



Other Comprehensive Income

Items in OCI and their treatment under various laws



Learning Objective

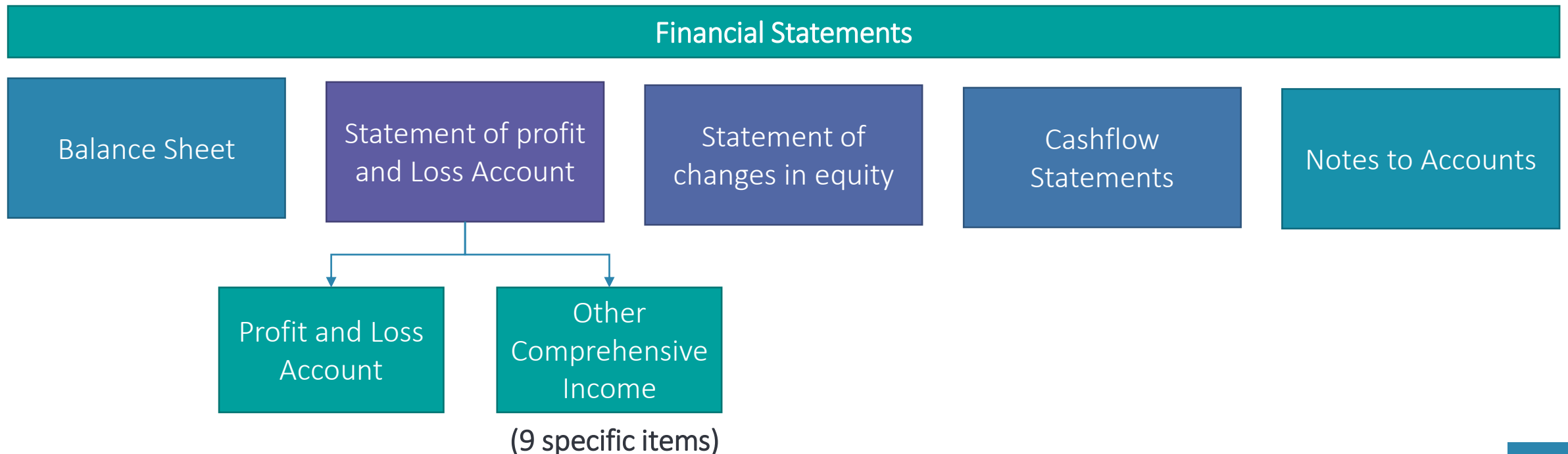
- Understanding the concept of 'Other Comprehensive Income'
- Disclosure and Accounting Treatment
- Regulatory Aspects



Other Comprehensive Income

Ind AS Financial Statements

- Ind AS was the source for application of IFRS convergent accounting standards in India
- Schedule III was amended on 6th April 2016 to include instructions for preparation of financial statements as per Ind AS



Meaning of Other Comprehensive Income

- Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as **required** or **permitted** by other Ind ASs. [Para 7 Ind AS-1]
- Certain items are compulsorily classified as Other Comprehensive while some have an option.
- Not be confused with operating and non-operating income/expense.
- Not necessarily increases the revenue.
- Forms part of other equity.



Extract of Financial Statements (1/2)

- It is shown just below the profit/loss hence also called below the line items.
- Can be positive as well as negative
- May or may not reclassified to Profit and Loss Account

V Profit Before Tax (III-IV)	3,904.57	3,923.94	3,606.83	14,815.09
Tax Expense				
- Current Tax	951.36	852.56	839.37	3,040.65
- Deferred Tax	(47.46)	(108.45)	(284.06)	(252.86)
VII Net Profit after Tax (V-VI)	3,000.67	3,179.83	3,051.52	12,027.30
VIII Other Comprehensive Income	(21.46)	(1,205.46)	2,018.86	1,734.22
IX Total Comprehensive Income (VII+VIII)	2,979.21	1,974.37	5,070.38	13,761.52
Earnings per Share (₹ in Crore)				
- Basic (₹)	16.63	17.65	17.62	67.77
- Diluted (₹)	16.45	17.50	17.55	67.20
Paid-up Equity Share Capital (Face value ₹ 2)	361.15	360.79	346.92	360.79
Reserves excluding Revaluation Reserves as at March 31				1,08,421.86

