Monthly GAAP Bulletin

May 2021

Volume I

Introduction

Dear reader,

Grant Thornton Bharat is delighted to present Monthly GAAP Bulletin, which summarises significant accounting, auditing and related updates. This publication has been compiled to meet the needs of dynamic Indian businesses and focuses on key developments in India and across the globe.

To access the source of information and complete details, you can click the hyperlinked text below each update.

We would be pleased to receive your valuable feedback. Please write to us at npsg@in.gt.com with your comments, questions or suggestions. This edition covers updates for March 2021. Following is the index of updates:

Contents

A. India updates - Effective

a. Accounting updates

b. Auditing updates

c. Regulatory updates

a. Accounting updates

1. Education criteria for classification of non-company entities for applicability of accounting standards

The Institute of Chartered Accountants of India (ICAI) has issued an announcement on 31 March 2021 on the scheme for applicability of Accounting Standards (AS) issued by the ICAI for non-company entities. As per the announcement, the scheme will come into effect in respect of accounting periods commencing on or after 1 April 2020.

This announcement supersedes the earlier announcement of the ICAI on Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government, issued in February 2008, to the extent it prescribes the criteria for classification of non-company entities (non-corporate entities) and applicability of AS to non-company entities, and the announcement Revision in the criteria for classifying Level II non-corporate entities issued in January 2013.

This announcement is not relevant for non-company entities that may be required to follow Ind AS pursuant to relevant regulatory requirements applicable to such entities.

As per the scheme, non-company entities will be classified into four categories briefly explained as follows:

- Level I- Large size entities mainly comprising of listed entities, banks, insurance entities, turnover exceeding INR 250 crore in the immediately preceding accounting year.
- Level II- medium size entities mainly comprising of entities whose turnover exceeds INR 50 crore, but does not exceed INR 250 crore in the immediately preceding accounting year
- Level III- Small size entities mainly comprising of entities whose turnover exceeds INR 10 crore but does not exceed INR 50 crore in the immediately preceding accounting year
- Level IV- micro entities, which do not meet the criteria of Level I, Level II or Level III.

Click here for announcement.

2. Announcement providing Temporary Exceptions to Hedge Accounting due to Interest Rate Benchmark Reform

ICAI had issued Guidance Note on Accounting for Derivative Contracts (Guidance Note) in 2015 in respect of hedge accounting for entities that do not apply Ind AS.

Interest Rate Benchmark Reform such as Interbank Offered Rates (IBORs) play role in global financial markets and index (benchmark) a variety of financial products, including derivatives. Some major interest rate benchmarks will cease to be published across the globe after December 2021. The ongoing reform in IBOR, will impact the way financial information is accounted for in the financial statements. With international developments taking place, global financial reporting standards have been amended to address the issues affecting financial reporting arising from these reforms.

The ICAI has now issued an announcement to provide corresponding temporary exceptions to the entities not following Ind AS, i.e. the entities that apply the accounting requirements contained in the guidance note.

Provisions of this announcement will apply to all hedging relationships directly affected by interest rate benchmark reform. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

- The interest rate benchmark designated as a hedged risk; and/or;
- The timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

Temporary exceptions stated in this announcement will apply for annual periods beginning on or after 1 April 2020.

Click here for announcement.

b. Auditing updates

1. Deferment of reporting under clause 30C and clause 44 of the Form No. 3CD

The Central Board of Direct Taxes (CBDT) vide order dated 17 August 2018 had deferred the reporting under clause 30C (pertaining to General Anti-Avoidance Rules (GAAR) and clause 44 (pertaining to Goods and Services Tax (GST) compliance) of the Form No. 3CD, Statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961, till 31 March 2019. Reporting on abovementioned clauses was further extended to 31 March 2020 and 31 March 2021 vide circulars dated 14 May 2019 and 24 April 2020, respectively.

In view of the prevailing situation due to the COVID-19 pandemic, the CBDT has further extended the reporting under clause 30C and clause 44 until 31 March 2022.

Click here for order.

2. Technical Guides for bank audits

The ICAI has issued following technical guides in relation to bank audits:

- Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks – The RBI, vide its communication to public sector banks in March 2020, (followed by communication in May 2020) made reporting on internal financial controls in public sector banks mandatory for statutory auditors from the financial year 2020-21 (FY21) onwards. Therefore, the ICAI has now issued a technical guide, which provides guidance to auditors on this new reporting requirement in case of public sector banks.

