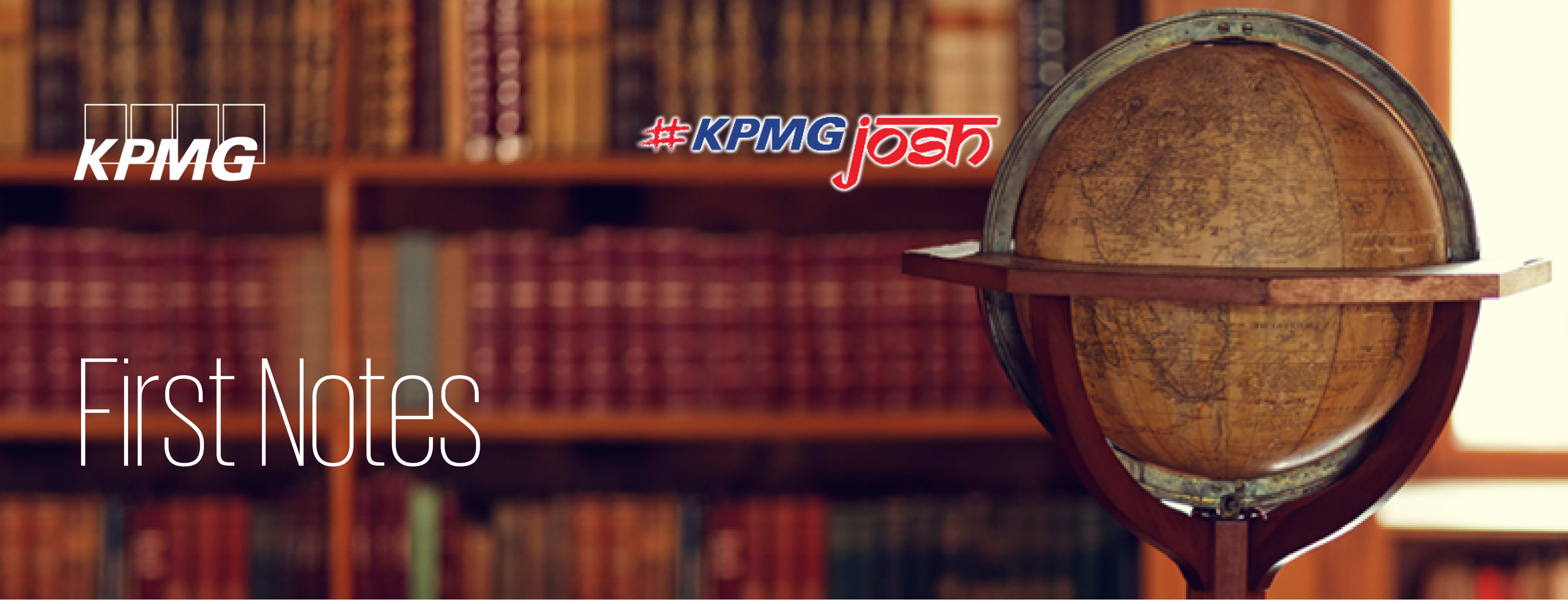


Ind AS amendments including inter-bank offered rate reforms and extension of COVID-19 related rent concession

