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1. Enhanced Audit Report
A look at the new audit report

Globally, the last few decades have seen financial crises, increasing complexities of business processes and paradigm shifts in the manner of operations of companies. This has resulted in a dynamic audit process, culminating in the issuance of the audit report which would now not be in the standard pattern. The feedback of the users of the audit report, however, was that the auditors need to provide more relevant information, and insight into the audit process, thereby making the audit report more transparent and readable and less template-driven.

In response to these concerns, the auditor reporting model has undergone a change globally. The common theme underlying these initiatives is communicating information about critical audit matters in the auditor's report. In addition to expanded auditor reporting, many of these initiatives also include other changes to the form and content of the auditor's report.

This article gives an overview of the changes in the structure of the audit report on account of these new reporting requirements.

Without doubt, the most significant innovation in all of the various proposals is the introduction of ‘key audit matters’ (IAASB), ‘critical audit matters’ (PCAOB) or equivalent concepts. This new section of the auditor's report will shed light on those matters that, in the auditor's judgement, were of most significance in the audit of the financial statements. How the requirements (or proposed requirements) are described differ, but the intent is similar – to introduce into auditor's reports a bespoke description of key areas of focus in the audit. This is not supplanting the auditor's overall opinion on the financial statements as a whole – which investors value and do not want to lose. But the reports will be enhanced by the auditor’s descriptions of key audit matters or critical audit matters – sharing insight, from an audit perspective, about more subjective areas in the financial statements, such as complex financial reporting estimates and significant management judgements.

The changes that different standard setters and regulators are introducing to auditor’s reports centre around three key aims:

- Insight - To shed light on those matters, that in the auditor's judgement, were of the most significant in the audit of the financial statements.
- Transparency - To introduce an explicit statement regarding auditor’s independence in all reports for listed entities.
- Improved readability - To provide a restructured report that puts the audit opinion and entity-specific information first.

Closer home, in India, the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India’s had issued its new reporting standard, SA 701, Communicating Key Audit Matters in the Independent Auditor’s Report, which is effective for audits of financial statements for periods beginning on or after April 1, 2018. The reporting Standards SA 700, 705 and 706 have also been revised, and will also be effective for periods beginning on or after April 1, 2018.

Two key changes brought about by the Reporting Standards include:

(a) the change in the structure of the audit report, and
(b) the inclusion of a key audit matter paragraph.

The audit report’s structure has undergone a major change with regard to the elements of the new structure of the audit report. The next page illustrates the comparison with the existing reporting structure.
How will different audit reports be affected?

In the existing audit report, the first section is management’s responsibility for followed by auditor’s responsibility in context of the audit of financial statements. These have moved to latter part under the new audit report format.

Opinion as per the existing format followed the auditor’s responsibility paragraph which now has moved up as the second section of the new audit report. In the new audit report, this second section also includes the auditor’s independence.

The opinion paragraph now becomes the first section of the new audit report representing its relevance in the hierarchy of information.

Signature, date of the auditor’s report, auditor’s address in the last section in the opinion remains in the last section in the new audit report.

The format of new audit report applies to all corporate entities (listed/unlisted).

*The article has prepared on matters of general interest only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice*.
2. Latest on corporate reporting 2018-19

This article revisits the key corporate reporting topics that have been notified since April 1, 2018 and impact the ever-changing regulatory landscape and gives a snapshot of amendments issued by MCA in light of Companies Act, 2013, SEBI and ICAI.

(A) MCA

Companies (Amendment) Act, 2017

The change in Companies (Amendment) Act, 2017 have far-reaching implications that are set to significantly change the manner in which corporates operate in India.

Commencement of Companies Amendment Act 2017 was notified vide notification S.O.(E) dated January 23, 2018 which inter-alia provided that Central Government in the Official Gazette would appoint different dates for different provisions of amendment act. As of now, there still remain 2 sections which are yet to be notified and 2 sections which are partially being notified.

The key amendments notified till date inter-alia include:

- Definitions of associate company, joint venture company amended [Section 2(6)]

- The 20% criteria in respect of significant influence is now in respect of voting power and not total share capital.

- Participation in business decisions under an agreement also considered under significant influence.

Meaning of joint venture now added, and is the same as that in Ind AS 28

- Prohibition on acceptance of deposits from public. [Section 73]

- The amended sub-section states that, on or before April 30th of each year, a sum of at least 20% of the deposits maturing during the following financial year to be deposited in a separate bank account with a scheduled bank, to be called the deposit repayment reserve account.

- Deposit insurance is no longer required.

- Requirement of annual ratification of appointment of the auditors goes away [first proviso to Section 139(1)]

- Disqualifications for appointment of director [Section 164(2) and (3)]

- On appointment as a director in a company which is in default i.e., the company had neither filed its financial statements/ annual returns for a period of 3 financial years or failed to repay deposits/ redeem debentures or pay interest thereon or pay dividend declared for a year or more, the director incurs the disqualification after a period of 6 months from appointment

- Section 164(1) specifies the disqualifications for appointment of director; and if any appeal/petition is filed against the order of conviction/ disqualification under Sections 164(1)(d), (e) and (g), he will not be disqualified from the post of director.

- Requirements with regard to loans to directors have been relaxed and is subject to special resolution [Section 185]

- Appointment of managing director, whole-time director or manager (Section 196 of Companies Act, 2013) - The new proviso states that such appointment can be made even where no such special resolution is passed, but if votes cast in favour exceed votes cast against such motion, and the Central Government, on an application made by the Board, is satisfied that such appointment is most beneficial to the company.

- Overall maximum managerial remuneration and managerial remuneration in case of absence or inadequacy of profits (Section 197 of Companies Act, 2013) - The requirement of central Government approval for payment of remuneration in excess of 11% of net profits has been done away with. However, the company’s would need to obtain approval in general meeting by way of special resolution.
• Calculation of profits etc. (Section 198 of Companies Act, 2013) - While computing profits for the purpose of section 197, credit not to be given to any amount representing unrealized gains, notional gains or revaluation of assets.

• Central Government or company to fix limit with regard to remuneration. (Section 200 of Companies Act, 2013)

• Corporate Social Responsibility (Section 135 of Companies Act, 2013)

Constitution of committee to review the offences under the Companies Act, 2013

The committee aims to strengthen enforcement of law against serious offences and de-burdening the courts for routine matters. The Report has been submitted by the committee on August 28, 2018.

The recommendations inter-alia include a transparent adjudication framework for 16 defaults that would be subject to penalty, corporate compliance and governance No change suggested in any of the non-compoundable offences.

National Financial Reporting Authority (NFRA)

The NFRA has been constituted w.e.f. October 1, 2018.

Commencement notification has been issued for its subsections which inter-alia deal with:

1. Constitution of NFRA by Central government
2. Making recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be
3. Monitoring and enforcing the compliance with accounting standards and auditing standards in such manner as may be prescribed
4. Power to investigate into the matters of professional or other misconduct committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949

5. Books of account to be maintained by NFRA, Audit of accounts of NFRA by Comptroller and Auditor-General of India, Preparation of annual report by NFRA

6. Head office of NFRA to be at New Delhi

Further, the National Financial Reporting Authority Rules, 2018 issued on November 13, 2018 prescribe the powers, functions and duties of the NFRA which among others include recommending accounting and auditing standards, monitoring and enforcing compliance with accounting and auditing standards, overseeing the quality of audit services and suggesting measures for improvement. It also prescribes the procedures for disciplinary proceedings against auditors and manner of enforcement of the orders passed in disciplinary proceedings.

Companies (Amendment) Ordinance, 2018

The Companies (Amendment) Ordinance, 2018 has been notified by the Ministry of law and justice and is effective from November 2, 2018. with the twin objective of promoting ease of doing business and ensuring better corporate governance. Major changes have been introduced in many provisions of the Companies Act, 2013 with efforts to

- reduce the excessive burden of the Special Courts and Tribunals
- make the penal provisions under various provisions more specific and stringent thereby ensuring, compliance of law in true letter and spirit

The amended sections inter alia include Section 53 (Prohibition on issue of shares at discount), section 90 (Register of significant beneficial owners in a company), section 92 (Annual Return), section 121 (Report on Annual General Meeting) and section 447 (Punishment for Fraud)

Proposed amendments to Companies Act, 2013

The proposed amendments to Companies Act, 2013 aim to strengthen the corporate governance & enforcement framework. The proposed amended sections inter-alia include Section 124 (Unpaid Dividend Account) and Section 135 (Corporate Social Responsibility)
**Amendment to Schedule III to the Companies Act, 2013**

MCA has amended Schedule III of Companies Act, 2013 w.e.f October 11, 2018. *It inter-alia* provides for the below amended requirements in respect of Division I to Schedule III.

