

## *Query No. 10*

***Subject: Accounting treatment of stressed investments of Exempted PF Trusts in the financial statements of the Company.<sup>1</sup>***

### **A. Facts of the Case**

1. A company (hereinafter referred to as ‘the Company’) is a public sector undertaking registered under the Companies Act with registered Office at Bengaluru. The Company is under the administrative control of the Ministry of Defence, Department of Defence Production. The Company is engaged in the design, development, manufacture, repair, overhaul, upgrade and servicing of a wide range of products including aircrafts, helicopters, aero engines, avionics, accessories and aerospace structures. The Company has 29 accounting units located in 7 states and 9 geographical locations across the country.

2. The Company has established 8 Exempted Provident Fund (PF) Trusts located at various geographical locations after obtaining necessary exemptions from the Employees’ Provident Fund Organisation (EPFO). The Trusts are managed by the Board of Trustees, which consists of officers nominated by the Management and representatives from Employees’ Unions and Officers’ Association. The Trusts are under obligation to pay interest to its members not lower than the interest declared by the EPFO. The Company shall be liable to make good the loss suffered by the Trusts as a result of any fraud, defalcation, wrong investment decision and shortfall in earnings.

3. The Funds generated by the PF Trusts through contributions from the Employer (the Company) and the employees are invested as per the Guidelines on Investments, issued by the Government of India (GoI) (Refer Notification S. O. 1710(E) dated March 02, 2015 as amended from time to time). The details of the Investment Guidelines are provided by the querist as below:

- (a) **Cat-1:** Minimum investment of 45% and upto 65% in government securities and related investments, which includes securities wherein the principal and interest is fully and unconditionally guaranteed by the GoI or any state government;
- (b) **Cat-2:** Minimum investment of 20% and upto 45% in debt instruments and related investments, which includes listed debt securities issued by body corporates, rupee bonds having outstanding maturity of at least 3 years, term deposit receipts of not less than one-year duration issued by scheduled commercial banks, units of debt mutual funds as regulated by Securities and Exchange Board of India (SEBI) and such other investments;
- (c) **Cat-3:** Up to 5% investment in short-term debt instruments and related investments, which includes money market instruments;
- (d) **Cat-4:** Minimum investment of 5% and upto 15% in equities and related investments such as shares of Companies listed on the Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), subject to certain thresholds.

4. The querist has stated that total face value of investments by the Trusts as on 31/03/2021 is Rs. 6,313 crore. The PF Trusts function independently and maintain their books

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<sup>1</sup> Opinion finalised by the Committee on 12.5.2022.

of account which are duly audited by independent auditors. The PF Trusts are also subjected to inspection by the EPFO Officials as per the EPFO Act to ensure that the Exempted PF Trusts are functioning as per the Guidelines issued by the EPFO.

5. According to the querist, the PF is a defined contribution plan of the Company where the Company contributes 12% of the Basic Pay and Dearness Allowance thereon to the PF Trust. The PF Trust manages the surplus arrived after discharging the withdrawals of the members by investing in the securities as per the Guidelines of EPFO. The Company is obligated to make good any deficit in the interest earned by the PF Trust and the rate declared by the EPFO on a yearly basis. Further, the Company is also obligated to make good the loss suffered by the Trusts as a result of any fraud, defalcation, wrong investment decision and shortfall in earnings.

6. As per the querist, the Company's liability towards PF Trusts, if any, is determined based on the actuarial valuation done by an independent actuary. The actuary considers the employees data and the investment details provided by the Company along with contributions of employees and employer. The actuary has furnished details of expenditure to be recognised in profit or loss section of the Statement of Profit and Loss and also amount to be recognised in other comprehensive income (OCI) section of the Statement of Profit and Loss.

7. The PF Trusts made certain investments in certain companies from financial year (F.Y.) 2015-16 onwards. During F.Y. 2019-20, these investments turned stressed. The Trusts have reported 'Net Stressed Investments' of Rs. 352.95 crore upto the period ending 31/03/2021. While furnishing the actuary report for financial years 2019-20 and 2020-21, the stressed investments were considered as zero by the actuary as they were impaired.

