

# **Exposure Draft**

## **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 209<sup>th</sup> 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 209<sup>th</sup> meeting to finalise the Indian Accounting Standards.

## Standards addressed

The following table shows the topics addressed by these amendments.

<b>Standard</b>	<b>Subject of amendment</b>
Ind AS 1 <i>Presentation of Financial Statements</i>	Current liabilities
Ind AS 17 <i>Leases</i>	Straight lining of operating lease rentals
Ind AS 24 <i>Related Party Disclosures</i>	Definition of close members of the family a person
Ind AS 28 <i>Investments in Associates</i>	<ul style="list-style-type: none"><li>• Application of Equity Method Procedures</li><li>• Exemption from applying the equity method</li></ul>
Ind AS 102 <i>Share Based Payment</i>	Guidance for share-based payment plan administered through a trust
Ind AS 103 <i>Business Combinations</i>	Business combinations under common control

# Exposure Draft

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

Following is the Exposure Draft of the Amendments to the following Indian Accounting Standards (Ind AS) issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments:

- i) *Ind AS 1 Presentation of Financial Statements*
- ii) *Ind AS 17 Leases*
- iii) *Ind AS 24 Related Party Disclosures*
- iv) *Ind AS 28 Investments in Associates*
- v) *Ind AS 102 Share Based Payment*
- vi) *Ind AS 103 Business Combinations*

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, 2014. Comments can also be sent by e-mail at [commentsasb@icai.in](mailto:commentsasb@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<sup>1</sup>)

### Amendments to **Ind AS 1, Presentation of Financial Statements**

Paragraph 74 is amended. New text is underlined and the deleted text is struck through. Further clarifications on this amendment may be sought by e-mail to [shilpi.hisaria@icai.in](mailto:shilpi.hisaria@icai.in).

- 74 When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach~~—~~, unless it is a minor breach of the nature that does not result in payment on demand based on the past experience of the entity. This exception

<sup>1</sup> 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.

shall not be applied by analogy to events, conditions and transactions other than loan contracts that have specified schedule of payment of interest and principal measured at amortised cost in accordance with Ind AS 109, "Financial Instruments". An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

## Appendix 1

### Comparison with IAS 1, *Presentation of Financial Statements*

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9 Paragraph 74 has been modified to provide that a default in compliance with minor procedural loan covenants to which lenders do not exercise their rights to recall the loan, as a practical expedient, would not result in classifying the liability as current liability.

#### **Question**

The amendment is proposed keeping in view the existing practice in India. Therefore, no separate disclosure requirement for the same has been provided. However, as this is a departure from IAS 1, if disclosure requirements are given, users will be in a position to reconcile the financial statements based on Indian Accounting Standards and the financial statements based on International Financial Reporting Standards (IFRS).

Should there be separate disclosure in the notes to accounts where the exception to the definition of current liability in case of loan contracts with specified schedule of payment of principal and interest as proposed in paragraph 74 above applies? Why or Why not?

#### **Reason for Amendments**

It has been observed that, in India, generally the banks do not demand repayment of loans on minor breach of certain terms and conditions, which are included in the loan agreements more as a matter of caution. Therefore, in such situations, the entities generally continue to repay the loan as per its original terms and conditions. Considering that the practical implications of such a breach are negligible in the Indian scenario, in 'substance' the loan is not callable on a minor default, even though in terms of legal 'form' the loan may be callable. It is, therefore, felt that it would be appropriate that such a loan should continue to be classified as non-current. Accordingly, paragraph 74 of Ind AS 1, *Presentation of Financial Statements* corresponding to IAS 1 has been

modified to provide that a minor default in compliance with loan covenants to which lenders do not exercise their rights to recall the loan, as a practical expedient, would not result in classifying the liability as current liability. It may be noted that similar guidance is provided in the Guidance Note on Schedule VI issued by the ICAI.

## **Amendments to Ind AS 17, Leases**

Paragraphs 33 and 50 are amended. New text is underlined and the deleted text is struck through. Further clarifications on this amendment may be sought by e-mail to [shilpi.hisaria@icai.in](mailto:shilpi.hisaria@icai.in).

