

Assurance EYe

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Audit Committee priorities for 2022



Effective audit committees are critical in maintaining trust and confidence in reporting and risk management. With the changing risk landscape, the audit committee's role continues to grow more demanding and complex.

This article summarizes key issues affecting audit committees during the 2022 year-end audit cycle and key considerations to address these issues.

Risk management

Boards and audit committees are revisiting risk management practices to see that risks are managed effectively across the organization. Whether due to growing regulatory pressure or the disruptions caused by COVID-19, risk management has climbed higher on the board agenda. Under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations') top¹ 1000 listed entities are required to set up a risk management committee. The responsibility of the risk management committee specifically covers monitoring and review of cyber security. Monitoring of cyber security is critical in today's environment as cyber-attack continue to intensify thereby creating more pressure than ever for companies.

How oversight of cybersecurity continues to evolve

As the cyber-attack surface increases, threats and incidents continue to intensify, creating more pressure than ever for companies.

In this environment, boards and audit committees should remain vigilant and enhance their oversight over cybersecurity by:

- ▶ **Setting the tone.** Establish cybersecurity as a key consideration in all board matters.
- ▶ **Staying diligent.** Address new issues and threats stemming from remote work and the expansion of digital transformation. Assess how data protection and governance can be improved.
- ▶ **Independently assessing the cybersecurity risk management program.** Obtain a recent and rigorous

third-party assessment of the cybersecurity risk management program with the external independent advisor's direct feedback presented to the board. The assessment should specifically cover adherence to Listing Regulations, to the extent relating to risk management norms.

- ▶ **Understanding escalation protocols.** Include a defined communication plan detailing when the board should be notified, including ransomware incidents.
- ▶ **Managing third-party risk.** Understand management's processes to identify, assess and manage the risk associated with service providers and the supply chain.
- ▶ **Updating cybersecurity and integrity training for employees and contractors.**
- ▶ **Testing response and recovery.** Enhance enterprise resiliency by conducting rigorous simulations, including restoring off-site backups and testing recovery time and arranging protocols with third-party specialists before a crisis.

Questions for audit committees to consider:

- ▶ How can the organization build resilience while remaining lean and agile enough to respond to unforeseen risks? Are contingency and response plans related to risks, including cybersecurity and supply chain, periodically simulated and reviewed with the board?
- ▶ How is the company managing critical third-party and systemic risks, including those related to financial and operational resiliency, IT security, data privacy, and the company's supply chain?
- ▶ How is the company using new technologies and data to enhance stress testing and scenario analyses to better anticipate surprises and significant variability in operating performance?

1 Determined on the basis of market capitalization as at the end of the immediate preceding financial year.



Financial reporting

Companies are continuing to re-evaluate their disclosures as stakeholders seek to understand the impact of various external developments on the business. This includes the continued global COVID-19 pandemic-driven economic uncertainty, climate and other environmental, social and governance ('ESG') factors, and evolving geopolitical developments.

Key considerations may include the following:

- ▶ Schedule III to the Companies Act, 2013 has been overhauled to provide additional disclosures in the financial statements. Further, the company would need to provide necessary information and explanations to enable the auditor's report on new/ revised auditors reporting obligations. Both requirements are effective from April 1, 2021. Audit committees should evaluate and assess the implementation challenges, and proactively engage with the management and the auditors.
- ▶ Companies should continue to update their disclosures about the effects of the pandemic, current market conditions and their expectations for the future. It will be important for audit committees not only to understand management's view of future economic conditions, but also validate that the organization provides transparent disclosures regarding these views.
- ▶ Evaluate and consider thorough disclosures/ explanations in areas such as changes in internal control systems, management discussion and analysis (e.g., impacts of labour shortages and labour market conditions, inflationary pressures), risk factors, critical accounting estimates (impairment, expected credit loss etc), liquidity, and current vulnerabilities due to certain concentrations (e.g., customer, supplier, geographic). Ensure consistency between these disclosures and disclosures in the financial statements.

Audit committees should understand whether the company's commitments concerning climate change and other ESG matters have material accounting and financial statement implications.



Questions for audit committees to consider:

- ▶ Has the company assessed if there is need to realign their Financial Statements Close Process and internal control system to ensure that information and data relating to new disclosures as required in Schedule III are compiled appropriately and on timely basis?
- ▶ Has the company considered the events that occur between the year end and the date of approval of the financial statements, while updating the disclosures about the effects of the pandemic and current market conditions and their expectations for the future?
- ▶ Does the company have sufficient controls and procedures over non-financial data? Is Internal Audit providing any type of audit coverage on ESG-related data or is the company obtaining any external assurance?
- ▶ How is the organization proactively assessing opportunities to enhance stakeholder communications, including corporate reporting, to address changes in operations and strategies as well as changing stakeholder expectations?

Regulatory developments

In addition to the new requirements under the Companies Act, 2013, companies would need to comply with other regulatory developments including amendments to the Listing Regulations. Key amendments to Listing Regulations include norms relating to:

- ▶ *Business Responsibility and Sustainability Reporting ('BRSR')*: which is applicable to top 1,000 listed companies by market capitalization voluntarily for FY 2021 - 22 and will be mandatory from FY 2022 - 23. The BRSR seeks disclosures from listed entities on their performance against nine prescribed principles and covers both environmental and social aspects such as climate action, responsible consumption and production, gender equality, working conditions etc.

Being relevant to multiple aspects of a business, sustainability is a part of the mandate of multiple Board committees. The ownership of a corporate's sustainability agenda is still evolving and varies across companies. While having a specialized ESG committee is not mandated in India, it was felt that having such committees comprising members with relevant skills and commitment to ESG should be the eventual goal.



► **Corporate Social Responsibility (CSR):**

Several amendments to Section 135 of the Companies Act, 2013 and the Companies (Corporate Social Responsibility Policy) Rules, 2014 have been notified with effect from January 22, 2021.

The Government's intent is to address a variety of areas such as the need for enhanced oversight, governance and compliance, greater transparency and potential abuse management. In addition, it intends to create an enabling framework, mandate assessment of project impact, and prescribe treatment of unspent amounts or excess spend and penalties for non-compliance.

► **²Amendments to related party framework:**

Amendments to the provisions of Regulation 23 of the Listing Regulations relating to "Related party transactions" includes modifications to the definition of related party and related party transactions, thresholds for classification of related party transactions as material, subsequent material modifications and process to be followed by audit committee and shareholders of the listed entity for prior approval of related party transactions. These amendments are applicable in a phased manner with effect from April 1, 2022 and April 1, 2023.

SEBI vide a ³Circular has prescribed the information to be placed before the audit committee and the shareholders (from April 1, 2022) for consideration of related party transactions.

Further, SEBI vide a ⁴Circular has provided clarifications on applicability of the amended requirements on existing related party transactions. Key clarifications are as follows:

- For a related party transaction that has been approved by the audit committee and shareholders prior to April 1, 2022, there shall be no requirement to seek fresh approval from the shareholders.
- Pursuant to requirements of Regulation 23(8) of the Listing Regulations, a related party transaction that has been approved by the audit committee prior to April 1, 2022 which continues beyond such date and becomes material as per the revised materiality threshold shall be placed before the shareholders in the first General Meeting held after April 1, 2022.

Audit committees should carefully evaluate the implications of the above amendments especially the applicability of the amended requirements to existing transactions which are entered before April 1, 2022 and expected to continue beyond that date.

Questions for audit committees to consider

- What process does the company have in place for regulatory updates and is the company sufficiently engaged in dialogue providing views and input as needed on the related impacts?
- With respect to disclosures of ESG-related matters, what steps will be taken to evaluate and adopt processes and controls related to potential new disclosure requirements?
- Since there is increased focus and penal requirement for directors of the company, the audit committee needs to assess how the new requirements on CSR have been complied and reported.
- Evaluate whether sufficient information, both quantitative and qualitative, has been provided to help audit committees to evaluate the appropriateness of related party transactions.



