

Query No. 18

Subject: *Accounting treatment in the Company's standalone financial statements for the Corporate Guarantee (Deed of Guarantee) issued by the Company being parent company to banks on behalf of its wholly owned subsidiary company.*¹

A. Facts of the Case

1. A Company (hereinafter referred to as 'the Company') was incorporated in the year 1984 for procuring, transmission, processing and marketing of natural gas. The Company has an authorized share capital of Rs. 5,000 crore out of which Rs. 4,440.39 crore is paid-up share capital. The Government of India holds 51.45% equity of the Company at present. The Company is India's leading natural gas company with presence along the entire natural gas value chain comprising of exploration and production (E&P), LNG imports, gas transmission & marketing, gas processing, petrochemicals, LPG transmission, city gas distribution and power. The Company is having its global presence in various countries such as USA, Singapore, Myanmar, Egypt, China through subsidiaries/joints ventures (JVs)/associates etc. The securities of the Company are listed on the National Stock Exchange of India, the Bombay Stock Exchange and the London Stock Exchange (in the form of GDRs) with market capitalisation of over Rs. 61,000 crore (as of 31st March 2021). The Company's consolidated turnover for the year ended 31st March 2020 was approximately Rs. 72,400 crore with a profit after tax of Rs. 9,422 crore.

2. The Company has prepared its accounts as per Indian Accounting Standards (Ind ASs) w.e.f. 1st April 2016. In compliance to Companies (Indian Accounting Standards) Rules, 2015, the Company has prepared its financial statements for the financial year (F.Y.) 2016-17 with comparative figures for F.Y. 2015-16. The Company has adjusted the impact of transition from Accounting Standards (generally referred to as 'IGAAP') to Ind AS in the opening reserve of 1st April 2015 and in the Statement of Profit and Loss for the F.Y. 2015-16.

3. The querist has informed that the Company has the following wholly owned subsidiary companies in USA:

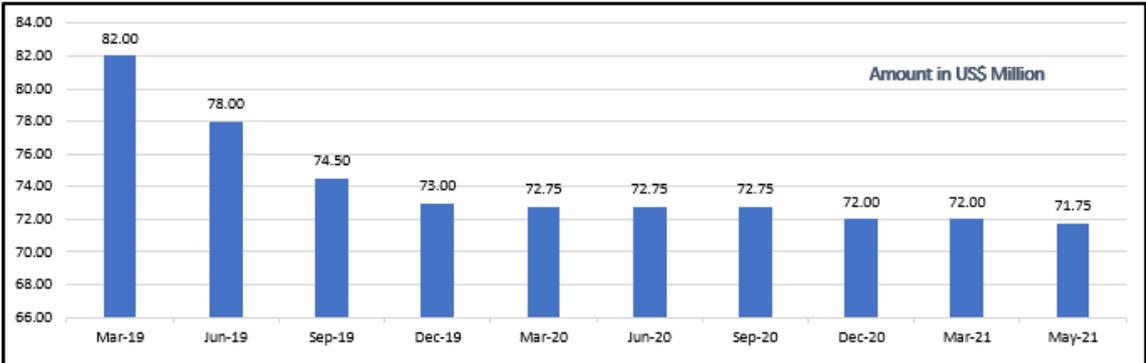
- (a) A Inc. – wholly owned subsidiary of the Company, which is engaged in the E&P business.
- (b) B LLC. – wholly owned subsidiary of A Inc. and step down subsidiary of the Company, which is engaged in LNG trading business.

4. At present, the Company has issued corporate guarantees on behalf of its US subsidiary, A Inc. and step down subsidiary, B LLC. to the tune of USD 1057.57 million (Rs. 7,810.15 crore). The guarantee of USD 72.5 million (Rs. 535.41 crore) issued on behalf of A Inc. is towards meeting obligations of A Inc. and therefore, guarantee fee is being charged by the Company from A Inc. As per the Company's assessment, presently there is no possibility of default by A Inc. Further, guarantees issued on behalf of step down subsidiary of USD 985.07 million (Rs. 7,274.73 crore), have been issued for in-furtherance of business of the Company wherein ultimate beneficiary of these guarantees is the Company itself.

¹ Opinion finalised by the Committee on 27.10.2021.

