates*
ii) *Ind AS 110, Consolidated Financial Statements*
iii) *Ind AS 27, Separate Financial Statements*
iv) *Ind AS 28, Investments in Associates and Joint Ventures*

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board. The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than October 15, 2014. Comments can also be sent by e-mail at commentsasb@icai.in. Further clarifications on this exposure draft may be sought by e-mail to shilpi.hisaria@icai.in.

(This Exposure Draft of the Indian Accounting Standard includes paragraphs set in ***bold*** *type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards[1])*

Amendments to
Ind AS 21, *The Effects of Changes in foreign Exchange Rates*

Paragraph 29A is proposed to be deleted; accordingly, Paragraphs 28, 29, 37, 45 and 52 are proposed to be amended. New text is underlined and the deleted text is struck through.

Recognition of exchange differences

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[1] Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

28 Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise, except~~:~~ ~~(i) exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation~~ as described in paragraph 32~~;~~

~~**(ii) where an entity exercises the option provided in paragraph 29A in respect of long-term monetary items.**~~

29 When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period. ~~Paragraph 29A provides an option to recognise unrealised exchange differences arising on translation of certain long-term monetary assets and long-term monetary liabilities from foreign currency to functional currency.~~

~~29A An entity may exercise the option in respect of recognition of exchange differences arising on translation of long-term monetary items from foreign currency to functional currency as follows:~~

~~(i) Unrealised exchange differences arising on long-term monetary assets and long-term monetary liabilities denominated in a foreign currency shall be recognised directly in equity and accumulated in a separate component of equity. The amount so accumulated shall be transferred to profit or loss over the period of maturity of such long-term monetary items in an appropriate manner. The separate component of equity shall be distinguished from any other component of equity representing any other exchange difference recognised in other comprehensive income and accumulated in equity.~~

~~(ii) The option provided in paragraph 29A(i) is not available for the long-term monetary assets and long-term monetary liabilities during the period they are classified as at fair value through profit or loss in accordance with Ind AS 39, either because they are held for trading or because of their designation as at fair value through profit or loss.~~

~~(iii) The option provided in paragraph 29A(i) shall be exercised for the first time when the exchange difference arising on a long-term monetary asset or a long-term monetary liability mentioned in paragraph 29A(i) is recognised. The option, once exercised, shall be irrevocable and shall be exercised in respect of all the long-term monetary assets and long-term monetary liabilities mentioned in paragraph 29A(i).~~

~~(iv) For the purpose of this paragraph, a monetary asset or a monetary liability shall be treated as long-term, if that asset or liability has a maturity period of twelve months or more from the date of the initial recognition of that asset or liability.~~

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Change in functional currency

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37 The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously recognised in other comprehensive income in accordance with paragraphs 32 and 39(c) are not reclassified from equity to profit or loss until the disposal of the operation. ~~When the option provided in paragraph 29A is exercised, exchange differences previously recognised directly in equity and accumulated in a separate component of equity in accordance with that paragraph are not transferred to profit or loss immediately on change of the entity's functional currency. They shall continue to be transferred to profit or loss in the manner stated in that paragraph.~~

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Translation of a foreign operation

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45 The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Ind AS ~~27~~ 110, *Consolidated Financial Statements* ~~and Ind AS 31 *Interests in Joint Ventures*~~). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated

financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss or, if it arises from the circumstances described in paragraph 32, it is recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation. ~~When the option provided in paragraph 29A is exercised, in the consolidated financial statements of the reporting entity, such an exchange difference is directly recognised in equity and disposed of in the manner prescribed in that paragraph.~~

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Disclosure

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52 An entity shall disclose:

(a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with Ind AS 109; and

(b) net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period. ~~; and~~

~~**(c) net exchange differences recognised directly in equity and accumulated in a separate component of equity in accordance with paragraph 29A, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**~~

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Appendix 1

Comparison with IAS 21, *The Effects of Changes in Foreign Exchange Rates*

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~~2 Ind AS 21 permits an option to recognise exchange differences arising on translation of certain long-term monetary items from foreign currency to functional currency directly in equity. In this situation, Ind AS 21 requires the accumulated exchange~~

~~differences to be transferred to profit or loss in an appropriate manner. IAS 21 does not permit such a treatment. Consequentially a new paragraph 29A has been added in Ind AS 21 as compared to IAS 21.~~

Reason for Amendments

The Accounting Standards Board noted that as per IFRS 9, only those exposures can qualify for hedge accounting which have impact on the statement of profit and loss. Where an entity follows the option provided in the above paragraph by not recognising the gains and losses on foreign exchange fluctuations in profit or loss but directly in equity, such an entity would not be able to use hedge accounting as per IFRS 9. It was felt that, in any case, the option is conceptually inappropriate as the entity is able to defer the gains/losses arising from foreign exchange risks. Therefore, the Board felt that paragraph 29A of Ind AS 21 should be removed as the impact is not on profit or loss.

Amendments to
Ind AS 110, *Consolidated Financial Statements*

Paragraph 4(a) is proposed to be added. New text is underlined and the deleted text is struck through.

4 An entity that is a parent shall present consolidated financial statements. This Ind AS applies to all entities, except as follows:

(a) ~~[Refer Appendix 1]~~ <u>a parent need not present consolidated financial statements if it meets all the following conditions:</u>

(i) <u>it is a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;</u>

(ii) <u>its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);</u>

(iii) <u>it did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and</u>

(iv) <u>its ultimate or any intermediate parent produces consolidated financial statements that are available for public use and comply with Ind ASs.</u>

(b) ……

(c) .....