8. In compliance with Indian Accounting Standard (Ind AS) 19, 'Employee Benefits', the Company has accounted for the loss in fair value of the plan assets due to remeasurement of the investments in OCI and any loss towards interest in profit or loss as detailed below:

- In F.Y. 2019-20, the loss in fair value of plan assets was Rs. 327 crore being the difference between present value of obligation of Employees Provident Fund Trust as at 31<sup>st</sup> March 2020 and the fair value of plan assets as at 31<sup>st</sup> March 2020.
- In F.Y. 2020-21, the loss in fair value of plan assets was Rs. 162 crore being the difference between present value of obligation of Employees Provident Fund Trust as at 31<sup>st</sup> March 2021 and the fair value of plan assets as at 31<sup>st</sup> March 2021.
- As required by Ind AS 19, disclosures have been made in Notes to Accounts.
- Out of the stressed assets, Rs. 82.80 crore was held with D Ltd. The same was taken over by M/s P Industries on the basis of Corporate Insolvency Resolution Plan (CIRP) approved by the National Company Law Tribunal (NCLT) by an Order on 7<sup>th</sup> June 2021.
- As the Company has already accounted, in financial years 2019-20 and 2020-21, for loss in obligation including stressed assets in OCI, no specific accounting treatment was made in the financial statements for F.Y. 2020-21.

9. Views of the Comptroller & Auditor General of India (C&AG) are as follows:

- (i) Section 17 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 states that any deficiency in the interest declared by the Board of Trustees is

to be made good by the employer to bring it up to the statutory limit. Further, in the event of any loss of investments to the Trust as a result of any fraud, defalcation, wrong investment decision etc., the employer shall be liable to make good the loss.

- (ii) The change in the fair value of plan assets is an actual loss and not an actuarial gain/loss due to remeasurement of the PF liability or change in fair value of plan assets. As the Exempted PF Trust is a separate entity, the loss in value of investments and interest needs to be made good by the employer through actual payment and this loss needs to be recognised in profit or loss and not through OCI, as OCI is for accounting only notional losses or gains in the PF liability and cannot be used to account for actual losses.
- (iii) Thus, the shortfall in obligations (loss of investment + loss of interest) needs to be met by the Company by payment due to its obligations under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. Hence, the payment obligation of the employer to the Trust cannot be routed through OCI and is not in accordance with the requirements of Ind AS 19 and mere disclosure in the Notes forming part of accounts is not sufficient.
- (iv) Audit also viewed that some of the investments of the Exempted PF Trusts managed by the Company aggregating to Rs. 82.80 crore held with M/s D Group turned into bad investments during the year 2018-19 and 2019-20. The assets and liabilities of M/s D Group were taken over by M/s P Industries Ltd. and NCLT passed judgment Order on 07-06-2021 for arriving at the payments to be made to the Depositors. In terms of the Order, the Company would be getting back only 40% of the investments held from M/s P Industries Ltd., which amounted to Rs. 33.12 crore. The balance of the amount Rs. 49.68 crore has to be funded by the Company being the principal employer and liable to make good the loss in terms of Section 17 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.
- (v) The loss of investment in M/s D Group is an actual loss on the plan assets and not an actuarial gain/loss due to remeasurement of the PF liability or change in fair value of plan assets. As the PF Trust is a separate entity, the loss in the value of investments and interest thereon needs to be made good by the employer through actual payment. This loss needs to be recognised in the profit or loss and not through OCI.