2 SEBI (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021.

3 SEBI Circular - SEBI/HO/CFD/CMD1/CIR/P/2021/662 dated November 22, 2021.

4 SEBI/HO/CFD/CMD1/CIR/P/2022/40 - dated March 30, 2022. The Circular comes into effect from April 1, 2022.



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Schedule III – Key changes through the CFO and Audit Committee lens



Schedule III to the Companies Act, 2013 which prescribes the formats and disclosures for financial statements of Companies in India was amended vide notification dated March 24, 2021. These amendments became effective from April 1, 2021 and all companies are required to prepare their financial statements for periods beginning on or after April 1, 2021 in accordance with the amended Schedule III ("SCH III"). Some of the changes introduced are expected to have far-reaching implications for companies in terms of incremental efforts involved in the preparation of financial statements as well as for verifying the accuracy and completeness of the additional information now required to be included in the financial statements. SCH III has also introduced granular details of the information which earlier was not easily available to investors. Hence, companies should expect to have more questions and queries from investors, analysts, regulators, lenders and other stakeholders. The requirement to include similar additional information for the comparative period could pose a greater challenge for companies and their auditors in the first year of implementation.

Several of the new disclosures in SCH III align with the enhanced reporting requirements by auditors under Companies Auditor's Report Order, 2020 applicable from April 1, 2021. The new reporting requirements under Schedule III and CARO 2020 are expected to increase efforts of companies and the auditors.

In this article, we explain the changes introduced in SCH III as well as the potential challenges and unanswered questions in respect of some of the additional requirements under SCH III. ICAI has released Guidance Notes on all the three Divisions of SCH III (January 2022 edition) which address some of the implementation questions. The objective of this article is to bring out the broader implications of these additional disclosures and implementation challenges from a CFO and Audit Committee perspective.

For analysis purpose, the amendments can be broken down into three broad categories. Category 1 would include disclosures aimed at providing information to regulators and lenders to check money laundering, frauds and other malpractices. Category 2 would include amendments requiring additional information in respect of certain captions in the Balance sheet and Statement of Profit and Loss Account. Category 3 would include amendments requiring additional disclosures in the financial statements aimed at enhancing the understandability of financial statements.

Category 1:

a. Disclosures related to intermediaries and ultimate beneficiaries:

SCH III now requires that where a Company has provided funds (loan/ advances in the nature of loan/investment) to an intermediary (any person/entity) with the understanding (written or otherwise) that it shall lend/invest directly or indirectly to the ultimate beneficiaries or provide guarantee/security to or on behalf of ultimate beneficiaries, then the Company needs to disclose details of such transactions (including transactions which were carried out through layers of intermediaries) and provide a declaration that relevant provisions of the Foreign Exchange Management Act, 1999 / Companies Act have been complied with and there is no violation of Prevention of Money-Laundering Act, 2002.

Similar disclosures have also been prescribed for the Intermediary Company which has received the funds.

Our comments

- ▶ The introduction of these disclosures by management is intended to go beyond the first level of the transaction which hitherto was not the case. This would be a response to instances of misuse of funds by advancing amounts for the benefit of an ultimate beneficiary using intermediaries. This requirement is expected to increase diligence, enhanced scepticism and maintenance of appropriate documentation substantiating the approval of such transactions, whether these are initiated by the management of the Company and / or these requires the approval of the Audit Committee / Board of Directors.



- ▶ Companies will have to establish or revise existing policies for providing loans and advances in the nature of loan with specific focus on the purpose of the loan / advance in the nature of loan and seek a positive confirmation from management that these are not for the benefit of any ultimate beneficiary. Further, as a measure of good governance, all transactions of loans and advances should be pre-approved by the Audit Committee and / or the Board of Directors to ensure this new reporting requirement is suitably addressed at the time of the approval of the transaction.
- ▶ Scope of the internal audit should be expanded/modified to have compliance with the FEMA, Companies Act and Prevention of Money-Laundering Act, 2002 covered in respect of loans, advances in the nature of loan, guarantees, etc.
- ▶ Where a company is an intermediary, Independent Directors would have to be alert to transactions involving receipt of loans and advances and auditors need to be very careful of situations in which they either in their individual capacity (for directors) or as a Firm (auditors) could be engaged with the entity obtaining the loan/advance in the nature of loan, investment, or guarantee [Eg: Common Director or Common auditor or Common Audit Partner]. Complications may arise because the information which they obtain may not be from the Company who had granted the funds/guarantee but from the recipient entity and may conflict with their responsibilities on maintaining confidentiality of information. A clarification from MCA or the ICAI would be extremely essential for such cases.

b. Relationship with Struck-off companies

SCH III now requires that where the Company has any transaction with struck off companies, it shall disclose details viz. name of the struck-off companies, relationship with such companies, nature of transactions and balances outstanding [Investment in securities, Receivables, Payables, Shares held by struck off companies, Other outstanding balances (to be specified)].

Our comments

- ▶ Developing evidence to support the fact that the Company has no transactions with struck-off companies can be an exercise which could be extremely time consuming and much more onerous than one would normally anticipate.
- ▶ Data of companies struck-off is published by each Registrar of Companies (ROC) separately in PDF (some in scanned version) in Form No STK-7. Compiling this data can be a time-consuming exercise.
- ▶ Form STK-7 contains only the Name of the Company and the CIN No of the Company. It is extremely difficult to do searches based on Name due to duplicity of data. Also, many companies maintain data basis PAN of customers and vendors, but not basis the CIN No, which can cause a significant impediment to use technology to compile the data for the purpose of disclosure under SCH III.

- ▶ Names of companies struck-off are possible to be reinstated back. Hence, it is important that all the data is evaluated as on one date which itself can be very challenging because Form STK-7 are not published at defined periodic dates.
- ▶ Timely availability of information in Form STK-7 is crucial for making disclosures in the financial statements. It would be desirable that consolidated STK-7 report is published more frequently (eg: monthly, quarterly etc) and the same is available in a user friendly format (eg: MS Excel) to enable companies to use this data as the base for their disclosures. Also, Form MGT-7 contains details of PAN no. It would be extremely useful if MCA can provide the PAN no in Form STK-7 along with CIN No. Most companies maintain details of PAN No of vendors and customers but not necessarily the CIN No. If MCA provides this data, it would be authentic and save immense time of corporates in preparing this disclosure.
- ▶ Compiling this data for current year (2021-22) itself would be challenging for companies. Similar evaluation for the comparative period will further add to the challenges faced by the Companies.
- ▶ In case the company has transactions with struck-off companies, it should also evaluate implications relating to direct and indirect taxes.

c. Reconciliation of books with quarterly returns filed with banks or financial institutions

Where the Company has borrowings from banks or financial institutions ("FI") on the basis of security of current assets, the Company needs to disclose whether quarterly returns filed by the Company with banks/FI agree with the books of accounts and if not, a summary of reconciliation and reasons of material discrepancies need to be disclosed.

Our comments

- ▶ A question may arise whether disclosure is required in case the Company has borrowings during the year, but no borrowings at the end of the year. The ICAI Guidance Note on Schedule III has drawn an analogy to the reporting under CARO 2020 and has concluded that disclosure will be required if the Company had any borrowings during the year from banks or FI's, even if it is paid off by year-end.
- ▶ Returns could be filed on monthly basis depending upon agreements with banks/FI's, but reporting is required only for returns at the end of each quarter.
- ▶ Many companies make adjustments directly to the trial balance numbers to arrive at numbers to be filed in the returns with banks. For eg: Inventory number at the end of the month may be adjusted for cut-off adjustments based on historical trend. Hence, the question arises on what is meant by the term "agreement with books of account". Books of account need not mean only Trial Balance. If there are computations which are



done directly and those have a basis and can be reconciled to the Trial Balance numbers, then it may be possible to consider that these adjustments are also part of the books of account. Companies however, need to remember the MCA requirements which will apply from financial year commencing on or after the April 1, 2023 (earlier April 1, 2022) on maintaining trail of transactions and at that time these adjustments may fail the test.