* Not annualised for the quarters

Standalone Statement of Profit and Loss for the year ended March 31, 2021 (Continued)

	Notes	Year ended March 31, 2021	Year ended March 31, 2020
		₹ in Crore	
(VIII) Other Comprehensive Income			
(A) (i) Items that will not be reclassified to profit or (loss)		1,815.61	(7,398.62)
(ii) Income tax relating to items that will not be reclassified to profit or (loss)		(138.09)	683.03
Sub Total (A)	35	1,677.52	(6,715.59)
(B) (i) Items that will be reclassified to profit or (loss)		75.77	84.56
(ii) Income tax relating to items that will be reclassified to profit or (loss)		(19.07)	(21.28)
Sub Total (B)	35	56.70	63.28
Other Comprehensive Income (A + B)		1,734.22	(6,652.31)
(IX) Total Comprehensive Income (VII + VIII)		13,761.52	11,117.34
(X) Earnings per Equity Share	36		
Basic (₹)		67.77	102.91
Diluted (₹)		67.20	102.12

Source: Financial Statements of HDFC Bank

Extract of Financial Statements (2/2)

A. Equity Share Capital

As at April 1, 2019

Equity share capital issued during the year

As at April 1, 2020

Equity share capital issued during the year

As at March 31, 2021

Notes

₹ in Crore

Amount

344.29

2.12

346.41

14.38

360.79

B. Other Equity (Refer Note 27)

₹ in Crore

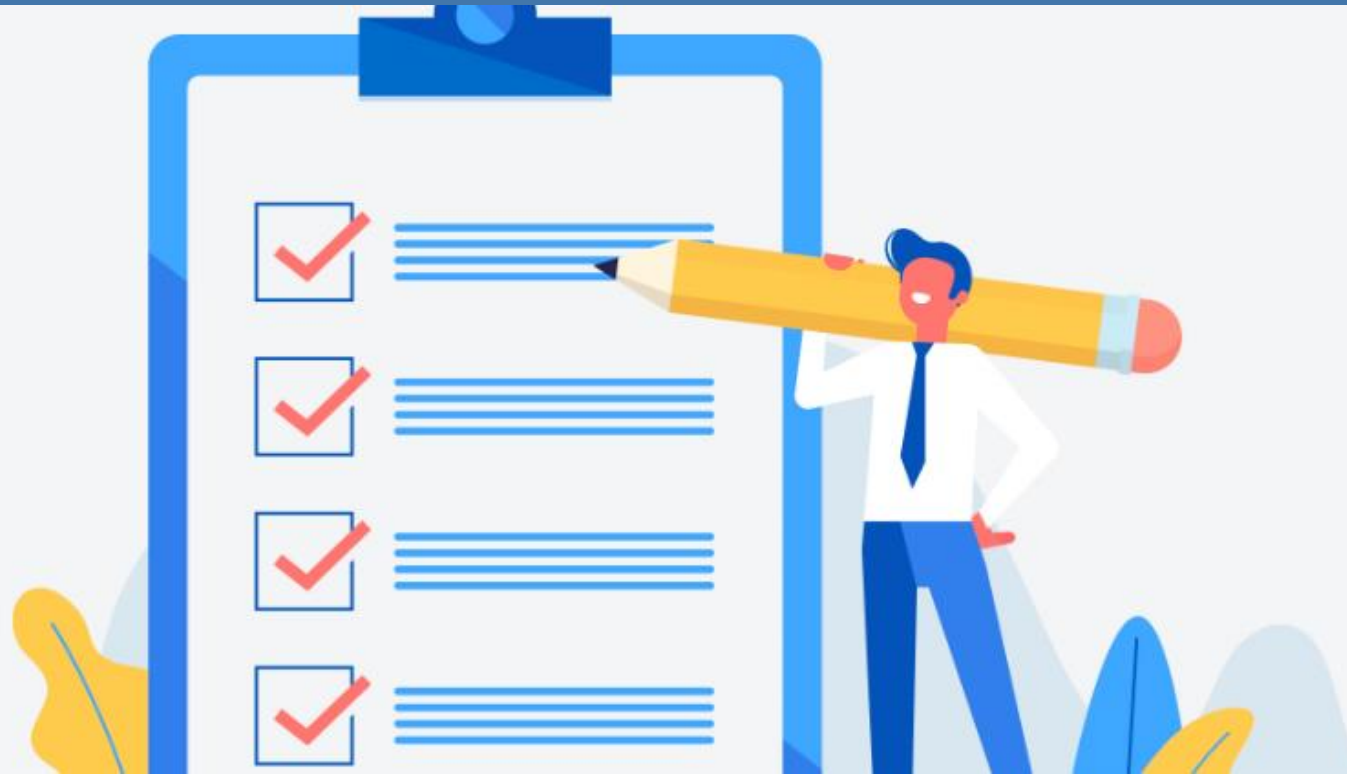
Particulars	Reserves and Surplus								Other Comprehensive Income			Employee Stock Option Reserve	Foreign Currency Monetary Item Translation	Money received against share warrants	Total
