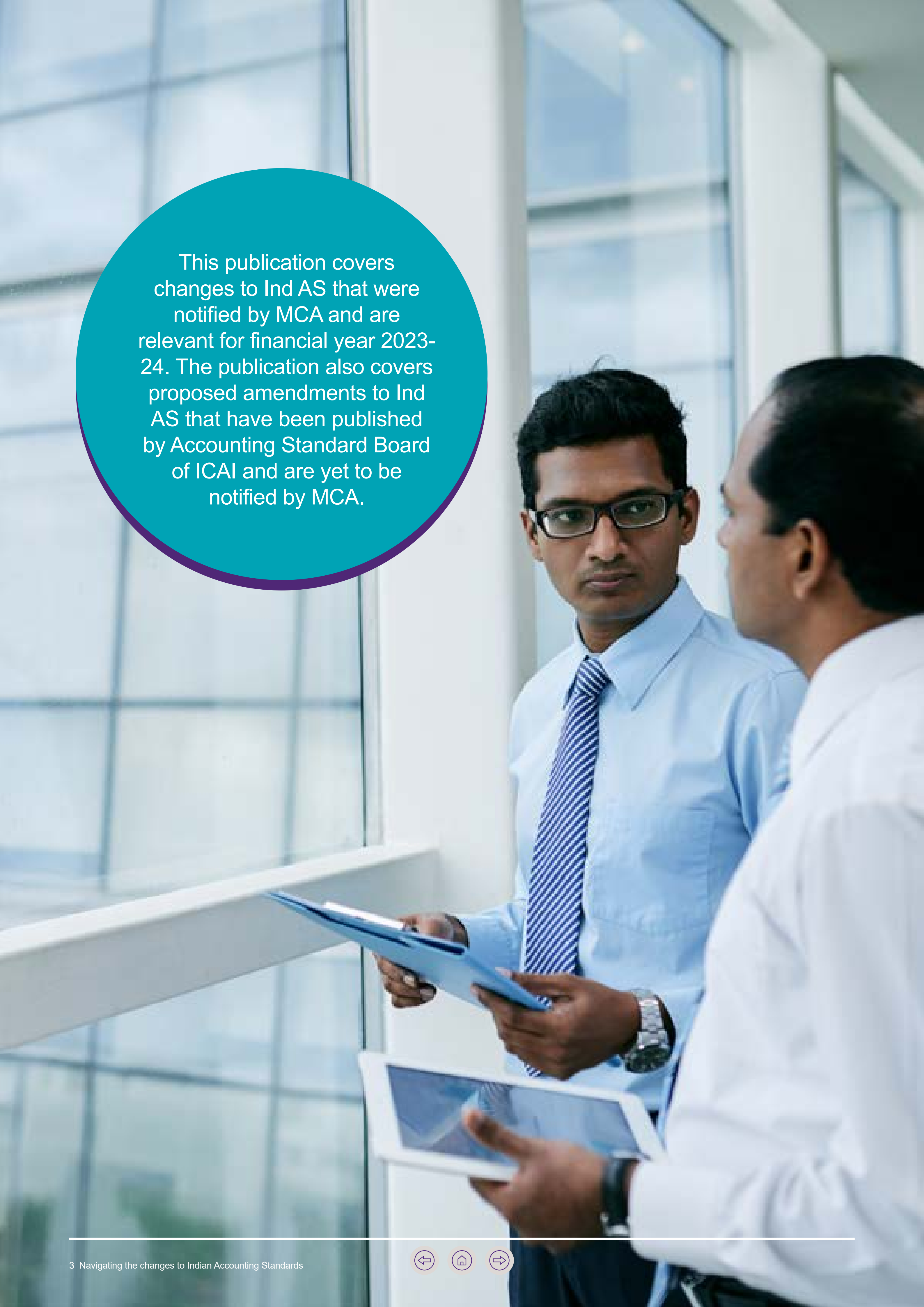
Walker Chandiok & Co LLP

Navigating the changes to Indian Accounting Standards

A brief insight

June 2024

Contents



This publication covers changes to Ind AS that were notified by MCA and are relevant for financial year 2023-24. The publication also covers proposed amendments to Ind AS that have been published by Accounting Standard Board of ICAI and are yet to be notified by MCA.

Introduction

This publication is designed to give preparers and users of Ind AS financial statements a high-level awareness of recent changes to Ind AS. It covers both new Standards and Interpretations that have been issued and amendments made to existing ones.

What's included in this edition

This edition of the publication includes changes to Ind AS that were notified by MCA and relevant for financial year 2023-24.

The publication also covers proposed amendments to Ind AS that have been published by Accounting Standard Board ('ASB') of ICAI and are yet to be notified by MCA.