- ▶ Returns filed with banks and FI's and their computations sometimes do not form part of the Internal Control framework. It may be advisable to make modifications to the Internal Control Framework and Risk Control Matrix to bring into the framework returns filed with banks and FI's.
- ▶ Every reconciliation item may not be a discrepancy. There could be differences in the way banks classify items of current assets vis-à-vis their classification in the books of account. For e.g. for banks, inventories may include contract assets as well (in case of construction/EPC Co's) and the books of account may show contract assets separately. Such cases may require a reconciliation to be given with books even though there is no discrepancy as such on an overall basis.
- ▶ Some lending arrangements are done at a group level (which may not include all entities in the consolidation group) of which the legal entity is a part and the returns with banks may be filed at a group level. In such cases, the disclosures should clarify that the returns are done at a group level of which the legal entity is a part, but the reporting (including reconciliations) has been done of the numbers pertaining to the legal entity forming part of the group.

d. Borrowed funds utilized for other than specified purposes:

If a Company has borrowings from banks or FI's which have not been used for the specific purpose for which those were taken at the balance sheet date, details of where they have been used need to be disclosed.

Our comments

- ▶ Disclosure may be required in case funds have been temporarily invested in bank fixed deposits or mutual funds pending their utilization for the specified purpose.
- ▶ If the purpose is not specified or is stated as "general corporate purpose", then it may be a challenge to report under this clause.

e. Details of Benami Property held / Undisclosed Income

Disclosures are required as to whether any proceeding initiated or pending against the Company under Prohibition of Benami Property Transactions Act, 1988 in which case details of property, amount, reference in the balance sheet, reasons for

not in the books, nature, status and company's view need to be disclosed in financial statements. These disclosures are required only when any proceedings has been initiated under such Act.

The Guidance Note on CARO 2020 provides that normally, issuance of a show-cause notice by the concerned department should not be construed to be a demand payable by the company. Accordingly, no disclosure is warranted for show cause received. In some cases, a show cause notice and demand may be combined in one document. The Guidance Note on CARO 2020 further provides that normally, in such cases, the demand would not be construed to have arisen till the time the assessee has disposed off the requirements of the show cause notice. Hence, it would be necessary to evaluate each situation individually in such cases.

Further, if there are any transactions not recorded in the books of account that have been surrendered or disclosed as income during the year in income tax assessments, then the company should give details of such transactions not recorded in the books of accounts and also state that previously unrecorded income and related assets have been properly recorded in the books of account during the year.

Our comments

- ▶ The emphasis here is on those transactions not recorded in the books of account and which are surrendered or disclosed.
- ▶ Regular additions like transfer pricing adjustments done by income tax authorities are not to be disclosed here if they pertain to transactions recorded in books of account, but for which there is a difference of opinion on the margins to be earned by the assessing entity or the taxability of the transaction or similar adjustments.
- ▶ In case of amounts offered/disclosed/paid in search or survey operations under the Income-tax Act, it may be advisable to consult a tax expert to determine whether these would be termed as income surrendered.
- ▶ If there are transactions which are reported as not recorded in the books of account and are surrendered/disclosed as income, auditors and directors should evaluate whether there is a failure of internal control and whether there is a need to report in the auditor report on internal controls with reference to financial statements and the Director's report.
- ▶ Undisclosed income transactions would amount to an error in the prior period to which they pertain and hence the implications of Ind AS 8 would need to be assessed.
- ▶ When making the disclosure relating to benami properties in the financial statements, the company should specify, as part of the nature of proceedings, whether it involves an attachment, adjudication and/or confiscation of property. The company should also state the fact around the status of the proceedings and its view on the same.



Category 2:

a. Trade receivables and Trade Payables:

SCH III now requires ageing of Trade receivables / Trade Payables from due date to be included in the financial statements as per the format prescribed. Further, Trade receivables and Trade Payables need to be further bifurcated into disputed and undisputed balances. Where no due date is specified for invoices, the ageing should be determined from the transaction date.

Our comments

- This disclosure is required only in respect of Trade Receivables and Trade Payables. Items which do not fall under Trade Receivables/Trade Payables are not required to be disclosed. An issue arises in case of contract asset (unbilled receivable). For eg. Certain companies like construction/project companies, have contract assets (unbilled receivables). Such companies could have an unconditional right to consideration before it invoices its customers, in which case it records an unbilled receivable. It can be argued that all requirements for trade receivables are applicable to contract assets as well, (to the extent applicable) and based on the information available. e.g., ageing analysis for contract assets may not be feasible.
- The ageing buckets are mandated and require disclosures of trade receivables and payables which are 1-2 years, 2-3 years and >3 years amongst other age buckets. This level of granular ageing data may not have been disclosed to investors in the past. Companies need to be prepared to answer many more questions from investors and analysts in case they have receivables in the older aged buckets like 2-3 years, >3 years and these are not provided for.
- The term dispute has not been defined in the Companies Act, 2013 and hence disclosure of disputed and undisputed becomes complex. The ICAI Guidance Note on Schedule III provides the definition of dispute as understood in normal parlance. Further, the Guidance Note also refers to “dispute” as defined under the Insolvency and Bankruptcy Code, 2016 (“IBC”) which is as follows: “dispute” includes a suit or arbitration proceedings relating to– (a) the existence of the amount of debt; (b) the quality of goods or service; or (c) the breach of a representation or warranty;
- The definition of dispute as per IBC, even though inclusive refers to those cases which go legal. However, disputes from an accounting/commercial perspective could be much wider. The Guidance Note on SCH III states that dispute is a matter of facts and circumstances of the case, however, there must be a disagreement between the parties demonstrated by evidence. Considering that every industry could have some peculiar nuances, it may be advisable for the Company to define/clarify as part of its policy on what disputed means and also have that backed up by the legal opinion at least in respect of situations which normally occur in that industry/company. For

example, in case of project companies overrun claims could be a normal trade practice and settlements may take time due to production of evidence etc. In such cases a Company may want to define/clarify as part of its policy that these are not considered disputed if the production of evidence is expected to happen within a reasonable time frame or a Company may want to state that debts are considered as disputed when a party refuses to pay and there is a written communication with the customer evidencing the same.

- In respect of Trade Payables, the breakdown of ageing is also required for MSME's. This ageing data becomes authentic basis for the MSME authorities to send notices to companies in case the age bucket for Trade Payables under MSME category is >45 days. This ageing data was earlier not explicitly disclosed. Interest under the MSME Act is payable at 12.75% monthly compounded (three times the current bank rate of 4.25%). Companies need to evaluate the exposure to this risk prior to year-end and set the process right in order to avoid non-compliances and consequent implications under the MSME Act, 2006.

b. CWIP/Intangibles under development:

Similar to Trade receivables and Trade Payables, ageing is now required to be disclosed for balances of CWIP and Intangibles under development. The ageing is to be further bifurcated into projects in progress and projects temporarily suspended. Further, in case any projects are delayed or have cost overruns, completion schedule of such projects (individual project wise) needs to be disclosed (with separate details for projects temporarily suspended).

Our comments

- Ageing evaluation of CWIP is a data point which most companies would prepare for their auditors. What has changed is that this disclosure would be open now to general public. Further, the data provided is at a granular level which shows ageing in buckets the last bucket being greater than 3 years. Companies should expect that investors, analysts, bankers, rating agencies etc may ask questions relating to items in high age buckets.
- Temporary suspension has not been defined/clarified and can have a lot of industry peculiarities. For example, a plant which needs regulatory approval and is ready for inspection, but has not been inspected may not be considered a temporary suspension because that is the natural process of getting the plant ready to intended use. Hence, it may be useful for companies to define/clarify what they consider as temporary suspension so that investors are able to understand the lingo when reading their financial statements in comparison to other companies. Companies should consider whether the conditions which warrant suspension of capitalization of borrowing cost as under Ind AS 23/ AS 16 is relevant. Capitalization of borrowing costs is suspended during extended periods in which active



development is interrupted. Ind AS 23/ AS 16 distinguishes between extended periods of interruption (when capitalization would be suspended) and periods of temporary delay that are a necessary part of preparing the asset for its intended purpose (when capitalization is not normally suspended).