	Capital Reserve	Securities Premium	Retained Earnings	General Reserve	Special Reserve I	Special Reserve II	Statutory Reserve	Shelter Assistance Reserve	Equity Instruments through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Cost of Hedge				
Balance as at April 1, 2019 (Opening Balance)	0.04	30,661.21	11,635.24	15,905.51	51.23	13,016.95	5,027.42	3.21	(170.23)	(222.45)	(2.44)	1,098.06	7.43	-	77,011.18
Changes in accounting policy/prior period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restated balance at the beginning of the reporting period	0.04	30,661.21	11,635.24	15,905.51	51.23	13,016.95	5,027.42	3.21	(170.23)	(222.45)	(2.44)	1,098.06	7.43	-	77,011.18
Profit for the year	-	-	17,769.65	-	-	-	-	-	-	-	-	-	-	-	17,769.65
Other Comprehensive Income for the year	-	-	(31.99)	-	-	-	-	-	(6,683.60)	41.86	21.42	-	-	-	(6,652.31)
Total Comprehensive Income for the year	-	-	17,737.66	-	-	-	-	-	(6,683.60)	41.86	21.42	-	-	-	11,117.34
Movement for the year	-	-	-	-	-	-	-	-	-	-	-	13.64	(7.43)	-	6.21
Transfer of Securities premium on conversion of warrants and exercise of ESOP	-	102.28	-	-	-	-	-	-	-	-	-	(102.28)	-	-	-
Dividends including tax on dividend	-	-	(3,600.63)	-	-	-	-	-	-	-	-	-	-	-	(3,600.63)
Transfer from retained earnings	-	-	(11,634.60)	8,034.60	-	3,400.00	200.00	-	-	-	-	-	-	-	-
Received during the year	-	1,280.66	-	-	-	-	-	-	-	-	-	-	-	-	1,280.66
Utilised during the year	-	-	-	-	-	-	-	(3.11)	-	-	-	-	-	-	(3.11)
Balance as at March 31, 2020	0.04	32,044.15	14,137.67	23,940.11	51.23	16,416.95	5,227.42	0.10	(6,853.83)	(180.59)	18.98	1,009.42	-	-	85,811.65