29 July 2021

First Notes on

Financial reporting

Corporate law updates

Regulatory and other information

Disclosures

Sector

All

Banking and insurance

Information, communication, entertainment

Consumer and industrial markets

Infrastructure and government

Relevant to

All

Audit committee

CFO

Others

Transition

Immediately

Within the next three months

Post three months but within six months

Post six months

Forthcoming requirement

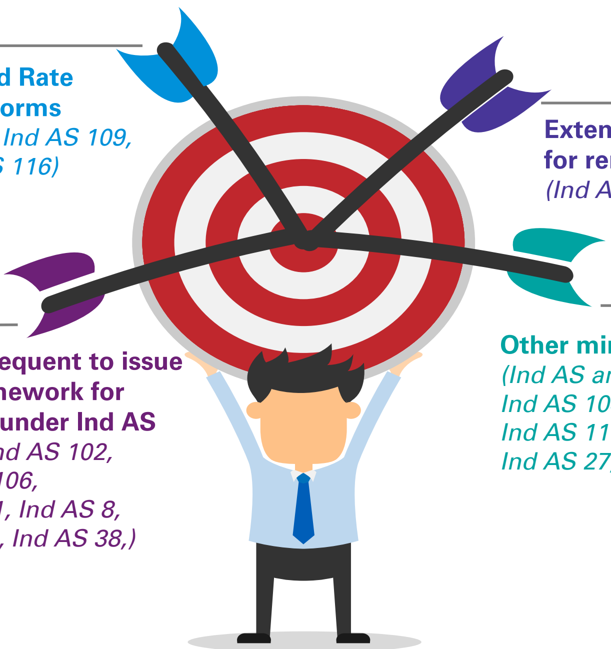
Introduction

Indian Accounting Standards (Ind AS) are largely converged with the International Financial Reporting Standard (IFRS) issued by the International Accounting Standards Board (IASB). In the recent past, IASB along with the IFRS Interpretations Committee (IFRIC) has issued various amendments to IFRS as part of their annual improvements process or as specific amendments.

In view of the recent amendments to IFRS, and in order to keep the Ind AS converged with IFRS, on 18 June 2021, the Ministry of Corporate Affairs (MCA) issued certain amendments to Ind AS (the 2021 amendments). These amendments have been issued in the following areas:

Inter-bank Offered Rate (IBOR) related reforms
(Ind AS amended: Ind AS 109, Ind AS 107, Ind AS 116)

Extension of practical expedient for rent concession
(Ind AS amended: Ind AS 116)



Amendments consequent to issue of Conceptual Framework for financial reporting under Ind AS
(Ind AS amended: Ind AS 102, Ind AS 103, Ind AS 106, Ind AS 114, Ind AS 1, Ind AS 8, Ind AS34, Ind AS 37, Ind AS 38,)

Other minor/ clarificatory updates
(Ind AS amended: Ind AS 101, Ind AS 104, Ind AS 105, Ind AS 111, Ind AS 115, Ind AS 12, Ind AS 16, Ind AS 27, Ind AS 28, Ind AS 40)

(Source: KPMG in India's analysis, 2021, read with MCA notification dated 18 June 2021)

This issue of First Notes provides an overview of the 2021 amendments, in the subsequent pages.

Inter-bank Offered Rate (IBOR) related reforms

IBOR reform refers to the global reform of interest rate benchmarks, which includes the replacement of some inter-bank offered rates with alternative benchmark rates. There are two groups of issues that arise from the reform, which could affect financial reporting, accordingly the amendments with regard to the IBOR reform have been divided into two phases:

Phase 1	Pre-IBOR reform	To deal with uncertainty that could arise in the run-up to the transition. These amendments were made effective 1 April 2020.
Phase 2	Post-IBOR reform	To deal with issues arising when companies actually update their contracts (including details of hedging relationships) with the alternate benchmark rates.

In March 2021, the Financial Conduct Authority (FCA)[1] announced the dates from when all LIBOR settings would either cease to be provided by any administrator or no longer be representative[2]. Thus, contracts referencing LIBOR settings would need to be amended prior to the announced dates to reference alternative reference rates. Relaxations forming part of Phase 2 amendments of the IBOR reform would be adopted by corporates for ease of transition to the alternative reference rates.

The phase 2 reforms issued by MCA (forming part of the 2021 amendments), have amended Ind AS 109, *Financial Instruments*, Ind AS 107, *Financial Instruments: Disclosures* and Ind AS 116, *Leases*. An overview of the amendments is given below:

I. Practical expedient for modifications of financial instruments

Background

Due to IBOR reform, an entity may experience that the basis for determining the contractual cashflows of its financial assets and financial liabilities has changed. The basis for determining the contractual cash flows of a financial asset or a financial liability can change:

- By amending the contractual terms specified at the initial recognition of the financial instrument (for example, amending reference to IBOR with the alternate benchmark rate)
- In a way that was not considered by – or contemplated in – the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, method of calculating the IBOR is amended), or
- Because of the activation of an existing contractual term of the financial instrument (for example, an existing fallback clause is triggered).

Possible implication

The change due to IBOR reform will result in a modification of a financial instrument. Under Ind AS 109, modification in a financial instrument would require recognition of a significant gain or loss in the statement of profit and loss.

Amendment

The amendments introduce a practical expedient for modifications in the financial instrument that result directly from IBOR reform. Due to this practical expedient an entity would not derecognise or adjust the carrying amount of financial instruments for modifications required by IBOR reform, but would instead update the effective interest rate to reflect the change in the interest rate benchmark. The practical expedient would be applied when the modification is required as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis used immediately before the modification. As a result, no gain or loss would be recognised as a result of modification of the financial instruments.

Other changes

Where there are other changes to the basis for determining the contractual cash flows, then entities should first apply the practical expedient to the changes required by IBOR reform and then other applicable requirements of Ind AS 109.