<table>
<thead>
<tr>
<th>S No</th>
<th>Paragraph No</th>
<th>Existing requirement</th>
<th>Amended requirement</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General instructions for preparation of Balance Sheet and Statement of Profit and Loss of a company: General Instructions</td>
<td>4(ii) Once a unit of measurement is used, it <em>shall</em> be used uniformly in the financial statements.</td>
<td>Once a unit of measurement is used, it <em>should</em> be used uniformly in the financial statements.</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Part I – Balance Sheet</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>II. Assets Non-current assets</td>
<td>(1)(a) <strong>Fixed assets</strong></td>
<td>(1)(a) <strong>Property, Plant and Equipment</strong></td>
<td>The scope of Fixed assets under pre-revised AS 10 is different from the scope of AS 10(R), Property, plant and equipment. (Refer AA: 84 Amendments to Accounting Standards) With this amendment, cognizance has been given to the requirements of AS 10 (R).</td>
</tr>
<tr>
<td>b</td>
<td>Notes: General Instructions for preparation of Balance Sheet</td>
<td>6.B. Reserves and Surplus ...... (i)(c) <strong>Securities Premium Reserve</strong></td>
<td>(i)(c) <strong>Securities Premium</strong></td>
<td>This amendment brings clarity that Securities premium represents the premium on issue of shares by the Company, and does not represent a reserve created by the Company.</td>
</tr>
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<td></td>
<td></td>
<td>W. If, in the opinion of the Board, any of the assets other than fixed assets and non-current investments do not have a value on realization in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of the opinion, shall be stated.</td>
<td>W. If, in the opinion of the Board, any of the assets other than Property, plant and equipment and non-current investments do not have a value on realization in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of the opinion, shall be stated.</td>
<td>With this amendment, cognizance has been given to AS 10 (R).</td>
</tr>
</tbody>
</table>
Set up on June 2, 2017, under the Chairmanship of Mr. Uday Kotak, the 25 member committee were given terms of reference for enhancing corporate governance in listed companies. The Committee, after four months issued its Report on October 5, 2017. The guiding principles were: High Quality Information; good corporate governance; regulatory monitoring. Deliberations were held on shaping governance for long term value creation; protecting shareholder interests; building regulatory capacity and to bring about change in an evolutionary manner.

This section deals with certain recommendations of the Uday Kotak committee accepted with/without modifications for Companies, directors and auditors.

SEBI (LODR) Amendment Regulations – I. Roadmap

- **June 2, 2017**: SEBI Committee on corporate governance formed under Mr. Uday Kotak to improve standards of corporate governance
- **October 5, 2017**: Report on Corporate Governance submitted to SEBI
- **March 28, 2018**: SEBI Press Release regarding recommendations accepted, with/without modifications and those referred to other agencies
- **May 9, 2018**: SEBI (LODR) (Amendment) Regulations, 2018
- **May 10, 2018**: Circular for implementation of certain recommendations of the Committee on Corporate Governance

II. Key Amendments – Companies:

- Secretarial audit for material unlisted subsidiaries incorporated in India, including private companies [Regulation 24A] [Annual reports for year ended March 31, 2019 and thereafter]
- Prior intimation to Stock Exchange in case of board meeting for consideration of bonus issue [Regulation 29(1)(f)] [October 1, 2018]
- Utilisation of funds raised through preferential allotment or QIP to be disclosed in annual report [Regulation 32] [Annual reports for year ended March 31, 2019 and thereafter]
- Consolidated quarterly/year to date results in addition to standalone results now mandatory [Regulation 33(3)(b)] [April 1, 2019]
- Half yearly cash flows to be furnished as part of standalone and consolidated results
- For quarterly consolidated results, at least 80% of consolidated revenue, assets and profits to be subjected to audit or limited review.
- Last quarter results to contain note on aggregate effect of material adjustments made in the last quarter, and pertaining to earlier periods [Regulation 33(3)(e)] [April 1, 2019]

III. Key Amendments – Directors:

- Members of promoter group not to be considered as independent director [Regulation 16 (1) (b)] [October 1, 2018]
- Not more than 8 directorships in listed entities wef April 1, 2019; and not more than 7 listed entities wef April 1, 2020 [Regulation 17A]
- Not to be an independent director in more than 7 entities [Regulation 17A]
- Role of Risk Management committee to cover cyber security [Regulation 21(4)]
- Top 500 listed entities to have Risk Management Committee [Regulation 21(5)]
- At least one independent director of entity to be director of unlisted material subsidiary, whose income/net worth exceeds 20% of consolidated income/net worth [Regulation 24(1)] [April 1, 2019]

IV. Key Amendments – Auditors [April 1, 2019]:

- Statutory auditor to undertake limited review of audit of all entities/companies whose accounts are consolidated [Regulation 33(8)]
- Notice for appointment to include proposed fees to statutory auditor, with terms of appointment, material change in fee with rationale (for new auditor) and basis of recommendation for appointment [Regulation 36(5)]
- In case of resignation of auditor, detailed reasons thereof to be disclosed by entity to stock exchanges within 24 hours of receipt of reasons from auditor [Schedule III, Part A, Clause A]
- In case of audit qualifications, where impact is not quantifiable, management to mandatorily make an estimate (except for matters like going concern or subject matters) to be reviewed and reported on by the auditor [Schedule IV, Part A, Clause BB]
The difference between certain provisions of the SEBI (LODR) Regulations and the Companies Act, 2013

<table>
<thead>
<tr>
<th>Particulars</th>
<th>SEBI LODR</th>
<th>2013 Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum number of directors</td>
<td>Minimum number of 6 directors prescribed for top 1000 listed entities (w.e.f April 1, 2019) and top 2000 entities (w.e.f April 1, 2020)</td>
<td>2013 Act – minimum 3 directors for public company</td>
</tr>
<tr>
<td>Quorum for meetings</td>
<td>To include at least one independent director for top 1000 listed entities (w.e.f April 1, 2019) and top 2000 entities (w.e.f April 1, 2020)</td>
<td>No such requirement under 2013 Act</td>
</tr>
<tr>
<td>Managerial remuneration</td>
<td>Shareholders approval by special resolution every year for based on remuneration paid</td>
<td>Criteria for shareholders’ approval covered under Section 197 of 2013 Act</td>
</tr>
<tr>
<td>Related party transactions</td>
<td>All material RPTs require shareholders approval vide special resolution</td>
<td>No approval required for transactions at arms length and ordinary course of business under 2013 Act</td>
</tr>
<tr>
<td>Secretarial audit</td>
<td>Even private companies, which are material subsidiaries, to be subjected to secretarial audit</td>
<td>No provision for secretarial audit for private companies under the 2013 Act</td>
</tr>
<tr>
<td>Financial results</td>
<td>Statutory auditor to undertake limited review of audit of all entities/ companies whose accounts are consolidated, per guidelines to be furnished by SEBI</td>
<td>Appears contrary to paragraph 11 of SA 600 (relating to division of responsibility)</td>
</tr>
<tr>
<td>Documents and Information to shareholders</td>
<td>Notice for appointment to include proposed fees to statutory auditor, with terms of appointment, change in fee with rationale (for new auditor) and basis of recommendation for appointment</td>
<td>Explanatory statement to be given only for items of special business; appointment of auditors is ordinary business</td>
</tr>
<tr>
<td>Voting by shareholders</td>
<td>AGM to be held within 5 months from date of closing of financial year for top 100 listed entities</td>
<td>AGM to be held within 6 months from the date of closing of financial year</td>
</tr>
</tbody>
</table>

Disclosure by listed entities:

Disclosures regarding commodity risks by listed entities

Regulation 34(3) read with clause 9(n) of Part C of Schedule V of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI LODR Regulations”) mandates listed entities to make disclosures regarding commodity price risk and hedging activities in the Corporate Governance Report section of the Annual Report of a listed entity.

In order to benefit the shareholders and to bring further clarity in disclosures to be made in the annual reports by listed entities, the Corporate Governance Committee recommended certain disclosures. The recommendation of the Committee was accepted by the SEBI Board and accordingly, all listed entities shall make the necessary disclosures in the format as enclosed as part of the Corporate Governance Report in the Annual Report under clause 9(n) of Part C of Schedule V. [Circular No.: SEBI/HO/CFD/CMDC/IR/P/2018/0000000143 dated November 15, 2018]

The disclosures inter-alia deal with:

- Risk management policy of the listed entity with respect to commodities including through hedging and Exposure of the listed entity to commodity
- Commodity risks faced by the entity throughout the year

Disclosure of reasons for delay in submission of financial results by listed entities

Regulation 33 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”), inter-alia, specifies timelines for submission of financial results by listed entities. Accordingly, the quarterly and annual financial results are to be submitted by listed entities to stock exchanges within forty-five/sixty days from the end of the quarter/financial year. It is expected that the listed entities shall adhere to the aforesaid timelines for submission of financial results.

