CNK & Associates LLP

This issue

In brief

The IASB has proposed narrow-scope amendments to IAS 12 to promote consistent applications of the Standard.

International Financial Reporting Standards (IFRS)

IASB proposes amendments to accounting for deferred tax

The International Accounting Standard Board **(IASB)** has proposed changes to the IFRS Standard for income tax, IAS 12. The amendments clarify how companies account for deferred tax on leases and decommissioning obligations.

IAS 12 specifies how a company accounts for income tax, including deferred tax, which represents amounts of tax payable or recoverable in the future.

In specific circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. There has been some uncertainty in the market about whether the exemption applies to leases and decommissioning obligations. Therefore, to promote consistent application of the Standard, the Board has proposed narrow-scope amendments.

According to the proposed amendments, the exemption in the Standard would not apply to leases and decommissioning obligations—transactions for which companies recognise both an asset and a liability. The proposed amendments would result in companies recognising deferred tax on such transactions.

Reasons for proposing to amend IAS 12

- **Faithful representation**—the proposed amendments would align the accounting for deferred tax with the general principle in IAS 12, resulting in a company recognising the tax effects of a lease as it uses the lease asset and settles the lease liability.
- **Reduction of diversity in practice**—views differ on whether a company is required to apply the recognition exemption when it accounts for leases. The proposed amendments would clarify the accounting in this respect.

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- **Narrow scope**—the proposed amendments would be narrow in scope thereby reducing the risks of unintended consequences that could arise from more substantial changes to IAS 12.

Read more

IASB proposes amendments to IFRS Standards to improve accounting policy disclosures

The IASB has proposed narrow-scope amendments to IAS 1 and IFRS Practice Statement 2 to help companies provide useful accounting policy disclosures to users of FS.

The IASB has published proposed narrow-scope amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* to help companies provide useful accounting policy disclosures to users of financial statements.

IAS 1 requires companies to disclose their 'significant' accounting policies. The IASB is proposing to replace the reference to 'significant' with a requirement to disclose 'material' accounting policies to clarify the threshold for disclosing information.

The proposals state that information about an accounting policy is material if, when considered together with other information included in a company's financial statements **(FS)**, it can influence FS users' decisions about the company.

The Board is also proposing to add guidance to IAS 1 to help companies understand what makes an accounting policy material and to update IFRS Practice Statement 2 by adding further explanations and examples to help companies apply the concept of materiality in making decisions about accounting policy disclosures.

Read more

IASB amends IFRS Standards in response to the IBOR reform

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform

The IASB has amended some of its requirements for hedge accounting. The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as interbank offered rates **(IBORs)**.

The IASB has amended its new and old financial instruments Standards, IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, as well as the related Standard on disclosures, IFRS 7 *Financial Instruments: Disclosures*.

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The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties

The amendments come into effect from 1st January 2020. Earlier application is permitted. The amendments are mandatory for all hedges within the scope.

For hedging relationships affected by the amendments, companies are required to provide the following disclosures:

- the significant interest rate benchmarks to which the company's hedging relationships are exposed;
- the extent of the risk exposure the company manages that is directly affected by the interest rate benchmark reform;
- how the company is managing the process to transition to alternative benchmark rates;
- description of significant assumptions or judgements the company made in applying the exceptions (for e.g., assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present); and
- the nominal amount of the hedging instruments in those hedging relationships.

Read more

IFRS 9 Financial Instruments - A Study: Transition Impact on Banks across the Globe

The Study acts as a guiding factor for banks and jurisdictions that will be transitioning to IFRS 9 or equivalent in the near future.

The ICAI undertook a project to evaluate the impact of worldwide implementation of IFRS 9, to provide valuable insights of these financial reporting reforms and also act as a guiding factor for banks and jurisdictions that will be transitioning to IFRS 9 or equivalent in the near future. With this thought process, ICAI has come out with a publication on IFRS 9 Transition Impact on Banks across the Globe. The study is a comprehensive one covering 75 banks from 26 global jurisdictions.

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In brief

Clarification sought on whether it is mandatory to indicate a specific calendar date as 'appointed date' in the schemes referred to in the Section 232(6) and to confirm whether the 'acquisition date' for the purpose of Ind-AS 103 would be the 'appointed date' referred to in Section 232(6)

A brief of all Ind AS, major differences between Ind AS, AS and IFRS while capturing all the recent amendments made in Ind AS has been compiled and enclosed in Ind AS: An Overview

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

Clarification under Section 232(6) of the Companies Act, 2013

Section 232 pertains to Merger and Amalgamation of companies. Sub-section 6 states that the scheme will be deemed to be effective from the "appointed date" **(AD)** and not a date subsequent to the AD. This is an enabling provision to allow the companies to decide and agree upon an AD from which the scheme will come into force.

The Ministry of Corporate Affairs (MCA) has clarified that the companies may choose the AD of the merger/amalgamation based on occurrence of an event, which is relevant to the merger between companies. This would allow the companies concerned to function independently till such event is actually materialised. The circular further clarifies that the term AD used in Section 232(6) will be deemed to be the "acquisition date" for the purpose of conforming to Ind AS 103 *Business Combinations*.