  Click here for the above technical guide.

- Technical Guide on Revised Formats of Long Form Audit Report (LFAR) - In September 2020, the RBI issued the revised formats of LFAR that is applicable to audits of FY21 and onwards. The revised formats of LFAR have introduced several changes, including many new reporting requirements as compared to the earlier formats of LFAR. Therefore, revised technical guide is issued for auditors of banks on the revised formats of LFAR.

  Click here for the above technical guide.

c. Regulatory updates

Companies Act updates

1. Amendments to Companies Act, 2013

The Ministry of Corporate Affairs (MCA) has issued following amendments:

- **Companies (Accounts) Amendment Rules, 2021 and Companies (Accounts) Second Amendment Rules, 2021**

– The MCA has mandated every company that uses accounting software for maintaining its books of account to use only such accounting software that has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled. This requirement is applicable for the financial year commencing on or after 1 April 2022.
Click here for notification dated 24 March 2021.
Click here for notification dated 1 April 2021.

- **Companies (Audit and Auditors) Amendment Rules, 2021 and Companies (Audit and Auditors) Second Amendment Rules, 2021**

– The MCA has introduced amendment to rule 11, Other Matters to be Included in Auditors Report, of the Companies (Audit and Auditors) Rules, 2014, which has introduced following additional reporting requirements by the auditors with effect from 1 April 2021.

Whether management has represented to the best of its knowledge and belief, other than as disclosed in notes to the accounts that:

i. No funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities (Intermediaries), with the understanding, whether recorded in writing or otherwise, that the intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (ultimate beneficiaries) or provide any guarantee, security or the like on behalf of the ultimate beneficiaries;

ii. No funds have been received by the company from any person(s) or entity(ies), including foreign entities (funding parties), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the funding party (ultimate Beneficiaries) or provide any guarantee, security or the like on behalf of the ultimate beneficiaries.

– Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under abovementioned points (i) and (ii) contain any material misstatement.

– Whether the dividend declared or paid during the year by the company is in compliance with section 123, Declaration of Dividend, of the Companies Act, 2013 (the 2013 Act).

– Whether the company, in respect of financial years commencing on or after the 1 April 2022, has used such accounting software for maintaining its books of account, which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.

Further, the requirement of disclosure in financial statements in respect of specified bank notes held or dealt between 8 November 2016 and 30 December 2016 has now been omitted, as not being relevant anymore and consequently the requirement of the reporting by auditors under rule 11 has also been omitted.

Click here for the notification dated 24 March 2021
Click here for the notification dated 1 April 2021

- **Amendments to Schedule III, General Instruction for Preparation of Balance Sheet and Statement of Profit and Loss of a Company**

The MCA has mandated additional disclosures by the management in the financial statements prepared as per Companies (Accounting Standards) Rules, 2006 (Division I of Schedule III), Companies (Indian Accounting Standards) Rules, 2015 (Division II of Schedule III) and NBFCs which follow Ind AS (Division III of Schedule III), including but not limited to the following with effect from 1 April 2021:

– Disclosure of shareholding of promoters

– Trade payables and receivables ageing schedule with age as per specified formats

– Specific disclosures to be made under the head 'Additional Regulatory Information' not limited to the following:

i. Title deeds of immovable property not held in the name of the company

ii. Details of loans or advances granted to promoters, directors, KMPs and the related parties as defined under the 2013 Act

iii. Details of benami property held

iv. Disclosure where a company is a declared wilful defaulter by any bank or financial institution

– Disclosures for the items in the statement of profit or loss for undisclosed income, corporate social responsibility, details of cryptocurrency or virtual currency

Click here for the notification.

- **Notification of provisions of Companies (Amendment) Act, 2020**

The MCA has appointed 24 March 2021 as the date on which the provisions of Section 23 and Section 45 of the Companies (Amendment) Act, 2020 (Amendment Act 2020) have come into force.

– Section 23 has introduced amendment to section 124, Unpaid Dividend Account, of the 2013 Act

– Section 45 has introduced amendment to section 247, Valuation by Registered Valuers, of the 2013 Act

Amount of penalties leviable on contravention of provisions of respective sections have been reduced with these amendments.

Click here for the notification dated 24 March 2020.
Click here for the Amendment Act 2020.

- **Amendments relating to remuneration of independent directors**

The MCA has appointed 18 March 2021 as the date on which the provisions of Section 32 and 40 of the Amendment Act 2020 have come into force. These sections of the Amendment Act 2020 have introduced amendments in Section 149(9) and Section 197(3) of the 2013 Act.