Entities will also need to evaluate the implication of these proposed changes on their disclosures in the current period financial statements since certain disclosures are required to be made under Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' where a change has been made, but the entity is yet to apply it. Disclosures required include the fact that the new or amended Standard has been issued but it has not yet been applied and known or reasonably estimable information relevant to assessing its possible impact on the financial statements in the period of initial application.

Contents

The effective dates table on the next page lists all the changes covered in the publication and their effective dates.

Identifying the commercial significance of the changes in the publication

For each change covered in the publication, we have included a box on its commercial implications. These sections focus on two questions:

- How many entities will be affected?
- What will be the impact on affected entities?

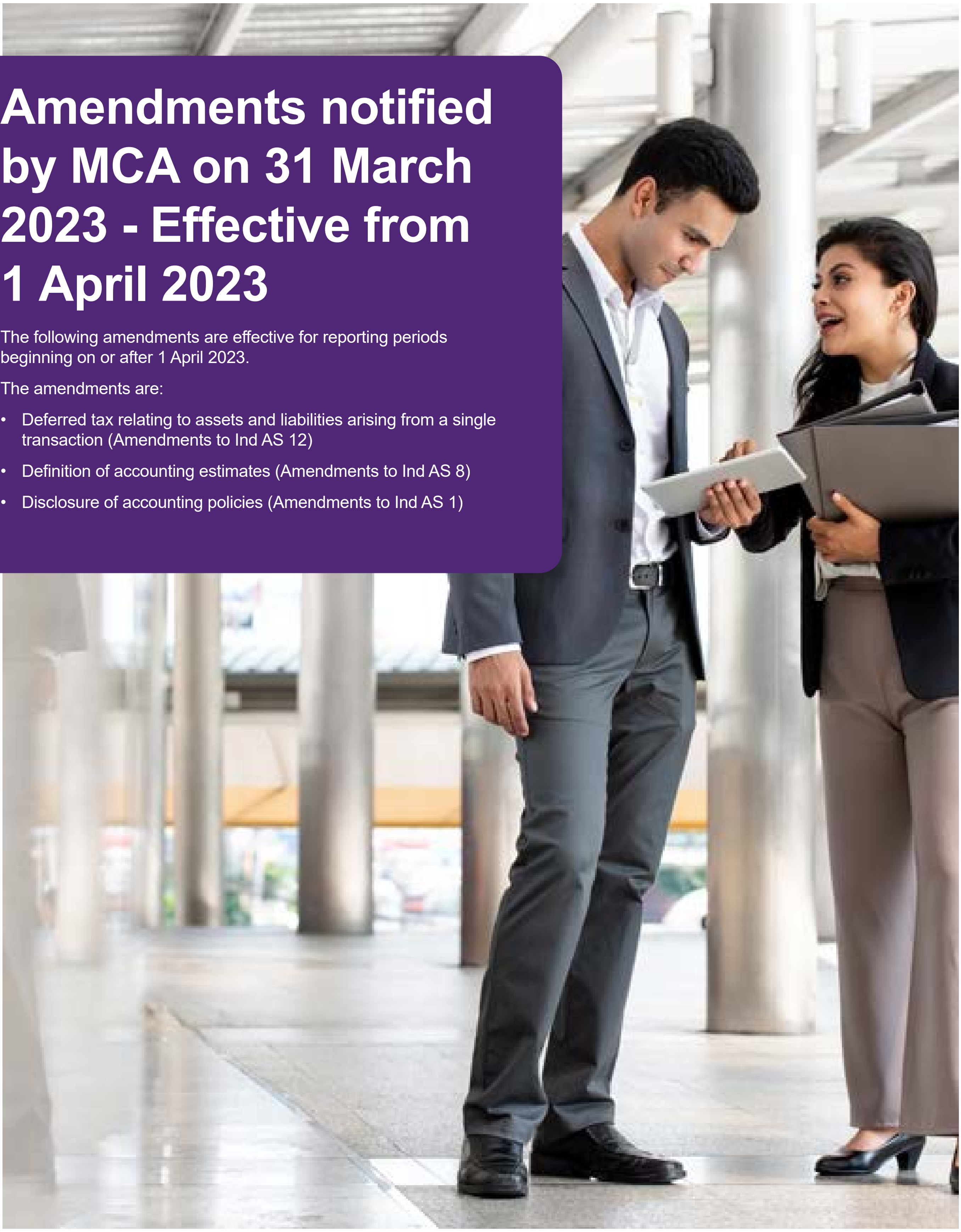
A traffic light system indicates our assessment of the answers to these questions.

We hope you find the contents of this publication useful in your financial reporting process.

