

## Minutes of the 16th Meeting of the National Financial Reporting Authority

The 16th Meeting of the National Financial Reporting Authority was held on Tuesday, 11.06.2024, from 2.30 PM to 4.30 PM at NFRA office.

The meeting was chaired by Dr. Ajay Bhushan Prasad Pandey, Chairperson, NFRA. The meeting was attended by the following Members/officials:

### 1. Full Time Members:

- a. Dr. Praveen Kumar Tiwari
- b. Ms. Smita Jhingran

### 2. Part Time Members:

- a. Shri IDS Dhariwal, Joint Secretary, Ministry of Corporate Affairs
- b. Ms Kavita Prasad, Director General, O/o CAG of India,
- c. Ms. Sudha Balakrishnan, Chief Financial Officer, Reserve Bank of India
- d. Shri S V Muralidhar Rao, Executive Director, Securities and Exchange Board of India
- e. CA. Ranjeet Kumar Agarwal, President ICAI
- f. CA. Pramod Jain, Chairman, Accounting Standard Board, ICAI
- g. CA. (Dr.) Sanjeev Kumar Singhal, Chairman, Auditing and Assurance Standard Board, ICAI
- h. Professor Sanjay Kallapur, Professor of Accounting at Indian School of Business, Hyderabad (Online)
- i. Professor R. Narayanaswamy, Ex-Faculty of the Finance & Accounting, IIM Bangalore

### 3. Officials

- (a) Ms Vidhu Sood, Secretary, NFRA
- (b) CA Vidhyadhar Kulkarni, Sr. Consultant, NFRA
- (c) CA Parminder Kaur, Secretary, ASB, ICAI
- (d) CA Ritika Sharma, Consultant, NFRA

4. The quorum for the meeting of the Authority was met, in accordance with para 3 (9) of the National Financial Reporting Authority (Meeting for Transaction of Business) Rules, 2019.

5. Chairperson welcomed the participants and asked for the meeting to be commenced.

6. Secretary, NFRA requested Chairperson for permission to introduce an additional agenda regarding consideration of comments received from Members on the draft minutes of the 15<sup>th</sup> Meeting, towards the objective of finalising the minutes. Members' approval was obtained, and draft minutes were finalised.

7. A presentation was made on the following agenda item which was deliberated in the meeting.

#### **7.1 Agenda Item No.1 - Consideration of the recommendations of the Institute of Chartered Accountants of India (ICAI) regarding Accounting Standards (ASs) for LLPs u/s 34A of LLP Act 2008**

- (a) Members deliberated on various key aspects of the ICAI's proposal keeping in mind the legal framework of ASs for LLPs, profile of the LLPs in India based on critical operational and

financial parameters such as Turnover, Borrowings, Partners' Obligation of Capital Contribution and nature of economic activity of LLPs. It was discussed that since a large number of LLPs fall in the category of Micro and Small LLPs, therefore, with a view to reduce their compliance burden there appeared to be a need to simplify and rationalise financial reporting obligations of these LLPs and in any case it was felt unanimously that their compliance burden should not be more than companies with similar financial parameters.