The amendment provides that in case a company has no profit, or its profits are inadequate in any financial year, an independent director may also receive remuneration, exclusive of any fees payable under section 197(5), in accordance with the provisions of Schedule V.

Click here for notification dated 18 March 2021.

Click here for Amendment Act 2020.

Conforming amendments have also been made to Schedule V of the Act with effect from 18 March 2021. Limits of yearly remuneration payable have been prescribed in case of director other than managerial person.

Click here for notification dated 18 March 2021.

2. The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2021

Insolvency and Bankruptcy Code (Amendment) Ordinance, 2021, to allow pre-packaged insolvency resolution process for corporate debtors classified as micro, small or medium enterprises (MSMEs) under the Micro, Small and Medium Enterprises Development Act, 2006.

The ordinance aims at providing an efficient alternative insolvency resolution process for corporate persons classified as MSMEs by ensuring quicker, cost-effective and value maximising outcomes for all the stakeholders, in a manner which is least disruptive to the continuity of their businesses, and which preserves jobs. Further, it allows the corporate debtor to submit a 'base resolution plan' to the resolution professionals who further presents it to the committee of creditors.

Click here for the notification dated 4 April 2021.
Click here for the corrigenda notification dated 6 April 2021.

SEBI updates

1. Guidelines for votes cast by mutual funds

The Securities Exchange Board of India (SEBI) vide its circular dated 5 March 2021 has issued guidelines on votes cast by mutual funds to further improve transparency and encourage such fund houses to diligently exercise their voting rights in best interest of the unit holders.

The mutual funds, including their passive investment schemes like Index Funds, Exchange Traded Funds, will be required to cast votes compulsorily in respect of related-party transactions and corporate governance matters, social and corporate responsibility issues, etc. of the investee companies.

Further, for all remaining resolutions, mutual funds will also compulsorily be required to cast their votes with effect from 1 April 2022. All other provisions of this circular are effective from 1 April 2021.

Click here for the circular.

2. Circular on mutual funds

SEBI, vide its circular dated 4 March 2021, has modified and implemented the various provisions related to mutual funds, which, inter alia, cover cumulative gross exposure limit for mutual fund schemes; investment pattern; go green initiatives; filing of annual information return (AIR) by mutual funds; investment in securities by employees of AMC(s) and trustees of mutual funds; disclosure of performance of mutual fund schemes; undertaking from trustees for new scheme offer document; key personnel of the AMC; updation of scheme information document (SID) and key information memorandum (KIM); disclosures of votes cast by mutual funds; dividend distribution procedure for mutual funds; postal ballot; reporting the quarterly details of transactions of dealing in securities by trustees; timelines for issuance of consolidated account statement (CAS); auditor of a mutual fund; applicability of exit load, etc.

SEBI has also prescribed the procedure for change in control of the AMCs and provides that no change in the control of an AMC, directly or indirectly, can be made unless prior approval of the trustees and the SEBI is obtained. In addition to this, it is provided that comments from the SEBI are required before bringing change in fundamental attribute of any scheme.

Click here for the circular.

3. Review of norms regarding investment in debt instruments with special features, and the valuation of perpetual bonds

SEBI has issued circular dated 10 March 2021 wherein it has reviewed investment norms of instruments with special features namely AT-1 bonds (Additional Tier I bonds) and Tier 2 bonds. SEBI has put in investment limits for mutual funds to invest in such debt instruments with special features such as no mutual fund under all its schemes shall own more than 10% of such instruments issued by a single issuer and has also stated that maturity of all perpetual bonds shall be treated as 100 years from the issuance date of the bond for the purpose of valuation. This circular has come into effect from 1 April 2021.

Click here for the circular.

4. Clarification on the valuation of bonds issued under Basel III framework

SEBI, vide circular dated 10 March 2021, had, inter alia, stated that the maturity of all perpetual bonds shall be treated as 100 years from the date of issuance of the bond for the purpose of valuation.

SEBI has now vide circular dated 22 March 2021, provided for deemed residual maturity for the purpose of valuation of existing as well as new perpetual bonds issued under Basel III framework as per a glide path.

Further, SEBI has advised Association of Mutual Funds in India to issue detailed guidelines with respect to valuation of bonds issued under Basel III framework, which should be implemented by 1 April 2021.