Particulars	Reserves and Surplus								Other Comprehensive Income			Employee Stock Option Reserve	Foreign Currency Monetary Item Translation	Money received against share warrants	Total
	Capital Reserve	Securities Premium	Retained Earnings	General Reserve	Special Reserve I	Special Reserve II	Statutory Reserve	Shelter Assistance Reserve	Equity Instruments through Other Comprehensive Income	Effective portion of Cash Flow Hedges	Cost of Hedge				
Balance as at April 1, 2020 (Opening Balance)	0.04	32,044.15	14,137.67	23,940.11	51.23	16,416.95	5,227.42	0.10	(6,853.83)	(180.59)	18.98	1,009.42	-	-	85,811.65
Changes in accounting policy/prior period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restated balance at the beginning of the reporting period	0.04	32,044.15	14,137.67	23,940.11	51.23	16,416.95	5,227.42	0.10	(6,853.83)	(180.59)	18.98	1,009.42	-	-	85,811.65
Profit for the year	-	-	12,027.30	-	-	-	-	-	-	-	-	-	-	-	12,027.30
Other Comprehensive Income for the year	-	-	6.30	-	-	-	-	-	1,671.21	(17.69)	74.40	-	-	-	1,734.22
Total Comprehensive Income for the year	-	-	12,033.60	-	-	-	-	-	1,671.21	(17.69)	74.40	-	-	-	13,761.52
Movement for the year	-	-	-	-	-	-	-	-	-	-	-	389.06	-	-	389.06
Transfer of Securities premium on exercise of ESOP	-	224.80	-	-	-	-	-	-	-	-	-	(224.80)	-	-	-
Dividends including tax on dividend	-	-	(3,642.68)	-	-	-	-	-	-	-	-	-	-	-	(3,642.68)
Transfer from retained earnings	-	-	(5,200.00)	2,700.00	-	2,000.00	500.00	-	-	-	-	-	-	-	-
Received during the year (refer notes 26.1 and 26.6)	-	11,817.65	-	-	-	-	-	-	-	-	-	-	-	307.03	12,124.68
Utilised during the year (refer note 26.6)	-	(22.34)	-	-	-	-	-	(0.03)	-	-	-	-	-	-	(22.37)
Balance as at March 31, 2021	0.04	44,064.26	17,328.59	26,640.11	51.23	18,416.95	5,727.42	0.07	(5,182.62)	(198.28)	93.38	1,173.68	-	307.03	1,08,421.86

See accompanying notes to the Standalone Financial Statements

Relevance of Other Comprehensive Income

- In the erstwhile era of Accounting Standards, there only existed a classification of capital revenues and operational revenues, which in turn guided that all capital receipts were directly to be driven to the Balance Sheet and the revenue receipts were shown in Profit or Loss Account.
- However, there are wide range of activities which are incidental to the operations of an organization in due course of its business which lead to non-cash income or losses. Such changes are notional in nature yet certain value is created and incidentally accrued to the entity which form part of OCI.
- OCI is tool by which P&L is safeguarded against unwanted fluctuations in profit. While also providing a holistic views on affairs of the company.