5. The querist has further informed that during September 2011, the Company has formed its wholly owned subsidiary in USA, namely A Inc., for acquiring 20% participation interest (PI) in XYZ Inc. in Texas, USA. Accordingly, the Company has made investment of USD 36 Mn (Rs. 179.17 crore) in A Inc. and corporate guarantee of USD 84 million was issued in December, 2011 in favor of C Bank N.A. for a period of 1 year for obtaining loan by A Inc. for acquiring the assets. Further, the Company had also issued another corporate guarantee of USD 16 Mn to C Bank USA in August 2012 for obtaining short-term loan by A Inc.

6. The querist has also submitted that generally cost of obtaining for long-term facility is higher than for obtaining short-term facility, therefore as a commercial prudence from its inception, A Inc. has been obtaining short-term loan facility from banks based on corporate guarantee provided by the Company. This is a normal and well accepted practice for loan cost optimisation. Therefore, from inception, the Company has been providing corporate guarantee (CG) on behalf of A Inc. for obtaining short-term loan facility (each time for a period of one year). Presently A Inc. has taken a short-term loan facility of USD 72.5 Mn from the B Bank, New York based on the Company’s corporate guarantee. Against this loan facility, A Inc. had withdrawn loan of only USD 72 Mn in Dec. 2020. The below chart shows the trend of loan repayment by A Inc. and reducing loan value:



It may be noted till date, A Inc. has not defaulted in its loan servicing including principal repayment and interest payment to respective banks.

7. The querist has mentioned that since inception, the Company has been charging guarantee fee from A Inc. for providing corporate guarantee at fair value (presently 0.44% p.a.) and the same is being recognised as income in the Company’s books and expenses in the books of A Inc. A Inc. is paying fair value guarantee fee to the Company for issuance of corporate guarantee and there has been no default by it in loan servicing in past and no such default is expected in future too. Therefore, in the Company’s view, there is no further requirement of accounting by the Company apart from present disclosure in the notes to accounts.

8. The querist has further mentioned that as per the requirements of Ind AS 36, ‘Impairment of Assets’, the Company is carrying out impairment testing of the above investment in A Inc. on every reporting period, which is based on the crude reserves and crude price. During F.Y. 2018-19, due to reduction in crude oil prices, based on impairment study on the Company’s investment in A Inc., the Company had provided for impairment provision of Rs. 173.62 crore as against total equity investment of Rs. 179.17 crore in A Inc. Further, during F.Y. 2019-20, based on impairment study on the Company’s investment in A

Inc., the Company has made a reversal of impairment of Rs. 5.06 crore. Furthermore, based on impairment study, the Company's investment in A Inc. as on 31.03.2021 has been worked out as negative USD 1.17 Mn. Therefore, impairment provision has been made for balance amount of the Company's equity investment of Rs. 10.61 crore. With this impairment provision, carrying amount of the Company's investment in A Inc. stands at 'Nil' as on 31.03.2021 as against Rs. 10.61 crore as on 31.03.2020.

9. As mentioned in the above paragraphs, the Company has provided parent corporate guarantee of USD 72.50 Million to B Bank, New York on behalf of A Inc. against which as on 31.03.2021, A Inc. is having outstanding loan of USD 72 million (as on 31.03.2021), which has been considered as payable while working out the impairment valuation on investment in A Inc. Therefore, A Inc.'s estimated equity value of USD (1.17) Mn already considers outstanding loan as payable.

As per present valuation, equity fair value is only negative by USD 1.17 Mn, which is based on crude price as on 31.03.2021, and present trend of crude price is on increasing side (A Inc.'s reserves value based on prevailing crude price of June 2021 has increased to USD 75.48 Mn from USD 65.13 Mn, which was based on the crude price of 31.03.2021) and based on these reserve value, fair value of equity investment also turns out to be positive. Therefore, considering the following points, as per the Company's assessment, there is no requirement of creating any provision against the Company's guarantee given on behalf of A Inc.:

- a. Till date, A Inc. has not defaulted in its loan repayment, so there is no requirement of creating provision of guarantee, as the Company's guarantee will be invoked only when A Inc. defaults in loan servicing. Further, in future also, any default by A Inc. is not expected in loan servicing.
- b. Outstanding loan amount of USD 72 Mn (as on 31.03.2021) has already been considered as payable while working out the equity valuation.
- c. As per present valuation, equity fair value is negative only by USD 1.17 Mn and considering materiality concept, making provision of guarantee may not be required.
- d. Present trend of crude price is on increasing side (A Inc. reserve value based on prevailing crude price of June 2021 has increased to USD 75.48 Mn from USD 65.13 Mn, which was based on the crude price of 31.03.2021) and based on these reserve, fair value of equity investment also turns out to be positive.

