CNK & Associates LLP
Chartered Accountants

Quarterly Updates
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Indian Accounting Standards (Ind AS), International Financial Reporting Standards (IFRS) and International Sustainability Standard Board (ISSB)

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Indian Accounting Standards (Ind AS)

Ind AS: Disclosures Checklist (Revised April 2024)

ICAI Announcement dated April 2024

The Accounting Standards Board of the ICAI has published the revised edition of Ind AS: Disclosure Checklist to help entities identify the relevant disclosures required under Ind AS to prepare and present financial statements **(FSs)** in accordance with Ind AS.

Subsequent to the last edition in November 2022, Companies (Ind AS) Amendments Rules, 2023, have been notified by the MCA. Therefore, this publication has been updated covering these developments which are applicable for the accounting periods beginning on or after 1st April 2023.

International Financial Reporting Standard (IFRS)

IASB issues new IFRS Accounting Standard - IFRS 18 *Presentation and Disclosure in Financial Statements*

Announcement dated 9th April 2024

The International Accounting Standards Board **(IASB)** completed its work to improve the usefulness of information presented and disclosed in FSs. The new Standard, IFRS 18, will give investors more transparent and comparable information about companies' financial performance, thereby enabling better investment decisions. It will affect all companies using IFRS Accounting Standards.

IFRS 18 sets out requirements for the presentation and disclosure of information in general purpose FSs to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.

IFRS 18 introduces 3 sets of new requirements to improve companies' reporting of financial performance and give investors a better basis for analysing and comparing companies:

- **Presentation of new defined subtotals in the Statement of Profit or Loss**
  IFRS 18 requires a company:
  - to classify income and expenses into **operating, investing** and **financing** categories in the Statement of Profit or Loss —plus income taxes and discontinued operations; and
  - to present 2 new defined subtotals—**operating profit** and **profit before financing and income taxes**

  These subtotals provide a consistent structure for the Statement of Profit or Loss, thereby improving comparability.

- **Disclosure of management-defined performance measures (MPMs)**
  Many companies report alternative performance measures or non-GAAP measures. When those measures meet the definition of MPMs, IFRS 18 requires companies to disclose reconciliations between those measures and subtotals listed in IFRS 18 or totals or subtotals required by IFRS Accounting Standards. MPMs are subtotals of income and expenses used in public communications to communicate management's view of an aspect of the financial performance for the company as a whole.

- **Enhanced requirements for grouping (aggregation and disaggregation) of information**
  IFRS 18 sets out requirements to help companies determine whether information about items should be in the primary FSs or in the Notes and provides principles for determining the level of detail needed for the information. IFRS 18 also includes requirements for the presentation of operating expenses in the Statement of Profit or Loss, disclosure of specified expenses by nature, and further information on items grouped together and labelled 'other'.

Other changes introduced by IFRS 18

IFRS 18 replaces IAS 1 *Presentation of Financial Statements*. As a result, the requirements in IAS 1 have been:

- replaced by new requirements in IFRS 18;
- transferred to IFRS 18 with only limited wording changes; or
- moved to IAS 8 *Basis of Preparation of Financial Statements* or IFRS 7 *Financial Instruments: Disclosures* with only limited wording changes.

IFRS 18 has also introduced changes to other IFRS Accounting Standards, the most essential changes are given below:

Statement of Cash Flows

The IASB has made limited changes to the statement of cash flows as defined in IAS 7 *Statement of Cash Flows*, particularly:

- requiring companies to use the operating profit subtotal as the starting point for reporting cash flows from operating activities using the indirect method; and
- removing the presentation alternatives for interest and dividend cash flows for most companies - dividends and interest paid are generally classified in cash flows from financing activities, and dividends and interest received are generally classified in cash flows from investing activities.

Earnings per share

In addition to reporting basic and diluted earnings per share, companies were permitted under IAS 33 *Earnings per Share* to disclose earnings per share calculated based on any component of the Statement of Comprehensive Income. The amendments to IAS 33 permit a company to disclose these additional earnings per share only if the numerator is either a total or subtotal identified in IFRS 18 or an MPM.

Interim Financial Reporting

IAS 34 *Interim Financial Reporting* was amended to require companies to disclose information about MPMs in interim FSs. Some of the other changes (including those about subtotals) also apply to condensed FSs in interim reports.