Items in Other Comprehensive Income

Items in Other Comprehensive Income

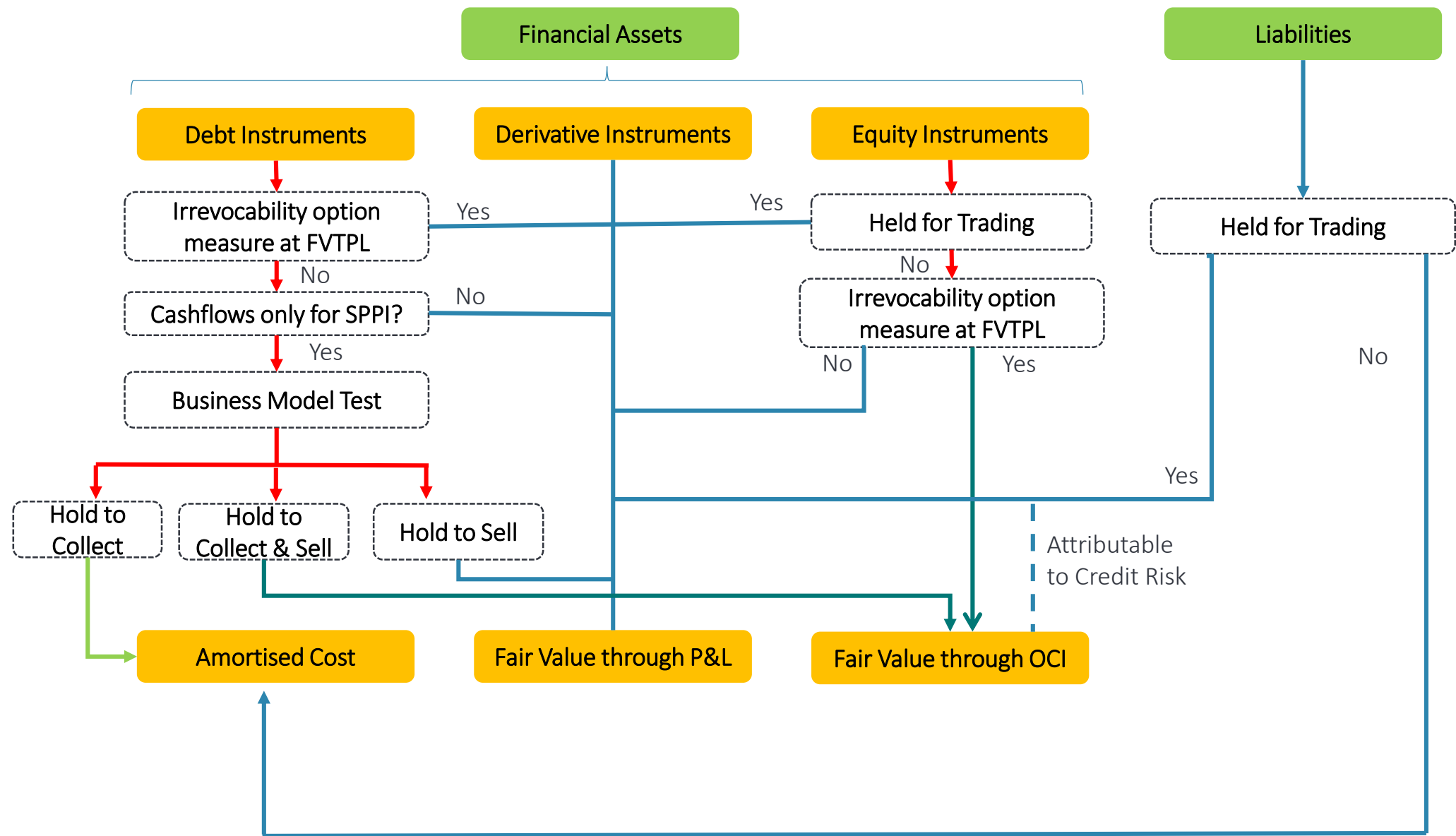
- The components of other comprehensive income include:
 - a) changes in revaluation surplus (see Ind AS 16, Property, Plant and Equipment and Ind AS 38, Intangible Assets);
 - b) remeasurements of defined benefit plans (see Ind AS 19, Employee Benefits);
 - c) gains and losses arising from translating the financial statements of a foreign operation (see Ind AS 21, The Effects of Changes in Foreign Exchange Rates);
 - d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109, Financial Instruments;
 - e) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of Ind AS 109.
 - f) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109 (see Chapter 6 of Ind AS 109);
 - g) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of Ind AS 109);
 - h) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of Ind AS 109);
 - i) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of Ind AS 109).

Revaluation of Property, Plant & Equipment

- Ind AS 16 provides two models for valuation of PPE
 - Cost Model
 - Revaluation Model
- *If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.* However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. [Para 39 of Ind AS 16]

Fair Value Gains through OCI

- Following Fair value gains/losses are recognised in OCI
 - Option for investment in equity instrument neither held for trading nor contingent consideration recognised by an acquirer in a business combination. [Para 5.7.5 of Ind AS 109]
 - Financial Asset subsequently measured under FVOCI. [Para 4.1.2A of Ind AS 109]
 - Changes in value of liabilities measured through FVTPL, in relation to credit risk. [Para 5.7.7 of Ind AS 109]