Click here for the notification.

Other regulatory updates

1. Insurance (Amendment) Act, 2021

The Insurance Regulatory and Development Authority of India has issued Insurance (Amendment) Act, 2021 (Amended Act) which, inter alia, increases the foreign direct investment limit in Indian insurance companies from existing 49% to 74%, subject to such conditions and manner, as may be prescribed.

Click here for the amended Act.

B. India updates - Proposed

a. Regulatory updates

a. Regulatory updates

SEBI updates

1. Decisions in SEBI board meeting

SEBI, in its meeting on 25 March 2021, inter alia, took the following decisions:

- Business responsibility and sustainability reporting by listed entities.

  SEBI has decided to introduce new requirements for sustainability reporting by listed entities. This new report will be called the Business Responsibility and Sustainability Report (BRSR) and will replace the existing Business Responsibility Report (BRR). BRSR will be applicable to top 1,000 listed entities (by market capitalisation), for reporting on a voluntary basis for Financial Year 2021-22 and on a mandatory basis from Financial Year 2021-23.

- Review of regulatory framework for reclassification of promoter/promoter group entities.

  SEBI has approved the proposal to rationalise existing framework pertaining to reclassification of promoter/promoter group entities which includes specified exemptions. It has also been decided to reduce the time gap between the date of board meeting and shareholders meeting for consideration of reclassification request, to a minimum of one month and a maximum of three months from the existing requirement of minimum period of three months and maximum six months.

- Review of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

  SEBI has proposed following key amendments to SEBI (Listing Obligations and Disclosure requirements) Regulations, 2015:

  – Requirement for formulation of dividend distribution policy by the existing top 500 listed entities has been extended to the top 1,000 listed entities on the basis of market capitalisation

  – Requirement to constitute the Risk Management Committee has been extended to the top 1,000 listed entities by market capitalisation from the existing top 500 listed entities

  – In case of board meetings held for more than one day, the financial results should be disclosed by listed entities within 30 minutes of end of the board meeting for the day on which the financial results are considered

  – SEBI LODR provisions, which become applicable to listed companies based on market capitalisation shall continue to apply the provisions even if these entities fall below the thresholds.

  Further, if the provisions become applicable due to net worth and paid-up capital criteria, such entities shall continue to apply the provisions unless the paid up capital or net worth falls and remains below threshold for a period of 3 consecutive financial years.

  – Frequency of submission of compliance certificates relating to share transfer facility and issuance of share certificates within 30 days of lodgement for transfer, sub-division, etc. is revised from half-year to annual.

Click here for press release.

2. Consultation paper on review of regulatory provisions related to independent directors

SEBI has issued a consultation paper on review of regulatory provisions related to independent directors (IDs) (consultation paper) on 1 March 2021 for public comments. This consultation paper proposes to introduce provisions in respect of broadening the eligibility criteria for IDs, process of appointment/re-appointment and removal of IDs, enhancing transparency in the nomination and resignation of IDs, strengthening the composition of audit committees, review of remuneration of IDs, etc.

Last date for submission of comments was 1 April 2021.

Click here for the consultation paper.

C. International updates – Effective

a. IFRS updates

b. US GAAP updates

c. Auditing updates

a. IFRS updates

1. Extension of application of practical expedient in IFRS 16 to support lessees accounting for COVID-19-related rent concessions

The International Accounting Standards Board (IASB) had added a practical expedient to the Standard IFRS 16, Leases, which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications.

IASB has now extended this relief for one year to provide relief for rent concessions in relation to COVID-19 that reduce payments up to 30 June 2022.

This amendment is effective for annual reporting periods beginning on or after 1 April 2021.

Click here for news.
Click here for amendment

b. US GAAP updates

1. ASU 2021-03: Intangibles - Goodwill and Others - Accounting alternative for evaluating triggering events

Financial Accounting Standards Board (FASB) has issued an Accounting Standards Update (ASU) that provides an accounting alternative expected to reduce the complexity for private companies and not-for-profit organisations when performing the goodwill triggering event evaluation.

Under current GAAP, goodwill must be tested for impairment when a triggering event occurs that indicates that it is more likely than not that the fair value of the reporting unit is below its carrying value. Companies and organisations are required to monitor for and evaluate goodwill triggering events when they occur throughout the year.