- ▶ Where costs exceed budgets or timelines as per original plan are exceeded, significant additional disclosures are required. There may not be well spelt out budgets for every asset even though larger projects may have budgets approved. Timelines are generally fluid (i.e. they do not have a defined date cast in stone) and historically rarely tracked as part of any internal financial control process. Companies will now need to have a formalized manner of documenting budgeted cost and timelines. Considering the onerous disclosures if budgets / timelines are exceeded, it may be advisable to have budgets and timelines in a range. Also, it is recommended to have these budgets and timelines formally documented and approved by relevant department head / project head.
- ▶ Certain industries may have long cycle intangible assets under development. For example, in case of pharmaceutical companies, even though most costs are expensed as research, the amounts paid on in-licensing drugs are capitalised as intangibles in process. These drugs go over long periods depending upon many variables.

Category 3:

a. Scheme of arrangements - compliance with accounting standards

Where any scheme of arrangement has been approved in terms of sections 230 to 237 of the Companies Act, 2013, SCH III requires disclosure that the effect of such scheme have been accounted for in the books of account in accordance with the scheme and in accordance with applicable accounting standards and any deviation in this regard shall be explained.

Our comments

- ▶ It is to be noted that there are already existing requirements to provide similar disclosures under an announcement from the Council of ICAI. Also, the Companies Act, 2013 requires auditors to confirm whether the accounting treatment in the scheme is in accordance with the applicable accounting standards before the approving authority approves the scheme. Still, there could be deviations. For example, in case the accounting is done as per the appointed date in the scheme rather than the date as required by accounting standards.

- ▶ The disclosures under this clause would be required in the year in which the scheme is implemented and in subsequent years till the material effect of the deviation continues.

b. Disclosure of ratios:

SCH III now requires certain ratios to be disclosed in the financial statements e.g. Current Ratio, ⁵Capital to risk-weighted assets ratio. Companies to whom Division I and Division II of SCH III applies need to explain the items included in numerator and denominator for computing these ratios. Also, explanations need to be given for variations in any ratios of more than 25% as compared to previous year.

Our comments

- ▶ There is no definition/computation prescribed for the ratios. This could lead to divergent practices in the market reducing the comparability among companies.
- ▶ Important to note here is that SEBI also has recently prescribed certain ratios to be disclosed in the quarterly results of entities having listed non-convertible securities. However, the list of ratios in SCH III and SEBI requirement is not completely aligned, though majority of the ratios are common.
- ▶ Many of these ratios do not cover metrics which are used in new age/fintech/ecommerce companies and may cause avoidable burden on these companies.

How we look at it

We believe the amendments to SCH III along with the introduction of CARO 2020 have the potential to add value to the financial statements and auditor's report for regulators, lenders, investors and other stakeholders. However, the key here would be to see how robustly these changes are implemented. If companies resort to boilerplate disclosures to ensure compliance, the real intention of bringing these changes may get lost. Equally important would be to see how proactively MCA and ICAI act in clarifying the issues which companies and auditors will encounter during the implementation of these changes. It is never the introduction of any new requirement that brings about the change; it's the implementation of that requirement which brings the real change.



3

Key presentation and disclosure considerations



Regulators and standard setters continue to monitor the application of accounting standards in light of the impacts caused by the coronavirus pandemic, in particular liquidity risk and the expected recovery. With the revised Schedule III getting implemented for the financial year ending March 31, 2022 and onwards and various other regulatory changes, additional efforts and time are required by the companies in the preparation of the financial statements. Financial statements include supporting notes that augment and explain the amounts recorded in the financial statements. As financial statements are a means of communication to diverse stakeholders, the objective of the presentation and disclosures in the financial statements is to communicate clearly and effectively and in as simple and straightforward a manner without loss of relevance or reliability.

This article seeks to provide key aspects that should be considered while preparing the financial statements for the year ended 2022 including considerations identified by the European Securities and Markets Authority⁶.

1 Impacts of the conflict in Ukraine

In addition to companies with trade and/or assets in Russia, Belarus or Ukraine, the economic consequences of increases to energy prices, fluctuations in foreign exchange rates, unease in stock market trading, restrictions to imports and exports, rising pressure on inflation rates and interest rate rises could be more significant. A number of countries imposed new sanctions against Russian government entities, state-owned enterprises or sanctioned entities and individuals linked to Russia anywhere in the world and announcements of potential additional sanctions followed military operations in Ukraine initiated on February 24, 2022. Sanctions have also been imposed on Belarus. The stability of the Ukrainian economy is significantly impacted by the ongoing events involving risks that are not typical for developed markets. In this context risk exists for:

- ▶ Russian or Belarusian owned and controlled companies.
- ▶ Companies with operations in Russia, Ukraine and Belarus, owned and/ or controlled by companies outside Russia and/ or Belarus.

- ▶ Companies with limited or no operations in Russia or Belarus but who directly or indirectly do business with either the individuals or the companies subject to sanctions.
- ▶ Companies that have an indirect impact of the events (e.g., exposed to increased commodity prices, foreign currencies, supply chain disruption).

Specific financial reporting considerations that management should be considering in the preparation of their financial statements include the following:

» Assessment of going concern assumption

Management's assessment of the entity's ability to continue as a going concern should be performed up to the date of approval of the financial statements. Examples of aspects to be considered include:

- ▶ Reliance on significant contracts, financing with covenants or where guarantees are provided by a parent or third party that is significantly affected by the events.
- ▶ Reliance on refinancing with Russian, Belarusian or Ukrainian financial institutions that are affected by the events.
- ▶ Loss of significant customer base and/or decrease in customer demand for products or services.
- ▶ Loss of significant and critical suppliers or entities' own production sites as a result of the events.
- ▶ Reliance on investments in debt and equity securities as a source of liquidity if markets become less liquid and/or cash cannot be repatriated.
- ▶ Inability to sell products through established channels.

⁶ European Securities and Markets Authority priorities for 2022 and 2021 annual financial reports.

**» Impacts on financial and non-financial assets**

The ongoing situation triggers wide-ranging implications on financial and non-financial assets of companies. Key considerations are as follows:

- ▶ Potential impairments of non-financial assets (e.g., goodwill, intangibles significantly used to generate revenues/cash inflows from entities/parties impacted by the event or relating to those parties)
- ▶ Potential impairments of financial assets (loans and trade receivables from entities/ parties impacted by the events, debt instruments held in these parties), such as the impact of the circumstances on Expected Credit Loss.
- ▶ Potential loss of control or significant influence of components because of sanctions or access to management of the entities.
- ▶ Measurement uncertainty around fair value measurements.
- ▶ Whether there is a need to reconsider the valuation technique(s) and inputs used, or the use of multiple techniques. Inputs should be evaluated to determine they reflect current information, orderly transactions and market participant assumptions about risk.

» Subsequent events

Given the fast development of the events, new events can take place frequently. Therefore, it is important that the management update their understanding of such events frequently, and consider all the relevant events while preparing the financial statements for the year ended March 31, 2022. Management should therefore consider the requirements of Ind AS 10 and in particular whether the latest developments provide more information about the circumstances that existed at the reporting date.

Careful consideration might be required to assess whether an event qualifies as an adjusting event or a non-adjusting event after the reporting period. It might be noted that where an adjusting event is identified the Company should adjust the amounts recognized in its financial statements to reflect adjusting events. If non-adjusting events identified after the reporting period are material, companies should make necessary disclosures in the financial statements as their non-disclosure could influence the economic decisions that users.