Wherever there were delays in submission of financial results by certain listed entities to the stock exchanges in the past, while the fact of delay was intimated by the listed entity, the reasons for the same were not disclosed / were not brought out clearly. In such cases, the investors were often left unaware as to the reasons for such delays which may have had an impact on their investment decision. Hence, a need for disclosure by listed entities of reasons for delay in submission of financial results arises.

Accordingly, if any listed entity does not submit its financial results in accordance with the timelines specified in Regulation 33 of Listing Regulations, the listed entity shall disclose detailed reasons for such delay to the stock exchanges within one working day of the due date of submission for the results as required under Regulation 33.

However, if the decision to delay the results was taken by the listed entity prior to the due date, the listed entity shall disclose detailed reasons for such delay to the stock exchanges within one working day of such decision. (Circular No: CIR/CFD/CMDC/1/142/2018 dated November 19, 2018)
KYC Requirements for FPIs

Certain recommendations were made in the Interim Report of working group on KYC Requirements for FPIs.

The Board broadly accepted the recommendations of HR Khan group. Accordingly, it has been decided to inter-alia put in place certain eligibility norms for FPIs.

SEBI Board meeting held on September 18, 2018 (Press release No 41/2018) inter-alia dealt with KYC requirement for FPIs, Reducing the time period for listing of issues Amendment of Regulations relating to Re-classification of promoter / public and Amendments to SEBI (Delisting of Equity Shares) Regulations, 2009

Fund raising by issuance of Debt Securities by Large Entities

With a view to operationalising the Union Budget announcement for 2018-19, which, inter-alia, stated "SEBI will also consider mandating, beginning with large entities, to meet about one-fourth of their financing needs from the debt market", SEBI came out with a discussion paper on July 20, 2018. Based on feedback received on the discussion paper and wider consultation with market participants including entities, the detailed guidelines for operationalising the above budget have been provided.

These inter-alia include:

1. Applicability of Framework:
   For the entities following April-March as their financial year, the framework shall come into effect from April 01, 2019 and for the entities which follow calendar year as their financial year, the framework shall become applicable from January 01, 2020. The framework shall be applicable for all listed entities (except for Scheduled Commercial Banks) meeting prescribed criteria.

2. Disclosure requirements for large entities:
   A listed entity, identified as a LC (Large Corporate) under the instant framework, shall make the following disclosures to the stock exchanges, where its security(ies) are listed:
   i. Within 30 days from the beginning of the FY, disclose the fact that they are identified as a LC, in the format as provided at Annexure A.
   ii. Within 45 days of the end of the FY, the details of the incremental borrowings done during the FY, in the formats as provided at Annexure B1 and B2.
   Such disclosures shall be certified both by the Company Secretary and the Chief Financial Officer, of the LC and shall also form part of audited annual financial results of the entity. (Circular No.: SEBI/HO/DDHS/CIR/P/2018/144 dated November 26, 2018)

Disclosure of significant beneficial ownership in the shareholding pattern

The Companies (Significant Beneficial Owners) Rules, 2018 specifies various requirements pertaining to disclosures regarding Significant Beneficial Owners.

In the interest of transparency to the investors in the securities market, it has been specified that all listed entities shall disclose details pertaining to significant beneficial owners in the prescribed format.

This Circular shall come into force with effect from the quarter ended March 31, 2019. (Circular No SEBI/HO/CFD/CMD1/CIR/P/2018/0000000149 dated December 7, 2018)

(C) ICAI

• Clarification on disclosure of SBN for the financial year ending on March 31, 2018

It has been clarified that since this disclosure requirement was event specific, and hence was relevant for Financial Year 2016-17 only and required disclosure is also for period falling under that financial year. Therefore, in Notes to Account as well as Audit Report, the disclosure requirement relating to SBNs are not applicable for the Financial Year 2017-18 & subsequent years. Consequent disclosures may be made in the Financial Statements/Audit Reports.

• Vide announcement dated September 28, 2018 it has been clarified that internal auditor not to undertake Goods and Service Tax (GST) Audit simultaneously

Key Publications issued:

• Report on Audit Quality Review (2017-18) (July 31, 2018) - Key findings and analysis of observations made by Technical Reviewers

• Implementation Guide to SA 610(Revised) issued by the Auditing and Assurance Standards Board - (August 27, 2018) - Implementation guidance on using the work of internal audit function and using internal auditor for providing direct assistance

• Taxation of Non-residents (based on the law as amended by the Finance Act, 2018). It also makes reference to Important Judicial Precedents & Board Circulars.

• Technical Guide on Annual Return & GST Audit (October 22, 2018) - Contains clause-by-clause analysis of Form GSTR-9, 9A and Form GSTR -9C.

• Technical Guide on the functioning of Audit Committee and its Review Checklist as issued by the CL&CGC of ICAI - (October 29, 2018) - The Guide aims to provide guidance on Duties and Role of Audit Committee for ensuring its effectiveness. Important Frequently Asked Questions and A Specimen Checklist for Performance Evaluation of Audit Committee has been included.

• FAQ’s on Form GSTR-9 – Annual Return - Indirect Tax Team of ICAI has issued FAQ’s on Form GSTR-9 – Annual Return.

• Implementation Guide on Resignation/ Withdrawal from an Engagement to Perform Audit of Financial Statements

Large number of mid-term resignations by auditors this year has become matter of concern for various stakeholders. To examine the reasons and circumstances leading to resignation of auditors, a Group was constituted and it was decided to issue guidance for the members on the matter. Accordingly, Implementation Guide on Resignation/ Withdrawal from an Engagement to Perform Audit of Financial Statement has been issued by AASB.
The Implementation Guide contains guidance on various aspects of auditors’ resignation like circumstances leading to withdrawal/resignation, procedure to be followed by auditors in case of resignation, auditor’s responsibilities, professional obligations to be complied with by auditors.

The Appendix to the Implementation Guide contains references of relevant paragraphs of various Standards on Auditing, SQC 1 and ICAI’s Code of Ethics which deal with auditors’ resignation.

- **Revised Implementation Guide to Standard on Auditing (SA) 230, Audit Documentation (December 4, 2018)**

Auditing and Assurance Standards Board has issued the revised edition of the Implementation Guide to SA 230, “Audit Documentation”. The Implementation Guide has been written in an easy to understand language in the form of frequently asked questions (FAQs) on this Standard and responses to those FAQs. It also contains checklists of documentation requirements.

**ICAI Valuation Standards 2018**

The valuation standards are effective for the valuation reports issued on or after July 1, 2018. These are applicable for all valuation engagements on mandatory basis under the Companies Act 2013. Further the same are applicable for valuation engagements under other Statutes like Income Tax, SEBI, FEMA etc., on recommendatory basis for the members of the Institute. The standards deal with topics such as Valuation approaches, Business Valuation and Financial Instruments.

**Conclusion**: These changes transform the business environment by easing processes, removing regulatory bottlenecks and improving corporate governance. Businesses around the world are coming under the regulatory microscope and there is an increasing need to keep abreast of the rapidly evolving regulations.

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3. The Road to Strategic Board Succession

Having the right individuals in the boardroom is critical. Directors need to have the right skills and experience that align with the company’s long-term strategy. Diverse and fresh perspectives are also important. So how should boards be thinking strategically about their board succession plan to ensure optimal board composition now and into the future?

Today, boards too often approach succession planning in an episodic manner. It is often addressed only when the board needs to replace a retiring director. This is not overly surprising considering it can be a sensitive topic.

Shareholders and other stakeholders are paying increased attention to board succession planning. Institutional investors are putting pressure on boards to have a more rigorous process around assessing board composition and refreshment. They are asking whether there is enough diversity in the boardroom, if the board has the right skills and how they think about director tenure. Many shareholders also want enhanced disclosure to better understand the board’s activities in this area. And, hedge fund activists have also focused on board composition as part of their campaigns.

In our experience, approaches to board succession planning fall along a spectrum. Some boards are highly reactive, and others are strategic — with multiple options in between. Our view is that boards benefit from moving up this continuum toward a more strategic approach.