Walker Chandiok & Co LLP
June 2024

Effective dates

Standard	Title of Standard or Interpretation	Effective for reporting periods beginning on or after
Ind AS 12	Deferred Tax related to assets and liabilities arising from a single transaction (Amendments to Ind AS 12)	1 April 2023
Ind AS 8	Definition of accounting estimates (Amendments to Ind AS 8)	1 April 2023
Ind AS 1	Disclosure of accounting policies (Amendments to Ind AS 1)	1 April 2023
Ind AS 117	Amendments to Ind AS 117 Insurance Contracts	yet to be notified
Ind AS 117	Initial Application of Ind AS 117 and Ind AS 109 – Comparative Information (Amendment to Ind AS 117)	yet to be notified
Ind AS 1	Non-current Liabilities with covenants (Amendments to Ind AS 1)	yet to be notified
Ind AS 116	Lease Liability in a sale and leaseback (Amendments to Ind AS 116)	yet to be notified
Ind AS 7 and Ind AS 107	Supplier finance arrangements (Amendments to Ind AS 7 and Ind AS 107)	yet to be notified
Ind AS 21	Lack of exchangeability (Amendments to Ind AS 21)	yet to be notified



Amendments notified by MCA on 31 March 2023 - Effective from 1 April 2023

The following amendments are effective for reporting periods beginning on or after 1 April 2023.

The amendments are:

- Deferred tax relating to assets and liabilities arising from a single transaction (Amendments to Ind AS 12)
- Definition of accounting estimates (Amendments to Ind AS 8)
- Disclosure of accounting policies (Amendments to Ind AS 1)

Deferred tax related to assets and liabilities arising from a single transaction (Amendments to Ind AS 12)

The amendment

In specific circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. There had been some diversity in practice as to whether the exemption applied to transactions such as leases and decommissioning obligations. These are transactions where entities recognise both an asset and a liability.

The amendments require an entity to recognise deferred tax on certain transactions (e.g. leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

The amendments clarify that the initial recognition exemption set out in Ind AS 12 'Income Taxes' does not apply, and entities are required to recognise deferred tax on these transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

Commercial significance

Number of entities affected

The amendments affect all entities with leases accounted for under Ind AS 16.

Impact on affected entities

The impact is on initial recognition of these transactions with the aim to reduce diversity in practice. In many instances it will not have a major impact.

Definition of accounting estimates (Amendments to Ind AS 8)

In February 2021 the IASB issued amendments to IAS 8 to clarify how reporting entities should distinguish changes in accounting policies from changes in accounting estimates. The MCA has issued amendments in Ind AS 8 corresponding to amendments to IAS 8 with effect from 1 April 2023.

The amendment

The amendments include a definition of 'accounting estimates' as well as other amendments to Ind AS 8 that will help entities distinguish changes in accounting policies from changes in accounting estimates.

The distinction between these two types of changes is important as changes in accounting policies are normally applied retrospectively to past transactions and events, whereas changes in accounting estimates are applied prospectively to future transactions and events

Commercial significance

Many

Number of entities affected

The amendments affect all entities that could potentially have a change in accounting estimate or change in accounting policy.

Medium

Impact on affected entities

These amendments could have the potential to have a significant impact if an entity has incorrectly concluded a transaction is a change in accounting estimate rather than a change in accounting policy or vice versa.

'The amendments include a definition of 'accounting estimates' as well as other amendments to Ind AS 8 that will help entities distinguish changes in accounting policies from changes in accounting estimates'

Disclosure of accounting policies (Amendments to Ind AS 1)

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 'Making Materiality Judgements' aiming to improve accounting policy disclosures. The MCA has issued amendment in Ind AS 1 corresponding to amendments to IAS 1, which is effective from 1 April 2023.

The amendment

The amendments to Ind AS 1 require reporting entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments to Ind AS 1 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

These amendments were issued as a result of feedback received indicating that reporting entities needed more guidance when determining what accounting policy information should be disclosed.

Commercial significance

Many

Number of entities affected

The amendments affect all reporting entities when disclosing their accounting policies.

Medium

Impact on affected entities

These amendments impact what accounting policies are disclosed which could affect investors' decisions.

