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Comments on Discussion Paper Business Combinations-Disclosures, Goodwill and Impairment issued by the IASB for comments

S. No.	Topic requiring comments	Comments
1.	Improving disclosures about business combinations	<ul style="list-style-type: none"> ♦ It may be challenging for entities to track how well a business combination is performing against its objectives, if that business has been integrated with the entity's existing operations soon after acquisition. ♦ This change may also result in duplication/repetitiveness of information on account of jurisdictional statutory requirements for Directors' Report, Exchange Filings and the like. For instance, in India, vital information about performance of companies is required to be given as specified in Annexure to this letter.
2.	Goodwill - impairment and amortisation	<ul style="list-style-type: none"> ♦ The possible solutions to address the shielding effect of existing headroom are likely to introduce more complexities and would most likely not be effective. ♦ The re-introduction of amortisation of goodwill although significantly reduces the cost of impairment testing, but would also re-introduce the subjectivity of determining the useful life of goodwill. ♦ The impairment model is much better a model as compared to amortisation considering the fact that there could be value on goodwill which may fluctuate in some years due to market trends and vibes on account of which impairment loss provided earlier may be subjected to reversal in later years, but the amortisation model affixes the 'stagnant attribute' to the goodwill. Nevertheless, though upward revaluation of goodwill or recognition of self-generated goodwill is not permitted, the impairment model ensures some goodwill value to be there on the financial statements (atleast by saying that goodwill either is maintained or is in under some risk) as contrasted to amortisation model which at the end of (subjective) useful life of goodwill can make it even 'zero' and thereby indicating that now the business has no goodwill and it is extinct or is extinguished despite the fact that business is still continuing healthily and flourishingly.
3.	Relief from the annual impairment test/ Value in use – future restructuring or enhancement	<ul style="list-style-type: none"> ♦ An indicator approach for goodwill impairment could provide relief in the cost of performing an impairment test, but entities may need to spend more time and effort in setting up their impairment models, if after a few years of no indicators, such indicators would again arise.

		<ul style="list-style-type: none"> ♦ Removing the restrictions on VIU would much better align the cash flows being used with the internal forecasts. However, rigour in the application hereof will be required. ♦ The possibility to use post-tax discount rates and cash flows would much better align with general business valuation practices, but attention to the interaction with deferred tax assets and liabilities and related cash flows will remain a point of attention in practice.
4.	Recognising all identifiable intangible assets acquired in a business combination	<ul style="list-style-type: none"> ♦ The relevance of identifying, recognising and amortising other intangibles separately from goodwill may inter-relate with the resolution of the goodwill amortisation and impairment test effectiveness issues.

Annexure

1. SEBI-LODR Requirements:

Regulation/ Schedule	Requirements
4(2)(f)(ii)	Key functions of the board of directors include reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.
51(1)	The listed entity shall promptly inform the stock exchange(s) of all information having bearing on the performance/operation of the listed entity, price sensitive information or any action that shall affect payment of interest or dividend of non-convertible preference shares or redemption of non convertible debt securities or redeemable preference shares.
68(1)	The listed entity shall promptly inform to the stock exchange(s) of all events which are material, all information which is price sensitive and/or have bearing on performance/operation of the listed entity.
Schedule III	<p>The listed entity shall promptly inform to the stock exchange(s) of all information which shall have bearing on performance/operation of the listed entity or is price sensitive or shall affect payment of interest or dividend of non-convertible preference shares or redemption of non convertible debt securities or redeemable preference shares including :</p> <ol style="list-style-type: none"> <li data-bbox="391 936 1443 1104">(1) expected default in timely payment of interests/preference dividend or redemption or repayment amount or both in respect of the non-convertible debt securities and non-convertible redeemable preference shares and also default in creation of security for debentures as soon as the same becomes apparent; <li data-bbox="391 1125 1443 1293">(2) any attachment or prohibitory orders restraining the listed entity from transferring non-convertible debt securities or non-convertible redeemable preference shares from the account of the registered holders along-with the particulars of the numbers of securities so affected , the names of the registered holders and their demat account details; <li data-bbox="391 1314 1443 1440">(3) any action which shall result in the redemption, conversion, cancellation, retirement in whole or in part of any non-convertible debt securities or reduction, redemption, cancellation, retirement in whole or in part of any non-convertible redeemable preference shares; <li data-bbox="391 1461 1443 1629">(4) any action that shall affect adversely payment of interest on non-convertible debt securities or payment of dividend on non-convertible redeemable preference shares including default by issuer to pay interest on non-convertible debt securities or redemption amount and failure to create a charge on the assets; <li data-bbox="391 1650 1443 1818">(5) any change in the form or nature of any of its non-convertible debt securities or non-convertible redeemable preference shares that are listed on the stock exchange(s) or in the rights or privileges of the holders thereof and make an application for listing of the securities as changed, if the stock exchange(s) so require; <li data-bbox="391 1839 1443 1917">(6) any changes in the general character or nature of business / activities, disruption of operation due to natural calamity, and commencement of

