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Track Changes

Ind AS 7 and Ind AS 102

March 2017

Ind AS 7

Amendments to Indian Accounting Standard (Ind AS) 7, Statement of Cash Flows requiring disclosure of changes in liabilities arising from financing activities.

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The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments do not define financing activities, instead they clarify that financing activities are based on the existing definition of Ind AS 7.

Although there is no specific format required to comply with the new requirements, the amendments include illustrative examples to show how an entity can meet the objective of these amendments.

The amendments are intended to address investors' concerns that financial statements do not currently enable them to understand the entity's cash flows; particularly in respect of the management of financing activities.

The amendments are to be applied prospectively for annual periods beginning on or after 1 April, 2017. Earlier application is not permitted. When the amendments are first applied, entities are not required to present comparative information for earlier periods.

Summary of Changes

Why has this amendment been issued?

The amendments to Ind AS 7 are in line with the additional disclosure requirements introduced by IFRSs during early 2016. The objective of the amendments is:

- To improve presentation and disclosure requirements in existing Standards
- To improve the information provided by entities about their financing activities.

What are the amendments to Ind AS 7?

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments do not prescribe a specific format to disclose the financing activities. An entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Observation

The amendments do not introduce a definition of "financing" because it will be difficult to agree on a common definition that could address the needs from different users. Instead, once an entity concludes that a particular transaction is, or will be, classified as a financing activity in the Statement of Cash Flows, then it should apply that classification to the separate disclosures of financing activities.

This approach could be challenging for the entities that have transactions that could, depending on specific facts and circumstances, be classified either as financing or operating activities (for example vendor financing or debt factoring arrangements).

Observation

Earlier, when formulating these amendments to IFRSs, the IASB had decided that a reconciliation was just one way to fulfil the disclosure objective due to concerns raised that a reconciliation of financing activities will not be helpful in providing a complete picture of all sources of financing in certain industries, particularly banking.

Many entities already provide disclosures of financing activities such as "net debt reconciliations" 'i.e. the disclosures are already made in combination with changes in other assets and liabilities. In those cases, the entity shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities

Effective date and transition requirements

The amendments are to be applied prospectively for annual periods beginning on or after 1 April, 2017. Earlier application is not permitted. When the amendments are first applied, entities are not required to present comparative information for earlier periods.

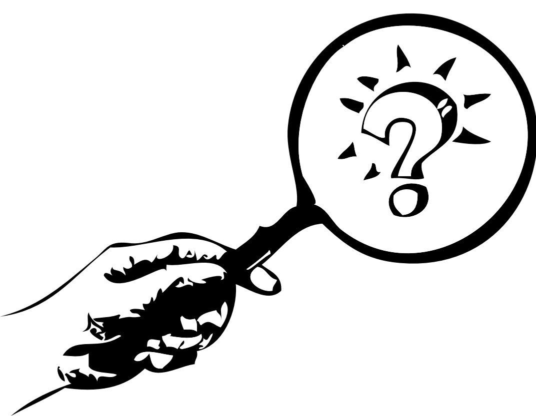
Illustrative example for disclosing changes in financing liabilities

Reconciliation of liabilities arising from financing activities

	20XX	Cash flows	Non-cash changes			20XX
			Acquisition	Foreign Exchange Movement	Fair value changes	
Long-term borrowings	22,000	(1,000)	-	-	-	21,000
Short-term borrowings	10,000	(500)	-	200	-	9,700
Lease liabilities	4,000	(800)	300	-	-	3,500
Assets held to hedge						
Long term borrowings	(675)	150	-	-	(25)	(550)
Total liabilities from financing activities	35,325	(2,150)	300	200	(25)	33,650

Ind AS 102

Amendments to Indian Accounting Standard (Ind AS) 102, Share -based Payment related to the classification and measurement of share-based payment transactions.



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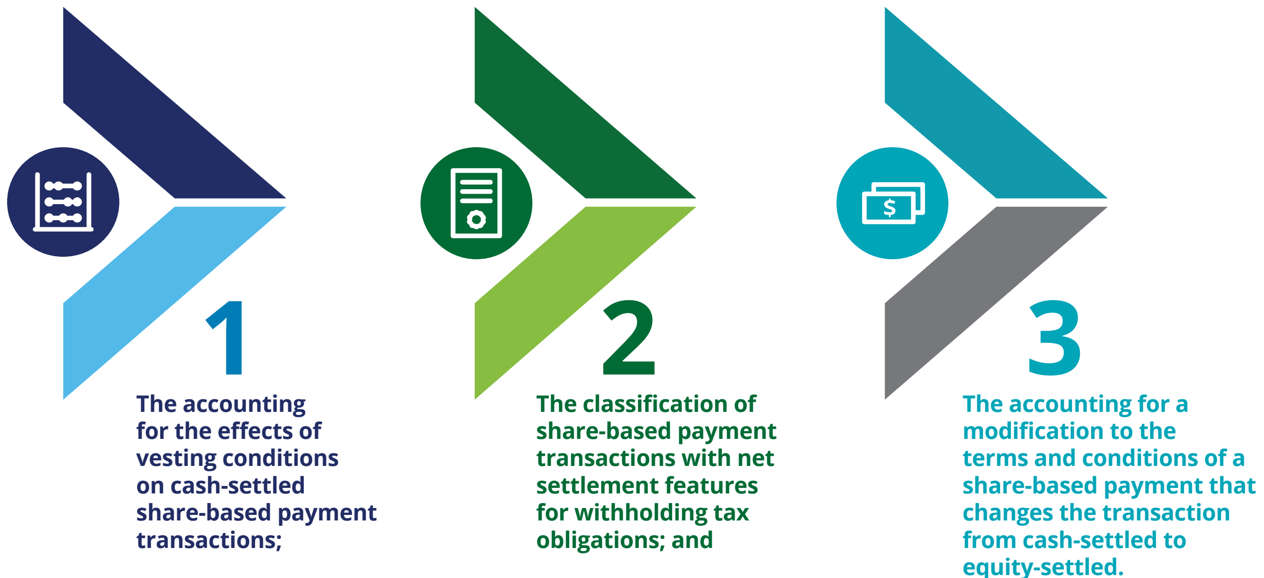
Why has this amendment been issued?

