PwC Reporting*InBrief*

Companies (Indian Accounting Standards) (Amendment) Rules, 2017

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In brief

The Ministry of Corporate Affairs has issued the Companies (Indian Accounting Standards) (Amendment) Rules, 2017 (the 'Amendment rules') on 17 March 2017 notifying amendments to Ind AS 7, 'Statement of cash flows' and Ind AS 102, 'Share-based payment'. These amendments are consistent with the amendments made by International Accounting Standard Board (IASB) in the corresponding International Financial Reporting Standards (IFRS).

An entity shall apply these amendments for annual periods beginning on or after 1 April 2017.

This *InBrief* gives an overview of the key requirements of the Amendment rules.

Let's talk

(A) Ind AS 7, Statement of cash flows

1. What is the nature of amendment?

The amendment to Ind AS 7 introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. This includes changes arising from:

- cash flows, such as drawdowns and repayments of borrowings; and
- non-cash changes (i.e. changes in fair values), changes resulting from acquisitions and disposals of subsidiaries/businesses and the effect of foreign exchange differences.

2. How should these additional disclosures be made?

The amendment to Ind AS 7 does not prescribe any specific disclosure format. However, it suggest that a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities would meet the disclosure requirement. Where a reconciliation is used, the disclosure should provide sufficient information to link items included in the reconciliation to the balance sheet and statement of cash flows.

Where an entity chooses not to provide a reconciliation from opening to closing balances, it could provide the information in other ways.

3. Is the disclosure limited only to debt/borrowings?

No. The amendment requires disclosure of changes in liabilities for which cash flows were, or future cash flows will be, classified as financing activities in the statement of cash flows.

4. Should an entity include financial assets in the disclosure if those assets are used to manage its financing activities?

Yes. An entity should include changes in financial assets (for example, assets that hedge liabilities arising from financing liabilities) in the new disclosures if such cash flows were, or will be, included in cash flows from financing activities.

The amendment to Ind AS 7 will enable investors to better understand the changes in an entity's debt. Entities preparing Ind AS financial statements should consider how best to present the additional information to explain the changes in liabilities arising from financing activities. This amendment is consistent with the amendment to IAS 7 arising from IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

5. Is comparative information required to be presented for the additional disclosure?

When an entity first applies the amendment, it is not required to provide comparative information in respect of preceding periods.

(B) Ind AS 102, Share-based payment

1. What is the nature of amendment?

The amendment to Ind AS 102 addresses three classification and measurement issues. These relate to measurement of cash-settled awards, modification of cash-settled awards and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. These are discussed below in detail:

2. Measurement of cash-settled awards:

Under Ind AS 102, the measurement basis for an equity-settled share-based payment should not be 'fair value' in accordance with Ind AS 113, 'Fair value measurement'. However, 'fair value' was not defined in connection with a cash-settled share-based payment. The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. Market-based performance conditions and non-vesting conditions are reflected in the 'fair value', but non-market performance conditions and service conditions are reflected in the estimate of the number of awards expected to vest.

The amendment to Ind AS 102 with respect to measurement of cash-settled awards has most impact where an award vests (or does not vest) based on a non-marketing condition. Absent this clarification, it may be argued that the fair value of a cash-settled award is to be determined using the guidance in Ind AS 113 and reflecting the probability that non-market and service vesting conditions would be met. The amendment clarifies that non-market and service vesting conditions are ignored in the measurement of fair value.

3. Modification of cash-settled awards:

Ind AS 102 includes guidance on how to account for a modification that adds a cash alternative to an equity-settled award, but it did not include guidance on how to account for a modification from cash-settled to equity-settled. The amendment to Ind AS 102 now clarifies that if the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically:

i. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.

ii. The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.

iii. Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss.

The amendment requires any change in value to be dealt with before the change in classification. Accordingly, the cash-settled award is remeasured, with any difference recognised in the statement of profit and loss before the remeasured liability is reclassified into equity.