How can boards be more strategic? They can take the following actions:

- Make board succession a priority agenda.
- Take a multi-year view toward departures and upcoming leadership changes
- Set directors’ expectations around tenure
- Assess skills and attributes, and incorporate results from performance assessments
- Agree on a plan that prioritizes needs and build a talent pipeline

Boards don’t always make sufficient time on their meeting agendas to discuss board succession planning. Is their discomfort with the topic getting in the way of doing what’s best for the board?

“A strategic board succession planning process will ensure that the board is positioned to be a strategic asset to the company.”
## The board succession planning maturity continuum

*Where does your board sit on the curve?*

<table>
<thead>
<tr>
<th></th>
<th>REACTIVE</th>
<th>PROGRESSING</th>
<th>STRATEGIC</th>
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</thead>
<tbody>
<tr>
<td><strong>Board leadership and prioritization</strong></td>
<td>Board leadership does not prioritize succession, giving it little focus and having no formal planning process.</td>
<td>Board leadership makes succession a priority for the nominating/governance committee, which leads an annual planning process. There is limited awareness by the full board.</td>
<td>Board leadership makes succession a priority on the board's agenda. The nominating/governance committee leads a regular planning process that is discussed with and agreed upon by the full board.</td>
</tr>
<tr>
<td><strong>Time horizon for departures</strong></td>
<td>Succession planning is primarily driven by mandatory retirement age.</td>
<td>Nominating/governance committee takes an annual view of imminent director departures and leadership changes, usually focused on individual board seats.</td>
<td>Nominating/governance committee takes a multi-year view of anticipated director departures and leadership changes, focused on the overall aggregate tenure of the board.</td>
</tr>
<tr>
<td><strong>Director tenure expectations</strong></td>
<td>Board does not set expectations for director tenure and related governance policies. Individual director tenure is evaluated on an infrequent or episodic basis.</td>
<td>Board has general conversations about director tenure, particularly as new directors join. The nominating/governance committee periodically considers issues related to individual director tenure.</td>
<td>Board sets clear expectations about director tenure, regularly reviews individual director tenure, and determines the optimal mix of director tenure levels on the board (i.e., new directors, medium-tenure directors and long-tenure directors).</td>
</tr>
<tr>
<td><strong>Assessment of director skills</strong></td>
<td>An informal board skills assessment is done to identify skill gaps. Board assessments are viewed as a compliance activity and results are not incorporated into the succession planning process.</td>
<td>A board skills matrix may be used to identify skill gaps, and results from board assessments may be incorporated into the succession planning process.</td>
<td>A board skills matrix is used to identify current and expected skill gaps. Board and director assessments are seen as a continuous improvement exercise and results are incorporated into the succession planning process.</td>
</tr>
<tr>
<td><strong>Succession plan and candidate profiles</strong></td>
<td>Nominating/governance committee does not have a formal succession plan. A director candidate profile is usually developed only when a board vacancy is imminent.</td>
<td>There is an annual review of the succession plan and director candidate profiles are maintained. But search efforts are episodic and not linked to the overall succession plan to address prioritized skills and attributes.</td>
<td>Nominating/governance committee maintains a multi-year succession plan and director candidate profiles with a prioritized list of skills and attributes, and a talent pipeline is developed for future needs.</td>
</tr>
</tbody>
</table>
Boards are unlikely to tackle succession planning in a rigorous way unless it is explicitly part of their agenda. So it is critical to regularly carve out time on the nominating/governance committee and board agendas. Board culture also has a role to play. The culture has to allow for frank and candid dialogue about ongoing board refreshment, director retirements and the need for different director skill sets. These are sensitive, difficult discussions, which make strong board leadership all the more essential.

Shareholders have heightened expectations about understanding the board’s succession planning process. They want to understand if a robust plan exists, whether it addresses skills needed in the future and how frequently the board refreshes, creating director candidate profiles and leading the search for new candidates. In addition to the committee, the full board should also understand, review and have input into the plan.

Boards further along the board succession planning maturity continuum take a longer-term view — focusing three to five years out — to effectively address anticipated departures. They create a waterfall chart that identifies all directors, their skill sets and expertise, their board roles (including leadership and committee membership), board tenure, the year they would likely be leaving the board based on expected retirement and other factors. This broader view gives the nominating/governance committee ample time to effectively plan, recruit the right candidate and have a smooth transition.

It is equally important to address the prospect of unexpected turnover, particularly for those directors serving in leadership positions. A plan that considers the potential for such an event to occur positions the board to fill vacancies more quickly.

For leadership changes due to retirement, committee chair rotation or other reasons, an existing board or committee member is often chosen as successor. This is because the individual already has institutional knowledge of the company, familiarity with the key issues and relationships with the other board or committee members and management. While the successor has this information, leading practice when there is an expected leadership change is for this individual to have a six-month to one-year time period to “shadow” the current leader and obtain deeper insights into the role.

Board leadership roles can’t be filled by just anybody on the board. Effective strategic succession planning by the nominating/governance committee should ensure new board leaders have the right skills, time and commitment to perform the role. Board and committee leaders set the tone in the boardroom. They have to be able to promote effective working relationships, handle conflict and be strong facilitators. Specialized knowledge and experience are also critical for audit and compensation committee chairs in order to address the technical issues handled by these committees. Boards also need to take into account regulatory requirements for certain skills — such as financial expertise on audit committees — that will need to be considered when addressing leadership succession.

**The process of identifying potential director candidates, vetting them and reaching out to them to share the board’s interest can take many months. Boards that plan well in advance will be in the best position to find the right director candidates that address the board’s future needs.**

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**Don’t be left without an audit committee financial expert**

Nominating/governance committees will want to ensure they have properly planned to always have at least one audit committee financial expert (ACFE), as required by SEC rules. Boards left without this critical expertise must note that fact in their disclosures, and explain why.

To avoid being left without an ACFE, many boards have an additional audit committee member who meets the financial expert definition.

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Set directors’ expectations around tenure

Boards further along the succession planning maturity continuum openly discuss and forge agreement on appropriate director turnover and refreshment, and how it will be achieved. Board leadership sets the tone about the length of director service at the outset. They ensure directors understand that re-nominations are not simply assumed — they are based on the evolution of the company and board, and sustained high-performance at the individual director level.

In addition to setting clear expectations around director tenure, boards should periodically assess whether tenure-limiting policies are appropriate. Most boards rely on mandatory retirement policies to promote turnover. In some cases, boards make exceptions to mandatory retirement ages to keep a particular director on the board. This can become problematic as it can set a precedent for all future directors nearing retirement age. Term limits are much less common.

Another area that boards can focus on is the optimal mix of board tenure levels or aggregate board tenure. Some boards seek to balance their composition of new directors, those with medium tenures and those with long tenures.

But boards shouldn’t rely solely on tenure-limiting policies to drive turnover. The annual performance assessment can be an effective tool to evaluate board and individual director performance on a regular basis.

Some institutional investors have also been vocal about director tenure. Boards should consider these views as part of their succession planning.

Assess skills and attributes and incorporate results from performance assessments

Nominating/governance committees further along the strategic succession planning maturity continuum compare the skills and attributes of current directors with those that are critical to the company’s long-term strategy to identify and address any gaps. As companies are innovating, implementing new technologies and entering into new markets, their business models may require directors with new or different skill sets. Strategic succession planning should take the company’s evolution into account.

The committee should use board composition matrices or a similar tool to help them evaluate their skills and attributes, and include these items as part of their multiyear board succession plan. Boards further along the succession planning maturity continuum share the matrix with their full board for input and agreement. They may even voluntarily disclose these tables, or something similar, in their proxy statements.

Feedback from the annual board, committee and individual director assessments should also be incorporated into the succession planning process. When assessments are done in a meaningful way, they can help identify whether new or different skills or greater diversity is needed, as well as other changes.

As part of succession planning, boards should understand institutional investors’ views about increasing diversity in the boardroom, with a particular focus on gender diversity. There is a growing recognition that boards with a good mix of age, experience and backgrounds tend to foster better debate and decision making and less groupthink. Many investors view the pace of change as too slow in this area. But boards shouldn’t wait for investors to push for increased diversity. Instead, they should ensure that diversity is a board priority.