- 33 Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless either
- (a) another systematic basis is more representative of the time pattern of the user's benefit even if the payments are not on that basis, or
  - (b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary because of factors other than general inflation, then this condition is not met.
- 50 Lease income from operating leases (excluding amounts for services such as insurance and maintenance) shall be recognised in income on a straight-line basis over the lease term, unless either
- (a) another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished, even if the receipt of payments is not on that basis, or
  - (b) the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases. If payments to the lessor vary according to factors other than inflation, then this condition is not met."

# Appendix 1

Comparison with IAS 17 *Leases*, SIC 15 *Operating Leases—Incentives*, SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, and IFRIC 4 *Determining whether an Arrangement contains a Lease*

1 ....

2 Paragraphs 33 and 50 have been modified to provide that where the escalation of lease rentals is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined

23 ....

34 ....

## **Question:**

IFRS for SMEs requires that the expected general inflation should be based on published indices or statistics. This requirement is not added in the proposed amendment to Ind AS 17. Do you agree? Why or Why not?

## **Reason for Amendments**

Keeping in view the Indian inflationary situation, a departure from IAS 17 is proposed to the extent that the straight lining of lease rental may not be required in case the periodic rent escalation which is due to inflation, although straight lining is required in cases where rental payments are structured for other than inflation. Accordingly, Paragraphs 33 and 50 of Ind AS 17, *Leases*, corresponding to IAS 17, *Leases*, have been modified to provide that where the escalation of lease rentals is in line with the expected inflation so as to compensate the lessor for expected inflationary cost increases shall not be straight lined. IFRS for SMEs requires similar accounting treatment in such situations.

## Amendment to

### Ind AS 24 *Related Party Disclosures*

Definition given under paragraph 9 is amended. New text is underlined and deleted text is struck through. Further clarifications on this amendment may be sought by e-mail to [achin.poddar@icai.in](mailto:achin.poddar@icai.in).

#### Definitions

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*Close members of the family of a person* are ~~the persons specified within meaning of 'relative' under the Companies Act 1956 and that person's domestic partner, children of that person's domestic partner and dependants of that person's domestic partner.~~ those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

## Appendix 1

*Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 24 and the corresponding International Accounting Standard (IAS) 24, Related Party Disclosures*

#### Comparison with IAS 24, *Related Party Disclosures*

~~2.~~ In the Ind AS 24, relatives as specified under the meaning of relative under the Companies Act, 1956 are included in the definition of the *'close members of the family of a person'*

~~3.2.~~ Paragraph 24A has been included in the Ind AS 24. It provides additional clarificatory guidance regarding aggregation of transactions for disclosure.

~~4.3.~~ Different terminology is used in this standard, e.g., the term 'balance sheet' is used instead of 'Statement of financial position'.



## **Reasons for Amendments**

The Accounting Standards Board considered the carve-out and noted that the definition of ‘close members of the family of a person’ as defined in IAS 24, *Related Party Disclosures*, is a principle-based definition as compared to ‘relatives’ as defined in the Companies Act, 1956 (now Companies Act, 2013). The Board is of the view that the definition of ‘close members of the family of a person’ as given in IAS 24 would also cover relatives in case they influence or be influenced by the person. This definition may also cover other relatives that are not covered by the definition of ‘relative’ as per the Companies Act, 1956, in case a person can influence or be influenced by that other relative.

The Board is also of the view that the objective of the definitions under the Companies Act, 1956 (now Companies Act, 2013), is primarily regulatory in nature to ensure governance, whereas the objective of accounting standards is to make the financial statements present a true and fair view of the financial position, financial performance and cash flows of the entity to the users so as to enable them in making proper economic decisions.

Accordingly, the Board is of the view that the definition of ‘close members of the family of a person’ given in Ind AS 24 needs to be modified in line with that in IAS 24 and reference to the Companies Act, 1956 should be removed.