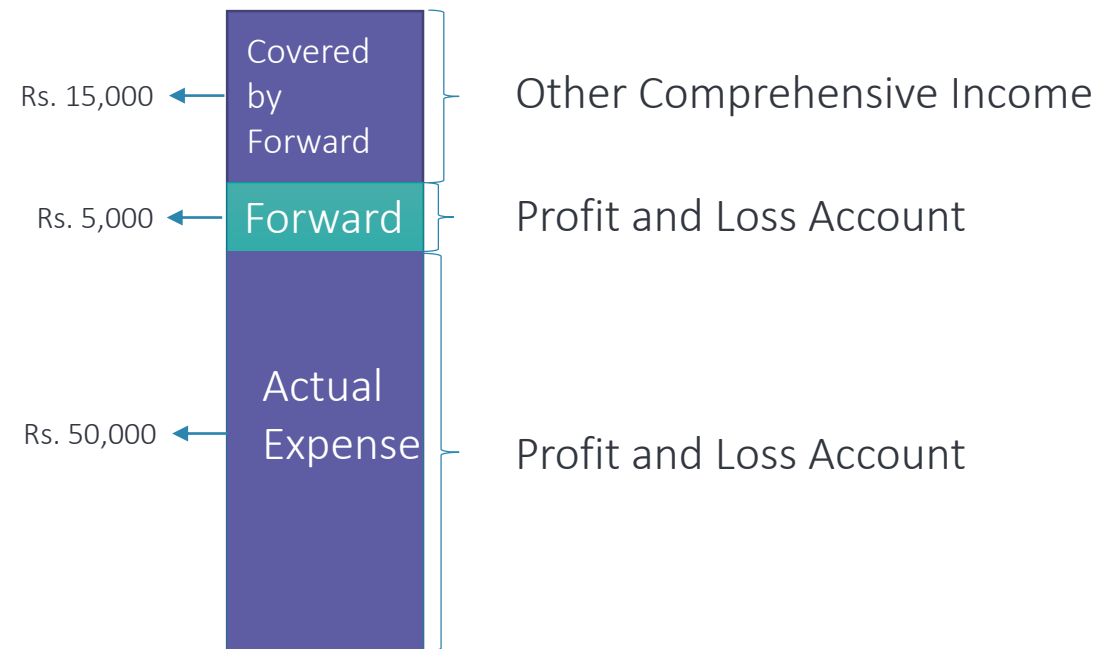
Cash Flow Hedge Reserve

- The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109

Example: Company issues 100 debt securities of face value of 10\$ to a foreign investor. Relevant Rate of dollars are as follows:

Spot on date of Borrowings: 50/-
Forward Price: 55/-
Spot on Reporting date: 70/-

Hence, liability recognized at Rs.50,000/-. However, my liability is valued at Rs. 70,000/- on reporting date. As I have entered forward my actual expense is limited to Rs. 55,000/- as rest would be compensated by forward contract





Regulatory Aspects

Net worth under Companies Act, 2013

- Section 2(57) of the Companies Act, 2013 defines Net Worth:
“net worth means the aggregate value of the paid-up share capital and *all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account*, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write back of depreciation and amalgamation.”
- It may be noted that the definition of net worth allows inclusion of only such profits which flow from the Profit and Loss.
- OCI do not form part of the profits/ losses earned/ incurred by the reporting entity in a particular as the OCI are shown separately in the new format of Statement of Profit and Loss
- Therefore, just because the OCI is shown in the Statement of Profit and Loss does not mean that the same must be considered as Profits earned by the reporting entity. Hence, for the purpose of computation of net worth, OCI cannot be considered as a part of the net worth.

Free Reserves under Companies Act, 2013

- Free Reserves is of immense significance because it is used for the purpose of issue of bonus shares and declaration of dividend. With the changes brought in it post Ind AS adoption, its corresponding effect on bonus shares and dividend declaration is also required to be addressed.
- Section 2 of the Companies Act, 2013 defines Free Reserves:
“2(43) —free reserves means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend:
Provided that—
(i) any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
(ii) any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, ***shall not be treated as free reserves.***”

Dividend and Bonus Share

Dividend can
be paid out of

Current year profits

Previous Year profits (Only free reserves)

Guarantee by government

Bonus shares
can be issued
out of

Free Reserves

Security Premium Reserve

Capital Redemption Reserve Account

Neither Dividend
can be paid nor
Bonus Shares can be
issued out of OCI

Considering OCI Losses while declaring dividend

- The regulatory definition of free reserve exclude notional gains, however does not prescribe treatment of losses
- The Losses should be factored while determining dividend to be paid
 - In case the losses are not considered, it may result in reduction of capital
- For example, an entity had a profit Rs.100/- while a loss in OCI of Rs.90/-
 - In this case if the entity declares dividend of Rs.15/-, the retained earnings transferred to equity would be Rs.85/-, while losses from OCI forming part of equity would be Rs.90/-, resulting in reduction of equity by Rs.5/-
- Hence, following a conservative approach, gains in OCI should not be considered, whereas OCI losses should be factored in while determining dividend distribution.