4. Awards with net settlement features:

Tax laws or regulations may require the employer to withhold some of the shares to which an employee is entitled under a share-based payment award, and to remit the tax payable on the award to the tax authority. Ind AS 102 would require such an award to be split into a cash settled component for the tax payment and an equity settled component for the net shares issued to the employee. The amendment now adds an exception that requires the award to be treated as equity-settled in its entirety. The cash payment to the tax authority is treated as if it was part of an equity settlement. The exception would not apply to any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment.

5. What are the transition provisions for these amendments?

Entities that have employee share-based payments will need to consider whether or not these changes will affect their accounting. In particular entities with the following arrangements are likely to be affected:

- Cash-settled share-based payments that include performance conditions
- Equity-settled awards that include net settlement features relating to tax obligations
- Cash-settled arrangements that are modified to equity-settled share-based payments

The transition provisions specify that the amendments apply to awards that are not settled as at the date of first application or to modifications that happen after the date of first application, without restatement of prior periods. There is no income statement impact as a result of any reclassification from liability to equity in respect of 'net settled awards'; the recognised liability is reclassified to equity without any adjustment.

The amendments can be applied retrospectively, provided that this is possible without hindsight and that the retrospective treatment is applied to all of the amendments.

In summary, the amendment to Ind AS 102 clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in Ind 102 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The takeaway

The amendment rules shall be applicable from annual periods beginning on or after 1 April 2017. Accordingly, these amendments are not applicable to Phase I entities preparing their first Ind AS financial statements for the year ended 31 March 2017. However, such entities would need to provide relevant disclosures under para 30 and 31 of Ind AS 8, 'Accounting policies, changes in accounting estimates and errors' in their first Ind AS financial statements.

When an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose: (a) this fact; and (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application.

Accordingly, an entity considers disclosing: (a) the title of the new Ind AS; (b) the nature of the impending change or changes in accounting policy; (c) the date by which application of the Ind AS is required; (d) the date as at which it plans to apply the Ind AS initially; and (e) either: (i) a discussion of the impact that initial application of the Ind AS is expected to have on the entity's financial statements; or (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Companies should begin drafting suitable disclosures to be included in their 31 March 2017 Ind AS financial statements.

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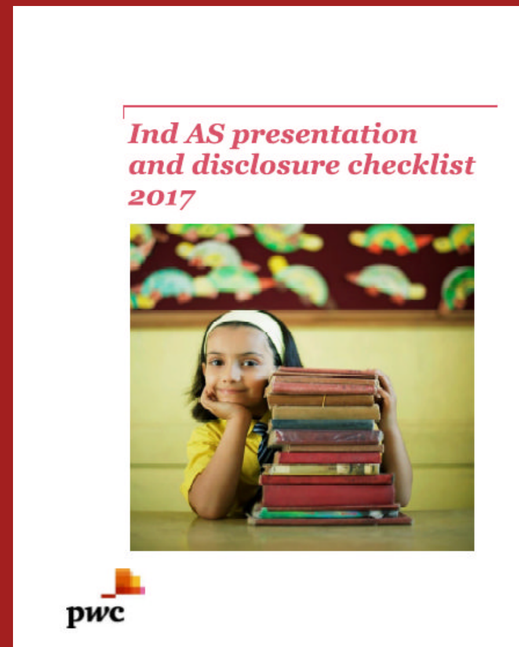