Amendments to Ind AS 116

The 2021 amendments have issued a similar practical expedient in Ind AS 116. Accordingly, while accounting for the lease modification (i.e. remeasuring the lease liability) that is required by IBOR reform, the lessee will use a revised discount rate that reflects the change in interest rate.

1. FCA is the conduct regulator of financial services industry in UK
2. Last date for the LIBOR settings is 31 December 2021, in the case of all pound sterling, euro, swiss franc and Japanese yen settings, and the 1-week and 2-month USD settings, and 30 June 2023 is the last date for the remaining USD settings.

Inter-bank Offered Rate (IBOR) related reforms (cont.)

II. Relief for hedging relationships

When a company ceases to apply the IBOR Phase 1 amendments to a hedging relationship, it should apply the following exceptions to the hedging relationship:

Documentation

Background

Ind AS 109 requires companies to document[3] specific information about the hedging relationship when a hedge is created. Changes in hedge documentation would normally cause a discontinuation of the hedge.

Amendment

The amendments permit entities to amend the formal designation of a hedging relationship to reflect the changes that are required by IBOR reform. This change needs to be made by the end of the reporting period and would not result in a discontinuation of the hedge or the designation of a new hedging relationship.

Amendments to the formal designation of a hedging relationship caused by IBOR reform would be restricted to the following amendments:

- Designating an alternate benchmark rate as the hedged risk, or
- Changing the description of the hedged item, including the designated portion of cash flows or fair value being hedged, or
- Changing the description of the hedging instrument.

Amounts accumulated in cash flow hedge reserve

Background

Ind AS 109 requires the cash flow hedge reserve to be reclassified to profit or loss when the hedged cash flows affect profit or loss or are no longer highly probable.

Amendment

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the IBOR reform, the amount accumulated in the cash flow hedge reserve would be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined. Therefore, amounts from the cash flow hedge reserve would be reclassified to profit or loss only when the cash flows of the amended hedged item affect profit or loss.
A similar exception is also provided for amounts in cash flow hedge reserve pertaining to discontinued hedging relationships.

Groups of items

Background

For groups of items designated as hedged items in a fair value or cash flow hedge, the hedged items could consist of items that refer to IBOR as well as items that refer to the new alternative benchmark rate. Therefore, a company would not be able to amend the description of the hedged risk or the hedged item to refer to only an alternative benchmark rate for the group as a whole.

Amendment

When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the IBOR reform, entities should allocate the hedged items to sub-groups based on the benchmark rate being hedged, and designate the benchmark rate for each sub-group as the hedged risk.
An entity would assess each sub-group separately to determine whether the sub-group is eligible to be a hedged item. If any sub-group is not eligible to be a hedged item, the hedging relationship is discontinued prospectively in its entirety. In addition, all other hedge requirements – including the requirements for hedge ineffectiveness – are applied to the hedging relationship in its entirety.

Designation of risk components

Background

Ind AS 109 requires contractually or non-contractually specified risk components designated in a hedging relationship to be separately identifiable and reliably measurable.

Amendment

If a company reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it can designate the alternative benchmark rate as a non-contractually specified risk component even if it is not separately identifiable at the designation date. This is applied on a rate-by-rate basis[4] and also applicable to a new hedging relationship.

3. This information includes identification of hedged item, the nature of the risk being hedged and the hedging instrument
4. From the date when an entity designates an alternate benchmark rate for the first time

Inter-bank Offered Rate (IBOR) related reforms (cont.)

III. New disclosures

To enable users of financial statements to understand the effect of IBOR reform on a company's financial instruments and risk management strategy, entities need to provide additional disclosures on:

Status on transition

- How entities are managing transition to alternative benchmark rates
- Risks to which entity is exposed, arising from financial instruments because of the transition
- Transition progress at the reporting date

Instruments exposed to IBOR

- Disaggregate by each significant interest rate benchmark subject to IBOR reform, quantitative information about financial instruments that are yet to transition to an alternative benchmark rate at the end of the reporting period
- Disclose separately, non-derivative financial assets, non-derivative liabilities and derivatives

Changes to risk management strategy

The extent to which changes to a company's risk management strategy have occurred due to the risks identified in the transition.

(Source: KPMG in India's analysis, read with MCA notification dated 18 June 2021)

IV. Effective date and transition

The IBOR Phase 2 amendments are applicable for annual periods beginning on or after 1 April 2021.