Currently, the Company is disclosing the above guarantees in notes to accounts under details of 'Loans, Investment, Guarantees and Security' given by the Company under Companies Act, 2013 and under 'Financial Risk Management (Liquidity Risk)' as per the requirements of Ind AS 107.

10. The querist has also mentioned that there is no security provided by the Company. As per the provisions of Ind AS 109, 'Financial Instruments', the Company has disclosed the issued guarantees in its notes to accounts and is of the view that no provision is required towards expected credit loss (ECL) on guarantees. However, the Company is evaluating applicability of provisions of Ind AS 109 with respect to the provisioning under ECL model for guarantees issued to third parties on behalf of subsidiaries in furtherance of business of the Company and is in process of obtaining opinion of the Expert Advisory Committee (EAC) of

the Institute of Chartered Accountants of India (ICAI). On receipt of the opinion/ clarification from the EAC, the Company will take necessary action in the matter.

B. Query

11. In view of the above, the querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (i) As per Ind AS, whether further accounting treatment is required for the corporate guarantee provided on behalf of A Inc. for obtaining loan from bankers, as the Company is already charging guarantee fees for the said guarantee and recognising income in the books.
- (ii) Whether any expected credit loss to be provided for any of the above guarantees as per Ind AS 109.
- (iii) Whether any other disclosure is required for any of the above guarantees in Company's books of account, as presently, the Company is disclosing these guarantees under notes to accounts.
- (iv) Any other advice in the context, which EAC may deem fit.

C. Points considered by the Committee

12. The Committee notes that the basic issue raised by the querist relates to the accounting treatment of the corporate guarantee provided by the Company on behalf of its subsidiary for obtaining loan from the bank in the separate financial statements of the Company. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting treatment for transition to Indian Accounting Standards (Ind ASs), accounting treatment of corporate/bank guarantee issued on behalf of the Company's step-down subsidiary, accounting and measurement of investment made in subsidiary (including impairment thereof), accounting treatment in the separate financial statements of the subsidiary and the consolidated financial statements of the Group, determination/measurement of ECL, considerations of materiality, measurement of fair value, etc. The Committee has only examined the issue from Ind AS perspective and has not examined the regulatory or legal classification and implications. The Committee also observes from the Company's financial statements that the Company has neither previously nor on transition to Ind ASs in the financial year 2016-17, asserted explicitly that it regards financial guarantee contracts as insurance contracts and uses accounting that is applicable to insurance contracts. Consequently, the irrevocable option to treat the corporate guarantee as an insurance contract available under paragraph 2.1(e) of Ind AS 109 is not applicable. The Committee also wishes to point out that the Standards referred hereinafter are Indian Accounting Standards (Ind ASs) notified under Indian (Accounting Standards) Rules, 2015.

13. The Committee notes that Appendix A to Ind AS 109 defines a financial guarantee contract as follows:

“financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.”
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Further, paragraph B2.5 of Appendix B to Ind AS 109 and AG 8 of Appendix A to Ind AS 32, ‘Financial Instruments: Presentation’ provide as follows:

Ind AS 109

“B2.5 Financial guarantee contracts may have various legal forms, such as a guarantee, some types of letter of credit, a credit default contract or an insurance contract. Their accounting treatment does not depend on their legal form. The following are examples of the appropriate treatment (see paragraph 2.1(e)):

- (a) Although a financial guarantee contract meets the definition of an insurance contract in Ind AS 104 if the risk transferred is significant, the issuer applies this Standard. Nevertheless, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or Ind AS 104 to such financial guarantee contracts. If this Standard applies, paragraph 5.1.1 requires the issuer to recognise a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm’s length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through profit or loss or unless paragraphs 3.2.15– 3.2.23 and B3.2.12–B3.2.17 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:
 - (i) the amount determined in accordance with Section 5.5; and
 - (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 115 [see paragraph 4.2.1(c)].
- (b) ...”

Ind AS 32

“AG8 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender’s ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be insurance contracts within the scope of Ind AS 104.”