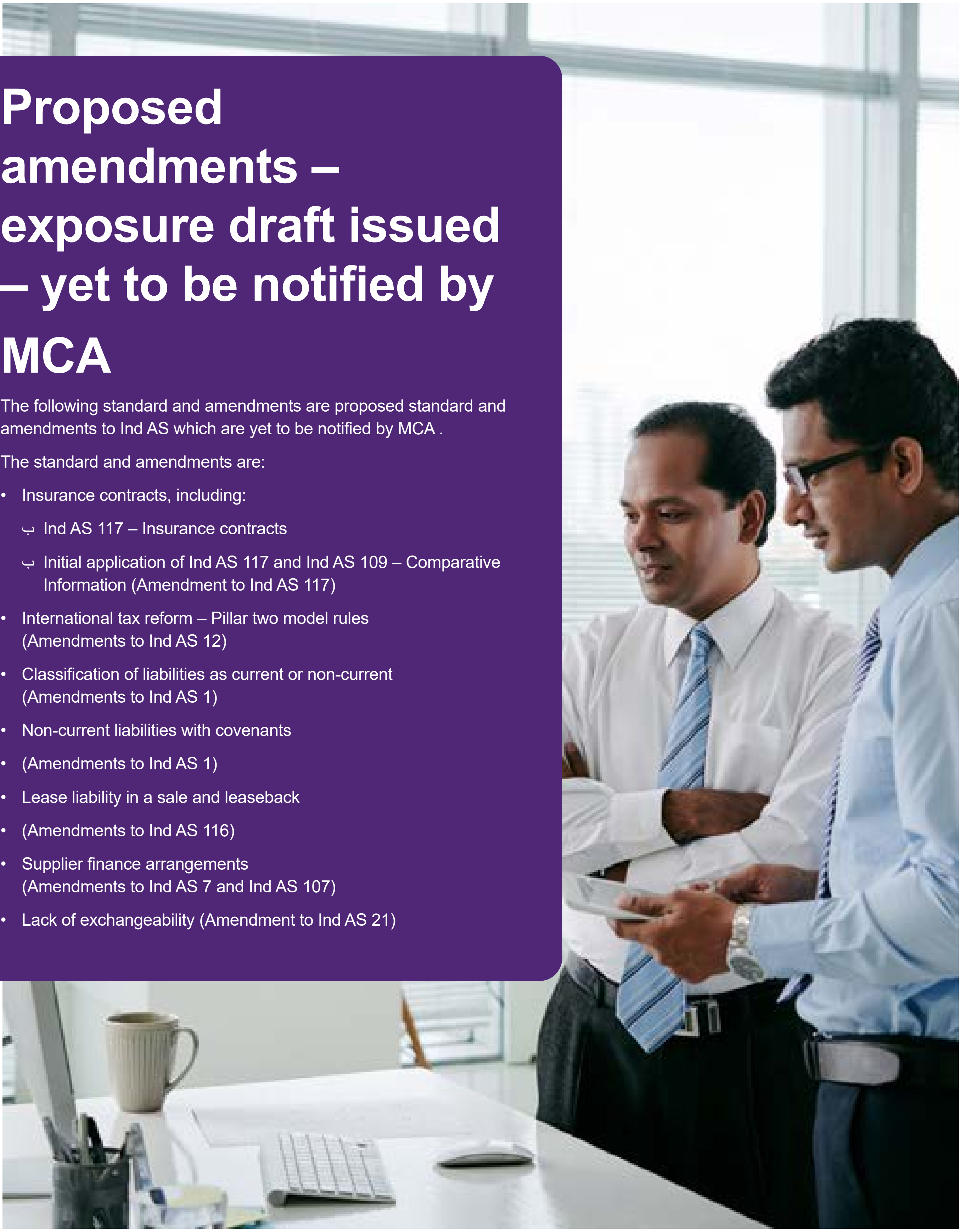
> 'The amendments to Ind AS 1 require reporting entities to disclose their material accounting policy information rather than their significant accounting policies. The amendments to Ind AS 1 provide guidance on how to apply the concept of materiality to accounting policy disclosures.'

Proposed amendments – exposure draft issued – yet to be notified by MCA

The following standard and amendments are proposed standard and amendments to Ind AS which are yet to be notified by MCA .

The standard and amendments are:

- Insurance contracts, including:
  - Ind AS 117 – Insurance contracts
  - Initial application of Ind AS 117 and Ind AS 109 – Comparative Information (Amendment to Ind AS 117)
- International tax reform – Pillar two model rules (Amendments to Ind AS 12)
- Classification of liabilities as current or non-current (Amendments to Ind AS 1)
- Non-current liabilities with covenants
- (Amendments to Ind AS 1)
- Lease liability in a sale and leaseback
- (Amendments to Ind AS 116)
- Supplier finance arrangements (Amendments to Ind AS 7 and Ind AS 107)
- Lack of exchangeability (Amendment to Ind AS 21)



Ind AS 17 Insurance Contracts

In May 2017, after more than 20 years in development, the IASB published IFRS 17 'Insurance Contracts'. This lengthy completion period reflects a number of factors including:

- very diverse local practices for insurance accounting
- a huge range of jurisdiction-specific products, tax implications and regulations that had to be captured by a uniform measurement model
- the need for alignment with other Standards that have been recently published by the IASB, such as IFRS 9 and IFRS 15 'Revenue from Contracts with Customers', and to some degree the work of other standard setters.