A company should apply the amendments retrospectively, except that companies should designate a new hedging relationship only prospectively. However, companies can reinstate a discontinued hedging relationship if the following conditions are met:

- The hedging relationship was discontinued solely due to changes required by IBOR reform and if the amendments had been applied at that time it would not have been required to discontinue that hedging relationship
- At the date of initial application of the amendments, that discontinued hedging relationship continues to meet all qualifying criteria for hedge accounting.

A company is not required to restate prior periods to reflect the application of the amendments. However, the company may restate prior period if it is possible without the use of hindsight. If a company does not restate prior periods, the company should recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of the IBOR Phase 2 amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of the IBOR Phase 2 amendments.

RBI advisory

On 8 July 2021, RBI issued an advisory on "Road map for LIBOR Transition". All banks and financial institutions are encouraged to incorporate robust fallback clauses in existing and new financial contracts. Additionally, banks and financial institutions are encouraged to cease entering into new financial contracts that reference LIBOR or Mumbai Interbank Forward Offer Rate (MIFOR) and instead use any widely accepted alternate reference rates no later than 31 December 2021 except contracts referencing LIBOR or MIFOR undertaken for the purpose of managing risks arising out of LIBOR/MIFOR contracts entered on or before 31 December 2021.

Extension of practical expedient for rent concession

Background

Ind AS 116, defines a lease modification as a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease. If a change in lease payments results from a lease modification, then unless the change meets certain conditions to be accounted for as a separate lease, a lessee is required to remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

In July 2020, MCA had issued amendments to Ind AS 116 with regard to COVID-19 related rent concessions. The aforementioned amendments introduced an optional practical expedient that simplified how a lessee would account for rent concessions that were a direct consequence of COVID-19. Under that practical expedient a lessee was allowed to opt not to assess whether eligible rent concessions are lease modifications, and instead account for it under other applicable guidance. This practical expedient was applicable only if all of the following conditions were met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021, and
- There is no substantive change to other terms and conditions of the lease.

Amendment

In the 2021 amendments, MCA has extended the practical expedient by 12 months – i.e. by permitting lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022.

Effective date and transition

The 2021 amendments are effective for annual reporting periods beginning on or after 1 April 2021. Lessees are permitted to apply it early, including in financial statements not authorised for issue before the issuance of the 2021 amendment.

The original version of the practical expedient was, and remains, optional. However, the 2021 amendments are, in effect, not optional. This is because a lessee that chose to apply the practical expedient introduced by the amendments in July 2020, has to consistently apply the extension to eligible contracts with similar characteristics and in similar circumstances.

This means that lessees will need to reverse previous lease modification accounting if a rent concession was ineligible for the original practical expedient under the July 2020 amendments but becomes eligible as a result of the 2021 amendments.

The 2021 amendments should be applied retrospectively with the cumulative effect of initially applying it, being recognised in opening retained earnings. The disclosure requirements of paragraph 28(f)[5] of Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply on initial application.

Amendments consequent to the issue of the Conceptual Framework for Financial Reporting under Ind AS

Background

In March 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting. In view of this revision by IASB, and with an objective to remain converged with the global accounting framework, the Institute of Chartered Accountants of India (ICAI) has developed the Conceptual Framework for Financial Reporting (the Conceptual Framework) under Ind AS, which corresponds to IASB's revised Conceptual Framework for Financial Reporting, 2018.

Amendment

The 2021 amendments aim to align certain standards with the Conceptual Framework. The standards that have been amended consequent to the issuance of the Conceptual Framework are given below:

Standard	Summary of amendments
Ind AS 102, *Share-Based Payment*	Amended the definition of liabilities to **'a present obligation of the entity to transfer an economic resource as a result of past events'**.
Ind AS 103, *Business Combinations*	The MCA clarified that for the purpose of this Ind AS, acquirers are required to apply the **definitions of an asset and a liability** given in the *Framework for Preparation and Presentation of Financial Statements with Indian Accounting Standards* rather than the Conceptual Framework.

5. Paragraph 28(f) of Ind AS 8 requires a company that initially applies a standard or amendment to disclose to the extent practicable, the effect of adopting the standard or amendments on each financial statement line item and on basic and diluted EPS, for the current period and each prior period presented.

Amendments consequent to the issue of the Conceptual Framework for Financial Reporting under Ind AS (cont.)

