CNK & ASSOCIATES LLP
CHARTERED ACCOUNTANTS

IFRS, ISSB and Ind AS Update

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Indian Accounting Standards (Ind AS)
(IFRS as applicable in India with certain carve-outs)

Implementation of Ind AS

RBI/2022-23/182 dated 20th February 2023

The RBI has observed that consequent to the implementation of **Ind AS**, some Asset Reconstruction Companies **(ARCs)** have been recognising management fees even though the said fee had not been realised for more than 180 days.

To address the prudential concerns arising from continued recognition of unrealised income, the RBI has decided that ARCs preparing their financial statements **(FSs)** as per Ind AS, should reduce the following amounts from their net owned funds **(NOFs)** while calculating the Capital Adequacy Ratio and the amount available for payment of dividend:

a) Management fee recognised during the planning period that remains unrealised beyond 180 days from the date of expiry of the planning period.
b) Management fee recognised after the expiry of the planning period that remains unrealised beyond 180 days of such recognition.
c) Any unrealised management fees, notwithstanding the period for which it has remained unrealised, where the net asset value of the Security Receipts has fallen below 50% of the face value.

The amount reduced from NOFs and amount available for payment of dividend will be net of any specific expected credit loss allowances held on unrealised management fee referred to in sub-paragraphs (a), (b) and (c) and the tax implications thereon, if any.

The Audit Committee of the Board should review the extent of unrealised management fee and satisfy itself on the recoverability of the same while finalising the FSs. It should be ensured that the management fee is computed strictly in accordance with extant regulations.

ARCs should disclose information on the ageing of the unrealised management fee recognised in their books in given format as part of the Notes to Accounts in the annual FSs.

This Circular is applicable to all ARCs preparing their FSs as per Ind AS.

Educational Material on Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*

ICAI Announcement dated 21st February 2023

Ind AS 21 prescribes how to include foreign currency transactions and foreign operations in the FSs of an entity and how to translate the FSs into presentation currency. It also provides guidance on which exchange rates to use and how to report the effects of changes in exchange rates in the FSs.

This Educational material on Ind AS 21 addresses all relevant aspects envisaged in the Standard by way of brief summary of the Standard and frequently asked questions (FAQs) on practical issues that the preparers of the FSs may face while applying this Ind AS.

The Companies (Ind AS) Amendment Rules, 2023

Notification dated 31st March 2023

The MCA has amended the Companies (Ind AS) Rules, 2015. Following Ind ASs have been amended:

Ind AS	Particulars
101	First-time adoption of Ind AS
102	Share based payment
103	Business Combinations
107	Financial Instruments: Disclosures
109	Financial Instruments
115	Revenue from Contracts with Customers

Ind AS	Particulars
1	Presentation of Financial Statements
8	Accounting Policies, Changes in Accounting Estimates and Errors
12	Income Taxes
34	Interim Financial Reporting

Inter alia, the amendment includes insertion of a new paragraph in Ind AS 101, which states that deferred tax related to assets and liabilities arising from a single transaction will apply for annual reporting periods beginning on or after 1st April 2023.

This Rule will come into force with effect from 1st April 2023

National Financial Reporting Authority (NFRA)

NFRA Circular on Non-Compliance with Ind AS policies on Revenue

[Circular dated 29th March 2023]

NFRA has noticed that :

- **Revenue from Contracts with Customers - Recognition and Measurement**
  Significant accounting policies disclosed by many companies wrongly state that revenue is recognised and measured at fair value of the consideration received or receivable.
- **Trade Receivables - Initial Measurement**
  Many companies in their accounting policy, either stated separately for trade receivables or stated as part of the accounting policy for financial assets which include trade receivables, are erroneously stating that the trade receivables are initially recognized (or measured) at fair value, which is contrary to the requirements of Ind AS 109.
- There have been instances of inconsistency between the accounting policy for initial measurement of trade receivables and the accounting policy for measurement of corresponding revenue.

The above instances of wrong accounting policies by a few companies reflect inadequate understanding of the measurement and disclosure requirements of the relevant Ind ASs. All listed companies and other entities falling with the domain of NFRA which are required to follow Ind ASs are advised to comply with the provisions of Ind AS 115 and Ind AS 109. The auditors of these companies are required to ensure strict compliance, in the performance of their audits, with the provisions of the Ind ASs as brought out above.

