

Financial Reporting Department

FRD/ICAI/01/2024

23 October 2024

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

Sub: Response to Exposure Draft - Annual Improvements to Ind AS (2024)**1. Amendments to Ind AS 101, First-time Adoption of Indian Accounting Standards - Hedge Accounting.**

Response: Agree. We agree with the proposed amendment as it clarifies the ambiguity arising from an inconsistency between the wording of paragraph B6 of IND AS 101 First-time Adoption of Indian Accounting Standards and the requirements for hedge accounting in IND AS 109 Financial Instruments. Paragraph B6 of IND AS 101 refers to 'conditions' for hedge accounting, whereas Section 6.4 of IND AS 109 sets out 'qualifying criteria' for hedge accounting. The qualifying criteria for hedge accounting in paragraph 6.4.1(a) of IND AS 109 include the requirement for a hedging relationship to consist only of eligible hedging instruments and eligible hedged items. To avoid a misconception that the requirements in paragraphs B5–B6 of IND AS 101 are incomplete or override the qualifying criteria for hedge accounting in IND AS 109, and to leave unchanged the application of the requirements in paragraph B6 of IND AS 101, we agree with the proposal to add:

- (a) a cross-reference to paragraph 6.4.1(a) of IND AS 109 in paragraph B5 of IND AS 101 and
- (b) a cross-reference to paragraph 6.4.1(b)–(c) of IND AS 109 in paragraph B6 of IND AS 101.

2. Amendments to Ind AS 107, Financial Instruments: Disclosures - Gain or loss on derecognition (paragraph 42G(a))**Response: Agree**

We agree with the proposed amendment as it removes the obsolete reference given to paragraph 27A of IND AS 107, which was already deleted. The requirements in paragraphs 72–73 of IND AS 113 effectively replaced the requirements in paragraph 27A of IND AS 107. Thus, we agree with the amendment to paragraph B38 of IND AS 107, thereby

- a) replacing the reference to paragraph 27A of IND AS 107 with a reference to paragraphs 72–73 of IND AS 113 and
- b) replacing the phrase 'inputs that were not based on observable market data' with 'unobservable inputs' to make the wording consistent with the wording in paragraph 72 of IND AS 113.

3. Amendments to Ind AS 109, Financial Instruments - Chapter 2 Scope

Response: Disagree. The proposed amendment is to increase the coverage of the accounting treatment for de-recognition of financial liabilities prescribed as per para 3.3.3 of Ind AS 109 to derecognition of lease liabilities as per Ind AS 116.

We feel that since para 3.3.3 of Ind AS 109 is intended to cover accounting treatment for the de-recognition of financial liabilities within the scope of Ind AS 109, extending its coverage to Ind AS 116 is not appropriate.

As there is a specific standard (Ind AS 116) which provides detailed guidelines on various aspects of lease (Lease creation, partial modification, cancellation etc), accounting treatment for derecognition of lease liabilities also shall be included under Ind AS 116 itself. Hence we suggest including the relevant guidelines for de-recognition of lease liabilities under Ind AS 116 itself as it will provide better clarity.

Chapter 5 Measurement

Response: Agree. We agree with the proposed amendment of making cross reference to IND AS 115 for measuring trade receivables for initial recognition. There existed an inconsistency between paragraph 5.1.3 of IND AS 109 and the requirements in IND AS 115. An entity applying paragraph 105 of IND AS 115 is required to present any unconditional rights to consideration separately as a receivable. However, a receivable might be measured, at initial recognition, at an amount that differs from the amount of the transaction price recognised as revenue. Thus paragraph 5.1.3 of IND AS 109 can be amended to replace 'their transaction price (as defined in IND AS 115)' with 'the amount determined by applying IND AS 115'. After the removal of the term 'transaction price' from paragraph 5.1.3, IND AS 109 included no remaining uses of that term that relate to the way 'transaction price' is defined in IND AS 115. Thus, we also agree with the deletion of the reference to 'transaction price' (as defined in IND AS 115) given in Appendix A of IND AS 109.


4. Amendments to Ind AS 110, Consolidated Financial Statements - Assessing control

Response: Agree. We agree with the proposed amendment clarifying the definition of de facto agent in assessing control. The requirements in paragraphs B73 and B74 could have been contradictory in some situations. Paragraph B73 refers to 'de facto agents' as parties acting on the investor's behalf and states that the determination of whether other parties are acting as de facto agents requires judgement. However, the second sentence of paragraph B74 used more conclusive language by stating that a party is a de facto agent when those that direct the activities of the investor have the ability to direct that party to act on the investor's behalf.

The proposed amendment to paragraph B74 use less conclusive language and clarifies that the relationship described in paragraph B74 is just one example of a circumstance in which judgement is required to determine whether a party is acting as a de facto agent. The proposed amendments now resolve the inconsistency with the requirement for an entity to use judgement in paragraph B73.

Please contact at fr@federalbank.co.in if you wish to discuss any of the contents of this letter.

Yours Sincerely,


Venkatraman Venkateswaran
Chief Financial Officer
The Federal Bank Limited.