10. The Company's views are as follows:

- (i) Accounting for defined benefit obligations involves assumptions and estimation of the obligation such as discount rate, level of salary inflation, level of price inflation, mortality, fair value of plan assets etc. The gain/loss in respect of such obligation needs to be treated as remeasurement.
- (ii) As per the Company's understanding, as per Ind AS 19, all remeasurement gains/losses should be recognised in OCI. This has also been corroborated in the actuarial report. Also, as per Ind AS 19, remeasurement of the net defined benefit liability comprises:
  - Actuarial gains and losses;

- The return on plan assets, excluding amount included in net interest on the defined benefit liability/asset; and
  - Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability.
- (iii) Hence, the Company shall recognise the components of defined benefit cost as follows:
- Service cost in profit or loss;
  - Net interest on the net defined benefit liability in profit or loss; and
  - Remeasurement of the net defined benefit liability/asset in OCI.

(iv) Also, paragraph 21.4 of the Company's PF Rules reads as below:

“The rate of interest shall not be less than the rate of interest declared by the Government of India.

If the Board of Trustees are unable to pay interest at the rate declared by the Govt. of India for the reasons that return of investment is less or for any other reason, then deficiency shall be made good by the employer.”

Hence, as the Company is obligated to make good the deficiency in the interest only and not on loss of investment, the accounting treatment made by Company is correct.

11. The Company's statutory auditors' views are as follows:

- (i) As per Ind AS 1, 'Presentation of Financial Statements', the components of OCI include remeasurements of defined benefit plans. Therefore, remeasurements of defined benefit plans are necessarily to be recognised in OCI. There is no choice given to the entity as this is mandated by Ind AS 19.
- (ii) Paragraph 8 of Ind AS 19 gives, inter alia, the following definition:

***“Remeasurements of the net defined benefit liability (asset) comprise:***

- (a) actuarial gains and losses;**
- (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and**
- (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).”**

Therefore, remeasurement of net defined benefit liability is not linked only to actuarial gains and losses.

(iii) Paragraph 120 of Ind AS 19 reads as below:

**“120 An entity shall recognise the components of defined benefit cost, except to the extent that another Ind AS requires or permits their inclusion in the cost of an asset, as follows:**

- (a) **service cost (see paragraphs 66–112 and paragraph 122A) in profit or loss;**
- (b) **net interest on the net defined benefit liability (asset) (see paragraphs 123–126) in profit or loss; and**
- (c) **remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130) in other comprehensive income.”**

Therefore, it may be seen that items specified in paragraph (a) and (b) only can be taken to the profit or loss section of the Statement of Profit and Loss and remeasurements will be taken only to OCI section of the Statement of Profit and Loss. The choice is not with the Company.

- (iv) It would therefore be incorrect and not in compliance with Ind AS 1 as well as Ind AS 19, if the fall in value of investment is recognised in the profit or loss; and the accounts will not be said to be conforming to, or in compliance with, Indian Accounting Standards.
- (v) The actuary has also taken the investment at nil value and calculated the liability. The actuary has confirmed that the impugned investment is taken at nil value. As explained above, Ind AS 19 specifies the two items that are to be recognised in profit or loss and remeasurements to be recognised only in OCI. Since the remeasurement due to loss in fair value of investments is not coming under two items that are permitted to be recognised in profit or loss in terms of paragraph 127 of Ind AS 19, it has to be disclosed only in OCI.
- (vi) Further, in the opinion of the statutory auditors, any increase in the fair value of the stressed assets in future, resulting in gain should also be recognised in the OCI and it would be incorrect to recognise that gain in profit or loss at that time.
- (vii) The loss in the fair value of plan assets to be made good by the Company is not an actual loss to the Company from its operations and any reversal is also not a profit from operations. This loss/gain is only a remeasurement adjustment.

(The communication received from the statutory auditors of the Company clarifying their views on accounting for remeasurements of net defined benefit liability in OCI, along with earlier opinion of the Expert Advisory Committee published as Query No. 1 of the Compendium of Opinions, Volume XXXVI, has been furnished by the querist for the perusal of the Committee).