The Committee notes that a financial guarantee contract is defined under Ind AS 109 as a contract that requires the issuer to make *specified payments to reimburse* the holder for a loss it incurs because *a specified debtor* fails to make payment when due in accordance with the original or modified terms of a *debt instrument*. For a financial guarantee under Ind AS 109 to exist, amongst others, there shall be a reimbursement for loss incurred by a specified debtor. Further, the contract may not necessarily be called as financial guarantee contract and it may take any name or legal form, however the treatment will be same as that of a financial guarantee contract. In this context, the Committee notes the following clauses from the deed of guarantee entered between the Company and the bank (supplied separately by the querist for the perusal of the Committee):

- “(1) The Guarantor doth hereby irrevocably and unconditionally guarantees the due repayment to the Lender ... on its first demand without demur, protest, delay and/or contestation, and notwithstanding any dispute between the Lender and the Borrower, of all the amounts outstanding under the Credit Facilities and all other indebtedness due and payable by the Borrower to the Lender thereunder including all interest, commission, costs, charges and expenses and all other monies whatsoever due and payable by the Borrower to the Lender thereunder to the extent of US Dollar 72,500,000 (US Dollar Seventy Two Million Five Hundred Thousand only) (**‘Borrower’s Indebtedness’**) in the event of failure on the part of Borrower in repaying the same to the Lender in accordance with terms of the Facility Agreement and various loan and security documents executed between the Borrower and the Lender (collectively, the **“Facility Documents”**) ...
- (2) The obligations hereunder are joint and several and independent of the obligations of the Borrower and a separate action/ actions may be brought and pursued against the Guarantor alone or jointly with the Borrower.”
- “(9) This Guarantee shall remain in full force and effect until the Borrower is fully discharged by the Lender of all the liabilities under the Credit Facilities and until the Borrower has got the discharge confirmed in writing from the Lender and all the dues and claims of the Lender hereunder or relating to the said Credit Facilities have been paid or satisfied.
- (10) Further, this guarantee shall be applicable to the ultimate balance to the extent of Borrower’s indebtedness that may become due to the Lender from the Borrower under the Credit Facilities.
- (11) Notwithstanding the Lender receiving payments from the Borrower/ the Guarantor or any person or persons as aforesaid, or from any security held by the Lender of the whole or any part of the amount hereby guaranteed, if the Borrower shall become Bankrupt or insolvent or shall be ordered to be wound-up by an order of the court, the Lender shall be at liberty without discharging the Guarantor’s liability to make or assent to any compromises, compositions or arrangements and to rank as creditors and to prove against the estate of the Borrower for the full amount of the Lender’s claim.”
- “(13) In case of any event of default on the part of the Borrower any indebtedness of the Borrower now or hereafter held by the Guarantor is hereby subordinated to the

indebtedness of the Borrower to the Lender and such indebtedness of the Borrower to the Guarantor, if the Lender so requests, shall be collected, enforced and received by the Guarantor as trustee for the Lender and be paid over to the Lender on account of the indebtedness of the Borrower to the Lender but without reducing or affecting in any manner the liability of the Guarantor under the other provisions of this guarantee.

- (14) The Lender may proceed against and recover from any of the Guarantor's property including any credit balance or security held/to be held in future, by the Lender on the Guarantor's account by sale and/or otherwise and allocate and apply the net proceeds of sale and realisation thereof and any other monies in the Lender's hands standing to the Guarantor's credit or belonging to the Guarantor ...towards the payment of any monies to the extent of Borrower's Indebtedness payable by the Borrower/Guarantor to the Lender hereunder. ... ”

“(20) In order to give effect to this guarantee, the Lender shall be entitled to act as if the Guarantor is the principal debtor to the Lender for all payments and covenants hereby guaranteed.”

The Committee notes that the term ‘debt instrument’ is neither defined in Ind AS 109 nor in Ind AS 32, ‘Financial Instruments: Presentation’. The Committee is of the view that the term implies a contractual right to receive cash arising on account of a debtor-creditor or lender-borrower relationship. The Committee is of the view that apparently there is lender-borrower relationship between the subsidiary, A Inc. and the holder/beneficiary of the guarantee contract (viz., the bank). In case the subsidiary does not make payment to the holder/beneficiary of the guarantee (viz., the bank) in accordance with terms of the Credit Facility Agreement and various loan and security documents executed between the subsidiary and the bank, the holder (bank) has a right to recoup the loss suffered by it from the Company. The Committee is, therefore, of the view that the corporate guarantee issued by the Company to the bank meets the definition of financial guarantee contract given in Ind AS 109. The Committee is also of the view that there exists a contractual right of the holder of the guarantee contract, to receive cash from the guarantor (viz., the Company) and a corresponding contractual obligation of the guarantor to pay the holder, if the subsidiary defaults. This is so even if the holder's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on future act of default by the subsidiary. Therefore, the contingent right and obligation meet the definition of financial guarantee contract, in accordance with the requirements of AG 8 of Ind AS 32.

