

12 December 2023

Minutes of the 12th Meeting of National Financial Reporting Authority

The 12th Meeting of National Financial Reporting Authority was held on Friday 10.11.2023 at 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:

- a. Full Time Member:
 - i. Ms. Smita Jhingran
- b. Part Time Members-
 - i. Shri S V Muralidhar Rao, Executive Director, Securities and Exchange Board of India.
 - ii. Dr. Kavita Prasad, Director General (Commercial-I), Office of Comptroller & Auditor General of India
 - iii. Ms. Sudha Balakrishnan, Chief Financial Officer, Reserve Bank of India (online video)
 - iv. CA. Aniket Talati, President ICAI
 - v. CA. Pramod Jain, Chairman, Accounting Standard Board, ICAI
 - vi. CA. (Dr.) Sanjeev Kumar Singhal, Chairman, Auditing and Assurance Standard Board, ICAI
 - vii. Shri Sanjay Kallapur, Professor of Accounting at Indian School of Business, Hyderabad
 - viii. Professor R. Narayanaswamy, Ex-Faculty of the Finance & Accounting, IIM Bangalore (online video)
- c. Mr Rakesh Bhanot, Secretary in Charge, NFRA
- d. CA Vidhyadhar Kulkarni, Sr. Consultant, NFRA

2. 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. Leave of absence was granted to Dr. P K Tiwari, Full-Time Member NFRA and Shri IDS Dhariwal, JS, MCA.

3. Chairperson welcomed the participants, made the following opening remarks, and authorised to commence the proceedings.

- a) Chairperson apprised the members about NFRA receiving Membership of IFIAR (International Forum of Independent Audit Regulators), which is a global forum established in 2006, with members from 55 countries.

- b) Chairperson welcomed and introduced the two newly appointed Part Time Members viz. Shri Sanjay Kallapur and Professor R. Narayanaswamy. Chairperson also introduced Shri S V Muralidhar Rao, representing SEBI.
- c) The valuable contribution of the two-Part Time Members viz. CA. Amarjit Chopra, Ex-President ICAI and CA Anil Sharma, who had completed their three-year tenure in June 2023, was acknowledged by all.

4. A presentation was made on the agenda points which were deliberated in the meeting.

It was decided as follows:

4.1 Agenda Item No.1 - Consideration of the recommendations of the Institute of Chartered Accountants of India (ICAI) regarding amendments to Indian Accounting Standard- Ind AS 116, *Leases: Lease Liability in a Sale & Leaseback*

Amendments to Ind AS 116, *Leases* as recommended by ICAI were approved for recommendation to the Ministry of Corporate Affairs subject to following:

Heading of Appendix D in ICAI Recommendations be changed as follows:

**Appendix D
Illustrative Examples**

(These examples accompany, but are not part of Ind AS 116. They illustrate aspects of Ind AS 116, but are not intended to provide any interpretative guidance)

4.2 Agenda Item No. 2 - Consideration of the recommendations of the ICAI regarding amendments to Indian Accounting Standard- Ind AS 40, *Investment Property*

4.2.1 The ICAI had recommended for incorporation of fair value measurement model as an alternative to the cost model in Ind AS 40 on the lines of IAS 40 due to following reasons:

- (a) IRDAI¹ Ind AS Implementation Group Report of 2016 had stated that Life Insurance Companies are mandatorily required to fair value their investment properties once in three years and gain/loss is held in Revaluation Reserve. Hence, this accounting practice of Insurance Companies may be continued even under Ind AS Regime for Life Insurance Companies.

¹ <https://www.irda.gov.in/~/media/Files/Publications/IRDAI%20-%20Ind%20AS%20Implementation%20Group%20Report%20of%202016.pdf>

- (b) IRDAI in 2018 had requested ICAI to amend Ind AS 40 to include fair value measurement model for Life Insurance Companies and the fair value gains and losses be recognized in Other Comprehensive Income (which is similar to current Revaluation Reserve concept).

4.2.2 Dr Kavita Prasad, DG (Commercial –I),O/o of the CAG requested clarification whether the proposed amendment is due to a request by a Life Insurance Company. It was clarified that the amendment proposal is not based on any entity-specific request, though an entity in the Life Insurance segment had requested for incorporation of fair value measurement option in Ind AS 40 as part of its comments on exposure draft of Ind AS 117, *Insurance Contracts* issued by the ICAI in 2020. It was also noted that Ind ASs are not industry-specific standards.

4.2.3 Further, following key aspects were discussed and deliberated by all members present:

- i) Reasons for not including fair value option in Ind AS 40 while notifying it in first set of Ind ASs in 2015 i.e. potential for recognition of unrealised gains in profit or loss and lack of liquid markets required for determination of fair value reliably. Rationale for the present amendment proposals i.e., challenges of determination of reliable fair value do not exist as ICAI has started issuing Valuation Standards and is conducting Valuers Certification Courses and Training Programmes. Further, the amendment proposal was due to IRDAI request to ICAI for incorporating the fair value option in Ind AS 40 as mentioned
- ii) The amendment to section 123 (1) of the Companies Act 2013 prohibits inclusion of unrealised or notional gains on fair value measurement of asset or liability in the profits available for distribution of dividends, and thus prevents distribution of dividends from fair value gains. Implications of fair value measurement of investment property on financial results i.e. increase in asset values, profitability, net worth, earning per share, etc.

It was noted that financial statements will contain appropriate presentation and disclosures in accordance with Ind AS 40, and users including bankers could be expected to exercise caution. After discussion, it was decided to undertake further study to evaluate the implications of permitting fair value measurement option for investment property keeping in mind the progress and developments that have taken place since 2015 to address the concerns observed in the past when the fair value option was eliminated from Ind AS 40.

Accordingly, it was decided to DEFER the decision on the Agenda Item No. 2.

The meeting concluded with vote of thanks.