Exposure Draft of Annual Improvements to Ind AS (2024)

Suggestions by: Bhopal Branch (CIRC)

Submitted on 30th September 2024

1. Ind AS 101: First-time Adoption of Indian Accounting Standards

Subject: Hedge accounting by a first-time adopter.

Response: *Agree*
Rationale:
The amendment allows first-time adopters to retain hedge accounting relationships designated under their previous GAAP if they meet certain conditions. This helps avoid the need for entities to discontinue existing hedging relationships upon transition to Ind AS, which could result in earnings volatility and misalignment between hedge instruments and hedged items. It simplifies the transition process, reduces operational burdens, and maintains financial stability during the initial adoption phase.

2. Ind AS 107: Financial Instruments – Disclosures

Subject: Gain or loss on derecognition.

Response: *Agree*
Rationale:
This amendment enhances transparency by requiring entities to disclose whether the gain or loss on derecognition of financial instruments arises from a difference in the fair value of the retained and derecognized parts of the asset. Additionally, it mandates disclosure when significant unobservable inputs are used in fair value measurement. This ensures that users of financial statements can better assess the risks and reliability of valuations, particularly when non-observable market data is used. These disclosures are vital for users trying to understand the financial health of the entity and evaluate the underlying risks in the company's financial transactions.

3. Ind AS 109: Financial Instruments

Subject: Derecognition of lease liabilities and transaction price.

Response: *Agree, with reservations*
Rationale:
The amendment clarifies that lease liabilities recognized by a lessee under Ind AS 116 are subject to derecognition rules under Ind AS 109. This alignment is necessary because it eliminates confusion over which standard governs the derecognition of lease liabilities. Additionally, it aligns the transaction price treatment in financial instruments with Ind AS 115 (Revenue from Contracts with Customers), ensuring consistency in how transaction prices are accounted for across different standards.

Alternative Approach:
Instead of placing lease liability derecognition entirely within Ind AS 109, the derecognition of lease liabilities could be addressed comprehensively within **Ind AS 116**. This would simplify lease accounting by centralizing all lease-related issues under one standard, reducing the potential for inconsistencies. Entities could then apply derecognition rules tailored specifically to lease transactions, taking into account unique aspects like termination options and modifications that are specific to leases.

4. Ind AS 110: Consolidated Financial Statements

Subject: Determination of a 'de facto agent'.

Response: *Agree, with reservations*
Rationale:
The amendment clarifies the concept of a 'de facto agent' by providing examples of relationships that might constitute indirect control even without a contractual arrangement. This is a critical addition as it ensures that entities cannot avoid consolidation by structuring relationships to appear as if they lack control. The amendment requires entities to look beyond legal form and assess control based on substance, enhancing the accuracy of consolidated financial statements.

Alternative Approach:
Instead of relying on judgment to determine a 'de facto agent', the IASB/ICAI could introduce **specific quantitative and qualitative thresholds** to better define when a party is considered a de facto agent. For instance, entities could be required to evaluate a party's financial dependence on the investor or the frequency with which the party acts in the investor's interest. This would provide more objective guidance, reducing the subjective nature of the judgment and ensuring consistent application of the control assessment criteria.

5. Ind AS 7: Statement of Cash Flows

Subject: Equity method and Cost method.

Response: *Agree*
Rationale:
This amendment limits the reporting of cash flows between an investor and its investees to actual cash transactions, such as dividends and advances. This ensures that equity method adjustments, which represent accounting entries (e.g., recognizing an investor's share of profits), are not misrepresented as actual cash flows. The change enhances the accuracy of cash flow statements, leading to more reliable assessments of an entity's liquidity and cash management.

Conclusion:

- **Ind AS 101 and 107**: The amendments improve clarity and transparency, ensuring smoother transitions for first-time adopters and more informative disclosures for financial instruments.

- **Ind AS 109**: While the alignment is essential, an alternative approach of centralizing lease-related derecognition in Ind AS 116 could reduce complexity and make accounting for leases more straightforward.
- **Ind AS 110**: The amendment is valuable, but introducing clear thresholds for identifying a 'de facto agent' would reduce subjectivity and promote consistent application across entities.
- **Ind AS 7**: The restriction to actual cash flows ensures a more accurate reflection of liquidity, improving the reliability of cash flow statements for users.

These detailed comments reflect both the strengths of the amendments and potential improvements to further enhance clarity and usability in accounting practice.