The Chairman,

Accounting Standards Board,

The Institute of Chartered Accountants of India,

ICAI Bhawan,

Indraprastha Marg,

New Delhi – 110 002.

15th January, 2018.

Dear Sir,

Please find below our comments on the Exposure Draft of Amendments to Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance.

Convergence of Ind AS 20 with IAS 20 has been a standing demand of the industry, since the introduction of Ind AS. The non-availability of the option for reducing the government grant related to assets, from the gross value of the assets, was creating multiple issues particularly for companies in IT and other industries operating from SEZ and/or operating from designated locations entitled to government grants/ assistances.

We welcome the proposed amendments which should take care of most of the issues, which have been highlighted earlier in various forums. However, we have the following comments on the ED which we request you to consider:

Effective date (Para 48 A):

a) The ED proposes April 1, 2018, as the effective date. This means that under Ind AS, entities have the option to present government grant related to asset as a deduction from the gross value of asset from the financial year 2018-19. As per para 40A (i), entities can apply the amended standard in 2018-19 and apply Ind AS 8 to adjust the opening balance of retained earnings as on April 1, 2017. This would mean application of the amended standard in 2017-18 reported as comparative for 2018-19, although while reporting the financial statements for the year 2017-18 the entity could not state the value of the assets net of government grants. As per para 40A (ii), the entity can also implement the amended standard prospectively for grants becoming receivable/repayable after April 1, 2018.

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b) The proposed effective date will pose problem for companies irrespective of whether they have implemented Ind AS or are in the process of implementing in 2017-18, as explained below:

   i. Case 1: A company has already implemented Ind AS in financial year 2016-17. Prior to implementation of Ind AS, the company was following IGAAP and netted off government grant with the respective value of assets. On implementation of Ind AS, the company had to set up government grant as deferred income. Thereafter, the company has amortized an appropriate amount in the P/L in the year 2016-17.
      In the given case, the company will continue to follow the same course of action stated above in the year 2017-18. Stepping into 2018-19, following the amended Ind AS 20, the company would come back to the position of IGAAP, opting para 40A (i) because the netting off option was the preferred way of accounting for the company.
   ii. Case 2: A company is implementing Ind AS in the year 2017-18. The company netted off government grants with the value of assets under I GAAP. It has to implement the present Ind AS 20 for one year (i.e. 2017-18), create deferred income and amortize a part of it in 2017-18 (only for one year) and thereafter in 2018-19, take the same steps described above.
   iii. Issues:
      - In absence of an opportunity to apply amended Ind AS 20 in 2017-18, the entities will apply the existing Ind AS 20 for a limited period. Between IGAAP and Ind AS, these year(s) will stick out as aberration. This could be avoided by permitting earlier application.
      - Just for one or two years, the EBITDA and operating profit of entities will fluctuate up and down, giving confusing signal to the investors. This could be minimized by permitting earlier application.
      - All multinational companies endeavor to keep the differences between financial statements presented under IFRS and Ind AS at minimum. The sooner the two sets of books look similar, the better for such companies.
      - There are several examples in accounting standards, where for good reasons, earlier application were permitted. In the instant case, in the interest of consistency and investor confidence such earlier application option should be considered.

Recommendation: In view of above, we suggest that the companies be given an option to early adopt the amended Ind AS 20, which will resolve the issues. Accordingly, para 48 A could read as "…….An entity shall apply these amendments for the annual periods beginning on or after April 1, 2018. Earlier application is permitted."

Yours faithfully,

B. Sanyal

Barindra Sanyal
Vice President - Finance