Read more

ICAI Releases

Ind AS: An Overview (Revised 2019)

ICAI has issued the 4th edition of publication which contains an overview of the various aspects related to IFRS-converged Ind AS such as the roadmap for applicability of Ind AS, carve-outs from IFRS / International Accounting Standards, changes in financial reporting under Ind AS compared to financial reporting under accounting standards, summary of all the Ind AS, etc.

The publication also captures the recent amendments to Ind AS notified by the MCA in March 2019, such as the issuance of new leases standard (Ind AS 116), and other consequential amendments thereto.

Read more

In brief

The EM addresses all relevant aspects envisaged in the Standard

FAQs on DDT elucidates the presentation requirements as per Ind AS for dividend and DDT thereon

Clarification issued on 5 Ind AS issues on 17th September 2019

Educational Material on Ind AS 8, *Accounting Policies, Change in Accounting Estimates and Errors*

This Educational Material **(EM)** on Ind AS 8 addresses all relevant aspects envisaged in the Standard by way of brief summary of the Standard and Frequently Asked Questions (FAQs) which are being/expected to be encountered while implementing the Standard.

Read more

FAQs on Presentation of Dividend and Dividend Distribution Tax

The purpose of this Frequently Asked Questions **(FAQs)** is to illustrate and to assist in clarifying the requirements regarding treatment of Dividend Distribution Tax **(DDT)** as per Ind AS.

Read more

Ind AS Technical Facilitation Group (ITFG) Clarification Bulletin 21

The ITFG of Ind AS Implementation Group has been constituted for providing clarifications on timely basis on various issues related to the applicability and /or implementation of Ind AS under the Companies (Ind AS) Rules, 2015, and other amendments finalised and notified till March 2019, raised by preparers, users and other stakeholders.

The ITFG has considered some issues received from members and has issued clarifications on 5 Ind AS issues through its 21st Bulletin. Among other matter, issues clarified pertain to –

- Availability of recognition exemption for short term lease
- Accounting treatment of rent equalisation liability under
- Treatment of foreign exchange differences relating to the lease liability

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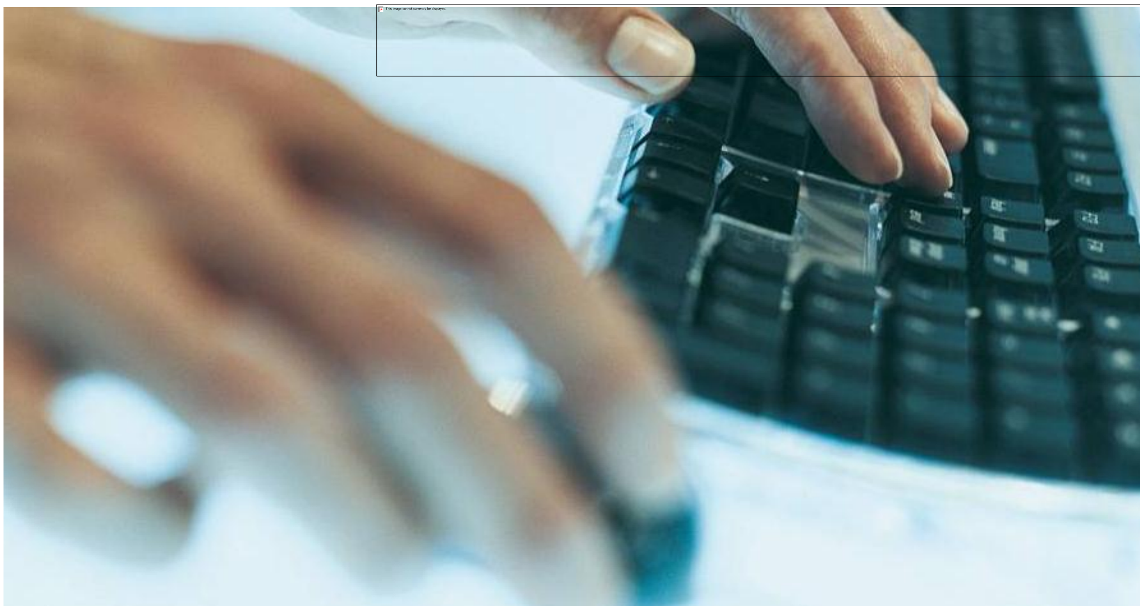

Key Take Away

- Companies that do not currently recognise deferred tax for transactions affected by the proposal to amend IAS 12 would be required to do so. Companies that already recognise deferred tax for transactions within the scope of the proposals would be unaffected.

- The disclosure of material information and the removal of immaterial information from the financial statements will help to improve the relevance of the financial statements. It will also reduce the cost of preparing financial statements, by reducing the disclosure of large volumes of immaterial accounting policy information.

- The clarification under Section 232(6) of the Companies Act, 2013 will lead to harmonisation of practices in ascertaining the "appointed date" of merger/amalgamation and provide due clarity on the accounting treatment, thereby allowing stakeholders to align the "appointed date" of merger/amalgamation in accordance with their business considerations or legal requirements. This would also contribute significantly in the ease of Doing Business.

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