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Sample board composition matrix

<table>
<thead>
<tr>
<th>Desired/needed skills, experience, attributes</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
<th>I</th>
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<tbody>
<tr>
<td>International expertise</td>
<td>X</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Technology/digital media expertise</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Risk management expertise</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Financial expertise</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Marketing expertise</td>
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<td></td>
<td>X</td>
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<tr>
<td>Legal expertise</td>
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<td></td>
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<td>Human resources expertise</td>
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<tr>
<td>Operational expertise</td>
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<td>Industry expertise</td>
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<td>X</td>
<td>X</td>
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<tr>
<td>Gender diversity</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
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<tr>
<td>Racial diversity</td>
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<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Regulatory expertise</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>Board tenure (years)</td>
<td>15</td>
<td>15</td>
<td>10</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>4</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Age (years old)</td>
<td>71</td>
<td>74</td>
<td>65</td>
<td>62</td>
<td>60</td>
<td>67</td>
<td>55</td>
<td>47</td>
<td>58</td>
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</table>

Source: PwC, Board composition — Key trends and developments, July 2018.
Agree on a plan that prioritizes needs and build a talent pipeline

Strategic board succession planning processes will bring in discussions around director departures, tenure evaluation, skill set assessment and performance assessment results to agree on a multiyear action plan. Nominating/governance committees will want to collectively debate, prioritize and settle on the board’s future composition needs and a timeline for changes. The key is to be agile and allow the board to make changes as situations or needs arise. For example, some boards have expanded their size to make composition changes faster or to provide an opportunity for a director candidate to shadow another director during a transition period.

Ultimately, the board succession plan and priorities should be reviewed and agreed to by the full board. This action helps the board understand the full complement of directors and how each individual director’s skill set and attributes are relevant to the company. It can help directors understand new skills needed in the boardroom, identify potential future directors, and may be an impetus for further education and skills development for existing directors.

When identifying the board’s needs for future director candidates, it is important to be realistic. Boards can fall into the trap of creating a “laundry list” of attributes, desired skill sets and expertise that is unlikely to be filled by one director candidate. Instead, ranking what is most important can make it easier to find appropriate candidates and choose among multiple candidates.

Boards further along the succession planning maturity continuum look not only for a candidate they need now, but also proactively build relationships with potential candidates to develop a talent pipeline. Directors should utilize approaches that look beyond asking other sitting directors for recommendations.

Conclusion

Boards should strive to move up the succession planning maturity continuum toward a strategic approach. A strategic approach delivers benefits to board performance and increases long-term shareholder value. At its best, board succession planning is an iterative process that takes into account the company’s evolving business model and the changing governance landscape. This is increasingly important as investors continue to seek greater transparency around the board’s activities in this area.

This article has been extracted from pwc publication titled “The Road to Strategic Board Succession”

The article has been prepared on matters of general interest only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice.
This article summarizes certain key observations of Financial Review Reporting Board in respect of Accounting Standard 10, Accounting for Fixed Assets. These observations have been extracted from ICAI Publication: Study on Compliance of Financial Reporting Requirements: Volume III. The publication contains various instances of non compliances with the reporting requirements that have been noticed by the Board during the course of review of the general purpose financial statements of enterprises. We intend to cover all accounting standards in the months to come - keep watching this space!

<table>
<thead>
<tr>
<th>SI No</th>
<th>Matter contained in the Annual Report</th>
<th>FRRB Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The accounting policy on Fixed Assets as disclosed in the Annual Reports of a couple of companies inter alia states as follows:</td>
<td>It may be noted that paragraph 24 and 14.2 of AS 10*, provide as follows: “24. Material items retired from active use and held for disposal should be stated at the lower of their net book value and net realizable value and shown separately in the financial statements.” “14.2 Items of fixed assets that have been retired from active se and are held for disposal are stated at the lower of their net book value and net realizable value and are shown separately n the financial statements. Any expected loss is recognized immediately in the profit and loss statement.”</td>
</tr>
<tr>
<td></td>
<td>• Under utilized/ idle assets are recorded at estimated realizable value.</td>
<td>It was observed from the accounting policies on fixed assets that the under utilized/idle assets and assets held for disposal are stated at estimated realizable value. It was quite likely that these assets were stated at net realizable value because their book values are higher.</td>
</tr>
<tr>
<td></td>
<td>• Assets held for disposal are stated at their estimated net realizable value.</td>
<td>However, this should be clearly stated in the policy (e.g. the carrying values of idle assets and assets held for disposal are written down to their estimated realizable values) as per the requirements of paragraph 24 of AS 10.</td>
</tr>
</tbody>
</table>

* Observation is still relevant under paragraph 73 of AS 10(R)
<table>
<thead>
<tr>
<th>SI No</th>
<th>Matter contained in the Annual Report</th>
<th>FRRB Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Accounting Standard (AS) 10: Accounting for Fixed Assets</td>
<td>It may be noted that paragraphs 27 and 37(iii) of AS 10*, provide as follows:</td>
</tr>
<tr>
<td></td>
<td>In the Annual Report of a company, the following note appear with regard to Fixed Assets: “Land and Buildings at certain locations were re-valued on 1st October 1982. Gross depreciation for the year includes depreciation on revalued assets of Rs. X charged against depreciation reserve.”</td>
<td>“27 When a fixed asset is revalued in financial statements, an entire class of assets should be revalued, or the selection of assets for revaluation should be made on a systematic basis. This basis should be disclosed.”</td>
</tr>
<tr>
<td></td>
<td>It was observed that the company has revalued land and buildings at certain locations while AS 10 requires that either an entire class of assets should be revalued or the basis for selecting certain assets for revaluation should be disclosed. However, it was noted that the company has not disclosed the basis of selection of assets for revaluation as required by paragraph 27 of AS 10.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>It was further observed that the disclosures as required by paragraph 37(iii) of AS 10 have also not been made. Hence, it was viewed that the requirements of AS 10 have not been complied with.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>In the Annual Report of a company, the accounting policy on fixed assets states as under: “Fixed assets are stated at cost/professional valuation less accumulated depreciation. Cost includes freight, installation costs, duties and taxes, interest on specific borrowings utilized for financing the qualifying fixed assets and other incidental expenses (emphasis supplied)</td>
<td>It may be noted that paragraph 19 of AS 10** provides that: “19 The gross book value of a fixed asset should be either historical cost or a revaluation computed in accordance with this Standard.”</td>
</tr>
<tr>
<td></td>
<td>It appears from the stated accounting policy that certain assets have been revalued, which are stated at professional valuation. However, no information has been provided either in the accounting policy or in the note of fixed assets as to which assets have been revalued.</td>
<td></td>
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<tr>
<td></td>
<td>Further, it has been noted that no revaluation reserve has been shown in the Balance Sheet. Assuming there is a decrease in the net book value arising on revaluation of fixed asset then such decrease should have been charged to the Statement of Profit and Loss as prescribed in paragraph 30 of AS 10. However, nothing has been mentioned in the financial statements in this regard.</td>
<td></td>
</tr>
</tbody>
</table>

* Observation is still relevant under paragraphs 39 and 81 of AS 10(R)

** Observation is still relevant under paragraphs 33 and 34 of AS 10(R)
<table>
<thead>
<tr>
<th>Sl No</th>
<th>Matter contained in the Annual Report</th>
<th>FRRB Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>In the Annual Report of a company the following note appears with regard to fixed assets: “The company revalued its freehold land, buildings and plant &amp; machinery. These revaluations resulted in net increase in value of assets by Rs. X which was credited to Revaluation Reserve.”</td>
<td>It may also be noted that paragraph 37(iii) of AS 10 requires the following disclosures: “(iii) revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.” It was observed that no such disclosures have been made except stating ‘at professional valuation’. Accordingly, it was viewed that the requirements of AS 10, have not been complied with.</td>
</tr>
<tr>
<td>5</td>
<td>From the Annual Report of a company, it has been noted that a significant amount has been shown as additions to Site and Land Development during the year under review and that no depreciation has been charged in respect thereof.</td>
<td>It may be noted that paragraph 9.1 of AS 10* provides that: “9.1 The cost of an item of fixed asset comprises its purchase price, including import duties and other non refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.” Further, examples of directly attributable costs as given in paragraph 9.1 of AS 10 include cost of site preparation. It may be noted that site preparation would be required for developing land as well as construction of building and installation of plant and machinery.</td>
</tr>
</tbody>
</table>

* Observation is still relevant under paragraph 81 of AS 10(R)

** Observation is still relevant under paragraph 18 of AS 10(R)
Accounting Standard (AS) 10: Accounting for Fixed Assets

Accordingly, it was viewed that the site preparation costs comprising mainly of uprooting of any existing structure, leveling, clearing and grading incurred to prepare the land for its intended use or for construction thereon should be suitably apportioned to land, building and plant and machinery and capitalized as part of the costs of the respective assets as per the requirements of AS 10.

Accordingly, capitalising site and land development expenditure under a separate head and not charging depreciation/amortization on it is not in line with the requirements of AS 6 and AS 10.