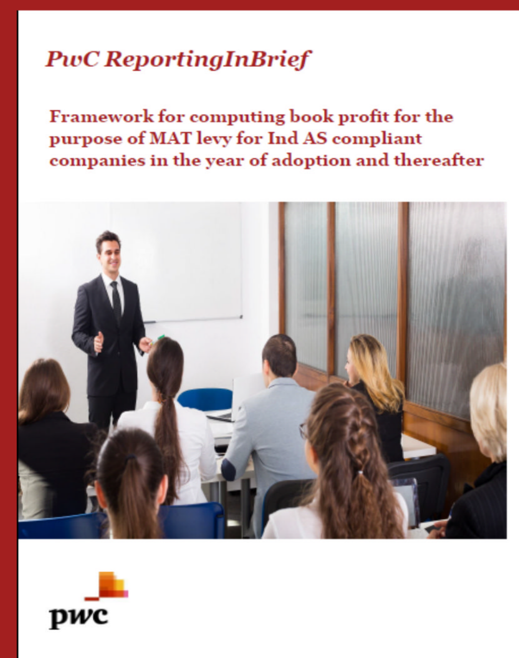

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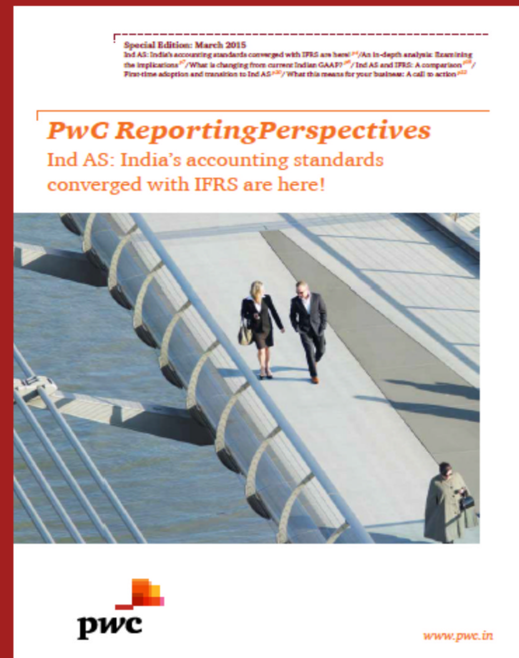

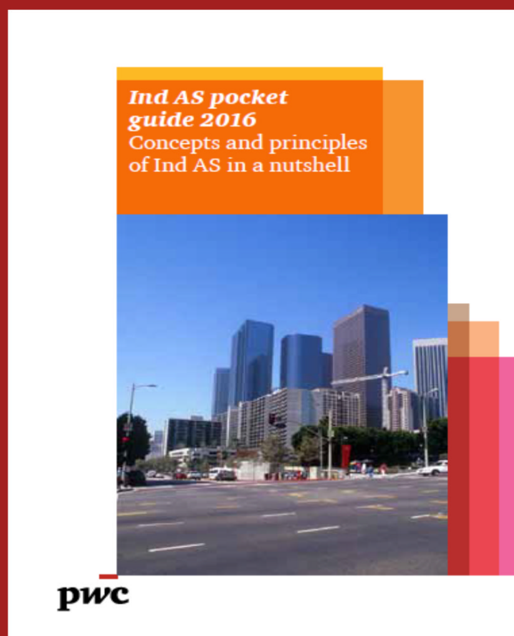

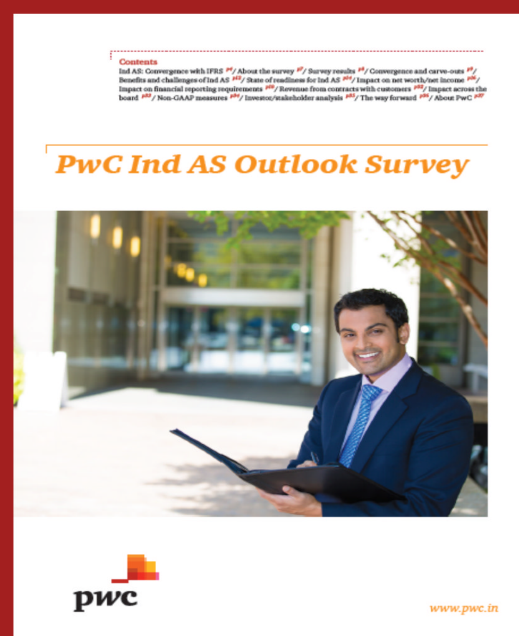

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