IFRS 18 is **effective for annual reporting periods beginning on or after 1st January 2027**, but companies can apply it earlier.

IFRS 18 will affect all companies in all industries. Although IFRS 18 will not affect how companies measure financial performance and overall profit figure, it will affect how companies present and disclose financial performance.

IASB proposes amendments for Renewable Electricity Contracts

Announcement dated 8th May 2024

The IASB has published an Exposure Draft proposing narrow-scope amendments to ensure that FSs more faithfully reflect the effects that renewable electricity contracts have on a company. The proposals amend IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures.*

Renewable electricity contracts@ aim to secure the stability of and access to renewable electricity sources. However, renewable electricity markets have unique characteristics. Renewable electricity sources depend on nature and its supply cannot be guaranteed. The contracts often require buyers to take and pay for whatever amount of electricity is produced, even if that amount does not match the buyer's needs at the time of production. These distinct market characteristics have created accounting challenges in applying the current accounting requirements, especially for long-term contracts.

@ *Contracts for renewable electricity are often structured as power purchase agreements (PPAs). They are grouped as either physical PPAs or virtual PPAs.*

To address these challenges, the IASB is proposing some targeted changes in IFRS 9 and IFRS 7 specifically:

- the own-use requirements -to include the factors an entity is required to consider when applying IFRS 9 to contracts to buy and take delivery of renewable electricity for which the source of production of the electricity is nature dependent and the purchaser is exposed to substantially all of the volume risk;

- the hedge accounting requirements - to permit an entity using a contract for renewable electricity with specified characteristics as a hedging instrument:
  - to designate a variable volume of forecast electricity transactions as the hedged item if specified criteria are met; and
  - to measure the hedged item using the same volume assumptions as those used for the hedging instrument; and
- the disclosure requirements - to add disclosure requirements to enable users of FSs to understand the effects of contracts for renewable electricity with specified characteristics on an entity's financial performance and on the amount, timing and uncertainty of the entity's future cash flows.

IASB issue new IFRS Accounting Standard IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

Announcement dated 9th May 2024

IFRS 19 permits eligible subsidiaries to use IFRS Accounting Standards with reduced disclosures. Applying IFRS 19 will reduce the costs of preparing subsidiaries' FSs while maintaining the usefulness of the information for users of their FSs.

When a parent company prepares consolidated FSs that comply with IFRS Accounting Standards, its subsidiaries are required to report to the parent using IFRS Accounting Standards. However, for their own FSs, subsidiaries are permitted to use IFRS Accounting Standards, the *IFRS for SMEs* Accounting Standard or national accounting standards.

Subsidiaries using the *IFRS for SMEs* Accounting Standard or national accounting standards for their own FSs often keep 2 sets of accounting records because the requirements in these Standards differ from those in IFRS Accounting Standards.

Subsidiaries using IFRS Accounting Standards for their own FSs provide disclosures that may be disproportionate to the information needs of their users.

IFRS 19 will resolve these challenges by:

- **enabling subsidiaries to keep only 1 set of accounting records**—to meet the needs of both their parent company and the users of their FSs; and
- **reducing disclosure requirements**—IFRS 19 permits reduced disclosures better suited to the needs of the users of their FSs.

What IFRS 19 does?

IFRS 19 works alongside other IFRS Accounting Standards. An eligible subsidiary applies the requirements in other IFRS Accounting Standards except for the disclosure requirements and instead applies the reduced disclosure requirements in IFRS 19.

IFRS 19's reduced disclosure requirements balance the information needs of the users of eligible subsidiaries' FSs with cost savings for preparers.

IFRS 19 is a voluntary standard for eligible subsidiaries. A subsidiary is eligible if:

- it does not have public accountability; and
- it has an ultimate or intermediate parent that produces consolidated FSs available for public use that comply with IFRS Accounting Standards.

IFRS 19 can be applied as soon as it is issued.

IFRS 19—The disclosure requirements

IFRS 19 enables an eligible subsidiary to apply IFRS Accounting Standards with reduced disclosure requirements.