12. In addition, the C&AG auditors were appraised that the stressed companies are at the various stages of CIRP. Pending the final outcome of CIRP, the Company has made provision through OCI as per actuarial valuation in line with Ind AS 19 for the loss of investment made by the Company's PF Trusts and shortfall in the returns. Based on the progress of the CIRP, the liability of the Company will be firmed up based on the Resolution Plan. In respect of Rs. 82.80 crore held with D Ltd., it was clarified that the Company has already made necessary adjustment in the retained earnings through OCI. Therefore, based on the NCLT resolution during June 2021, which is subject to acceptance by the creditors, reversing the entries passed in the previous year and accounting in the current year as a charge to profit or loss is not in order.

13. The querist has separately clarified that the total PF liability is calculated by the Company as per actuarial valuation report. The fair value of plan assets is deducted from the above determined liability to arrive at the net liability/asset to be recognised in the balance sheet. The fair value of plan assets is arrived at by deducting the value of stressed assets.

## **B. Query**

14. The querist has sought the opinion of the Expert Advisory Committee on the following issues:

- (i) Whether the accounting treatment made by the Company for recognising the loss in respect of obligation arising out of remeasurement of plan including that of stressed assets through OCI based on actuarial report is in line with Ind AS 19.
- (ii) Whether the decision of the Company not to account for the likely gains on stressed assets of 'D' Ltd. based on NCLT resolution during June 2021 in the accounts for F.Y. 2020-21 before realising the amount as per CIRP is correct.
- (iii) The accounting for the stressed assets considering them as zero investment has been made during F.Y. 2019-20 through OCI (remeasurement of plan) based on actuarial report. Whether further accounting based on the actuarial report with updated details of stressed assets as on the reporting date during F.Y. 2021-22, through OCI or profit or loss will be in order.

## **C. Points considered by the Committee**

15. The Committee notes that the basic issues raised by the querist relate to recognition of effect of remeasurement of plan (the expression 'remeasurement of plan' in the context of the query means 'remeasurements of the net defined benefit liability/asset' since Ind AS 19 uses this expression and not remeasurement of plan) including stressed assets of D Ltd., and the year of recognition thereof. The Committee has, therefore, considered only these issues and has not examined any other issue that may be contained in the Facts of the Case, such as, detailed aspects of measurement of defined benefit obligation, accounting in the books of PF Trust, implication of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' etc. The Committee's views are expressed in the context of the Companies (Indian Accounting Standards) Rules, 2016, as amended from time to time. The Committee presumes that value of plan assets including stressed investments is in accordance with Ind AS 113, 'Fair Value Measurement'. Further, the opinion expressed hereinafter is purely from accounting perspective and not from any other perspective including legal interpretation of various applicable laws, such as, interpretation of provisions of Employees' Provident Funds and Miscellaneous Provisions Act, 1952 relating to obligation of the employer in the case of Exempted PF Trusts to make good the loss other than relating to shortfall in the interest to be declared, etc.

16. The Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 19, 'Employee Benefits':

***“Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.***

***Defined benefit plans are post-employment benefit plans other than defined contribution plans.”***

- “28 Under defined contribution plans the entity’s legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.
- 29 Examples of cases where an entity’s obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:
- (a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;
  - (b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or
  - (c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.
- 30 Under defined benefit plans:
- (a) the entity’s obligation is to provide the agreed benefits to current and former employees; and
  - (b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity’s obligation may be increased.”

The Committee notes that in the extant case, the Company’s contribution to Exempted PF Trusts is 12% of the Basic Pay and Dearness Allowance thereon (see paragraph 5 above). However, the rate of interest declared by the PF Trusts shall not be less than the rate of interest declared by the Government of India (GoI). Further, if the Board of Trustees are unable to pay interest at the rate declared by the GoI for the reasons that return on investment is less or for any other reason, then deficiency shall be made good by the employer (see paragraph 10 (iv) above). Thus, the employer (Company) guarantees a specified rate of return on the contributions made and the Company’s liability is not restricted to the contribution it makes to the separate fund but also extends to any deficiency in the rate of interest earned by the separate fund as compared to the rate declared by the GoI. Accordingly, the Committee is of the view that, in the extant case, actuarial risk (i.e., benefits will cost more than expected) and investment risk (i.e., assets invested will be insufficient to meet expected benefits) fall, in substance on the Company and that the PF obligation is covered by paragraph 30(b) of Ind AS 19. Therefore, the Committee is of the view that the PF benefit to the Company’s employees meets the definition of defined benefit plan. This is also reinforced by paragraph 29(b) of Ind AS 19. In fact, the Facts of the Case as well as Significant Accounting Policy No. 15

disclosed in the Company's financial statements for F.Y. 2020-21 indicate that the Company follows this view, though the querist states in paragraph 5 above that the PF is a defined contribution plan.