Appendix 1

Comparison with IFRS 10, *Consolidated Financial Statements*

~~1 Paragraph 4(a) has been deleted as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made there under. However, paragraph number 4 has been retained in Ind AS 110 to maintain consistency with paragraph numbers of IFRS 10.~~

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Reason for Amendments

The Accounting Standards Board considered the carve-out and noted that Paragraph 4 (a) of IFRS 10 does not exempt any listed entities, the exemption from consolidation is only to unlisted entities. The Board was of the view that the consolidated financial statements prepared by the intermediary subsidiaries do not provide useful information, in case their ultimate parent is preparing consolidated financial statements that are publically available. Considering this the Board felt that paragraph 4 (a) of IFRS 10 may be retained in Ind AS 110.

Consequential amendments to other Indian Accounting Standards (Ind ASs) from the amendments to Ind AS 110, *Consolidated Financial Statements*

The following amendments to other Ind ASs are necessary to ensure consistency with the revised Ind AS 110.

Amendments to
Ind AS 27, *Separate Financial Statements*

Paragraphs 8 and 16 are proposed to be added and paragraphs 6, 15 and 17 are proposed to be amended. New text is underlined and the deleted text is struck through.

Definitions

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6 Separate financial statements are those presented in addition to consolidated financial statements or in addition to financial statements in which investments in associates or joint ventures are accounted for using the equity method, other than in the circumstances ~~in which preparation of consolidated financial statements or application of equity method is exempt under law~~ set out in paragraphs 8-8A. Separate financial statements need not be appended to, or accompany, those statements. ~~unless required by law.~~

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8 ~~[Refer to Appendix 1]~~ An entity that is exempted in accordance with paragraph 4(a) of Ind AS 110 from consolidation or paragraph 17 of Ind AS 28 from applying the equity method may present separate financial statements as its only financial statements.

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Disclosure

15 An entity shall apply all applicable Ind ASs when providing disclosures in its separate financial statements, including the requirements in paragraphs 16 and 17.

16 ~~[Refer to Appendix 1]~~ When a parent, in accordance with paragraph 4(a) of Ind AS 110, elects not to prepare consolidated financial statements and instead prepares separate financial statements, it shall disclose in those separate financial statements:

(a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with Ind ASs have been produced for public use; and the address where those consolidated financial statements are obtainable.

(b) a list of significant investments in subsidiaries, joint ventures and associates, including:

(i) the name of those investees.

(ii) the principal place of business (and country of incorporation, if different) of those investees.

(iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.

(c) a description of the method used to account for the investments listed under (b).

17 **When a parent (other than a parent covered by paragraphs 16-16A) or an investor with joint control of, or significant influence over, an investee prepares separate financial statements, the parent or investor shall identify the financial statements prepared in accordance with Ind AS 110 ~~(unless preparation of consolidated financial statements is exempt under law)~~, Ind AS 111 or Ind AS 28 ~~(as amended)~~ to which they relate. The parent or investor shall also disclose in its separate financial statements:**

(a) the fact that the statements are separate financial statements

(b) a list of significant investments in subsidiaries, joint ventures and associates, including:

(i) the name of those investees.
(ii) the principal place of business (and country of incorporation, if different) of those investees.
(iii) its proportion of the ownership interest (and its proportion of the voting rights, if different) held in those investees.

(c) a description of the method used to account for the investments listed under (b).

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Appendix 1

Comparison with IAS 27, *Separate Financial Statements*

~~1 Paragraphs 8 and 16 have been deleted and paragraphs 6, 16A and 17 have been modified as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made thereunder. However, paragraphs~~

~~number 8 and 16 have been retained in Ind AS 27 to maintain consistency with paragraph numbers of IAS 27~~

1 Paragraph 17 (a) of IAS 27 requires to disclose the reason for preparing separate financial statements if not required by law. As the Companies Act mandates preparation of separate financial statements, paragraph 17 (a) has been modified to remove such requirement.

2 IAS 27 allows the entities to use the equity method to account for investment in subsidiaries, joint ventures and associates in their Separate Financial Statements (SFS). Such option is not given in Ind AS 27, as the equity method is not a measurement basis like cost and fair value but is a manner of consolidation and therefore would lead to inconsistent accounting conceptually.

Amendments to Ind AS 28, *Investments in Associates and Joint Ventures*

A paragraph 17 is proposed to be added and paragraph 16 is proposed to be amended. New text is underlined and the deleted text is struck through.

Application of the equity method

16 An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs ~~18~~ 17–19.

Exemptions from applying the equity method

17 ~~[Refer to Appendix 1]~~ An entity need not apply the equity method to its investment in an associate or a joint venture if the entity is a parent that is exempt from preparing consolidated financial statements by the scope exception in paragraph 4(a) of Ind AS 110 or if all the following apply:

(a) The entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) The entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) The entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.

(d) The ultimate or any intermediate parent of the entity produces consolidated financial statements available for public use that comply with Ind ASs.

Appendix 1

Comparison with IAS 28 ~~(as amended in 2011)~~, *Investments in Associates and Joint Ventures*

~~1 Paragraph 16 has been modified and paragraph 17 has been deleted as the applicability or exemptions to the Indian Accounting Standards is governed by the Companies Act and the Rules made thereunder. However, paragraph numbers have been retained in Ind AS 28 (as amended) to maintain consistency with IAS 28 (as amended in 2011).~~

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