The new Standard will replace IFRS 4 'Insurance Contracts' which was published in 2004. IFRS 4 was designed to be an interim Standard and therefore allowed entities issuing insurance contracts to carry on accounting for them using policies that had been developed under their previous local accounting standards. This meant that entities continued to use a multitude of different approaches for accounting for insurance contracts, making it difficult to compare and contrast the financial performance of otherwise similar entities.

IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies.

To enhance transparency in financial statements prepared by insurers in India, the ASB issued an Exposure Draft of Ind AS 117, Insurance Contract (ED of Ind AS 117), which is consistent with IFRS 17.

We briefly discuss some of the areas covered by the new Standard below:

Scope

ED of Ind AS 117 applies to all insurance contracts that an entity issues (including those for reinsurance); reinsurance contracts it holds; and investment contracts with a discretionary participation feature, provided the entity also issues insurance contracts. It is not an industry specific standard. It applies to any reporting entity that issues insurance contracts, so great care is needed to ensure the requirements set out in ED of Ind AS 117 are not overlooked.

ED of Ind AS 117 defines an insurance contract as one under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

This definition is similar to that in Ind AS 104. In addition, ED of Ind AS 117 provides guidance on how to assess the significance of insurance risk based on the possibility of a loss on a present value basis (rather than nominal), and how to evaluate changes in the level of insurance risk.

Measurement

ED of Ind AS 117 requires an entity that issues insurance contracts to report them on the balance sheet as the total of:

- the fulfilment cash flows – the current estimates of amounts that the insurer expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those cash flows, and
- the contractual service margin – the expected profit for providing future insurance coverage (ie unearned profit).

The measurement of the fulfilment cash flows reflects the current value of any interest rate guarantees and financial options included in the insurance contracts.

To better reflect changes in insurance obligations and risks, ED of Ind AS 117 requires an entity to update the fulfilment cash flows at each reporting date, using current estimates that are consistent with relevant market information. This means that insurance obligations will be accounted for using current values instead of historical cost, ending the practice of using data from when a policy was taken out.

Current discount rates are also required to be used. These will reflect the characteristics of the cash flows arising from the insurance contract liabilities, a change from the previous situation where many entities used discount rates based on the expected return on assets backing the insurance contract liabilities.

Revenue is no longer equal to written premiums but to the change in any contract liability covered by consideration during the reporting period.

Insurance performance

ED of Ind AS 117 requires an entity to provide information that distinguishes two ways insurers earn profits from insurance contracts:

- the insurance service result, which depicts the profit or loss earned from providing insurance coverage
- the financial result, which captures:
  - investment income from managing financial assets
  - insurance finance expenses arising from insurance obligations – this includes the effects of discount rates and other financial variables on the value of insurance obligations.

When applying ED of Ind AS 117, changes in the estimates of the expected premiums and payments that relate to future insurance coverage will adjust the expected profit – ie the contractual service margin for a group of insurance contracts will be increased or decreased by the effect of those changes.

The effect of such changes in estimates will then be recognised in profit or loss over the remaining coverage period as the contractual service margin is earned by providing insurance coverage.

Onerous contracts

To make differences in profitability among insurance contracts visible, ED of Ind AS 117 requires an entity to distinguish groups of contracts expected to be loss-making from other contracts.

Companies should first identify portfolios of insurance contracts that are subject to similar risks and managed together. Once an entity has identified portfolios of contracts, it divides each portfolio into groups considering differences in the expected profitability of the contracts.

If the amounts that the insurer expects to pay out on a contract in the form of claims, benefits and expenses exceed the amounts that the insurer expects to collect from premiums, either at the inception of the contracts or subsequently, the contracts are loss making and the difference will be recognised immediately in profit or loss.

Reinsurance contracts

A separate measurement model applies to reinsurance contracts held. Modifications are allowed for qualifying short-term contracts and participating reinsurance contracts.

Presentation

Balance Sheet

The Balance Sheet should present in separate captions the assets and liabilities arising under insurance contracts issued and reinsurance contracts held.

In contrast to practices existing under local GAAPs, entities should adopt a grossed-up presentation where contracts, which are assets, are not netted off against contracts, which are liabilities and vice versa. ED of Ind AS 117 does not mandate a layout for the statement of financial position. The reporting entities should follow the general requirements of Ind AS 1 but need to ensure that certain captions are presented as a minimum on the face of the statement.