17. The Committee notes that paragraph 63 of Ind AS 19 requires that in the case of a defined benefit plan, an entity shall recognise the net defined benefit liability (asset) in the balance sheet, while paragraph 120 of Ind AS 19 deals with recognition of components of defined benefit cost in the Statement of Profit and Loss. Paragraph 120 of Ind AS 19 is reproduced below:

**“120 An entity shall recognise the components of defined benefit cost, except to the extent that another Ind AS requires or permits their inclusion in the cost of an asset, as follows:**

- (a) service cost (see paragraphs 66–112 and paragraph 122A) in profit or loss;**
- (b) net interest on the net defined benefit liability (asset) (see paragraphs 123–126) in profit or loss; and**
- (c) remeasurements of the net defined benefit liability (asset) (see paragraphs 127–130) in other comprehensive income.”**

18. The Committee further notes the following paragraphs of Ind AS 19:

**“The *return on plan assets* is interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:**

- (a) any costs of managing plan assets; and**
- (b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation”**

**“123 An entity shall determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 83.**

**123A To determine net interest in accordance with paragraph 123, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However ...**

124 Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 64.

125 Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 123A. An entity shall determine the fair value of the plan assets at the start of the annual reporting period. However, ... In applying paragraph 125, the entity shall also take into account any changes in the plan assets held during the period resulting from contributions or benefit payments.

The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).”

“127 Remeasurements of the net defined benefit liability (asset) comprise:

- (a) actuarial gains and losses (see paragraphs 128 and 129);
- (b) the return on plan assets (see paragraph 130), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 125); and
- (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 126).

128 Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments...

129 Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.”

19. From the above, the Committee notes that remeasurement of the net defined benefit liability (asset) should be recognised in OCI and the same comprises the following:

- (i) actuarial gains and losses, which are actuarial gains and losses from increases or decreases in the present value of defined benefit obligation only (and not plan assets) as is clear from paragraphs 128 and 129 of Ind AS 19.
- (ii) return on plan assets *minus* net interest on the net defined benefit liability (asset).
- (iii) a portion of change in effect of ‘asset ceiling’.

The Committee notes that one of the main contentions of the C&AG in the context of the recognition of the effect of remeasurement of the net defined benefit liability (asset) is that the loss on stressed investment due to change in value of the investment is an actual loss on the plan assets and should be recognised in profit or loss and not in OCI. In this regard, the Committee is of the view that any change in value of any asset arises from both passage of time and from other changes. The Committee notes that this view is supported by BC 77 of Basis for Conclusions to International Accounting Standard (IAS) 19, ‘Employee Benefits’, issued by the International Accounting Standards Board (IASB), which provides as follows:

“BC77 The Board concluded that, in principle, the change in value of any asset can be divided into an amount that arises from the passage of time and amounts that arise from other changes. The interest cost on the defined benefit obligation arises from the passage of time. Consequently, the 2010 ED proposed that the net interest component of defined benefit cost should include not only the interest cost on the defined benefit obligation, but also the part of the return on plan assets that arises from passage of time. In addition, ... the net interest component should not include the part of the return on plan assets that does not arise from the passage of time.”

Keeping in view the above and as per the requirements of Ind AS 19, the Committee is of the view that change in fair value of plan assets (including stressed investments) due to passage

of time (which is determined by fair value of plan assets at the start of the reporting period multiplied by the discount rate specified in paragraph 123A of Ind AS 19, taking into account any changes in plan assets resulting from contributions or benefit payments during the reporting period) and is represented by the 'net interest on the net defined benefit liability (asset)', should be recognised in profit or loss as per paragraph 120(b) of Ind AS 19 reproduced above.