The IASB has not reduced disclosure requirements for:

- IAS 33 *Earnings per Share* and IFRS 8 *Operating Segments*
- IFRS 17 *Insurance Contracts*

The IASB has modified disclosure requirements for:

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 7 *Statement of Cash Flows*

IASB issues narrow-scope amendments to classification and measurement requirements for financial instruments

Announcement dated 30th May 2024

The IASB issued amendments to the classification and measurement requirements in IFRS 9 *Financial*

Instruments. The amendments will address diversity in accounting practice by making the requirements more understandable and consistent.

These amendments respond to feedback from the 2022 Post-implementation Review of the Accounting Standard and clarify the requirements in areas where stakeholders have raised concerns, or where new issues have emerged since IFRS 9 was issued.

These include:

- **Clarifying the classification of financial assets with environmental, social and corporate governance (ESG) and similar features**—ESG-linked features in loans could affect whether the loans are measured at amortised cost or fair value. Stakeholders asked how to determine how such loans should be measured based on the characteristics of the contractual cash flows. To resolve any potential diversity in practice, the amendments clarify how the contractual cash flows on such loans should be assessed.

- **Settlement of liabilities through electronic payment systems**—stakeholders highlighted challenges in applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or a financial liability via electronic cash transfers. The amendments clarify the date on which a financial asset or financial liability is derecognised. The IASB also decided to develop an accounting policy option to allow a company to derecognise financial liability before it delivers cash on the settlement date if specified criteria are met.

With these amendments, the IASB has also introduced additional disclosure requirements to enhance transparency for investors regarding investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features, for e.g. features tied to ESG-linked targets.

The amendments are effective for annual reporting periods beginning on or after 1st January 2026.

International Sustainability Standard Board (ISSB)

ISSB delivers further harmonisation of the sustainability disclosure landscape as it embarks on new work plan

Announcement dated 24th June 2024

At the IFRS Foundation Conference coinciding with London Climate Action Week—ISSB announced further harmonisation of the sustainability reporting landscape, as the ISSB embarks on its new 2-year work plan and publishes the Feedback Statement on that work plan.

The creation of the ISSB involved the consolidation of the Climate Disclosure Standards Board (CDSB), Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) with the IFRS Foundation. Furthermore, the Task Force on Climate-related Financial Disclosures (TCFD) was disbanded following publication of the ISSB's inaugural Standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

During the next 2 years, the ISSB will deliver further harmonisation and consolidation of the disclosure landscape in response to market demand.

Summary

- **Harmonising disclosures about transition plans**
  Globally, disclosures on an entity's plans to address any targets it has in place to transition to a lower-carbon economy—often called transition plans—are a growing proportion of corporate climate-related disclosures. IFRS S2 requires that information be disclosed if an entity has such a plan. To support application of these disclosure requirements and to reduce fragmentation in information provided in the market, the ISSB plans to support work to streamline and consolidate frameworks and standards for disclosures about transition plans.

To achieve this, first, the IFRS Foundation will assume responsibility for the disclosure-specific materials developed by the Transition Plan Taskforce, whose disclosure framework and related guidance draws on components identified by the Glasgow Finance Alliance for Net Zero (GFANZ). The disclosure-specific materials will be housed on the IFRS Sustainability Knowledge Hub.

- **Measuring greenhouse gas (GHG) emissions effectively**
  IFRS S2 requires GHG emissions to be measured in accordance with the GHG Protocol Corporate Standard (2004), given its wide use around the world. Furthermore, IFRS S2 requires companies to use the categories of Scope 3 as set out in the Corporate Value Chain (Scope 3) Standard (2011).

  To ensure ongoing compatibility between the work of the GHG Protocol and the ISSB and to ensure that the information provided meets the needs of capital markets, the IFRS Foundation and GHG Protocol have signed a Memorandum of Understanding to put in place governance arrangements.

- **Partnering with CDP to deliver alignment**
  CDP *(formerly known as the Carbon Disclosure Project)* is the ISSB's key global climate disclosure partner providing a trusted tool that supports companies on their path to compliance with ISSB Standards.

- **Full interoperability with Global Reporting Initiative (GRI)**
  The ISSB and GRI's Global Sustainability Standards Board (GSSB) have committed to jointly identify and align common disclosures that address information needs under the distinct scopes and purposes of their respective standards, for both thematic and sector-based standard-setting.