	<p>commercial production / commercial operations;</p> <p>(7) any events such as strikes and lock outs. which have a bearing on the interest payment/ dividend payment / principal repayment capacity;</p> <p>(8) details of any letter or comments made by debenture trustees regarding payment/non-payment of interest on due dates, payment/non-payment of principal on the due dates or any other matter concerning the security, listed entity and /or the assets along with its comments thereon, if any;</p> <p>(9) delay/ default in payment of interest or dividend / principal amount /redemption for a period of more than three months from the due date;</p> <p>(10) failure to create charge on the assets within the stipulated time period;</p> <p>(11) any instance(s) of default/delay in timely repayment of interests or principal obligations or both in respect of the debt securities including, any proposal for re-scheduling or postponement of the repayment programmes of the dues/debts of the listed entity with any investor(s)/lender(s).</p> <p>(12) Explanation.- For the purpose of this sub-para, 'default' shall mean Non-payment of interest or principal amount in full on the pre-agreed date and shall be recognized at the first instance of delay in servicing of any interest or principal on debt.</p> <p>(13) any major change in composition of its board of directors, which may amount to change in control as defined in Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;</p> <p>(14) any revision in the rating;</p> <p>(15) the following approvals by board of directors in their meeting:-</p> <p style="padding-left: 40px;">(a) the decision to pass any interest payment;</p> <p style="padding-left: 40px;">(b) short particulars of any increase of capital whether by issue of bonus securities through capitalization, or by way of right securities to be offered to the debenture holders, or in any other way;</p> <p>(15) all the information, report, notices, call letters, circulars, proceedings, etc concerning non-convertible redeemable preference shares or non convertible debt securities;</p> <p>(16) any other change that shall affect the rights and obligations of the holders of non-convertible debt securities / non-convertible redeemable preference shares, any other information not in the public domain necessary to enable the holders of the listed securities to clarify its position and to avoid the creation of a false market in such listed securities or any other information having bearing on the operation/performance of the listed entity as well as price sensitive information.</p>
Schedule V	<p>Management Discussion and Analysis – Disclosures in Annual Report</p> <p>1. This section shall include discussion on the following matters within the limits set by</p>

	<p>the listed entity's competitive position:</p> <p>(a) Industry structure and developments.</p> <p>(b) Opportunities and Threats.</p> <p>(c) Segment-wise or product-wise performance.</p> <p>(d) Outlook</p> <p>(e) Risks and concerns.</p> <p>(f) Internal control systems and their adequacy.</p> <p>(g) Discussion on financial performance with respect to operational performance.</p> <p>(h) Material developments in Human Resources / Industrial Relations front, including number of people employed.</p> <p>(i) Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations therefor, including:</p> <p style="padding-left: 40px;">(i) Debtors Turnover</p> <p style="padding-left: 40px;">(ii) Inventory Turnover</p> <p style="padding-left: 40px;">(iii) Interest Coverage Ratio</p> <p style="padding-left: 40px;">(iv) Current Ratio</p> <p style="padding-left: 40px;">(v) Debt Equity Ratio</p> <p style="padding-left: 40px;">(vi) Operating Profit Margin (%)</p> <p style="padding-left: 40px;">(vii) Net Profit Margin (%)</p> <p style="padding-left: 80px;">or sector-specific equivalent ratios, as applicable.</p> <p>(j) Details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation thereof.</p>
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2. Companies Act, 2013 Requirements:

Section/ Rule	Requirements
Section 134 and Rule 8/8A thereunder	<p>The Board's Report shall be prepared based on the stand alone financial statements of the company and shall report on the highlights of performance of subsidiaries, associates and joint venture companies and their contribution to the overall performance of the company during the period under report.</p> <p>Other Contents of Board Report to include for instance (only extracts are given below):</p> <p>(i) the financial summary or highlights;</p> <p>(ii) the change in the nature of business, if any;</p> <p>(iii) the details of directors or key managerial personnel who were appointed or</p>

	<p>have resigned during the year;</p> <p>(iia) a statement regarding opinion of the Board with regard to integrity, expertise and experience (including the proficiency) of the independent directors appointed during the year".</p> <p>(iv) the names of companies which have become or ceased to be its Subsidiaries, joint ventures or associate companies during the year;</p> <p>(v) the details relating to deposits, covered under Chapter V of the Act,-</p> <p>(a) accepted during the year;</p> <p>(b) remained unpaid or unclaimed as at the end of the year;</p> <p>(c) whether there has been any default in repayment of deposits or payment of interest thereon during the year and if so, number of such cases and the total amount involved-</p> <p>(i) at the beginning of the year;</p> <p>(ii) maximum during the year;</p> <p>(iii) at the end of the year;</p> <p>(vi) the details of deposits which are not in compliance with the requirements of Chapter V of the Act;</p> <p>(vii) the details of significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and company's operations in future;</p> <p>(viii) the details in respect of adequacy of internal financial controls with reference to the Financial Statements;</p>
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