

**Query No. 24**

**Subject: Accounting and disclosure of Promoter Investment in another company (having 4.05% equity) under Ind AS framework.<sup>1</sup>**

**A. Facts of the Case**

1. A Government of India company (hereinafter referred to as ‘the Company’) is engaged in the construction and operation of coal-based power generating plants in the country. The Company has also diversified into hydro power generation, renewable energy, and coal mining etc. The Company is registered under the Companies Act, 1956/Companies Act, 2013 (the Act) and being an electricity generating company, is governed by the provisions of the Electricity Act, 2003. The Company prepares its annual financial statements as per the provisions of the Companies Act, 2013. The Company is also listed with the Bombay Stock Exchange and the National Stock Exchange. As the Company is a listed entity with a net worth of more than Rs. 500 crore, the Indian Accounting Standards (Ind AS) notified by the Ministry of Corporate Affairs (MCA) are applicable to the Company with effect from financial year (F.Y.) 2016-17.

2. *Establishment of a company by promoters:* A promoter agreement was signed on 8 April, 1999 between the Company and two other companies, namely, ABC and BCD, to jointly establish a company under the name and style of XYZ. XYZ shall be managed by the Board of Directors of XYZ. Further, the promoters shall assist XYZ in its business and also in making technical, managerial, administrative and other arrangements for efficient conduct of the affairs of XYZ.

Under the agreement, XYZ shall have an authorised share capital of Rs. 150 crore. The agreed shareholding pattern and quantum of shareholding in the paid-up share capital of XYZ from time to time shall be as follows:

- (a) Thirty percent (30%) subject to maximum of Rs. 45 crore of the paid up capital shall be subscribed and paid up at par by ABC.
- (b) Fifteen percent (15%) subject to maximum of Rs. 22.50 crore of the paid-up capital shall be subscribed and paid up at par by the Company.
- (c) Fifteen percent (15%) subject to maximum of Rs. 22.50 crore of the paid-up capital shall be subscribed and paid up at par by BCD.

Further, if at any time, XYZ decides to increase its authorised share capital beyond Rs. 150 crore in accordance with its Articles of Association, the Parties hereto shall be under no contractual obligation to subscribe to such increased authorised share capital in the agreed proportion.

The above promoter agreement was amended on 29<sup>th</sup> November, 2002 wherein CDE was added to the promoter group and authorised share capital of the company (XYZ) was increased to Rs. 750 crore.

The agreed shareholding pattern and quantum of share-holding in the paid-up share capital of XYZ from time to time as amended shall be as follows:

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<sup>1</sup> Opinion finalised by the Committee on 29.8.2023.

- (a) Eight percent (8%) subject to maximum of Rs. 60 crore of the paid up capital shall be subscribed and paid up at par by the Company.
  - (b) Eight percent (8%) subject to maximum of Rs. 60 crore of the paid up capital shall be subscribed and paid up at par by ABC.
  - (c) Eight percent (8%) subject to maximum of Rs. 60 crore of the paid up capital shall be subscribed and paid up at par by BCD.
  - (d) Eight percent (8%) subject to maximum of Rs. 60 crore of the paid up capital shall be subscribed and paid up at par by CDE.
3. The querist has shared the following provisions under Articles of Association of XYZ.

**a) Nominee Directors**

- i) Any shareholder holding more than 10% shareholding of the company (XYZ) shall be entitled to nominate a part-time Director on the Board of XYZ by a notice in writing addressed to XYZ.
- ii) Notwithstanding anything to the contrary contained in these Articles, the Board of Directors of XYZ shall include:
  - a) at least one nominee Director each from the Parties viz. the Company, ABC, BCD and CDE.
  - b) one nominee Director by the Government of India, Ministry of Power.

**b) Appointment of Chairman or Chairman & Managing Director/Whole time Directors**

The appointment of Chairman or Chairman & Managing Director / Whole-time Director and determination of remuneration shall be made by the Board of Directors of XYZ subject to the provisions of the Act. Such Directors shall act under superintendence, control and direction of the Board of Directors and their appointment shall not be for a period of more than five years at a time.