This article is extracted from the ICAI publication “Study on Compliance of Financial Reporting Requirements (Compiled from the records of Financial Reporting Review Board) Volume III” on matters of general interest only.
5. Latest on IFRS

1. IASB amends definition of business in IFRS 3

At a glance
On 22 October 2018, the IASB issued amendments to the guidance in IFRS 3, ‘Business Combinations’, that revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

What is the issue?
New guidance
To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organized workforce. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

An entity can apply a ‘concentration test’ that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

Application of the changes would also affect the accounting for disposal transactions

Differences in accounting between business combinations and asset acquisitions include, among other things, the recognition of goodwill, recognition and measurement of contingent consideration, accounting for transaction costs, and deferred tax accounting.

When does it apply?
Entities shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting periods beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted.

2. Amendments to IAS 1 and IAS 8 - Definition of material

At a glance
On 31 October 2018, the IASB issued amendments to the definition of material (amendments to IAS 1 and IAS 8).

Issue
Amendments to the definition of material
On 31 October 2018, the IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amendments to IAS 1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.
The amended definition is:

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole. The amendment also clarifies the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

Impact

The amendments clarify the definition of material and make IFRSs more consistent, but are not expected to have a significant impact on the preparation of financial statements.

When does it apply?

These amendments should be applied for annual periods beginning on or after 1 January 2020. Earlier application is permitted.

3. IASB agrees on criteria for evaluating any future potential amendments to IFRS 17

The IASB notes that a high hurdle will be set for any future amendments to IFRS 17

At a glance

On 24 October 2018, the Board unanimously agreed criteria for evaluating any future potential amendments to IFRS 17. The Board noted that the criteria set a high hurdle for change, and any amendments suggested would need to be narrow in scope and deliberated quickly to avoid significant delays in the effective date. In the coming months, the Board will discuss whether any amendments to IFRS 17 are justified, including a potential deferral of the effective date. If the Board decides to amend the standard, any amendments would be subject to the IASB Board’s due process for amendments to IFRS standards, including developing an exposure draft and subsequent consultation period. The Board shared its concern about the temporary exemption from IFRS 9 if it were to defer the effective date for IFRS 17.

Background

In connection with the issuance of IFRS 17, the IASB established a transition resource working group (‘TRG’) to provide a public forum for stakeholders to follow the discussion of questions raised on implementation of the new standard.

The purpose of the TRG is to facilitate a public discussion to provide support for stakeholders, and information to the Board, on implementation questions arising from the application of IFRS 17.

After issuance of the standard, IASB staff have also been engaged in a variety of activities with stakeholders to follow the implementation of IFRS 17. During these activities, and through the TRG discussions, the staff have become aware of several instances where the standard might be interpreted in ways that were not intended by the Board. At the 24 October meeting, the IASB staff presented to the Board a list of 25 concerns and implementation challenges raised by constituents.

Items discussed at the IASB Board meeting

Four staff papers were prepared for the meeting (available here), including the TRG submission log and the IASB Summary from the September 2018 TRG meeting. The IASB Board had no comments on the September 2018 TRG summary prepared by the staff, and the discussion in the Board meeting was mainly focused on the criteria for any potential amendments to IFRS 17.

Criteria for evaluating possible amendments to IFRS 17

Subsequent to issuance of the standard, the IASB has received feedback from both preparers and users of financial statements. The staff noted that more than 500 users of financial statements have been interviewed, and the IASB has received positive feedback on the standard through this outreach.

The Board agreed that the following criteria, as identified by the staff, should be applied for evaluating whether IFRS 17 should be subject to any amendments:

- The amendment would not result in a significant loss of useful information relative to that which would have been provided by IFRS 17 for users of financial statements. Any amendment would avoid:
  - reducing the relevance and faithful representation of information in the financial statements of entities that issue insurance contracts;
  - causing reduced comparability or introducing internal inconsistency in IFRS standards, including within IFRS 17; or
  - increasing complexity for users of financial statements, thus reducing understandability.
- The amendment would not unduly disrupt implementation processes that are currently underway or result in undue delays in the effective implementation of IFRS 17.
In addition to the above criteria, Board members requested that the IASB staff expand the analysis on each topic raised by constituents, to consider the cost versus benefit analysis and to provide insight as to whether any new arguments or information are available, beyond what was already considered in deliberating the standard. That is, several Board members were unwilling to redebate any concerns unless new information that was not considered in the deliberations was presented by the staff.

The Board acknowledged the 25 topics identified as concerns and implementation challenges, and some Board members asked for clarification or further information on several of the topics. The IASB staff in future meetings will present separate submissions for each topic, setting out firstly whether there is a need to amend IFRS 17, and secondly whether the amendment satisfies the agreed criteria. The IASB staff emphasised that, even if the Board agrees that a potential amendment meets the criteria, it does not mean that amendments meeting these criteria will be made. That is, meeting the criteria will not automatically result in an amendment to the standard. Several Board members and staff also noted that they would need to look at any proposed amendments in aggregate, and not just individually.

8. Board members were reluctant to amend the standard, because they believe that it could lead to greater complexity, with many stating that the meeting had left them very disheartened at the thought of doing this. The Board did not comment on changes to the effective date of the standard, or whether IFRS 9 would continue to be deferred with IFRS 17.

However, the IASB chairman did note his concern that, since insurers are very active in debt markets and some are searching for high-yielding debt, the impact of not implementing IFRS 9 would be difficult to accept.

He went on to voice his concern that, if insurers had not implemented IFRS 9 by the next financial crisis, it would have severe repercussions.

**Specific concerns and implementation challenges**

The IASB staff recommended that the Board’s assessment of whether there is a need to amend IFRS 17 should be balanced against the need to limit any such amendments other than those that meet specified criteria. As a basis for the discussion in the Board meeting, a 61-page document was prepared by staff, summarising the 25 concerns and implementation issues identified.

The Board provided comments on only some of the matters addressed below, and it was agreed that the discussion would continue in more detail at a future meeting, including addressing comments provided by the Board. The staff noted that the issues are listed in the order in which they appear in the standard.

*This article has been extracted from pwc publication titled “IFRS news” November 2018. Refer link for the details*


*The article has been prepared on matters of general interest only and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice.*
6. Accounting and Financial Reporting
ICAI and MCA

Expert Advisory Committee (EAC) opinion on treatment of 'prepayment penalty' incurred for foreclosure of existing loan and availing new loan/borrowings

The EAC of ICAI has given an opinion on whether the company should account for prepayment penalty paid as a transaction cost of new loan or as a transaction cost of extinguishment of existing loan. Transaction costs are the incremental costs which are directly attributable to the acquisition or disposal of a financial liability.

At the time of initial recognition, financial liability shall include only the transaction costs that are directly attributable to the acquisition or issue of the new financial liability and not the transaction cost of disposal of the existing financial liability. The Committee was of the view that prepayment penalty is the transaction cost of disposal of the existing financial liability (loan) which is payable to the existing loan provider rather than the incremental cost of acquisition or issue of the new financial liability (new loan) from a different new bank. The Committee was further of the view that such a penalty is incurred to extinguish the existing liability and to get the benefits due to lower cost liability (loan) and not for acquiring the new financial liability (loan). Therefore, such penalty cannot be treated as directly attributable to the acquisition of the new financial liability.

Accordingly, the Committee opined that prepayment penalty, in the extant case cannot be considered as transaction cost of the new loan; rather should be treated as transaction cost of extinguishment of existing loan, which in accordance with paragraph 5.7.2 of Ind AS 109 should be recognised as part of the gain or loss on extinguishment/derecognition of the old loan in the statement of profit and loss.

The Implementation Guide contains guidance on various aspects of auditors’ resignation like circumstances leading to withdrawal/resignation, procedure to be followed by auditors in case of resignation, auditor’s responsibilities, professional obligations to be complied with by auditors.

The Appendix to the Implementation Guide contains references of relevant paragraphs of various Standards on Auditing, SQC 1 and ICAI’s Code of Ethics which deal with auditors’ resignation.

Implementation Guide on Resignation/Withdrawal from an Engagement to Perform Audit of Financial Statements

Large number of mid-term resignations by auditors this year has become matter of concern for various stakeholders. To examine the reasons and circumstances leading to resignation of auditors, a Group was constituted and it was decided to issue guidance for the members on the matter.

Accordingly, Implementation Guide on Resignation/Withdrawal from an Engagement to Perform Audit of Financial Statement has been issued by AASB.