Further, the Committee is of the view that the remaining component of change in fair value of plan assets other than due to passage of time (hereinafter referred to as 'other fair value changes on plan assets'), which is part of return of plan assets, as defined in Ind AS 19, and is represented by 'remeasurements of the net defined benefit liability (asset)' should be recognised in OCI as per the requirements of paragraph 127 (b) and paragraph 120(b) of Ind AS 19 reproduced above.

20. Thus, while fair value changes of plan assets arising from passage of time should be recognised in profit or loss, other fair value changes on plan assets should form part of remeasurement of net defined benefit liability (asset), which should be recognised in OCI. The Committee is of the view that this is irrespective of the extent of the Company's obligation to fund the shortfall in fair value of plan assets. The reason is that recognition of an item in OCI depends on whether its recognition is so required or permitted by an Ind AS.

The Committee further notes that the net effect of paragraphs 124, 125 and 127 of Ind AS 19 is that both interest on plan assets recognised in profit or loss and other changes on plan assets recognised in OCI need to be calculated for entire plan assets without any analysis into stressed investments and other investments.

Incidentally, the Committee also wishes to point out that there is no separate provision for diminution in value of plan assets. The same is inbuilt in components of defined benefit cost recognised in profit or loss and OCI with corresponding impact on net defined benefit liability (asset).

21. The Committee further notes that the stressed investments were considered as zero as they were impaired (see paragraph 7 above). As mentioned in paragraph 15 above, the Committee presumes that the same is in accordance with Ind AS 113, *Fair Value Measurement*. The issue that arises is whether the Order by NCLT dated 7<sup>th</sup> June 2021, as a result of which Rs. 33.12 Crore is likely to be realised by the PF Trusts in respect of investments with M/s D Group would affect fair value of a portion of plan assets as at 31<sup>st</sup> March 2021. In this regard, the Committee is of the view that the same depends on whether the Order by NCLT dated 7<sup>th</sup> June 2021 is an adjusting event or non-adjusting event for financial statements for F.Y. 2020-21. In this regard, the Committee notes the following definition given in Ind AS 10, 'Events after the Reporting Period':

***“Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified:***

- (a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and**

- (b) **those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).**

**Notwithstanding anything contained above...”**

- “11 An example of a non-adjusting event after the reporting period is a decline in fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure under paragraph 21.”

From the above, the Committee notes that paragraph 8 of Ind AS 10 requires adjustment of amounts recognised in the financial statements to reflect adjusting events while paragraph 21 of Ind AS 10 requires mere disclosure of material non-adjusting events. Further, considering the requirements of paragraph 11 of Ind AS 10, the Committee is of the view that changes in the fair value of investments (determined as per the requirements of Ind AS 113) should not be considered as an adjusting event, although the Company may need to give disclosures as per paragraph 21 of Ind AS 10. Hence, the fair value changes of stressed investments due to Order by NCLT should not be recognised in F.Y. 2020-21.

#### **D. Opinion**

22. On the basis of the above, the Committee is of the following opinion on the issues raised by the querist in paragraph 14 above:

- (i) The accounting treatment made by the Company for recognising the loss in respect of obligation arising out of remeasurement of plan including that of stressed assets would be in line with Ind AS 19 if it is as per the requirements discussed in paragraphs 19 and 20 above. As explained in paragraph 20 above, while fair value changes of plan assets arising from passage of time should be recognised in profit or loss, other fair value changes on plan assets should form part of remeasurement of net defined benefit liability (asset), which should be recognised in OCI. Further, the calculation should be made for entire plan assets without any separate analysis into stressed investments and other investments.
- (ii) and (iii) See paragraph 21 above. The fair value changes of stressed investments due to Order by NCLT should not be recognised in F.Y. 2020-21.