» Disclosure considerations

In the context of the ongoing situation, there is a clear need to provide objective and transparent disclosures in the financial statements. The disclosures should adequately reflect the current and expected impact of the ongoing situation on the financial position, performance and cash-flows of the Company. Key considerations include the following:

- ▶ Ind AS 1 requires a Company to provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them. Accordingly, Companies should assess the need for additional disclosures on the impact of the current circumstances in Ukraine, Russia and Belarus on the financial performance, financial position and cash flows of the entity. For example, entities may decide to disclose quantitative estimates or qualitative explanations of the impact in the notes to the financial statements.
- ▶ Identification and disclosures relating to consequences on forward-looking information as well as on risk management information provided in the financial statements.
- ▶ The uncertainties arising from the ongoing situation may in some cases cast doubt on the Company's ability to continue as a going concern. When this is the case, the Company should disclose those uncertainties. In making the assessment of their ability to continue as a going concern, Companies shall take into account all available information about the future (at a minimum of 12 months from the end of the reporting period), including the expected profitability and any restrictions to readily access financial resources.
- ▶ Effect of sanctions and other legal measures on restrictions of cash balances and deposits making them unavailable for use by the Company. The amount of significant cash and cash equivalent balances that are not available for use by an entity should be disclosed together with a commentary by management to explain the circumstances of the restriction. The nature of the restriction must also be assessed to determine if the balance is ineligible for inclusion in cash and cash equivalents because of the restriction.

2 Impacts of COVID 19 pandemic

Entities which are recovering from the impact of COVID 19 pandemic, would need to assess whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. In making that assessment, companies should consider, at a minimum, the internal and external indications as specified Ind AS 36, *Impairment of Assets* and that an impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the period in which the last impairment loss was recognized. An impairment loss is not reversed if an increase of the asset's value in use is exclusively due to the passage of time. If there is an indicator of impairment reversal for an asset, then the Company should also evaluate whether the asset's remaining useful life, depreciation method and/or its residual value remain appropriate.



Disclosures relating to impairment testing continue to be a focus area for the stakeholders. It is important that companies provide transparent and meaningful disclosures to give users relevant information on impairment of assets and reversals thereof.

Management should develop robust disclosures to help users understand the sensitivity of recoverable amount estimates to significant changes in key assumptions affected by the pandemic. Reversal of impairment loss would also require the management to include necessary disclosures prescribed in Ind AS 36. For example, the amount of reversals of impairment losses recognized in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed.

3 Effects of climate-related matters on financial statements

Stakeholders are increasingly interested in the impact of climate change on entities business models, cash flows, financial position and financial performance. This is an evolving area and need to be closely monitored as climate-related matters and risks may impact a number of areas across industries and sectors. In absence of any specific requirements under the accounting framework, entities would generally need to pay particular attention to effect of climate related matters on:

- ▶ Valuations such as those relied on in the context of impairment considerations and fair value measurements;
- ▶ Estimates, such as those used when measuring restoration provisions and useful lives of property, plant and equipment; and

the accompanying disclosures, specifically addressing how climate risk may impact valuation, measurement and estimation. Further information on effect of climate related matters on financial statements is available in [Assurance EYe edition of January 2022](#).

4 Disclosures on the calculation of expected credit losses (ECL)

Computation of ECL might require the exercise of significant judgement by the management. Key considerations relating to ECL might include the following:

- ▶ When management overlays are used in the measurement of ECL, enhanced transparency should be provided to fulfil the overarching objectives and principles of Ind AS which inter alia requires disclosures to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows.
- ▶ Any significant changes in methodologies and assumptions relating to management overlays from the previous reporting period and the reasons for those changes. This information would enable users to understand the extent of the movements, their nature and the reasons for the development of adjustments.

- ▶ Disclose the basis for the inputs and assumptions and the estimation techniques used to determine whether a significant increase in credit risk has occurred for financial instruments since their initial recognition or whether a financial asset is credit-impaired.

5 Disclosures introduced in Schedule III to the Companies Act, 2013

Amendments to Schedule III to the Companies Act, 2013 have manifold increased the disclosure requirements. These amendments are effective from April 1, 2021 onwards. Companies need to gear up to provide significant information about the new disclosures in the financial statements in a clear and concise manner. Companies may need to realign their Financial Statements Close Process and internal control over financial reporting to ensure that information and data relating to new disclosures are prepared appropriately and on a timely basis to avoid last minutes hassles.

How we look at it

- ▶ There is a growing need for objective and comprehensive disclosure of the main features underlying the financial performance and financial position of companies, as the companies and their transactions become more and more complex. The companies should strike a balance between the information provided on the face of the primary financial statements and that provided in the notes, thus avoiding cluttering up the former and obscuring their message.
- ▶ The disclosure of information in financial statements might involve a high degree of interpretation, simplification, abstraction and aggregation. The companies should ensure that the disclosures:
 - ▶ convey information that would otherwise have been obscured;
 - ▶ highlight those items, and relationships between items, that are generally of most significance;
 - ▶ facilitate comparability between different entities' financial statements; and
 - ▶ are more understandable to users of the financial statements.



4

Accounting solutions



This section provides practical application issues with reference to expected credit loss on inter-company loans and classification of derivative assets and liabilities.

Expected credit loss on inter-company loans

Fact pattern >>

It is a common scenario where Parent needs to fund its subsidiaries through intercompany loans. In separate Ind AS financial statements, one of the challenges in complying with the Ind AS 109 Financial Instruments relating to expected credit loss (ECL) and impairment requirements is the application to intercompany loans to subsidiaries. The issue gets compounded if the intercompany loan is regarded as an in-substance investment in subsidiary.

Issue 1

Are all intercompany loans measured at amortised cost or FVOCI in the scope of the ECL requirements, rather than accounted for at cost under Ind AS 27, Separate Financial Statements?

Issue 2

When an ECL allowance is recognized in respect of a loan to a subsidiary, is the corresponding debit an expense or part of investment in the subsidiary?

Analysis >>

Issue 1

As per paragraph 5.5.1 of Ind AS 109, the ECL requirements apply to all financial assets measured at amortized cost or at FVOCI with recycling.

Paragraph 2.1(a) of Ind AS 109 scopes out interests in subsidiaries accounted for in accordance with Ind AS 27. Paragraph 10 of Ind AS 27 allows investments in subsidiaries to be accounted for at cost as an alternative to applying Ind AS 109. For such investments, impairment would be calculated applying Ind AS 36 Impairment of Assets.

'Investments' are not defined in Ind AS 27. Although Ind AS 27 is usually read to refer to investments in shares, an argument might be made that it can also cover intercompany arrangements which are, in substance, capital investments. There is no specific guidance given in Ind AS on whether loans which are regarded as in-substance investments in subsidiaries will be subjected to requirements of Ind AS 109.

An analogy can be drawn from guidance in IFRS. In September 2016 meeting of the IFRS Interpretation Committee (IFRS IC), the committee discussed the interaction of IFRS 9 and IAS 28 Investments in Associates and Joint Ventures. IFRS IC concluded that even where a loan is considered as 'in substance investment in subsidiary' for the purposes of allocating losses in IAS 28, it is still in the scope of IFRS 9. In October 2017, the IASB amended IAS 28 to clarify that IFRS 9 should be applied to long-term interests in associates and joint ventures.

The IFRS IC discussion was in the context of IAS 28 and not IAS 27. It is perhaps relevant that IFRS 9 in its scope paragraph refers to 'interests' in subsidiaries, rather than 'investments', although IAS 27 itself uses the term 'investments'. IAS 27 also allows investments to be at cost, rather than accounted for using the equity method or at fair value. However, it would probably be difficult to sustain an argument that the term 'investments' as used in IAS 27 encompasses loans which are in substance part of the net investment when the IFRIC has concluded that the same term in IAS 28 does not.

Issue 2

Although not explicitly stated, it is clear from Ind AS 109 that the recognition of a loss allowance involves a debit to profit or loss (paragraph 5.5.8 of Ind AS 109). There is no exception for intercompany loans.