For the appointment of Chairman or Chairman & Managing Director or Managing Director/ Whole-time Director, consent of the Chairman & Managing Director of all the four promotor companies shall be necessary. By virtue of Joint Venture Agreement (JVA), every promoter has a nominee director in XYZ.

**4. Subsequent developments**

- a) XYZ became a listed entity by virtue of Initial Public Offering (IPO) in the year 2011. The shareholding of all the promoters in XYZ was 8% of paid-up equity share capital as at 31 March 2007 which was reduced to 5.28% as at 31 March 2008 and to 4.05% as at 31 March 2022 due to increase in capital base of XYZ due to issue of further issue of shares on account of IPO and other allotments. The financials of XYZ were being consolidated through proportionate consolidation method applicable for joint ventures, as per the then prevalent Accounting Standards. During the financial year (F.Y.) 2008-09, it was noted that the Company did not

have the ability to control or exercise significant influence over XYZ. Further, majority of shareholdings of around 60% were held by institutional investors (mutual funds, banks & financial institutions, insurance companies and FII). Total strength of Board of Directors of the XYZ was 15 as of 31<sup>st</sup> March 2009 including one nominee director of the Company which indicated that the nominee director of the Company alone could not influence board decisions. Considering the above, the Company discontinued consolidating XYZ and started considering the same as quoted investments in the financial statements. The fact was disclosed in the financial statements of the Company for the year 2008-09 as under:

*“During the year, the Company reviewed the applicability of the provisions of Accounting Standard (AS) 18 'Related Party Disclosures' and AS 27 to 'Financial Reporting of Interests in Joint Ventures' to the investment made in XYZ. The Company is of the view that provisions of these Standards are not applicable to investment in XYZ and the same has been excluded from the disclosures during the year.”*

Further, the Board of Directors of the Company had disclosed the facts in the Management Discussion and Analysis forming part of Directors' Report for the year 2008-09, duly approved by the then Audit Committee and Board.

- b) Other promoter companies (PSUs) also took a similar position and started excluding their investments in XYZ from proportionate consolidation. Indian Accounting Standards (Ind AS) became applicable to the Company from the financial year 2016-17 with transition date of 1<sup>st</sup> April, 2015. As per Ind AS 101, 'First-time Adoption of Indian Accounting Standards', entity may designate an investment in an equity instruments at fair value through other comprehensive income on the basis of the facts and circumstances that existed as on the date of transition to Ind AS and accordingly, the Company has elected to designate its equity investments in XYZ at fair value through other comprehensive income for which disclosure has been made in the financial statements of financial year (F.Y.) 2016-17.
- c) The Board of Directors of the Company in its meeting held on 28<sup>th</sup> April 2016 accorded in-principle approval for withdrawal from XYZ and Ministry of Power (MoP), Government of India (GoI) has accorded approval permitting the Company to exit on 22<sup>nd</sup> February 2022. The Company is in discussion with other promoters to finalise the modalities of exit from XYZ.

## 5. Present Issue

### (i) Review of relationship with XYZ

During the year, a review of related party transactions was carried out and a view has emerged that XYZ could have been considered as an 'Associate' from 1<sup>st</sup> April 2014, being the date of applicability of Companies Act, 2013, considering the applicable provisions of AS 21 and AS 23, since the Board of XYZ has a nominee director from the Company and XYZ discloses the Company as one of the promoter shareholders and Articles of Association of XYZ also gives certain additional powers (as stated in paragraph 3 above) to nominee directors of promoters. Accordingly, treating the investment in XYZ as financial instrument may not be correct and the Company should

have treated XYZ as an associate company and hence a related party from 2014 onwards, based on the following:

- (a) AS 21 is applicable to the Company as it has got subsidiary companies.
- (b) From April 1, 2014, section 129 of the Companies Act, 2013 came into force. Sub-section (3) of said section stipulates that where a company has any subsidiary or associate, it shall prepare consolidated financial statements of the Company and all of its associate and subsidiary companies.
- (c) Associate company is defined in the Companies Act, 2013 as “associate company in relation to another company means a company in which that other company has significant influence but which is not a subsidiary company of a company having such influence and includes a joint venture company.” Further explanation is provided that the expression ‘significant influence’ means control of at least twenty percent of total voting power or control of or participation in business decisions under an agreement.
- (d) Accounting Standard (AS) 23 stipulates the manner in which financials of ‘an associate’ will be accounted for in consolidated financials of the parent. As per the definition provided in AS 23, an associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor. Significant influence is the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies.
- (e) Paragraph 4 of AS 23 provides that “For the purpose of this Standard significant influence does not extend to power to govern the financial and/or operating policies of an enterprise. Significant influence may be gained by share ownership, statute or agreement. As regards share ownership, if an investor holds, directly or indirectly through subsidiary(ies), 20% or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiary(ies), less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

Explanation:

In considering the share ownership, the potential equity shares of the investee held by the investor are not taken into account for determining the voting power of the investor.”

- (f) Paragraph 5 of AS 23 provides that the existence of significant influence by an investor is usually evidenced in one or more of the following ways:
  - a. Representation on the board of directors or corresponding governing body of the investee;
  - b. participation in policy making processes;

- c. material transactions between the investor and the investee;
- d. interchange of managerial personnel; or
- e. provision of essential technical information.

**(ii) Justification for current accounting treatment**

It is considered that treatment of investment in XYZ as per Ind AS 109 is in order and XYZ is not a related party of the Company as well, based on the following:

- A.** The approval of the Board accorded during the financial year 2008-09, w.r.t. non-applicability of provisions of Accounting Standard (AS) 18 'Related Party Disclosures' and AS 27 'Financial Reporting of Interests in Joint Ventures' to the investment made in XYZ, as stated above in paragraph 4, is still valid.
- B.** There was no change in the significant influence position in XYZ during Ind AS era, hence same treatment was continued with the disclosure in the annual financial statements of the Company for the financial year 2016-17 which reads that the Company is of the view that the provisions of Ind AS 24 'Related Party Disclosures' and Ind AS 111, 'Joint arrangements' are not applicable to the investment made in XYZ and the same has been accounted for as per the provisions of Ind AS 109, 'Financial Instruments' in the consolidated financial statements. Further, it was also disclosed that Ind AS 101 allows an entity to designate investments in equity instruments at Fair Value through Other Comprehensive Income (FVOCI) on the basis of the facts and circumstances at the date of transition to Ind AS. The Company has elected to apply this exemption for its investment in equity instruments in XYZ and this equity investment is designated to be valued at fair value through other comprehensive income (this treatment is being followed by other promoter companies also).
- C.** The accounting/disclosure treatment of the Company, which is based on the advice of a reputed Ind AS consultant during roll out, has been acceptable to the joint statutory auditors of the Company over the years. It may also be mentioned that the Company is subject to supplementary audit of accounts as per the provisions of Companies Act, 1956/2013 as well and there have been no comments of Comptroller and Auditor General (C&AG) in this regard.
- D.** As evident from the recent minutes of meetings of Board of Directors of XYZ, the nominee director of the Company is not actively involved in influencing the decisions in board meetings of XYZ. The Company has no transactions with XYZ except receipt of dividend as declared by Board of Directors of XYZ and sitting fees for the nominee director.
- E.** Significant influence is not being actually demonstrated by virtue of mere appointment of a nominee director on the board. Generally, the nominee directors are appointed so that interests of the investor/the Company are adequately safeguarded. Further, as per Section 149(6) of Companies Act, 2013 and Regulation 16 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, nominee directors are not independent directors. Appointment of nominee director in the Board of XYZ is

like protective rights provided in the Promoters Agreement. Business decisions are not generally influenced by the promoter companies through the nominee director in the Board. Based on the above, a decision was taken in 2008-09 for not considering XYZ as related party. The nominee director of the Company is not a Key Managerial Personnel (KMP) of the Company, for any required disclosure.