Statement of profit and loss – measurement of revenue and expenses

ED of Ind AS 117 does not mandate a layout for the statement of profit and loss account. Reporting entities should follow the principles and requirements of Ind AS 1 and the measurement rules of ED of Ind AS 117, which require that revenue and incurred expenses presented in profit or loss exclude any investment components.

Measurement of insurance contract revenue

Revenue recognition is an area where ED of Ind AS 117 principles represent a significant change from practices previously followed in local GAAPs. Previously revenue was often reported by reference to premium cash received or receivable.

Under ED of Ind AS 117, revenue represents the total change in the liability for remaining coverage that relates to coverage and services during the period for which the entity expects to receive consideration.

Disclosure

The objective of the disclosure requirements of ED of Ind AS 117 is to disclose information which allows the users of financial statements to assess the effect that contracts within the scope of the Standard have on the entity's financial position, financial performance and cash flows. Entities should provide quantitative and qualitative information about amounts recognised in the financial statements, significant judgements (and changes thereof), and the nature and extent of risks arising from contracts within the scope of the Standard.

Reporting entities are required to follow Ind AS 1's requirements on materiality and aggregation when deciding what aggregation bases are appropriate for disclosure. The type of contract, geographical area or reportable segment as defined in Ind AS 8 'Operating Segments' are all examples suggested but not mandated by the Standard.

Impact of ED of Ind AS 117 on non-insurance entities

ED of Ind AS 117 does not constitute industry specific guidance. Instead, it specifies principles which should be applied to contracts that meet the definition of an insurance contract in ED of Ind AS 117 irrespective of the legal and regulatory status of their issuer.

Non-insurers therefore need to be alert to the possibility that contracts they have issued (or may issue in the future) might now fall within the scope of the new Standard. This may result in significant changes to the accounting.

> 'ED of Ind AS 117 solves the comparison problems created by Ind AS 104 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies.'

Amendments to IFRS 117

EAfter concerns raised by stakeholders, in June 2020 the IASB issued 'Amendments to IFRS 17' (the Amendments). The aim of the amendments was to address the concerns raised and help entities to more easily transition and implement the Standard. The ASB has issued exposure draft of amendments to Ind AS 117 corresponding to amendments to IFRS 17.

Area of proposed change (as per ED on amendment to Ind AS 117)	Description
Scope exclusions	The amendments add additional scope exclusions for credit card contracts that provide insurance coverage, and also an optional scope exclusion for loan contracts that transfer high insurance risk.
Expected recovery of insurance acquisition cash flows	The amendments include guidance on the recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination.
Contractual service margin attributable to investment-return service and investment-related service	The amendments clarify the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
Applicability of the risk mitigation option	The amendments extend the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
Interim financial statements	The amendments clarify the application of Ind AS 117 in interim financial statements allowing an accounting policy choice at a reporting entity level.
Reinsurance contracts held — recovery of losses on underlying insurance contracts	The amendments require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held.
Presentation in the Balance Sheet	The amendments require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities rather than groups of insurance.
Transitional modifications and reliefs	The amendments add extra transitional reliefs for business combinations, thedate of application of the risk mitigation option and the use of the fair value transition approach.
Minor amendments	The amendments add minor changes where the drafting of the Standard did not achieve the ASB's intended outcome.

Initial Application of Ind AS 117 and Ind AS 109 – Comparative Information (Amendment to Ind AS 117)

During 2022, the ASB proposed another narrow-scope amendment to Ind AS 117 which is applicable on transition to the new Standard corresponding to IASB's amendments in IFRS 117. However, it does not impact any other requirements of Ind AS 117.

Ind AS 117 and Ind AS 109 'Financial Instruments' have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying Ind AS 117 and Ind AS 109 for the first time.

The proposed amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It will do this by providing insurers with an option for the presentation of comparative information about financial assets.

Commercial significance

Some

Number of entities affected

Proposed Ind AS 117 is a Standard about insurance contracts, not a Standard for the insurance industry. While insurance companies will be most affected, its effect will also be felt beyond the entities authorised to carry out regulated insurance activities in a jurisdiction.

High

Impact on affected entities

Proposed Ind AS 117 fundamentally changes the accounting for insurance contracts. It has a substantial impact on the financial statements of those with insurance contracts. Presently there is a huge diversity in the way insurance contracts are accounted for, Ind AS 117 is set to harmonise these accounting practices and will transform data, people, technology solutions and investor relations. Implementation costs are likely to be high as entities apply the new Standard.

'To better reflect changes in insurance obligations and risks, proposed Ind AS 117 requires an entity to update the fulfilment cash flows at each reporting date, using current estimates that are consistent with relevant market information.'