Viewpoint >>

Issue 1

Yes, all intercompany loans measured at amortized cost or FVOCI are in the scope of the ECL requirements irrespective of whether any such intercompany loans are regarded as forming, in substance, part of net investments in a subsidiary. However, if the contractual terms of an intercompany loan are 'off-market' (e.g., interest-free or below market rate), there may be a portion representing a capital contribution, in scope of Ind AS 27. Ind AS 109 applies to the remaining portion in which case measurement is done at amortized cost or FVOCI.

Issue 2

ECLs measured on a loan to a subsidiary will require a charge to profit or loss; the expense cannot be capitalized as part of the investment in the subsidiary.



Classification of derivative assets and liabilities as current or non-current in balance sheet

Fact pattern >>

An entity enters derivative contracts. Depending on the situation and the accounting that the entity chooses, hedge accounting may or may not be applied. Derivatives may involve a series of cash flows throughout the duration of the instrument (e.g., interest rate swaps), they may give rise to an exchange of cash flows only at maturity of the instrument (e.g., foreign currency swaps and futures), or they may give rise to daily settlement (e.g., settled-to-market derivatives). Settled-to-market derivatives are likely to be presented as current due to their daily settlement mechanism (if they have any fair value to present on the balance sheet at all).

The following scenarios assume that the derivatives in question are not settled to market.

Scenarios >>

1. A derivative is entered into with the intention to hedge certain risks. Hedge accounting is not applied. The hedged item is a loan with fixed interest payments with a term of 5 years and annual payments. The derivative is a fixed-floating interest rate swap with the same life and the same notional amount and annual payments.
2. A derivative is entered into with the intention to hedge certain risks. Fair value hedge accounting is applied. The hedged item is a loan with fixed interest payments with a term of 5 years and annual payments. The derivative is a fixed-floating interest rate swap with the same life and the same notional amount and annual payments.
3. An embedded derivative is identified in a financial liability host contract. It is not considered closely related to the host contract and is accounted for separately at fair value and presented as a derivative asset or liability separately from the host financial liability. It is not held primarily for the purpose of trading.
4. An embedded derivative is either (a) considered closely related to the host contract and is not accounted for separately or (b) it is not considered closely related to the host contract and is accounted for separately at fair value with the hybrid contract presented as one financial liability measured at the sum of the carrying amounts of the host and the embedded derivative.

Issue

In what circumstances are derivative assets and liabilities classified as current or non-current in the balance sheet?

Analysis >>

Appendix A of Ind AS 109 Financial Instruments defines 'held for trading' as including a financial asset or financial liability that is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Paragraphs 66 and 69 of Ind AS 1 both refer to instruments held primarily for the purposes of trading being classified as current assets or current liabilities, as the case may be. Despite the similarity in the language used, these two sections of Ind AS are not addressing the same thing and the guidance in paragraphs 66 and 69 of Ind AS 1 should be used to determine whether a derivative is classified as current or non-current regardless of whether it is classified as held for trading in accordance with Appendix A of Ind AS 109.

Analogy can be drawn from clarification in the basis of conclusion paragraphs BC38I-J of IAS 1, which state:

"The Board expects the criteria set out in paragraph 69 to be used to assess whether a financial liability should be presented as current or non current. The 'held for trading' category in paragraph 9 of IAS 39 is for measurement purposes and includes financial assets and liabilities that may not be held primarily for trading purposes.

The Board reaffirmed that if a financial liability is held primarily for trading purposes it should be presented as current regardless of its maturity date. However, a financial liability that is not held for trading purposes, such as a derivative that is not a financial guarantee contract or a designated hedging instrument, should be presented as current or non current on the basis of its settlement date. For example, derivatives that have a maturity of more than twelve months and are expected to be held for more than twelve months after the reporting period should be presented as non-current assets or liabilities."

These paragraphs deal specifically with paragraph 69 of IAS 1 which is corresponding to paragraph 69 of Ind AS 1 regarding liabilities. However, the conclusion is equally applicable to paragraph 66 of IAS 1/ Ind AS 1 regarding assets.

Paragraph 66 of Ind AS 1 states that:

"An entity shall classify an asset as current when:

- a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- b) it holds the asset primarily for the purpose of trading;
- c) it expects to realise the asset within twelve months after the reporting period; or
- d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current."



Paragraph 69 of Ind AS 1 states that:

"An entity shall classify a liability as current when:

- a) it expects to settle the liability in its normal operating cycle;
- b) it holds the liability primarily for the purpose of trading;
- c) the liability is due to be settled within twelve months after the reporting period; or
- d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current."

In both paragraphs, sub-paragraph (b) deals with management's intention for entering the asset or liability. If an instrument is held primarily for the purposes of trading it should be classified as current. If an instrument is not held primarily for the purposes of trading, it should be presented as current or non current based on its settlement/realization date as outlined in the other sub-paragraphs.

Therefore, an entity must determine whether a derivative, or separated embedded derivative, is held primarily for the purpose of trading based on the purpose for which the derivative is being held. A derivative that is not held with the primary purpose of trading is split between current and non-current if there are any partial settlements/realizations within 12 months.

Viewpoint >>

In the scenarios described in the fact pattern, following will be the classification of derivative instrument:

1. This derivative would be classified as 'held for trading' in terms of that definition in Appendix A of Ind AS 109. However, irrespective of whether a derivative is, or is not, classified as 'held for trading', its current/non-current classification is driven by the criteria in paragraphs 66 and 69 of Ind AS 1. In this case, the derivative is not held primarily for the purpose of trading because it is held for hedging (risk management) purposes. The derivative will be held for a period exceeding 12 months from the end of the reporting period and it comprises annual cash flows. Therefore, the portion of the derivative which is expected to be realized or settled within 12 months is classified as current. The remainder is classified as non-current.
2. This derivative would not be classified as held for trading in terms of that definition in Appendix A of Ind AS 109 as it is designated in an effective hedging relationship. However, this is not relevant to the current/non-current classification of the derivative which is driven by the criteria in paragraphs 66 and 69 of Ind AS 1. In this case, the derivative is not held primarily for the purpose of trading because it is held for hedging (risk management) purposes. The derivative will be held for a period exceeding 12 months from the end of the reporting period and

it comprises annual cash flows. Therefore, the portion of the derivative which is expected to be realized or settled within 12 months is classified as current. The remainder is classified as non-current.

3. In this scenario, this derivative is not held primarily for the purpose of trading and therefore current/non-current presentation is assessed based on management's intention for holding it and its expected settlement/realization date(s). The derivative, having been separated from the host contract, is classified, and measured separately from the host. However, in most cases, it is not possible to settle/realize an embedded derivative separately from the host contract. In such cases, settlement/realisation will need to be considered in the context of the embedded derivative's link to the host contract. The portion which is expected to be realized or settled within 12 months is classified as current. The remainder is classified as non-current.
4. This embedded derivative is not presented separately in the balance sheet. The whole instrument, being the host and any cash flows related to the embedded derivative, would be presented as current or non-current based on an assessment of the combined instrument's cash flows and management's intention for entering the combined instrument. The portion which is expected to be realized or settled within 12 months is classified as current. The remainder is classified as non-current.

In situations where a derivative is not held primarily for the purpose of trading and is expected to give rise to net cash inflows within the next 12 months and net cash outflows thereafter (or vice versa) this raises the question of whether these cash flows should be presented separately for current/non-current purposes.

Assuming the overall derivative is a liability, the net cash inflows within 12 months do not meet the criteria to be recognized as an asset separately from the overall derivative liability as the entire derivative contract is a single unit of account. Therefore, for current/non-current presentation purposes, it should be assessed as a single unit rather than two separate units. The cash inflows in the first 12 months will not result in settlement of any amount of the derivative liability that is recognized on the balance sheet at the reporting date. Therefore, the derivative should not be grossed up for presentation purposes into a current asset and non-current liability; instead, the (net) overall liability would be presented as non-current. This illustration applies equally in scenarios where the overall derivative is an asset. However, if the data about the expected net inflows in one period and net outflows in another is material to the users of the financial statements, this information should be provided in the notes.