14. The Committee further notes that the querist has argued that since the liability towards the loan has already been considered while working out the impairment valuation of investment in subsidiary, there is no requirement of creating any provision against the Company's guarantee given on behalf of A Inc. In other words, a financial guarantee in respect of such liability should not be recognised in the Company's financial statements. Further, it has been mentioned that considering the following points, there is no requirement of creating any provision against the Company's guarantee given on behalf of A Inc.:

- a. Till date, A Inc. has not defaulted in its loan repayment, so there is no requirement of creating provision of guarantee, as the Company's guarantee will be invoked only when A Inc. defaults in loan servicing. Further, in future also, any default by A Inc. is not expected in loan servicing.

- b. Outstanding loan amount of USD 72 Mn (as on 31.03.2021) has already been considered as payable while working out the equity valuation.
- c. As per present valuation, equity fair value is negative only by USD 1.17 Mn and considering materiality concept, making provision of guarantee may not be required.
- d. Present trend of crude price is on increasing side (A Inc. reserve value based on prevailing crude price of June 2021 has increased to USD 75.48 Mn from USD 65.13 Mn, which was based on the crude price of 31.03.2021) and based on these reserve, fair value of equity investment also turns out to be positive.

The Committee notes that the investment in the subsidiary and the financial guarantee issued by the Company to third party (bank) on behalf of the subsidiary are separate financial liabilities emanating from separate items with different parties in the two transactions and should be accounted for as per the relevant requirements of the applicable Standards. In case of financial guarantee, the Company has obligations towards the bank in terms of Deed of Guarantee which should be recognised as per the relevant applicable requirements of Ind AS 109. Therefore, the Committee is of the view that recognising the investment in subsidiary and impairment thereon that considers liabilities of the subsidiary towards the guarantee holder (viz., the bank) and providing for loss allowance on the financial guarantee contract shall not result in duplication or overstating of liabilities.

From the perspective of the separate financial statements, the reporting entity is the parent company only and not the group, i.e., parent company together with the subsidiaries. Therefore, while determining the expected credit loss on financial guarantee, it does not matter if the liabilities of the subsidiary have been considered while determining the impairment of investment in subsidiary.

Further, with respect to the querist's argument that till date, there is no default on the part of subsidiary on its loan repayment, and hence the corporate guarantees carry no risk, the Committee is of the view that the extent of credit risk shall not affect the initial recognition of the financial guarantee liabilities. However, this may be one of the factors that the Company may consider for the purpose of fair valuation at the time of initial measurement and for measuring the expected credit loss at the time of subsequent measurement. The Committee also wishes to point out that although the subsidiary has not defaulted in loan servicing payment in past, this fact does not guarantee that there cannot be defaults in payments in future as even though there may not be any intention of default on the part of subsidiary, the same depends on its future performance. Further, any expectation that there will not be any default in future considering the future performance of the subsidiary should be considered while measuring the expected credit loss on the financial guarantee liability rather than at the time of recognition of the same.

With regard to querist's contention that since as per present valuation, equity fair value is negative only by USD 1.17 Mn and considering materiality concept, making provision of guarantee may not be required, the Committee wishes to mention that the measurement of a guarantee obligation will not only consider crude reserve prices but also many other factors determining the ability of the subsidiary to honour its liabilities or payables on time.

In the above context, the Committee notes that as per the principles of Ind AS 38, the purpose of providing impairment of assets is to ensure that these are carried at no more than their recoverable amount, i.e., the amount to be recovered through use or sale of the asset. Similarly, the requirements to provide for expected credit loss under Ind AS 109 are also of the nature of impairment requirements, the purpose of which is to recognise expected credit losses for all financial instruments for which there are credit risk from initial recognition till the period over which the entity is exposed to credit risk considering all reasonable and supportable information, including that which is forward-looking.