- F.** As per regulation 2 (1) (zb) of Listing Obligations and Disclosure Requirements (LODR) of Securities and Exchange Board of India (SEBI), the Company being part of promoter group of XYZ, is a related party for XYZ. However, for the Company, XYZ is not covered under this clause.

During subsequent discussions with the joint statutory auditors of the Company, it was desired to seek an opinion from the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) in this regard.

## **B. Query**

6. On the facts and circumstances stated above, opinion of the Expert Advisory Committee is sought on the following issues:

- (i) Whether the accounting treatment followed by the Company of disclosing its investment in XYZ as equity instruments at FVOCI as per the provisions of Ind AS 109, 'Financial Instruments' is in order.
- (ii) Whether from above facts, mere representation in the form of nominee director in board of directors and providing consent for appointment of Chairman or Chairman & Managing Director along with the other PSUs with holding of only 4.05% and also where the representation in the Board is only 1 out of 12 directors as of 30 November 2022 (i.e 8.33%) results in significant influence under the provisions of Ind AS 24, 'Related Party Disclosures' and Ind AS 28, 'Investments in Associates and Joint Ventures'.
- (iii) In case, XYZ is to be considered as an associate, what should be the appropriate accounting treatment for investment in XYZ by the Company considering the decision to exit from XYZ, detailed above?

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

7. The Committee notes that the basic issue raised in the query relates to accounting for investment in XYZ, particularly whether XYZ can be considered as an associate of the Company and whether the Company is required to apply Ind AS 28, 'Investments in Associates and Joint Ventures', with regard to its investment in XYZ. 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, compliance with Ind AS 101, 'First-time adoption of Indian Accounting Standards', accounting in the financial statements of XYZ, accounting treatment accorded in earlier years when this investment was acquired and subsequently, when there was change in shareholding in XYZ including requirement of consolidation of financial statements of XYZ with the Company's financial statements in earlier years as per the requirements of the then applicable accounting standards, whether cessation of XYZ from being consolidated from the year 2008-09 without there being any change in contractual arrangements was in compliance with the then applicable accounting standards, treatment

accorded to carrying value of investment in XYZ in consolidated financial statements in the year 2008-09 when it was reclassified from investment in associate to financial investment, initial measurement and subsequent measurement of investment in XYZ, effect, if any, on elimination of profit or loss in respect of transactions between the Company and XYZ to the extent of share of the Company in XYZ, treatment to be accorded, if any, under Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', applicability of requirements of Ind AS 24, 'Related Party Disclosures', detailed application of requirements of Ind AS 109, 'Financial Instruments' and Ind AS 107, 'Financial Instruments: Disclosures' and disclosures (if any) under other applicable Ind AS, such as Ind AS 1, Ind AS 105 etc. and requirements under the Companies Act, 2013. The Committee wishes to point out that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time. Further, the opinion expressed hereinafter is purely from accounting perspective and not from the perspective of legal interpretation of various legal enactments, such as, Indian Contracts Act, Companies Act, 1956/2013 and the interpretation of Promoters Agreement, Articles of Association etc.

8. The Committee notes from the various documents provided by the querist that the rights and obligations of the Company as regards investment in XYZ company are documented in (a) Promoters Agreement dated 8<sup>th</sup> April 1999, (b) Agreement dated 29<sup>th</sup> November 2002 as supplemental agreement to the Promoters Agreement dated 8<sup>th</sup> April 1999 and (c) Articles of Association of XYZ. The Committee further notes that even though there was reduction in shareholding of XYZ due to various corporate actions on account of increase in equity share capital, there has been no dilution in the rights of the Company.