This ASU provides an accounting alternative that allows private companies and not-for-profit organisations to perform a goodwill triggering event assessment, and any resulting test for goodwill impairment, as of the end of the reporting period, whether the reporting period is an interim or annual period. It eliminates the requirement for companies and organisations that elect this alternative to perform this assessment during the reporting period, limiting it to the reporting date only.

The scope of the new alternative is limited to goodwill that is tested for impairment in accordance with ASU 350-20, Intangibles - Goodwill and Other - Goodwill.

The amendments in the ASU are effective on a prospective basis for fiscal years beginning after 15 December 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of 30 March 2021. An entity should not retroactively adopt the amendments in this ASU for interim financial statements already issued in the year of adoption.

The amendments in the ASU also include an unconditional one-time option for entities to adopt the alternative prospectively after its effective date. No additional disclosures will be required.

Click here for the news.
Click here for the ASU.

c. Auditing updates

1. Non-authoritative support material related to technology: FAQs addressing the risk of overreliance on technology - Use of ATT and information produced by the entity's systems

International Auditing and Assurance Standards Board has issued non-authoritative support material related to technology: Frequently asked questions (FAQs) to help auditors address the risk of overreliance on technology, whether it arises from using automated tools and techniques (ATT) or from using information produced by an entity' systems.

This FAQ considers how the auditor can address automation bias and the risk of overreliance on technology when using ATT and when using information produced by the entity's systems.

Click here for the news.
Click here for the FAQ.

D. International updates - Proposed

a. IFRS updates

a. IFRS updates

1. Exposure draft on disclosure requirements in IFRS Standards - Proposed amendments to IFRS 13 and IAS 19

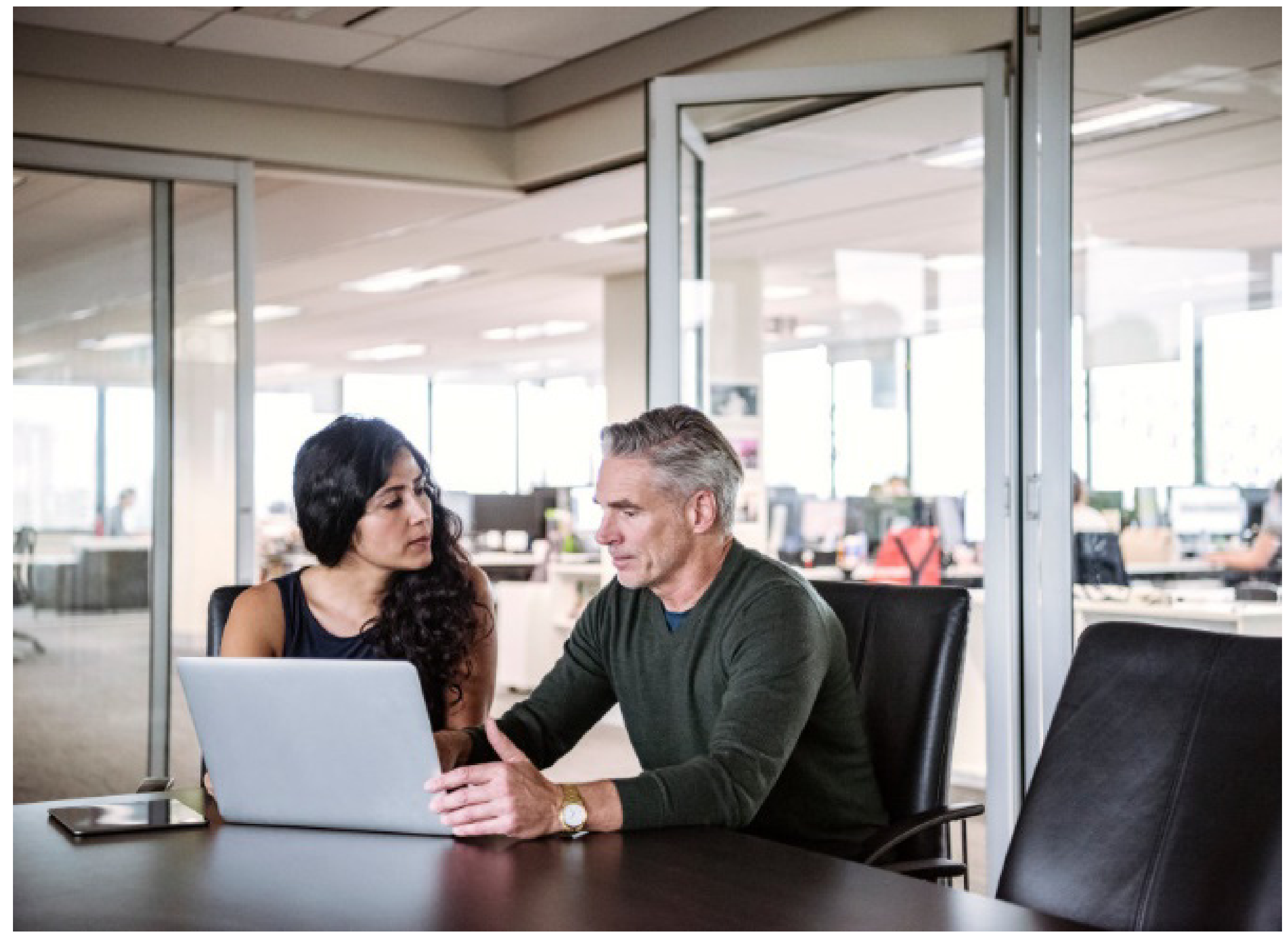
IASB has issued an exposure draft which proposes to introduce a new approach to develop disclosure requirements and new disclosure requirements for IFRS 13, Fair Value Measurement, and IAS 19, Employee Benefits. This exposure draft proposes to enable companies to enhance their judgement and reduce boilerplate information, giving investors more useful information.