Standard	Summary of amendments
Ind AS 114, *Regulatory Deferral Accounts*	The amendment has added a footnote against the term **'reliable'** used in Ind AS 114. The footnote clarifies that the term 'faithful representation' used in the Conceptual Framework encompasses the main characteristics that the Framework for Presentation and Preparation of Financial Statements in accordance with Ind AS called 'reliability'. However, for the purpose of this standard the term 'reliable' would be based on the requirements of Ind AS 8.
Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*	The MCA clarified that the definition of a 'liability' in this standard is not revised following the revision of the definition of a liability in the Conceptual Framework.
Ind AS 38, *Intangible Assets*	The MCA clarified that the definition of an 'asset' in this standard is not revised following the revision of the definition of an asset in the Conceptual Framework.
Ind AS 106, *Exploration for and evaluation of mineral resources* Ind AS 1, *Presentation of Financial Statements* Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* Ind AS 34, *Interim Financial Reporting*	The reference to the Framework for Preparation and Presentation of Financial Statements with Indian Accounting Standards has been substituted with the reference to the Conceptual Framework.

(Source: KPMG in India's analysis, 2021 read with MCA circular dated 18 June 2021)

Other minor/clarificatory updates

The MCA has issued other minor/clarificatory updates for the following standards:

Standard	Summary of amendments
Ind AS 101, *First-time adoption of Indian Accounting Standards*	Paragraph B1 of Ind AS 101 provides a list of exceptions to the retrospective application of other Ind AS on first-time adoption of Ind AS. Point (d) in para B1 includes classification and measurement of financial assets. The term financial assets has been replaced with 'financial instruments'
Ind AS 104, *Insurance Contracts* Ind AS 115, *Revenue from Contracts with Customers*	The 2021 amendment has inserted certain paragraph numbers in the standards in order to maintain consistency with paragraph numbers of IFRS 4, *Insurance Contracts* and IFRS 15, *Revenue from Contracts with Customers* respectively.
Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations* Ind AS 16, *Property, Plant and Equipment* Ind AS 28, *Investments in Associates and Joint Ventures*	In the definition of **'recoverable amount'**, for the words 'fair value less costs to sell', the words 'fair value less **costs of disposal**' have been substituted.
Ind AS 111, *Joint Arrangements* Ind AS 12, *Income Taxes* Ind AS 27, *Separate Financial Statements* Ind AS 40, *Investment Property*	Other clerical changes

(Source: KPMG in India's analysis, 2021 read with MCA circular dated 18 June 2021)

Our comments

Effective date: The 2021 amendments are applicable with immediate effect from the date of notification. This means that the amendments are effective for annual reporting periods beginning on or after 1 April 2021 and also for interim reporting periods i.e. quarters ending 30 June 2021, 30 September 2021 and 31 December 2021.

IBOR Phase 2 related amendments

- The IBOR Phase 2 amendments have been crafted very carefully and are issued to make transition easier. In a nutshell, the regulators aim to ensure that the financial statements only present the true economic effects of the IBOR reform by providing targeted reliefs to ease the accounting and thereby reducing any noise surrounding the change. While the IBOR reform would have a pervasive impact to each area of accounting, financial group reporting is one of the key areas that will be significantly impacted by this reform.
- Hedge accounting is a very tightly regulated area. The ability to amend hedge documentation is more positive news and will be especially relevant to corporates. Contracts can now be shifted to a new reference rate without the need to de-designate hedges which would have created significant accounting complexities and potential ineffectiveness. It not only provides practical relief but also reflects the true economics of the IBOR reform. However, there is no exception from the measurement requirements that apply for hedged items and hedging instruments. Once the new benchmark rate is in place, the hedged items and hedging instruments would be remeasured based on the new rate and any hedge ineffectiveness would be recognised in profit or loss.
- The provision of permitting entities to apply Phase 2 amendments retrospectively is that entities can now reinstate hedging relationships that were previously discontinued due to the changes required by the IBOR reform (if applicable). This would avoid undesirable accounting consequences of discontinuing hedge accounting between phases 1 and 2.
- For Non-Banking Financial Companies (NBFCs), interest rates are fundamental to their business model, so the financial reporting impact of the IBOR reform is only a component of the business changes that they need to deal with. It would be important for such entities to integrate the financial reporting impacts with their overall management of IBOR changes.
- Most of the IBORs will cease being available from 31 December 2021. With 31 December 2021 in plain sight, entities need to select a preferred alternative rate as a LIBOR replacement from several alternative Risk-Free Reference rates (RFR) or parallelly pick out a suitable proxy rate which can be used at par with LIBOR. RFR has a different construct as compared to IBOR. Simply substituting an IBOR with a chosen RFR for a particular currency, is not straightforward because of the way in which both of these rates are formulated, administered and set up.