NFRA Order against Mahindra Holidays Resorts India Limited (MHRIL) to review its 'Segment Reporting' policies and practices

[Order dated 29th March 2023]

Issues raised in the complaint :

- MHRIL raises substantial revenues through the Annual Subscription Fee **(ASF)** but does not report it as a separate Operating Segment, as required by Ind AS 108. Because of this, there is a lack of transparency in the operation of the ASF, especially the basis of determining the ASF charges and its utilization.
- MHRIL does not meet its promised obligation of providing the assured 1 week's vacation to the members, on the ground of non-availability of rooms, even though the rooms for the same duration could be booked through other channels as non-members.

In NFRA's view, both these issues impact the implementation of Ind AS.

NFRA has passed the following orders :

- MHRIL should, going forward, thoroughly and proactively review its accounting policies and practices in respect of segment reporting, as they relate to application of Ind AS 108; and also, Ind AS 115.MHRIL should take necessary measures to address the deficiencies pointed out in the Order and effect changes in the disclosures in its FSs in the letter and spirit of the disclosure as required under the Companies Act and the SEBI LODR. MHRIL should complete this process by 30th June 2023.
- MHRIL's review and the changes brought in its accounting practices and reporting should be properly documented, especially with respect

to the Chief Operating Decision Maker's exercise of monitoring and control, both at aggregated and disaggregated , granular level, and such documentation should be verified by MHRIL and its statutory auditor who should complete this process by 31st July 2023.

- MHRIL and its statutory auditor should report separately to NFRA the results of their review and the changes effected in the MHRIL's accounting policies and practices. Based on its own review of the reports of MHRIL and its statutory auditor, NFRA will take further course of action as provided under the existing provisions of the Companies Act, 2013 and the NFRA Rules.

International Sustainability Standards Board (ISSB)

ISSB ramps up activities to support global implementation ahead of issuing inaugural standards end Q2 2023

Announcement dated 17th February 2023

The ISSB, at its meeting has taken its final decisions on all the technical content of its initial Standards, informed by feedback it received during extensive consultation last year. With the substance of the Standards now fully agreed, the ISSB unanimously approved entering the thorough drafting and formal 'balloting' process of the Standards, ahead of their expected issuance at the end of Q2 2023.

At the meeting, the ISSB agreed that its initial IFRS Sustainability Disclosure Standards, S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and S2 *Climate-related Disclosures.*, will become effective starting January 2024. Given sustainability disclosure is new for many companies globally, the ISSB will introduce programmes that support those applying its Standards as market infrastructure and capacity is built.

The decision on effective date is answering the strong demand from investors for companies globally to disclose comprehensive, consistent and comparable sustainability-related information. International Organization of Securities Commissions (IOSCO) and governments around the world, including G20 leaders and others, have been vocal about the urgent need for standards that enable companies to disclose information about sustainability-related risks and opportunities, starting with climate, to support systemic financial stability and for investor protection.

Furthermore, at the meeting, ISSB members voted to reference European Sustainability Reporting Standards (ESRS) within an appendix to S1—the ISSB's general requirements standard—as a source of guidance companies may consider, in the absence of a specific ISSB standard, to identify metrics and disclosures if they meet the information needs of investors.

Key takeaways from the IFRS Sustainability Symposium

Announcement dated 6th March 2023

In the inaugural IFRS Sustainability Symposium, businesses, investors, policymakers, regulators and other stakeholders were engaged in meaningful discussion about the forthcoming standards from the ISSB. Given below are the key takeaways from this conference:

- ISSB Standards are nearing issuance (expected by Q2 2023).
- Sustainability Accounting Standards Board (SASB) Standards are a practical tool to implement standards S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and S2 *Climate-related Disclosures.*
- Global comparability remains paramount
- Jurisdictions are actively considering the ISSB Standards
- Capacity building is critical to the ISSB's success.
- Work to advance integrated reporting remains underway
- Many stakeholders have enabled the ISSB to make significant progress

ISSB decides to prioritise climate-related disclosures to support initial application

Announcement dated 4th April 2023

At its meeting, the ISSB decided that it will complement its package of transitional reliefs to support companies applying the ISSB's first 2 Standards—S1 (general requirements) and S2 (climate).

The relief will enable companies to focus initial efforts on ensuring they meet investor information needs around climate change. It means companies can prioritise putting in place reporting practices and structures to provide high-quality, decision-useful information about climate-related risks and opportunities in the 1st year of reporting using the ISSB Standards.

Companies will then need to provide full reporting on sustainability-related risks and opportunities, beyond climate, from the 2nd year. This means companies will be able to use their 1st year of reporting to get familiar with concepts and requirements within the ISSB Standards—undertaking important exercises to get their systems in place—using climate first, before reporting on other sustainability-related risks and opportunities.