Managerial Remuneration

- Section 198 prescribes the manner in which net profit for the Company for the purpose of section 197 (Managerial Remuneration) shall be calculated.
- Section 198 (3) (f) states that *“In making the computation aforesaid, credit shall not be given for the following sums, namely:—*

(f) any amount representing unrealised gains, notional gains or revaluation of assets”

- *Hence, OCI shall not be considered while calculating limits for Managerial Remuneration as well.*

Principal Business Criteria

- Para 3 (b) of “*Implementation of Indian Accounting Standards*” states that “Regulatory ratios, limits and disclosures shall be based on Ind AS figures.....”
- OCI though presented as a part of Total Comprehensive Income does not constitute Income for the purpose of profit and loss. Hence, not considered for the purpose of principality test
- Fair value gains routed through other comprehensive income forms part of capital of the company and increases value of the assets. Hence asset value to be considered as provided in the balance sheet.

Popularly known as 50-50 test – states that a company shall be classified as NBFC in case

More than
50% of its
assets are
financial
assets

AND

More than
50% of its
income are
financial
income

Capital Requirements for NBFCs (1/2)

In regard to Para 3 of Implementation of Indian Accounting Standards:

i) 'owned funds', 'net owned funds' and 'regulatory capital', any net unrealised gains arising on fair valuation of financial instruments, including such gains arising on transition to Ind AS, should not be included in owned funds whereas all such net losses should be considered. In determining the net unrealised gains for reduction from owned funds, NBFCs should categorise financial assets measured at fair value into two categories viz.

A. Investments in shares of other NBFCs and in shares, debentures, bonds, etc. in Group companies that are required to be reduced while determining Tier I Capital as defined in paragraph 2(xxxii) of the Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016; and

B. Others

While netting may be done within the aforementioned categories, net gains from one category should not be offset against losses in the other category.

ii) Any unrealised gains or losses recognised in equity due to (a) own credit risk and (b) cash flow hedge reserve shall be derecognised while determining owned funds.

Capital Requirements for NBFCs (2/2)

iii) Since unrealised gains on category A have been excluded in computation of owned fund, NBFCs shall reduce the lower of acquisition cost or fair value of investments/advances in subsidiaries/other group companies and other NBFCs while determining Tier I capital as specified in paragraph 2(xxxii) of the aforementioned Master Directions. Net unrealised gains on Category B (i.e. 'Others') to the extent they have been excluded in regulatory capital, shall also be reduced from risk weighted assets.

- Gains would be rejected losses would be included.
- As gains/losses routed through OCI have not formed part of profit or loss. Gains would be ignored while losses would be subtracted.

Summary of Regulatory Treatment

Regulation	Treatment of OCI	Reasoning
Net worth under Companies Act, 2013	Not to be considered	Definition of net worth specifically exclude notional gains
Declaration of Dividend	Gains to be ignored while losses to be considered	Notional gains are excluded from definition of free reserve. Going by a conservative view, losses should be considered
Issuance of Bonus Shares	Gains to be ignored while losses to be considered	Notional gains are excluded from definition of free reserve. Going by a conservative view, losses should be considered
Managerial Remuneration	Not to be considered	Section 198 of Companies Act excludes notional gains from definition of net profit for the purpose of man rem
Principal Business Criteria for NBFCs	Not to be considered	OCI is not considered as a part of income under the statement of profit and loss
Capital Requirements for NBFCs	Gains to be ignored while losses to be considered	Clarified by para 3 of RBI circular on Implementation of Indian Accounting Standards by NBFCs