5

Key regulatory updates



This section provides an overview of the key regulatory updates for the period January 1, 2022 to March 31, 2022.

MCA UPDATES

MCA introduces the format of CSR report

MCA has amended the Companies (Accounts) Rules 2014, to introduce the Form CSR - 2 (i.e Report on CSR) for companies that are required to comply with CSR norms as prescribed under section 135(1) of the Companies Act, 2013. Details to be provided include information relating to CSR spent in the financial year pertaining to three preceding financial years, CSR spent in the financial year for ongoing projects of the preceding financial year(s) and information relating to capital assets. The Report on CSR should be furnished as an addendum to Form AOC-4 (i.e. Form for filing financial statements and other documents with the Registrar) for the financial year 2020-2021 and onwards. These amendments are effective from the date of their publication in the Official Gazette i.e., February 11, 2022.

To access the MCA notification, [click here](#).

MCA defers applicability of audit trail norms and filing of CSR form

MCA has amended the Companies (Accounts) Rules, 2014 to defer the:

- Applicability of using accounting software having audit trail features [as prescribed in proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014] to financial year commencing on or after the April 1, 2023 (earlier: April 1, 2022).
- Date of filing of Form CSR - 2 for the financial year 2020-2021 to May 31, 2022 (earlier: March 31, 2022).

The amendments come into force on the date of their publication in the Official Gazette i.e. March 31, 2022. To access the MCA notification [click here](#).

SEBI UPDATES

SEBI amends issue of capital and disclosure norms

SEBI has notified various amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. Key amendments pertain to:

- General conditions for initiating an IPO [Regulation 7(2)]
- Additional conditions for an offer for sale (Regulation 8A)
- Monitoring Agency (Regulation 41)
- Price band (Regulation 127)
- Revised allocation methodology for non-institutional investors [Regulation 129(3A)]
- Lock-in for anchor investors (Schedule XIII)
- Determining the floor price (Regulation 164A and 165)
- Valuation report (Regulation 166A)
- Committee of Independent Directors (Regulation 166A)
- Pledge of locked-in specified securities (Regulation 167A)
- Disclosure in offer document - certification of financial statements and issue of audit report (Schedule VI).

These amendments are effective from the date of their publication in the Official Gazette i.e., January 14, 2022.

To access the SEBI notification, [click here](#).

SEBI makes separation of posts of Chairman and the MD/CEO role voluntary

The provision for separation of the posts of Chairperson and the MD/CEO has been prescribed under Regulation 17(1B) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. This provision is applicable to top 500 listed companies from April 1, 2022. SEBI has amended the Listing Regulation to provide that this provision may not be a mandatory requirement and instead be made applicable to listed entities on a "voluntary basis." The amendments come into force on the date of their publication in the Official Gazette i.e. March 22, 2022. To access the SEBI notification [click here](#).



SEBI amends Listing Regulations

SEBI has amended SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Following are the key amendments:

- ▶ Appointment or re-appointment of a person, including as a managing director, whole-time director or a manager, who was earlier rejected by the shareholders at a general meeting, shall be done only with the prior approval of the shareholders [Regulation 17(1C)].
- ▶ Statement on deviations/ variation (Regulation 32)
- ▶ Transfer or transmission or transposition of securities (Regulation 40).

These amendments are effective from the date of their publication in the Official Gazette i.e. January 24, 2022.

To access the SEBI notification, [click here](#).

SEBI prescribes disclosure obligations of high value debt listed entities in relation to related party transactions ('RPTs')

Effective April 1, 2022 entities having listed specified securities are required to comply with the enhanced disclosure obligations on RPTs as prescribed under Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. These provisions also apply to ⁷high value debt listed entities ('HVDLE') on a 'comply or explain' basis until March 31, 2023, and on mandatory basis from April 1, 2023.

In order to operationalize the enhanced disclosure obligations for entities having listed specified securities, SEBI has already prescribed the;

- ▶ Information to be reviewed by the Audit Committee for approval of RPTs;
- ▶ Information to be provided to shareholders for consideration of RPTs and;
- ▶ Format for reporting of RPTs to the Stock Exchange.

Since the provisions relating to RPTs prescribed under Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is applicable to HVDLE, SEBI vide circular dated January 7, 2022 has decided to make the above enhanced disclosures applicable to high value debt listed entities.

To access the SEBI Circular, [click here](#).

SEBI amends norms relating to Mutual Funds

SEBI has amended SEBI (Mutual Funds) Regulations, 1996 to inter alia provide the following:

- ▶ Financial statements and accounts of the mutual fund schemes should be prepared in accordance with Indian Accounting Standards (Ind AS) and any addendum thereto, as notified by the Companies (Indian Accounting Standards) Rules, 2015 with effect from April 1, 2023. In case of any conflict

between the requirements of Ind AS and the above Regulations and guidelines issued thereunder, the asset management companies are required to follow the requirements specified under these Regulations.

- ▶ Mandating mutual fund trustees to secure unitholders' consent before winding up a scheme or prematurely redeeming units of a close-ended scheme. The trustees must obtain consent of the unit holders participating in the voting by simple majority on the basis of one vote per unit and publish the results of voting within 45 days from the publication of notice. The scheme will reopen if the trustees fail to obtain the consent.

These amendments are effective from the date of their publication in the Official Gazette i.e. January 25, 2022. To access the SEBI notification, [click here](#).

SEBI clarifies timing of submission of No Objection Certificate (NOC) from lending scheduled commercial banks/financial institutions/debenture trustee in relation to scheme of arrangements

SEBI vide circulars have provided that NOC from the lending scheduled commercial banks / financial institutions / debenture trustee should be:

- ▶ Submitted before the receipt of the No-objection letter from stock exchange in terms of Regulation 37(1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. (Refer SEBI circular dated January 3, 2022). To access the SEBI circular [click here](#).
- ▶ Obtained from not less than 75% of the secured creditors in value. (Refer SEBI circular dated February 1, 2022). To access the SEBI circular, [click here](#).

SEBI issues revised formats of disclosures in the abridged prospectus and front cover page of the offer document

SEBI vide circular dated February 4, 2022, has prescribed revised formats of disclosures in the abridged prospectus and front cover page of the offer document with an aim to further simplify, provide greater clarity and consistency in the disclosures across various documents and to provide additional but critical information in the abridged prospectus. This circular is applicable for all issues opening after the date of this circular (i.e. February 4, 2022). To access the circular, [click here](#).

SEBI requires constitution of Audit Committee at Asset Management Company (AMC) of a mutual fund

SEBI vide circular dated February 9, 2022 has decided that the AMCs of mutual funds should be required to constitute an Audit Committee. The role, responsibility, membership and other features of the Audit Committee of AMC are detailed in this circular. This circular will come into force from August 1, 2022. To access the circular, [click here](#).

⁷ A listed entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of INR 500 Crore and above.



SEBI amends Alternative Investment Funds (AIFs) norms

SEBI vide notification dated March 16, 2022 has inter alia provided that Category III AIFs shall invest not more than 10% of the investable funds in an Investee Company, directly or through investment in units of other AIFs and the large value funds for accredited investors of Category III AIFs may invest up to 20% cent of the investable funds in an Investee Company, directly or through investment in units of other AIFs. To access the SEBI circular [click here](#).

Change in control of Sponsor and/or Manager of AIF involving scheme of arrangement under Companies Act, 2013

SEBI vide circular dated March 23, 2022 has streamlined the process of providing approval to the proposed change in control of the Sponsor and/or Manager of the AIF involving scheme of arrangement which needs sanction of National Company Law Tribunal (NCLT) in terms of the provisions of the Companies Act, 2013. The provisions of this Circular will be applicable to all the applications for change in control of Sponsor and/or Manager of the AIF for which the scheme(s) of arrangement is filed with NCLT on or after April 1, 2022. To access the SEBI circular [click here](#).