## **Amendment to Ind AS 28 *Investment in Associates***

Paragraphs 18, 19, 34 and 35 are amended. New text is underlined and the deleted text is struck through. Further clarifications on this amendment may be sought by e-mail to [shilpi.hisaria@icai.in](mailto:shilpi.hisaria@icai.in) -

### **Exemptions from applying the equity method**

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- 18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with Ind AS ~~39~~109.
- 19 When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with Ind AS ~~39-109~~ regardless of whether the venture capital organisation has significant influence over that portion of the investment. If the entity makes that

election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation.

## Equity method Procedures

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**34** When, in accordance with paragraph 33, the financial statements of an associate or a joint venture used in applying the equity method are prepared as of a date different from that used by the entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the entity's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the entity shall be no more than three months ~~unless, in case of an associate, it is impracticable to do so~~. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

**35** The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances. ~~unless, in case of an associate, it is impracticable to do so~~.

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## Appendix 1

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

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~~2. References to mutual funds, unit trusts and similar entities including investment linked insurance funds, has been deleted in paragraphs 18 and 19 of Ind AS 28 (as amended) as the Companies Act, 1956, is not applicable to mutual funds, unit trusts and similar entities including investment linked insurance funds and, thus, this standard would not be applicable to such entities.~~

~~3. Where the financial statements of an associate used in applying equity method are prepared as of a date different from that of the investor, IAS 28 (as amended in 2011) requires that this difference should not be more than three months. However, paragraph 25 of Ind AS 28 (as amended) provides that this difference should not be more than three months, unless, in case of an associate, it is impracticable. Similarly, paragraph 35 of Ind AS 28 (as amended) requires use of uniform accounting policies, unless, in case of an associate, it is impracticable, which IAS 28 (as amended in 2011) does not provide. These changes have been made because the investor does not have 'control' over the associate, it may not be able to influence the associate to prepare additional financial statements or to follow the accounting policies that are followed by the investor.~~

42. Paragraph 32 (b) has been modified on the lines of Ind AS 103, *Business Combinations*, to transfer excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment in capital reserve whereas in IAS 28 (as amended in 2011), it is recognised in profit or loss.
53. Different terminology is used, as used in existing laws e.g., the term 'balance sheet' is used instead of 'Statement of financial position'.

## **Reasons for Amendments**

### **Exemptions from applying the equity method**

Earlier in paragraphs 18 and 19 of Ind AS 28 corresponding to IAS 28, *Investment in Associates*, references to mutual funds, unit trusts and similar entities including investment linked insurance funds, were deleted as the Companies Act, 1956 (now Companies Act, 2013),- is not applicable to mutual funds, unit trusts and similar entities including investment linked insurance funds and, thus, this standard would not be applicable to such entities.

The Accounting Standards Board considered the carve-out and felt that by such deletion, an issue may arise that whether such deletion of reference would mean that the Standard would be applicable to such entities in absence of the specific exemptions from applying the equity method. So, to avoid such interpretations, the reference has been retained in the above mentioned paragraphs of Ind AS 28

### **Equity method Procedures**

The Accounting Standards Board considered the carve-out and noted that in case of impracticability to obtain financial statements prepared in accordance with the uniform accounting policies of the investor and as on the date on which the financial statements of the investor are drawn (except the time gap permitted by the standard), it may be considered that the investor may not have significant influence over the investee. In other words, in such a case, it may be difficult to establish that the investor is having significant influence over the investee and, therefore, investee may not be regarded as an associate of the investor.

Accordingly, the Board is of the view that term 'unless impracticable' should be deleted.

## **Amendment to Ind AS 102, *Share Based Payment***

A new heading after paragraph 43D has been added and paragraph 43E, 43F, 43G and 43H have been added. New text is underlined and deleted text is struck through. Further clarifications on this amendment may be sought by e-mail to [achin.poddar@icai.in](mailto:achin.poddar@icai.in) .