Extension of practical expedient for rent concession

- The extension of the practical expedient for COVID-19 related rent concessions is a practical response to the ongoing disruption to economic activity being caused by the COVID-19 pandemic. The practical expedient is applicable to companies that are still receiving rent concessions on account of COVID-19, thus it has limited applicability.
- The practical expedient has been made applicable for annual reporting periods beginning on or after the 1 April 2021. In case a lessee has not yet approved the FY 20-21 financial statements as at 18 June 2021, then the practical expedient may be applied for annual reporting periods beginning on or after 1 April 2020.

Conceptual Framework

The Conceptual Framework sets out the fundamental concepts of financial reporting that guide ICAI in developing Ind AS standards. It also assists companies in developing accounting policies when no Ind AS applies to a particular transaction, and helps stakeholders more broadly to understand the standards better. The Conceptual Framework provides clarification on various matters, such as role of measurement uncertainty, it has updated certain definitions such as definitions of assets and liabilities, and has provided guidance on matters such as measurement, presentation and disclosure, consequently providing a comprehensive set of concepts for financial reporting. The 2021 amendments have substituted the references of the Framework for Preparation and Presentation of Financial Statements with Indian Accounting Standards in various Ind AS with references to the Conceptual Framework. This provides appropriate guidance and a point of reference for preparers of financial statements when applying the Ind AS in question.

Other amendments

Other amendments refer to clerical changes, including rectification of certain errors, references or italics being brought in or some other minor changes to bring in convergence with IFRS. For example, the definition of 'recoverable amount' has been updated in Ind AS 105, Ind AS 36 and Ind AS 16 by substituting the term 'fair value less cost to sell' with 'fair value less cost of disposal'. There is no significant impact of these changes.

The bottom line

With regard to the IBOR reform, all corporates should take note of the limited time available to incorporate transition measures whether switching to alternative reference rates or incorporation of fallback clauses and should consider providing transition disclosures in their interim and condensed financial statements.

We encourage preparers to provide adequate disclosures about the impact that the IBOR reform has on their financial instruments and financial statements. Disclosures in these areas would enable investors and other stakeholders to understand the entity's progress towards completing the transition to alternative benchmark rates.

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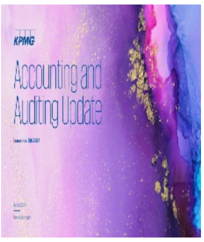
KPMG in India's IFRS institute

Visit KPMG in India's IFRS institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.

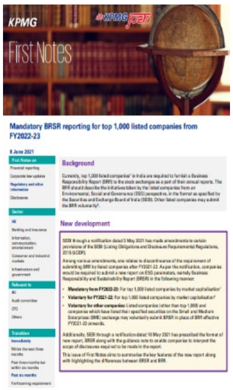
Missed an issue of Accounting and Auditing Update or First Notes?



Issue no. 59 – June 2021

The topics covered in this issue are:

- Management commentary: New perspective proposed by IASB
- ESG reporting - Intersection with Financial Accounting Standards
- Amendment to Listing Regulation and action plan
- Regulatory updates.



Mandatory BRSR reporting for top 1,000 listed companies from FY2022-23

8 June 2021

SEBI through a notification dated 5 May 2021 requires companies to submit a new report on ESG parameters, namely Business Responsibility and Sustainability Report (BRSR) in the following manner:

- **Mandatory from FY2022-23:** For top 1,000 listed companies by market capitalisation
- **Voluntary for FY2021-22**: For top 1,000 listed companies by market capitalisation
- **Voluntary for other companies:** Listed companies (other than top 1,000) and companies which have listed their specified securities on the Small and Medium Enterprises (SME) exchange may voluntarily submit BRSR in place of BRR effective FY2021-22 onwards.

Additionally, SEBI through a notification dated 10 May 2021 has prescribed the format of new report, BRSR along with the guidance note to enable companies to interpret the scope of disclosures required to be made in the report.

This issue of First Notes aim to summarise the key features of the new report along with highlighting the differences between BRSR and BRR.

Voices on Reporting

VOR quarterly publication for the quarter ended 30 June 2021

Quarterly updates publication (for the quarter ended 30 June 2021) provides a summary of key updates from the Securities and Exchange Board of India (SEBI), the Ministry of Corporate Affairs (MCA), the Institute of Chartered Accountants of India (ICAI) and the Reserve Bank of India (RBI). To access the publication, please click here.

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