9. In the context of the issue raised, the Committee notes the following requirements of Ind AS 28, 'Investments in Associates and Joint Ventures' and Ind AS 27, 'Separate Financial Statements':

*Ind AS 28*

**“2 This Standard shall be applied by all entities that are investors with joint control of, or significant influence over, an investee.**

**3 The following terms are used in this Standard with the meanings specified:**

***An associate is an entity over which the investor has significant influence.”***

***“Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.”***

**“Significant influence**

**5** If an entity holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the entity holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly

demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

- 6 The existence of significant influence by an entity is usually evidenced in one or more of the following ways:
- (a) representation on the board of directors or equivalent governing body of the investee;
  - (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
  - (c) material transactions between the entity and its investee;
  - (d) interchange of managerial personnel; or
  - (e) provision of essential technical information.”
- “9 An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual arrangement.”
- “16 An entity with joint control of, or significant influence over, an investee shall account for its investment in an associate or a joint venture using the equity method except when that investment qualifies for exemption in accordance with paragraphs 17–19.”
- “20 An entity shall apply Ind AS 105 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an entity shall account for any retained interest in the associate or joint venture in accordance with Ind AS 109 unless the retained interest continues to be an associate or a joint venture, in which case the entity uses the equity method.”
- “44 An investment in an associate or a joint venture shall be accounted for in the entity’s separate financial statements in accordance with paragraph 10 of Ind AS 27.”

*Ind AS 27*

- “10 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:**
- (a) at cost, or**
  - (b) in accordance with Ind AS 109.**

**The entity shall apply the same accounting for each category of investments. Investments accounted for at cost shall be accounted for in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, when they are classified as held for sale (or included in a disposal group that is classified as held for sale). The measurement of investments accounted for in accordance with Ind AS 109 is not changed in such circumstances.”**

10. The Committee notes from the requirements of Ind AS 28 that an associate is an entity over which the investor has significant influence, i.e., the power to participate in the financial and operating policy decisions of the investee. Further, as per the requirements of Ind AS 28, if the entity holds, directly or indirectly (e.g., through subsidiaries), less than 20 per cent of the voting power of the investee, *it is presumed* that the entity does not have significant influence, *unless such influence can be clearly demonstrated*. An investment in an entity where the Company has significant influence has to be accounted for using the equity method in consolidated financial statements in accordance with Ind AS 28 and in separate financial statements as per the requirements of Ind AS 27. Further, the Committee notes that as per paragraph 20 of Ind AS 28, investment in an associate shall be accounted for in accordance with Ind AS 105, when it meets the criteria to be classified as held for sale as per the requirements of Ind AS 105 and not merely on the basis of intention or decision to exit. However, in the separate financial statements, if the investment is measured in accordance with Ind AS 109, the measurement shall not be changed even if such investment is classified as held for sale.

11. In the extant case, the Committee notes that the Company holds 4.05 percent of shareholding or voting power of XYZ. Thus, by virtue of voting power, as per the requirements of Ind AS 28, it is to be presumed that the Company does not have significant influence. However, the question that arises is whether, in the extant case, it can be clearly demonstrated that the Company exercises significant influence over XYZ by considering other factors prescribed in the said Standard. The Committee is of the view that determination of significant influence based on the other factors is a matter of judgement considering various terms and conditions agreed upon between the entities in the specific facts and circumstances. Accordingly, the Committee is of the view that in the extant case, various clauses from the Articles of Association (AoA), Promoters' Agreement (dated 8.4.1999) and Supplemental Agreement (dated 29.11.2002) and any other related aspects should be examined carefully by the Company and its auditor in its specific facts and circumstances to determine the existence of significant influence, viz., the power to participate in the financial and operating policy decisions of XYZ by the Company as per the requirements of Ind AS 28, as reproduced above.