- **Informed by the Taskforce on Nature-related Financial Disclosures**
  The ISSB will look at how it might build from relevant initiatives to meet the information needs of investors as it embarks on its research project on biodiversity, ecosystems and ecosystem services.

Insights into the adoption strategy for the ISSB Standards

More than 20 jurisdictions have already decided to use or are taking steps to introduce ISSB Standards in their legal or regulatory frameworks.

Jurisdictional approaches

- **Committing to adoption or other use of ISSB Standards**
  - Jurisdiction has issued a public policy statement of intent to adopt or otherwise use ISSB Standards in the foreseeable future
  - Credible roadmap to full achievement of the defined target outcome

- **Permitting the use of ISSB Standards**
  Jurisdiction has made a decision and set a jurisdictional target to introduce regulation that expressly permits and encourages the use of IFRS S1 and IFRS S2 (or requirements with functionally aligned outcomes) or has introduced this permission in its regulation

- **Partially incorporating ISSB Standards**
  Jurisdiction has introduced requirements that include specific content of IFRS S1 and IFRS S2, but with modifications such that the requirements are not designed to deliver functionally aligned outcomes, including:
  - Changes to or exemptions to requirements in IFRS S1 and IFRS S2
  - Adoption of IFRS S2 (or requirements with functionally aligned outcomes to IFRS S2) without adopting (the climate-relevant portions of) IFRS S1 (or without introducing requirements with functionally aligned outcomes to IFRS S1)

- **Adopting ISSB Standards with extended transition**
  - Jurisdiction has phased in the introduction of IFRS S1 and IFRS S2 (or requirements with

functionally aligned outcomes), with extension of transition standard reliefs within 3-5 years; or
  - Jurisdiction has introduced relief for the consideration of SASB Standards (3-5 years relief) to the extent that this does not result in exempting entities from the requirement to provide industry-specific information

- **Adopting ISSB Standards with limited transition**
  - Jurisdiction has an accelerated phased-in adoption of IFRS S1 and IFRS S2 (or requirements with functionally aligned outcomes), targeting full adoption with extension of transition standard reliefs within 1-3 years
  - Extensions of transition standard reliefs limited to: i) 'climate-first', (ii) timing of reporting, (iii) GHG Protocol, and (iv) Scope 3 GHG emissions

- **Adopting climate requirements in ISSB Standards**
  - Jurisdiction has fully and comprehensively adopted IFRS S2 and (the climate-relevant portions of) IFRS S1 (or local climate-related requirements designed to deliver functionally aligned outcomes to those resulting from the application of IFRS S2 in combination with the climate-relevant portions of IFRS S1)
  - Without introducing extensions of transition standard reliefs

- **Fully adopting ISSB Standards**
  - Jurisdiction has introduced a legislative or regulatory requirement for all or most domestic publicly accountable entities to apply IFRS S1 and IFRS S2, or requirements with functionally aligned outcomes, for consolidated sustainability-related financial information as part of general-purpose financial reports with no additional ongoing transition reliefs
  - Describes: (i) jurisdictions that have directly adopted IFRS S1 and IFRS S2, or (ii) jurisdictions that have introduced requirements with functionally aligned outcomes
  - Also describes jurisdictions that have introduced sustainability-related disclosure requirements that go beyond the disclosure requirements of IFRS S1 and IFRS S2, provided that they have also introduced requirements with functionally aligned outcomes
  - Mutually agreed interoperability guidance can be an effective means of communicating how disclosures can be prepared to deliver functionally aligned outcomes

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CNK & Associates LLP
Chartered Accountants

Mumbai

3rd Floor, Mistry Bhavan, Dinshaw Vachha Road, Churchgate, Mumbai 400 020.
Tel: +91 22 6623 0600

501/502, Narain Chambers, M.G Road, Vile Parle (East), Mumbai 400 057.
Tel: +91 22 6250 7600

Chennai: +91 44 4384 9695
Vadodara: +91 265 234 3483
Ahmedabad: +91 79 2630 6530
GIFT City: +91 79 2630 6530
Bengaluru: +91 91 4110 7765
Delhi: +91 11 2735 7350
Pune: +91 20 2998 0865
Dubai: +971 4355 9533
Abu Dhabi: +971 4355 9544