IASB aims to achieve following purposes, in applying this guidance:

- Enhance investor engagement to ensure that IASB has an in-depth understanding of investors' information needs and clearly explains those needs in the standards;
- Give greater prominence to the objective of disclosure requirements, requiring companies to apply judgement and provide information to meet the described investor needs; and
- Minimise requirements to disclose particular items of information, and instead to help companies focus on disclosing material information only.

Last date for submission of comments is 21 October 2021.

Click here for the news.
Click here for the exposure draft.



Contact us

To know more, please visit www.grantthornton.in or contact any of our offices as mentioned below:

NEW DELHI National Office, Outer Circle, L 41, Connaught Circus, New Delhi - 110001 T +91 11 4278 7070	**NEW DELHI** 6th Floor, Worldmark 2, Aerocity, New Delhi - 110037 T +91 11 4952 7400	**AHMEDABAD** 7th Floor, Heritage Chambers, Nr Azad Society, Nehru Nagar, Ahmedabad - 380015 T +91 124 462 8000	**BENGALURU** 5th Floor, 65/2, Block A, Bagmane Tridib, Bagmane Tech Park, CV Raman Nagar, Bengaluru - 560093 T +91 80 4243 0700	**CHANDIGARH** B-406A, 4th Floor, L&T Elante Office Building, Industrial Area Phase I, Chandigarh - 160002 T +91 172 4338 000
CHENNAI 9th Floor, A Wing, Prestige Polygon, 471 Anna Salai, Mylapore Division, Teynampet, Chennai - 600035 T +91 44 4294 0000	**DEHRADUN** Suite No 2211, 2nd Floor, Building 2000, Michigan Avenue, Doon Express Business Park, Subhash Nagar, Dehradun - 248002 T +91 135 2646 500	**GURGAON** 21st Floor, DLF Square, Jacaranda Marg, DLF Phase II, Gurgaon - 122002 T +91 124 462 8000	**HYDERABAD** 7th Floor, Block III, White House, Kundan Bagh, Begumpet, Hyderabad - 500016 T +91 40 6630 8200	**KOCHI** 6th Floor, Modayil Centre Point, Warriam Road Junction, MG Road, Kochi - 682016 T +91 484 406 4541
KOLKATA 10C Hungerford Street, 5th Floor, Kolkata - 700017 T +91 33 4050 8000	**MUMBAI** 11th Floor, Tower II, One International Center, SB Marg Prabhadevi (W), Mumbai - 400013 T +91 22 6626 2600	**MUMBAI** Kaledonia, 1st Floor, C Wing, (Opposite J&J Office), Sahar Road, Andheri East, Mumbai - 400069 T +91 22 6176 7800	**NOIDA** Plot No 19A, 2nd Floor, Sector - 16A, Noida - 201301 T +91 120 485 5900	**PUNE** 3rd Floor, Unit No 309-312, West Wing, Nyati Unitree, Nagar Road, Yerwada Pune - 411006 T +91 20 6744 8800

For more information or for any queries, write to us at npsg@in.gt.com

Follow us @GrantThorntonIN