15. Further, with regard to accounting treatment of such financial guarantee, the Committee is of the view that the guarantee obligations should be recognised and measured as per the requirements of Ind AS 109 by the Company in its separate financial statements. In this regard, the Committee notes from paragraph B 2.5(a) of Ind AS 109 reproduced above and other requirements of Ind AS 109 (paragraphs 5.1.1, 5.1.1A, B5.1.2A) that the issuer of a financial guarantee should recognise it initially at its fair value. The Committee is of the view that this requirement is also applicable in respect of a guarantee issued by a parent on behalf of its subsidiary. Accordingly, in the extant case, the Company should initially recognise a liability (a deferred income such as ‘unearned financial guarantee commission’) at fair value in its separate financial statements.

The Committee also notes the requirements of Ind AS 109 in respect of subsequent measurement of financial guarantee as follows:

“4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

(a) ...

(b) ...

(c) *financial guarantee contracts*. After initial recognition, an issuer of such a contract shall (unless paragraph 4.2.1(a) or (b) applies) subsequently measure it at the higher of:

(i) the amount of the *loss allowance* determined in accordance with Section 5.5 and

(ii) the amount initially recognised (see paragraph 5.1.1) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of Ind AS 115.

...”

“5.5.1 An entity shall recognise a loss allowance for *expected credit losses* on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a *contract asset* or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).”

“5.5.6 For loan commitments and financial guarantee contracts, the date that the entity becomes a party to the irrevocable commitment shall be

considered to be the date of initial recognition for the purposes of applying the impairment requirements.”

“B5.5.8 For loan commitments, an entity considers changes in the risk of a default occurring on the loan to which a loan commitment relates. For financial guarantee contracts, an entity considers the changes in the risk that the specified debtor will default on the contract.”

“B5.5.32 For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.”

From the above, the Committee notes that Ind AS 109 requires that at the time of subsequent measurement, financial guarantee should be measured at the higher of the amount initially recognised less cumulative amortisation, and the expected credit loss (ECL). Thus, ECL is to be considered on financial guarantee contracts at the time of subsequent measurement.

16. With regard to the disclosure requirements, the Committee notes that Ind AS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’ states that:

“2 This Standard does not apply to financial instruments (including guarantees) that are within the scope of Ind AS 109, *Financial Instruments*.”

Therefore, financial guarantees, in the extant case, being governed by Ind AS 109, are not within the scope of Ind AS 37 and therefore, cannot be classified as contingent liabilities. Instead, the Company should comply with the relevant presentation and disclosure requirements of Ind AS 107, ‘Financial Instruments: Disclosures’ and related disclosures of Division II of Schedule III to the Companies Act, 2013 for financial liability. In this regard, the Committee notes that paragraph 8.2.14.2 of the Guidance Note on Division II-Ind AS - Schedule III to the Companies Act, 2013, issued by the ICAI, inter alia provides as follows:

“**8.2.14.2.** Ind AS Schedule III requires guarantees other than financial guarantees to be disclosed as a part of contingent liabilities, since financial guarantees are recognized on the balance sheet in accordance with Ind AS 109. Ind AS 107 specifies certain disclosure in respect of the exposure to credit risk on financial guarantee contracts as a part of the disclosures on ‘credit risk exposures’, which an entity should provide in its Notes to Accounts.”

From the above, the Committee is of the view that the requirements of Ind AS 109 and Ind AS 107, ‘Financial Instruments: Disclosures’, notified under the Rules, to the extent relevant, should be considered while providing disclosures for the corporate guarantee issued by the Company. In particular, paragraph B10 of Ind AS 107 requires disclosure of maximum exposure of the financial guarantee to credit risk, which is the maximum amount the entity could have to pay if the guarantee is called on, which may be significantly greater than the amount recognised as a liability.

D. Opinion

17. On the basis of above, the Committee is of the following opinion on the issues raised by the querist in paragraph 11 above:

- (i) The Company should account for the financial guarantee contracts as per the requirements of Ind AS 109, as discussed in paragraphs 13-16 above.
- (ii) The Company should consider expected credit loss on financial guarantee contracts at the time of subsequent measurement as per the requirements of Ind AS 109, as discussed in paragraph 15 above.
- (iii) The Company should comply with the relevant presentation and disclosure requirements of Ind AS 107 and Division II of Schedule III to the Companies Act, 2013, as discussed in paragraph 16 above.
- (iv) Refer above.