- (b) Members also deliberated on the form and style of prescribing the ASs for LLPs keeping in mind the form and style used for Companies (Accounting Standards) Rule 2021 in place of a tabular form recommended by the ICAI (Refer Annexure 2 on page no. 33-37 of Attachment to Agenda Notes). Since the form and style of the Rules is a matter of drafting, it was felt that this aspect can be taken care of at the drafting stage by the Ministry.
- (c) The Authority discussed whether it may be useful to suggest prescribing accrual basis of accounting for certain LLPs in future. Given the nature and composition of LLPs, the Authority decided not to make any recommendation in this regard, for the present.
- (d) In respect of application of the ASs only to LLPs following accrual basis of accounting, Chairman, ASB expressed concern this may not be mentioned in the notification as an LLP following cash basis of accounting should also apply the Accounting Standards to the extent applicable in the context of cash basis of accounting as it will result in providing a more transparent and relevant view of the financial statements. In this context, announcement of the ICAI on 'Mandatory Application of Accounting Standards in respect of Certain Non-corporate Bodies ' requires auditor to examine whether accounting standards which are applicable in the context of basis of accounting followed by the enterprise have been complied with or not and consider making suitable disclosures/ qualifications in audit report. Recommendations of ICAI in this regard were in line with the above. President, ICAI was also of the same view. This issue was further discussed
  - a. Chairperson, NFRA, Ms Smita Jhingran, Full-Time Member, NFRA and Professor Narayanaswamy expressed the view that the proposal that 'an LLP following cash basis of accounting should apply Accounting Standards *to the extent applicable* in the context of cash basis of accounting', would lead to a hybrid kind of accounting, which is not as per law. The Law allows the LLPs an option of cash basis or accrual basis of accounting. As there is no clarity on which specific aspects of the proposed AS would apply to cash basis of accounting also, the suggested hybrid kind of accounting will introduce an element of confusion and discretion (by allowing preparers to pick and choose) and lead to various interpretations. Therefore, it should be avoided.
  - b. Chairman, AASB, also stated that accrual basis of accounting and cash basis are separate.
  - c. It was mentioned in discussions that application of provisions of accrual basis of accounting to cash basis of accounting would first require a conceptual framework, to be issued as per International best practice.
  - d. Chairman, ASB stated that there is an announcement of the ICAI on 'Mandatory Application of Accounting Standards in respect of Certain Non-corporate Bodies' issued in 1991, which can be referred to in this regard.
  - e. Chairperson, NFRA stated that for the Authority to recommend anything from such an announcement (which is dated and goes back to 1991), a proposal first needs to be brought for consideration of the Authority.
  - f. JS, MCA, addressing the Chairman, ASB, stated that ICAI may, if needed, later bring the guidance for (modified) cash basis to the Authority for consideration.
  - g. Dr Tiwari, Full-Time Member, NFRA, stated that on the public sector side, the International Public Sector Accounting Standards (IPSAS) have separate standards for cash basis (IPSAS Cash) for public sector entities following cash basis of accounting as distinct from standards based on accrual basis. If a hybrid or mix system of accounting

has to be permitted for LLPs, then there should first be a conceptual framework or specific standard for this, and not leave it to individual choices.

- h. Chairman, ASB then stated that the Authority may omit adding the following in their recommendation that “These Accounting Standards are applicable only to the LLPs that opt to maintain books of accounts and prepare financial statements on accrual basis of accounting” as the AS 1 already states that accounting standards are accrual based.
  - i. Prof Narayanaswamy stated that as AS 1 already says that these standards are accrual based, the addition to the recommendation as suggested by the Authority is logical and clarificatory and therefore, will be helpful for the LLPs.
- (e) Based on the aforesaid deliberations, the Authority approved the ICAI proposals (Refer Annexure 2 on page no. 30-37 of Attachment to Agenda Notes) for recommendation to the Ministry of Corporate Affairs with the following changes:

### **(1) Classification of LLPs**

**Classification of LLPs may be aligned with the concept used for Non-Ind AS Companies under Companies (Accounting Standards) Rules 2021. LLPs may be classified into Two Categories as follows instead of four levels (I, II, III, IV) recommended by the ICAI.**

- a) Small & Medium-sized LLPs whose Turnover does not exceed ₹ 250 Cr and Borrowings do not exceed ₹ 50 Cr. (These would correspond to levels II, III, IV of ICAI proposal)
- b) Large LLP - Other than one (a) above (This corresponds to level I of the ICAI proposal)

**(2) Exemptions/relaxations recommended for Level IV LLPs as in the ICAI proposal, may be extended to all Small & Medium-sized LLPs (Levels II, III and IV of ICAI proposal & (1) (a) above) with the following changes:**

- a) In respect of the following two ASs, exemptions may only be given to Small & Medium-sized LLPs whose Turnover does not exceed ₹ 50 Cr and Borrowings do not exceed ₹ 10 Cr
  - AS 18, *Related Party Disclosures*
  - AS 28, *Impairment of Assets*

### **(3) Application of the ASs**

Para VI in the ICAI proposals (Refer Annexure 2 (Refer Annexure 2-page no. 30 of Attachment to Agenda Notes) may be replaced as follows:

“These Accounting Standards are applicable only to the LLPs that opt to maintain books of accounts and prepare financial statements on accrual basis of accounting”.

The meeting ended with a vote of thanks.

sd/-  
Secretary, NFRA