Revised Implementation Guide to Standard on Auditing (SA) 230, Audit Documentation (December 4, 2018)

Auditing and Assurance Standards Board has issued the revised edition of the Implementation Guide to SA 230, “Audit Documentation”. The Implementation Guide has been written in an easy to understand language in the form of frequently asked questions (FAQs) on this Standard and responses to those FAQs. It also contains checklists of documentation requirements.
UDIN - A Way to Authenticate Document (Announcement dated December 27, 2018)

To secure the certificates/documents attested/certified by practicing Chartered Accountants and for tracing forged/wrong documents prepared by any third person misrepresenting himself as a Chartered Accountant, ICAI had implemented an innovative concept of UDIN i.e. Unique Document Identification Number.

The Central Council of ICAI has decided to mandate UDIN w.e.f February 1, 2019 in a phased manner as against the earlier announced date of January 1, 2019.

https://www.icai.org/new_post.html?post_id=15314&c_id=240

Exposure Draft of Standard on Auditing for Audits of Smaller and Less Complex Entities (SASE) 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing for Audits of Smaller and Less Complex Entities

In the Indian scenario, there are large numbers of SMEs and audits of SMEs are conducted by large number of SMPs. In India, all entities particularly those in corporate sector are required to get their accounts audited and even in case of non-corporate sector also, the audit is mandatory under tax laws and other laws. AASB therefore took the view to address the issue by having a separate set of Standards for audits of smaller and less complex entities.

AASB has prepared the draft of SASE 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Standards on Auditing for Audits of Smaller and Less Complex Entities” in a simplified manner which is easy to understand and implement based on which further Standards will also be formulated and exposed for comments.

Comments may be e-mailed at: aasb@icai.in by January 17, 2019

https://resource.cdn.icai.org/52956aasb42499.pdf

Exposure Draft - Accounting Standard (AS) 1 Presentation of Financial Statements

The Exposure Draft of the Accounting Standard (AS) 1, Presentation of Financial Statements has been issued by the Accounting Standards Board of the ICAI, for comments.

For formulating AS 1, Ind AS 1, Presentation of Financial Statements, has been taken as the base. Major differences between draft AS 1 and Ind AS 1 are given in Appendix 1 of AS 1. Similarly, major differences between draft AS 1, Presentation of Financial Statements, and AS 1, Disclosures of Accounting Policies, are given in Appendix 2.

Comments may be sent at commentsasb@icai.in by January 31, 2019.

https://resource.cdn.icai.org/53502icaiasb-edas1.pdf

Exposure Draft - Accounting Standard (AS) 37 Provisions, Contingent Liabilities and Contingent Assets

Exposure Draft of the Accounting Standard (AS) 37, Provisions, Contingent Liabilities and Contingent Assets, has been issued by the Accounting Standards Board of the ICAI, for comments. For formulating AS 37, Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets, has been taken as the base. Major differences between draft AS 37 and Ind AS 37 are given in Appendix 1 of the AS 37. Major differences between draft AS 37 and AS 29 are given in Appendix 2 of the AS 37.

Comments may be sent at commentsasb@icai.in by January 28, 2019.

https://resource.cdn.icai.org/53503icaiasb-edas37.pdf

Ministry of Corporate Affairs (MCA)

Companies (cost records and audit) Amendment Rules, 2018

MCA has issued the Companies (cost records and audit) Amendment Rules, 2018 to amend Rule 3 [Application of Cost Records], Rule 6 [Cost audit] and the Annexure.

http://www.mca.gov.in/Ministry/pdf/CompaniesAmendmentRulesCostAndAudit_03122018.pdf

Extension of the last day of filing of Form NFRA-1 (General circular No 12/2018 dated December 13, 2018)

Basis several representations received regarding extension of the last day of filing of Form NFRA-1, which is required to be filed under Rule 3(2), Rule 3(3) of the National Financial Reporting Authority Rules, 2018, it has been decided that the time limit for filing Form NFRA-1 will be 30 days from deployment of this form on website of Ministry/National Financial Reporting Authority (NFRA) for all bodies corporate governed by the said rule (excluding companies as defined under sub-section (20) of section 2 of the Companies Act, 2013, which are not required to file this Form).
Draft Amendments in the Companies (Incorporation) Rules, 2014 (December 17, 2018)

MCA has issued draft amendment to Rule 8 of the Companies (Incorporation) Rules, 2014 dealing with name availability. This amendment intends to bring more clarity to the rules related to name availability by:

(i) inclusion of illustrations in the rules;
(ii) providing a clear test to determine as to whether the applied name resembles too nearly with the name of an existing company; and
(iii) bringing more clarity in the rule related to “general names”/descriptive names and trademark applicability

Suggestion/Comments on the proposed amendments along with justification in brief may be sent in prescribed format latest by December 31, 2018 through email at reservation.name@mca.gov.in.


Companies (Incorporation) 4th Amendment Rules, 2018 [Notification dated December 18, 2018]

The following rules have been inserted in the Companies (Incorporation) Rules, 2014

1. Rule 23A to provide for declaration under section 10A by a director in Form No. INC-20A
2. Rule 40 for Application to the Regional Director under sub-section (41) of section 2 for change of financial year to be made in Form No. RD-1
3. Rule 41 Application under section 14 for conversion of public company into private company to be filed with Regional Director in e-Form No. RD-1


Companies (Registration of Charges) Second Amendment Rules, 2018

MCA has issued Companies (Registration of Charges) Second Amendment Rules, 2018 to substitute Form No.CHG-4 dealing with ‘Particulars for satisfaction of charge thereof’


7. Banking and Capital Markets

RBI and SEBI

Reserve Bank of India (RBI)

Relaxation on the guidelines to NBFCs on securitisation transactions (Notification No RBI/2018-19/82 dated November 29,2018)

In order to encourage NBFCs to securitise/assign their eligible assets, it has been decided to relax the Minimum Holding Period (MHP) requirement for originating NBFCs, in respect of loans of original maturity above 5 years, to receipt of repayment of six monthly instalments or two quarterly instalments (as applicable), subject to the following prudential requirement:

Minimum Retention Requirement (MRR) for such securitisation/assignment transactions shall be 20% of the book value of the loans being securitised/20% of the cash flows from the assets assigned.

The above dispensation shall be applicable to securitisation/assignment transactions carried out during a period of six months from the date of issuance of this circular.

https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11422&Mode=0

Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR), FALLCR against credit disbursed to NBFCs and HFCs (Notification No RBI/2018-19/98 dated December 28,2018)

The banks have been permitted to reckon government securities as Level 1 HQLA under FALLCR within the mandatory SLR requirement upto 0.5 per cent of the bank’s NDTL in respect of their incremental lending to NBFCs and HFCs after October 19, 2018. This facility is available up to December 31, 2018. Further, the single borrower limit for NBFCs (not financing infrastructure) has been increased from 10 per cent to 15 per cent of capital funds till December 31, 2018.

In order to further facilitate banks to lend to NBFCs and HFCs as indicated above, it has been decided to extend the aforesaid facilities upto March 31, 2019.


Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR) – Final Guidelines

It has been decided that the NSFR guidelines will come into effect from April 1, 2020.


With a view to facilitate meaningful restructuring of MSME accounts (MSME as defined in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006) that have become stressed, it has been decided to permit a one-time restructuring of existing loans to MSMEs classified as ‘standard’ without a downgrade in the asset classification, subject to certain conditions.

Banks and NBFCs shall make appropriate disclosures in their financial statements, under ‘Notes on Accounts’, relating to the MSME accounts restructured under these instructions in prescribed format.

Securities and Exchange Board of India (SEBI)


SEBI has issued Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018. They shall come into force on the January 1, 2019.


Rapid technological developments in securities market have highlighted the need for maintaining robust cyber security and cyber resilience framework to protect the integrity of data and guard against breaches of privacy.

Since stock brokers and depository participants perform significant functions in providing services to holders of securities, it is desirable that these entities have robust cyber security and cyber resilience framework in order to provide essential facilities and perform systemically critical functions relating to securities market.

Accordingly, after discussions with Exchanges, Depositories and Stock Brokers' and Depository Participants' associations, a framework on cyber security and cyber resilience framework has been designed, which is placed at Annexure 1. The framework would be required to be complied by all Stock Brokers and Depository Participants registered with SEBI.

The guidelines annexed with this circular shall be effective from April 1, 2019.