Accordingly, on the basis of above assessment, if it can be clearly established/ demonstrated that the Company exercises significant influence over the XYZ and, accordingly, XYZ is considered as an associate of the Company, in its consolidated financial statements, it has to be accounted for using the equity method as per the requirements of Ind AS 28. In separate financial statements, it has to be measured as per requirements of Ind AS 27. However, if it cannot be clearly established/demonstrated that the Company exercises significant influence, then XYZ cannot be considered as an associate of the Company.

12. Further, the Committee notes that if XYZ is not an associate of the Company, the investments in equity instruments of XYZ, being financial assets are to be accounted for as per the following requirements of Ind AS 109:

**“4.1 Classification of financial assets**

**4.1.1 Unless paragraph 4.1.5 applies, an entity shall classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:**

- (a) the entity’s business model for managing the financial assets and**
- (b) the contractual cash flow characteristics of the financial asset.**

**4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:**

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and**
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.**

**Paragraphs B4.1.1–B4.1.26 provide guidance on how to apply these conditions.**

**4.1.2A A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:**

- (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and**
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.**

**Paragraphs B4.1.1–B4.1.26 provide guidance on how to apply these conditions.”**

**“4.1.4 A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost in accordance with paragraph 4.1.2 or at fair value through other comprehensive income in accordance with paragraph 4.1.2A. However an entity may make an irrevocable election at initial recognition for particular investments in *equity instruments* that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income (see paragraphs 5.7.5–5.7.6).”**

**“Investments in equity instruments**

**5.7.5 At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither *held for trading* nor contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 applies. ...”**

From the above, the Committee notes that the investments in equity instruments falling within Ind AS 109 are to be measured at fair value; however, as per the requirements of paragraphs 4.1.4 and 5.7.5 of Ind AS 109, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Further, it is noted from the Facts submitted (paragraph 4(b)) that at the time of transition, considering the requirements of Ind AS 101, the Company has elected to designate its equity investments in XYZ at FVOCI. Accordingly, without examining the appropriateness of the application of the requirements of Ind AS 101, the Committee is of the view that since such an option has been elected by the Company for the investments in equity instruments of XYZ in the extant case, if XYZ is not an associate of the Company on the basis of assessment as discussed in paragraph 11 above, the accounting treatment followed by the Company of accounting its investments in XYZ as equity instruments at fair value through OCI would be in order in both separate and consolidated financial statements of the Company.

#### **D. Opinion**

13. On the basis of the above, the Committee is of the following opinion on the queries raised in paragraph 6 above:

- (i) The accounting treatment followed by the Company of accounting its investments in XYZ as equity instruments at fair value through OCI would be in order in consolidated financial statements, only if on the basis of assessment/examination of various clauses from the Articles of Association (AoA), Promoters' Agreement (dated 8.4.1999) and Supplemental Agreement (dated 29.11.2002) in the specific facts and circumstances of the Company to determine the existence of significant influence, it is assessed that XYZ is not an associate of the Company, as discussed in paragraphs 11 and 12 above. In separate financial statements of the Company, equity investment in XYZ measured at FVTOCI would be in order as discussed in the above paragraphs.
- (ii) As discussed in paragraph 11 above, determination of existence of significant influence requires careful examination of various clauses from the Articles of Association (AoA), Promoters' Agreement (dated 8.4.1999) and Supplemental Agreement (dated 29.11.2002) and other relevant aspects in the specific facts and circumstances of the Company.
- (iii) In case, XYZ is considered as an associate, investment in XYZ has to be accounted for using the equity method in consolidated financial statements in accordance with Ind AS 28 and as per the requirements of Ind AS 27 in separate financial statements. Further, as per paragraph 20 of Ind AS 28, investment in an associate shall be accounted for in accordance with Ind AS 105, when it meets the criteria to be classified as held for sale as per the requirements of that Ind AS and not merely on the basis of intention or decision to exit. However, in separate financial statements, if the investment is measured in accordance with Ind AS 109, the measurement shall not be changed even if such investment is classified as held for sale, as discussed in paragraph 10 above.