International tax reform – Pillar two model rules (Amendments to Ind AS 12)

In May 2023, the IASB issued amendments to IAS 12 to give entities temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments introduce both a temporary exception and some targeted disclosure requirements.

The OECD published its Pillar Two Model Rules in December 2021 to ensure that large multinational companies (ie groups with revenue of EUR750 million or more in two of the last four years) would be subject to a minimum 15% tax rate. The reform is expected to apply in most jurisdictions for accounting periods starting on or after 1 January 2024.

However, while the reaction from jurisdictions around the world to implement the changes has been positive, there have been major stakeholder concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of these rules. Therefore, the IASB has acted quickly to address these concerns and provide direction on what they expect entities to disclose.

The ASB has published an exposure draft on Ind AS 12, Income Tax, corresponding to amendments to IAS 12.

The proposed amendments

The amendments:

- provide a temporary recognition exception to accounting for deferred taxes arising from the implementation of the international tax reform (Pillar Two Model Rules). The aim of this exception is to provide some consistency in applying Ind AS 12 when preparing financial statements as the rules are phased in.
- additional disclosure requirements – these are targeted at a reporting entity's exposure to income taxes arising from the OECD reforms in periods in which the Pillar Two Model legislation is enacted or substantively enacted but not yet in effect. The aim of these disclosures is to help investors with their understanding of the reporting entity's exposure to these tax reforms, particularly before any domestic offshore legislation takes effect. The amendments provide guidance on how this information could be disclosed to meet the above objective.

Commercial significance

Some

Number of entities affected

The Pillar Two Rules only apply to large multinational companies which operate in low-tax jurisdictions.

Medium

Impact on affected entities

The amendments will provide a significant saving to reporting entities in terms of the time, cost and effort that will be required to assess the accounting implications associated with the tax consequences arising from the implementation of the Pillar Two Model Rules.

Classification of liabilities as current or non-current (Amendments to Ind AS 1)

In January 2020, the IASB published 'Classification of Liabilities as Current or Non-Current (Amendments to Ind AS 1)' which clarify the Standard's guidance on whether a liability should be classified as either current or non-current. The ASB has published an exposure draft that corresponds with this amendment in December 2022.

Ind AS 1 requires an entity that has an unconditional right to delay settlement of a liability for at least 12 months from the end of the reporting period, then it can be classified as non-current, if not it is classified as current. Some preparers have found this statement confusing and consequently similar liabilities have been classified differently, making comparisons by investors difficult.

The ASB, therefore, issued an exposure draft of amendments to Ind AS 1 to clarify its previously issued guidance and rectify the above issue.

The proposed amendments

The amendments elaborate on guidance set out in Ind AS 1 by:

- clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period
- stating that management's expectations around whether they will defer settlement or not does not impact the classification of the liability
- adding guidance about lending conditions and how these can impact classification
- including requirements for liabilities that can be settled using an entity's own instruments.

Commercial significance

Many

Number of entities affected

The amendments affect entities with borrowing arrangements so therefore the impact could be widespread.

Medium

Impact on affected entities

These amendments could have a significant impact on an entity's presentation of their borrowings which in turn could impact important financial ratios.

Non-current liabilities with covenants (Amendments to Ind AS 1)

In November 2022, the IASB issued some amendments to IAS 1 that aim to improve disclosures about long-term debt with covenants.

IAS 1 requires an entity to classify debt as current if it is unable to avoid settling the debt within 12 months after the reporting date. However, the entity may need to comply with covenants during that same period, which may question whether the debt should be classified as non-current. For example, a long-term debt may become current if the entity fails to comply with the covenants during the 12-month period after the reporting date.

The IASB, therefore, issued amendments to IAS 1 to clarify its previously issued guidance and rectify the above issue. The ASB issued an exposure draft corresponding to this amendment, in December 2022.

The proposed amendments

The amendments set out in 'non-current liabilities with covenants (Amendments to Ind AS 1)' state that at the reporting date, the entity does not consider covenants that will need to be complied with in the future, when considering the classification of the debt as current or non-current. Instead, the entity should disclose information about these covenants in the notes to the financial statements.

The IASB and correspondingly ASB want these amendments to enable investors to understand the risk that such debt could become repayable early and therefore improving the information being provided on the long-term debt.

Commercial significance

Many

Number of entities affected

The amendments affect entities with borrowing arrangements so therefore the impact could be widespread.

Medium

Impact on affected entities

These amendments could have a significant impact on an entity's presentation of their borrowings which in turn could impact important financial ratios.

Lease liability in a sale and leaseback (Amendments to Ind AS 116)

In September 2022, the IASB issued amendments to IFRS 16, adding requirements for accounting for a sale and leaseback after the date of the transaction.