Transfer of securities only in demat form- Deadline extended till April 1, 2019 (PR No.: 49/2018 dated December 3,2018)

Basis representations received by SEBI from shareholders for extension of the date of compliance in relation to transfer of securities to be processed only for the securities held in the dematerialized form with a depository, the deadline has been extended. The requirement of transfer of securities only in demat form shall now come into force from April 1, 2019 (earlier : December 5,2018)


Disclosure of significant beneficial ownership in the shareholding pattern ( Circular No SEBI/HO/CFD/CMD1/CIR/P/2018/0000000149 dated December 7,2018)

Vide notification dated June 14, 2018, Ministry of Corporate Affairs has notified the Companies (Significant Beneficial Owners) Rules, 2018 under which various requirements pertaining to disclosures regarding Significant Beneficial Owners have been specified.

In the interest of transparency to the investors in the securities market, it has been specified that all listed entities shall disclose details pertaining to significant beneficial owners in the format prescribed at Annexure to this circular.

This Circular shall come into force with effect from the quarter ended March 31, 2019.


SEBI has issued Securities and Exchange Board of India (Mutual Funds) ( Third Amendment) Regulations , 2018 to amend Regulation 7B.


Clarification on clubbing of investment limits of Foreign Portfolio Investors ("FPIs") (Circular No.: SEBI/HO/IMD/FPIC/CIR/P/2018/150 dated December 13,2018)

SEBI has issued the following clarification in respect of clubbing of investment limits of Foreign Portfolio Investors ("FPIs") :

a. Clubbing of investment limit for FPIs will be on the basis of common ownership of more than 50% or based on common control. However, clubbing of investment limit of FPIs having common control shall not be done in case of (a) FPIs which are appropriately regulated public retail funds or (b) FPIs which are public retail funds majority owned by appropriately regulated public retail funds or (c) FPIs which are public retail funds and investment managers (IMs) of such FPIs are appropriately regulated.

b. In case, two or more FPIs including foreign Governments/ their related entities are having direct or indirect common ownership of more than 50% or control, all such FPIs will be treated as forming part of an investor group and the investment limits of all such entities shall be clubbed at the investment limit as applicable to a single foreign portfolio investor.
c. In cases where Government of India enters into agreements or treaties with other sovereign Governments and where such agreements or treaties specifically recognize certain entities to be distinct and separate, SEBI may, during the validity of such agreements or treaties, recognize them as such, subject to conditions as may be specified by it.

d. The investment by foreign Government agencies shall be clubbed with the investment by the foreign Government/ its related entities for the purpose of calculation of 10% limit for FPI investments in a single company, if they form part of an investor group.

e. The investment by foreign Government/ its related entities from provinces/ states of countries with federal structure shall not be clubbed if the said foreign entities have different ownership and control.

f. In respect of any breach of the investment limit mentioned above, the FPI’s shall have the following two options:-

i. FPI in breach shall have to divest its holding within five trading days from the date of settlement of the trades to bring its shareholding below 10% of the paid up capital of the company, or,

ii. The said investments shall be treated as Foreign Direct Investment from the date of breach.

The necessary amendments in SEBI (Foreign Portfolio Investors) Regulations, 2014 will be notified separately.


Physical settlement of stock derivatives (Circular No SEBI/HO/MRD/DOPI/CIR/P/2018/161 dated December 31, 2018)

It has been decided that physical settlement shall be made mandatory for all stock derivatives. Accordingly, the circular prescribes the manner according to which stock derivatives which are presently being cash settled shall move to physical settlement.


Creation of segregated portfolio in mutual fund schemes (Circular No SEBI/HO/IMD/DF2/CIR/P/2018/160 dated December 28, 2018)

In order to ensure fair treatment to all investors in case of a credit event and to deal with liquidity risk, it has been decided to permit creation of segregated portfolio of debt and money market instruments by mutual funds schemes.

### 8. Taxation
Direct and Indirect taxes

#### Direct Taxation

TDS deduction under section 194A of the Income-tax Act, 1961 in case of Senior Citizens [Notification dated December 21, 2018]

TDS deductors/ banks should deduct tax under section 194A in respect of senior citizens where the amount of such income or the aggregate of the amounts of such income credited or paid during the financial year does not exceed Rupees Fifty Thousand.

[https://www.incometaxindia.gov.in/communications/notification/notification6_2018_tds.pdf](https://www.incometaxindia.gov.in/communications/notification/notification6_2018_tds.pdf)

#### Indirect Taxation

**Central Board of Indirect Taxes and Customs**

Extension of due date for filing FORM GSTR-9, FORM GSTR-9A and FORM GSTR-9C

Vide press release dated December 7, 2018 it has been decided to extend the due date for filing FORM GSTR-9, FORM GSTR-9A and FORM GSTR-9C till March 31, 2019.

The requisite FORMs shall be made available on the GST common portal shortly. Relevant order is being issued.


#### GST Update

The GST Council, in its thirty first meeting, approved reduction in rates on specified goods and services as well as the last date of claiming input credits for supplies procured in financial year 2017-18.

**Due date extended for filing CbCR by inbound constituent entities in certain cases**

Based on representations received, the due date for filing the Country-by-Country-Report (CbCR) under section 286(4)(a) and section 286(4)(aa) of the Income-tax Act, 1961 has been extended to 31 March, 2019 for reporting accounting years ending upto 28 February, 2018. The due date in such cases was originally notified to be 12 months from the end of the relevant reporting accounting year. This extension will provide the much needed additional time for preparing and filing the CbCR to those inbound constituent entities resident in India, covered by the said provisions.

Circular No. 9/2018 dated 26 December, 2018
9. World Watch

ACCA
• A survey of 1,000 members of the general public reveals that most people believe that auditors are key in detecting and reporting fraud and should evolve to prevent company failures

EFAA
• The EFAA has published the results of a survey on non-financial information (NFI) reporting by small and medium-sized entities across 14 European countries

EFRAG
• EFRAG issued its Discussion Paper, Non-exchange Transfers ('NETs'): A role for societal benefit, exploring the accounting for transfers in which an entity received (or gives) value without directly giving (or receiving) approximately equal value in exchange; comments due April 30, 2019

Egypt
• The Standards Committee of the Egyptian Society of Accountants and Auditors has completed amendments to the Egyptian accounting standards to comply with IFRS

European Union
• The Committee of European Auditing Oversight Bodies issued its 2019 work program which was agreed at a plenary meeting in October

G20
• The 2018 G20 Leaders Declaration was issued in Buenos Aires, emphasizing a number of areas called for by the global accountancy profession including addressing regulatory fragmentation, coordinated international tax reform, and tackling corruption

IAASB
• The Call for Nominations for 2020 volunteer opportunities to serve on the independent international audit and ethics standard-setting boards is now open; nominations due February 15, 2019
• The IAASB seeks public comment on its Exposure Draft of proposed ISRS 4400 (Revised), Agreed-Upon Procedures Engagements; comments due March 15, 2019

IFAC
IFAC is seeking volunteers to serve on the IFAC board and three committees —
• Professional Accountancy Organization Development, Professional Accountants in Business, and
• Small and Medium Practices Committees; applications due February 15, 2019
• A joint report by IFAC and CIPFA (Chartered Institute of Public Finance and Accountancy) forecasts rapid acceleration of accrual accounting and international standards adoption

Netherlands
• The Dutch Authority for the Financial Markets (AFM) has conducted a study into the audit market and possible structural vulnerabilities
New Zealand

• The Financial Markets Authority (FMA) for New Zealand has published its 2018 Audit Quality Report noting that the overall quality of audits has improved in recent years

United Kingdom

• The FRC along with the Prudential Regulation Authority and Financial Conduct Authority published a report on Disclosures about Expected Credit Losses
• The UK FRC announced its 2019/20 audit thematic review topics (audit quality indicators and use of technology in audits), priority sectors and audit areas of focus
• New guidance for companies on the presentation of performance metrics in their reporting has been published by the UK FRC
• The UK FRC has released a new report highlighting where reporting by smaller companies needs to improve
• The UK FRC has published two thematic reviews to help companies improve the quality of their corporate reporting in relation to the new accounting standards IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’

United States

• The PCAOB approved its 2018-2022 strategic plan and fiscal year 2019 budget in an open meeting. The strategic plan serves as the foundation for the budget and guides the PCAOB’s programs and operations
• The FASB issued an Accounting Standards Update that amends the transition requirements and scope of the credit losses standard
• The Sustainability Accounting Standards Board has published its set of industry specific sustainability accounting standards
• The FASB issued an Accounting Standards Update (ASU) that clarifies the interaction between the guidance for certain collaborative arrangements and the Revenue Recognition financial accounting and reporting standard
This Newsletter has been developed and compiled by the National Accounting and Auditing Technical Team of Price Waterhouse Chartered Accountants LLP.

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