What are the changes introduced by the amendments?

When do the new requirements apply?

Summary of Changes

The amendments relate to the following areas:



The amendments are effective for annual reporting periods beginning on or after 1 April 2017. Earlier application is not permitted. Specific transitional provisions apply.

Why has this amendment been issued?

The amendments to Ind AS 102 are in line with the changes introduced by IFRSs during June 2016. The purpose of the amendments is to resolve several accounting issues such as:

- How to address the impact of vesting and non-vesting conditions on the measurement of the fair value of the liability incurred in a cash-settled shared-based payment.
- How to classify share-based payments that include net settlement features for tax purposes; and
- How to account for a modification of a shared-based payment transaction from cash-settled to equity-settled when the fair value of the replacement award is different from the recognised value of the original award.

What are the changes introduced by the amendments?

Accounting for the effects of vesting conditions on cash-settled share-based payments

Ind AS 102 specifies that for cash-settled transactions an entity is required to: (i) measure the goods or services acquired and the liability incurred at the fair value of the liability; (ii) remeasure the fair value of the liability at the end of each reporting period until the liability is settled; and (iii) apply an option pricing model, taking into account the terms and conditions on which the cash-settled share-based payments were granted and the extent to which employees have rendered service to date. However, Ind AS 102 did not previously provide guidance on how to incorporate vesting and non-vesting conditions into the measurement of the liability.

The amendments to Ind AS 102 clarify that the accounting for the effects of vesting and non-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments. This means that:

- market and non-vesting conditions are taken into account in estimating the fair value of the cash-settled share-based payment; whilst
- service and non-market conditions are not taken into account when estimating the fair value, but are instead taken into account by adjusting the number of awards included in the measurement of the liability.

The effects of all conditions will be revised at the end of each reporting period (unlike equity-settled share-based payments, for which the fair value is fixed at grant date), meaning that the cumulative liability recognised equals the cash eventually paid.

Classification of share-based payments transactions with net settlement features

The amendments specifically apply to circumstances in which tax law or regulation requires an entity to withhold on behalf of their employees a specified number of equity instruments to meet the employee's tax liability which is then remitted to the tax authority (typically in cash). The amendments state that such an arrangement should be classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

The amendments also add a requirement to disclose an estimate of the amount of cash expected to be transferred to the tax authority as a result of such arrangement.

Accounting for a modification to the terms and conditions of a share-based payment transaction that changes the transaction from cash-settled to equity-settled

The amendments clarify that a modification of a share-based payment that changes the transaction from cash-settled to equity-settled be accounted for as follows:

i. the original liability is derecognised
ii. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
iii. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

Observation

The approach adopted implies that the liability for the original cash-settled share-based payment should be derecognised on the modification date because it is considered that by granting the replacement equity-settled share-based payment, the entity has settled its cash-settled share-based payment. This is because, at the modification date, the entity is no longer obliged to transfer cash to the counterparty.

Observation

The amendments are presented as an exception to the requirement of Ind AS 102 that, for a share-based payment providing the counterparty with a choice of settlement in cash or in equity instruments, a liability be recognised to the extent that the entity has incurred a liability to settle in cash and it is specified that this exception does not apply to:

- net settlement features not required by tax law or regulation; or
- withholdings in excess of the employee's tax obligation arising from the share-based payment

When do the new requirements apply?

The amendments are effective for annual periods beginning on or after 1 April 2017. Earlier application is not permitted.

The amendments are to be applied prospectively with the following transitional requirements:

i. The amendments on the accounting treatment for the effects of vesting and non-vesting conditions on cash-settled share-based payments apply to share-based payment transactions that: (i) are unvested at the date that an entity first applies the amendments; or (ii) were granted on or after the date that an entity first applies the amendments. For unvested share-based payments transactions that were granted prior to the date of initial application of the amendments, an entity is required to (i) remeasure the liability at initial application; and (ii) recognise the effect in opening retained earnings (or other component of equity, as appropriate).

ii. The amendments on the classification of share-based payments transactions with net settlement features apply to share-based payment transactions that (i) are unvested (or vested but unexercised); or (ii) were granted on or after the date that an entity first applies the amendments. For unvested (or vested but unexercised) share-based payments transactions that were previously classified as cash-settled and now must be reclassified to equity-settled, an entity is required to reclassify the carrying amount of the liability to equity at the date that an entity first applies the amendments.

iii. The accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled only applies to modifications that occur on or after the date an entity first applies the amendments.

Entities are permitted to apply the amendments retrospectively only if it is possible to do so without using hindsight. If an entity elects retrospective application, it must do so for all of the amendments made to Ind AS 102 under this notification.

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