The ASB issued exposure draft of amendments to Ind AS 116 to prescribe subsequent measurement requirements for sale and leaseback transactions particularly in a leaseback that include variable lease payments that do not depend on index or rate, in December 2022.

The proposed amendments

The ASB has now issued additional guidance in Ind AS 116 on accounting for sale and leaseback transactions. Previously Ind AS 116 only included guidance on how to account for sale and leaseback transactions at the date of the transaction itself. However, the Standard did not specify any subsequent accounting when reporting on the sale and lease back transaction after that date.

As a result, without further requirements, when the payments include variable lease payments there is a risk that a modification or change in the leaseback term could result in the seller-lessee recognising a gain on the right of use they retained even though no transaction or event would have occurred to give rise to that gain.

Consequently, the ASB decided to include subsequent measurement requirements for sale and leaseback transactions to Ind AS 116.

Commercial significance

Some

Number of entities affected

The amendments affect entities accounting for a sale and leaseback transaction.

Low

Impact on affected entities

These amendments would only impact the subsequent accounting for a sale and leaseback transaction, while these amounts could be material, in most cases it is unlikely to have a significant impact.

> ‘The ASB issued exposure draft of amendments to Ind AS 116 to prescribe subsequent measurement requirements for sale and leaseback transactions particularly in a leaseback that include variable lease payments that do not depend on index or rate.’

Supplier finance arrangements (Amendments to Ind AS 7 and Ind AS 107)

In May 2023, the IASB amended IAS 7 'Cash flow Statements' and IFRS 7 'Financial Instruments: Disclosures' with respect to additional disclosure requirement for supplier finance arrangements.

The ASB issued exposure draft of amendments to Ind AS 7 and Ind AS 107 corresponding to amendments to IAS 7 and IFRS 7, to increase of disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.

The proposed amendments

The amendments require additional disclosures that complement the existing disclosures in these two Standards. They require entities to disclose:

- the terms and conditions of the arrangement.
- the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities are included on the balance sheet.
- ranges of payment due dates.
- the type and effect of non-cash changes in the carrying amounts of the financial liabilities.
- liquidity risk information.

These additional disclosure requirements address investors wanting more visibility around supplier finance arrangements, which in some jurisdictions around the world are better known as reverse factoring arrangements.

Commercial significance

Some

Number of entities affected

The amendments apply to all entities that engage in supplier financing arrangements.

Medium

Impact on affected entities

The amendments will require new disclosures to be prepared with more detailed information provided on their supplier finance arrangements. Depending on the complexity or volume of such arrangements this may result in significantly more disclosures.

> 'The ASB has issued exposure draft of amendments to Ind AS 7 and Ind AS 107 corresponding to amendments to IAS 7 and IFRS 7, to increase of disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk.'

Lack of exchangeability (Amendments to Ind AS 21)

In August 2023, the IASB amended IAS 21 'The Effects of Changes in Foreign Exchange Rates' to require an entity to apply a consistent approach to assess whether a currency is exchangeable into another currency and, when it is not, to determining the exchange rate to use and the disclosures to provide.

In this regard, the ASB issued exposure draft of amendments to Ind AS 21 corresponding to amendments to IAS 21, to clarify the approach that should be taken by preparers of financial statements when they are reporting foreign currency transactions, translating foreign operations, or presenting financial statements in a different currency, and there is a long-term lack of exchangeability between the relevant currencies.

The proposed amendments

The amendments include both updates to guidance to assist preparers in correctly accounting for foreign currency items and increases the level of disclosure required to help users understand the impact of a lack of exchangeability on the financial statements. The amendments:

- introduce a definition of whether a currency is exchangeable, and the process by which an entity should assess this exchangeability. This includes application guidance included in a new Appendix A
- provide guidance on how an entity should estimate a spot exchange rate in cases where a currency is not exchangeable.
- require additional disclosures in cases where an entity has estimated a spot exchange rate due to a lack of exchangeability, including the nature and financial impact of the lack of exchangeability, and details of the spot exchange rate used and the estimation process.

The additional disclosure requirements provide useful information about the additional level of estimation uncertainty, and risks arising for the entity due to the lack of exchangeability.

Commercial significance

Few

Number of entities affected

These amendments only affect entities that are required to report foreign currency transactions where there is a long-term lack of exchangeability between currencies.

Medium

Impact on affected entities

Affected entities may be required to adjust the carrying value of any monetary items that have been translated from a foreign currency which is not exchangeable, and will be required to provide additional disclosures on how the new spot rate has been determined.

> 'The proposed amendments include both updates to guidance to assist preparers in correctly accounting for foreign currency items and increases the level of disclosure required to help users understand the impact of a lack of exchangeability on the financial statements.'

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