### **Share-based payment plan administered through a trust**

43E An entity may administer a share-based payment plan through a trust constituted for this purpose. The trust may have different kinds of arrangements, for example, the following:

- (a) The entity allots shares to the trust as and when the stock options are exercised.
- (b) The entity provides finance to the trust for subscription to the shares issued by the entity at the beginning of the plan.
- (c) The entity provides finance to the trust to purchase shares from the market at the beginning of the plan.

43F Since the trust administers the plan on behalf of the entity, it is an extension of the entity as a branch/agent. The financial statements of the entity shall be prepared as if the entity itself is administering the plan.

43G The transactions of the trust shall be included in the separate financial statements of the entity as if all the transactions of the trust are those of the entity. The transactions between the trust and third parties shall be reflected in those financial statements as if these had been carried out by the entity itself. Loan, if any, given by the entity to trust will not appear in the entity's separate financial statements. Any profit made by the trust on market operations shall be recognised in equity of the entity.

43H The shares held by the trust shall be reflected in the separate financial statements of the entity. The face value of these shares shall be shown as a deduction from share capital and the excess paid over and above the face value shall be shown as deduction from securities premium with a detailed note explaining the facts. In the books of account, these shares will continue to remain recorded in a separate account and only for presentation purposes be shown as deduction from share capital/securities premium.

# Appendix 1

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5. Paragraphs 43E and 43F have been added to provide guidance on accounting of share-based payments administered through a trust.

## **Reason for Amendments**

The Accounting Standards Board considered the issue and noted that in India, in many cases, the employee share-based payments are administered by an entity through creation of a separate trust. Further, the Board also noted that in Ind AS 102, *Share-based Payment* corresponding to IFRS 2, *Share-based Payment*, no guidance is provided with regard to accounting for share-based payments administered through a trust.

Accordingly, the Accounting Standards Board, keeping in view the Indian scenario, decided that guidance on accounting for share-based payments administered through a trust should be included in Ind AS 102, *Share-based Payment*. The Board believes that this does not result in any carve-in as the accounting guidance provided is similar to that in respect of other employee benefits managed by trusts of entities under other Ind AS, viz., Ind AS 19, *Employee Benefits*.

## **Amendment to Ind AS 103 *Business Combinations***

Paragraph 12 to Appendix C, *Business combinations of entities under common control* has been modified. New text is underlined and deleted text is struck through. Further clarifications on this amendment may be sought by e-mail to [achin.poddar@icai.in](mailto:achin.poddar@icai.in).

### **Method of accounting for common control business combinations**

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12. The identity of the reserves shall be preserved and shall appear in the financial statements of the transferee in the same form in which they appeared in the financial statements of the transferor. Thus, for example, the General Reserve of the transferor entity becomes the General Reserve of the transferee, the Capital Reserve of the transferor becomes the Capital Reserve of the transferee and the Revaluation Reserve of the transferor becomes the Revaluation Reserve of the transferee. As a result of preserving the identity, reserves which are available for distribution as dividend before the business combination would also be available for distribution as dividend after the business combination. The ~~excess difference~~, if any, between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor ~~is recognised as goodwill~~ shall be transferred to a separate component of equity called 'Common Control Transaction Capital Reserve' in the financial statements of the transferee entity. ~~in the financial statements of the transferee entity; in case of any deficiency, the same shall be treated as Capital Reserve.~~

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### **Reason for Amendments**

The Accounting Standards Board considered the carve-in. The Board noted that as against Ind AS 103, *Business Combinations*, which requires accounting for business combinations as per the purchase method, business combinations under common control as per Appendix C to Ind AS 103, are accounted for as per the pooling of interests method. Since *goodwill* or *capital reserve* is recognised only in case of business combinations under purchase method, any excess of consideration over the value of assets acquired in a business combination under common control is self-generated goodwill.

Accordingly, the Accounting Standards Board is of the view that any difference between the consideration paid and share capital of the transferor shall be transferred to separate component of equity called 'Common Control Transaction Capital Reserve' instead of recognising goodwill/capital reserve consistent with the pooling of interests method.