SEBI amends norms relating to calculation of investment concentration norm for Category III AIFs

SEBI vide circular dated March 28, 2022 has inter alia specified that existing Category III AIFs may opt for calculating investment concentration norm based on investable funds with the approval of their trustees or board of directors or designated partners, as the case may be, and inform the same to their investors within 30 days from the date of the issuance of this circular. To access the SEBI circular [click here](#).

SEBI Board Meetings

SEBI in its board meetings have taken the following key decisions:

- ▶ SEBI approved amendments to SEBI (Debenture Trustee) Regulations, 1993, SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and SEBI (Listing Obligations and Disclosure Requirements), 2015 to align the regulatory framework for security cover, disclosure of credit ratings and due diligence certificate. To access the minutes of the SEBI Board Meeting dated February 15, 2022 [click here](#).
- ▶ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for simplification of procedure for transmission of securities.

Further, SEBI has decided to strengthen the regulatory framework for Collective Investment Schemes as prescribed in SEBI (Collective Investment Schemes) Regulations, 1999 in line with Mutual Fund regulations to remove regulatory arbitrage.

To access the minutes of the SEBI Board Meeting dated March 29, 2022 [click here](#).

RBI UPDATES

Prudential norms on income recognition, asset classification and provisioning pertaining to advances - Clarifications

RBI vide notification dated February 15, 2022 has issued clarifications in respect of prudential norms on income recognition, asset classification and provisioning pertaining to advances. One of the key clarification is that in case of borrowers having more than one credit facility from a lending institution, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.

To access the RBI notification [click here](#).

RBI amends norms relating to prudential treatment for investments in Venture Capital Funds (VCFs)

RBI vide notification dated March 23, 2022 has decided that the investment in Category I and Category II Alternative Investment Funds, which includes VCFs, shall receive the same prudential treatment as applicable for investment in VCFs. To access the RBI notification [click here](#).

ICAI UPDATES

ICAI issues Guidance Notes on Schedule III to the Companies Act, 2013

ICAI has issued Guidance Note on:

- ▶ Division I - Non Ind AS Schedule III,
- ▶ Division II - Ind AS Schedule III and
- ▶ Division III - NBFC who is required to comply with Ind AS

to the Companies Act, 2013; to provide guidance on the amendments in Schedule-III to the Companies Act, 2013 for preparation of the financial statements. To access the Guidance note on Division I - [click here](#), Division II - [click here](#) and Division III - [click here](#).

ICAI issued Handbook on Best Practices for Registered Valuers

ICAI has issued Handbook on Best Practices for Registered Valuers which is a treasury of best practices like fundamental ethical principles, Learnings from Peer Review findings, Learning from Judicial Pronouncements, Do's and Don'ts at the time of acceptance of assignment, undertaking the process of valuation as well as issuance of Valuation Report that can be adopted during valuation engagement by the Registered Valuers, including Global practices. To access the handbook, [click here](#).

ICAI issued booklet on LIBOR Transition - Valuation Guide

ICAI has issued Valuation Guide on LIBOR Transition which provides a brief summary of LIBOR history and way forward post its cessation and also highlights key points to be considered by Registered Valuers and Stakeholders as a part of the transition. To access the Valuation Guide, [click here](#).

ICAI issues concept paper on Inventory valuation and estimating discount rates in valuation

ICAI has issued a concept paper on Inventory valuation which provides guidance on book value of inventory and the fair value of inventory, and particularly between the fair value and net realisable value. To access, [click here](#).

ICAI has also issued a concept paper on Estimating Discount Rates in Valuation which provides an understanding of the methodology and concepts in determining an appropriate discount rate. To access, [click here](#).

Educational Material on Ind AS 41, Agriculture

ICAI has issued Educational Material on Ind AS 41, Agriculture to provide guidance by way of FAQs to explain the principles enunciated in the Standard. The Educational Material also provides guidance to the stakeholders on accounting and recognition of non-current assets or disposal groups held for sale and presentation and disclosure of discontinued operations. To access the Educational Material [click here](#).





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Devesh Prakash

Prabir N Das

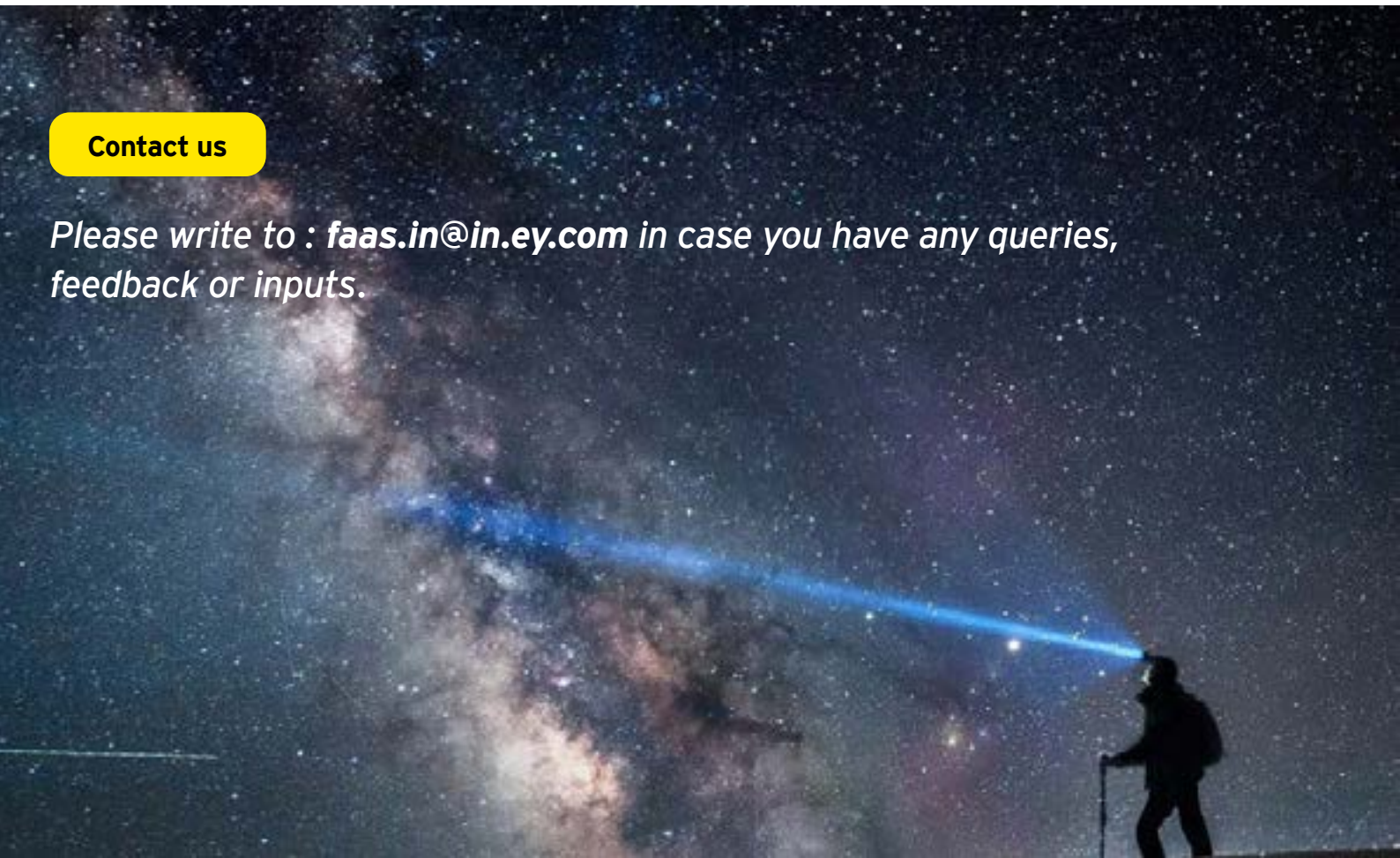
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