The full package of reliefs means, for the 1st year they use the ISSB Standards, companies need not:

- provide disclosures about sustainability-related risks and opportunities beyond climate-related information;
- provide annual sustainability-related disclosures at the same time as the related FSs;
- provide comparative information;
- disclose Scope 3 greenhouse gas emissions; and
- use the Green House Gas Protocol to measure emissions, if they are currently using a different approach.

Furthermore, the ISSB decided that companies that only report on climate-related risks and opportunities in the 1st year be provided with additional relief from providing comparative information. This means they need not provide comparative information about their sustainability-related risks and opportunities beyond climate in their 2nd year of reporting.

Companies will still need to apply S1 in the 1st year they use the ISSB Standards to meet general disclosure requirements where they relate to climate.

International Financial Reporting Standards (IFRS)

IASB proposes temporary relief from deferred tax accounting for OECD Pillar Two taxes

Announcement dated 9th January 2023

The International Accounting Standards Board **(IASB)** has proposed amendments to IAS 12 *Income Taxes.* The proposed amendments aim to provide temporary relief for affected entities and avoid inconsistent interpretations of IAS 12 developing in practice. The proposed amendments would also require an entity to provide specific information to users of FSs before and after the Pillar Two Model Rules published by the Organisation for Economic Co-operation and Development **(OECD)** are in effect

The proposed amendments would introduce:

- a temporary exception to the accounting for deferred taxes arising from the implementation of the rules; and
- targeted disclosure requirements for affected companies.

The Pillar Two Model Rules:

- aim to address the tax challenges arising from the digitalisation of the economy; and
- provide a template for the implementation of a minimum corporate tax rate of 15% that large multinational companies would pay on income generated in each jurisdiction in which they operate.

IASB gives insights into decisions made on merger and acquisition disclosures and goodwill accounting

Announcement dated 31st January 2023

The IASB has published an 'In Brief' article to explain 2 major decisions that have been made in the Business Combinations—Disclosures, Goodwill and Impairment project.

This project aims to help companies provide users of FSs (investors) with more useful information about the mergers and acquisitions (business combinations) companies make, at a reasonable cost.

Given below are the topics on which the IASB made decisions:

- how companies could disclose better information about business combinations; and
- whether to retain the impairment-only model to account for goodwill or to explore reintroducing amortisation of goodwill.

IASB concludes project to improve its approach to developing disclosure requirements in IFRS Accounting Standards

Announcement dated 8th March 2023

The IASB has concluded its project on improving its approach to developing and drafting disclosure requirements. The improved approach is designed to help the IASB develop Accounting Standards that would enable companies to make better judgements about which information is material and should be disclosed, thereby providing more useful information to investors.

The improved approach involves:

- engaging early with investors to understand their information needs;
- developing disclosure requirements alongside recognition and measurement requirements;
- considering the digital reporting implications of new disclosure requirements;
- using general and specific objectives that describe and explain investors' information needs; and
- supporting specific objectives by requiring companies to disclose items of information that would satisfy the objectives in most cases.

The IASB intends to use this approach when developing disclosure requirements.

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

Announcement dated 21st March 2023

The proposed amendments respond to feedback received from a post-implementation review of the classification and measurement requirements in IFRS 9 *Financial Instruments* by improving :

- the understandability of some of these requirements; and
- the usefulness of related information disclosed by an entity applying the requirements in IFRS 7 *Financial Instruments: Disclosures.*

IFRS 9 specifies how a company should classify and measure financial assets and financial liabilities. The Accounting Standard became effective in January 2018, introducing a new credit impairment model in light of the global financial crisis, and combining classification and measurement requirements, impairment and hedge accounting to replace and improve on IAS 39 *Financial Instruments: Recognition and Measurement.*

The proposed amendments 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, and stakeholders asked how to determine whether such loans have cash flows that are solely payments of principal and interest. To resolve any potential diversity in practice, the proposed amendments clarify how the contractual cash flows on such loans should be assessed. They also look to ensure that investors are provided with useful information about the timing, amount and uncertainty of future cash flows.

- **Settlement of liabilities through electronic payment systems**—stakeholders highlighted challenges about the potential outcomes of applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or a financial liability via electronic cash transfers. The Exposure Draft **(ED)** proposes clarifications to how this should be accounted for. The IASB also decided to develop an accounting policy option to allow a company to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met.

The ED also proposes amendments or additions to the disclosure requirements for:

- investments in equity instruments designated at fair value through other comprehensive income; and
- financial instruments with contractual terms that could change the timing or amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event.

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