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FOUNDATION FOR AUDIT QUALITY

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Regulatory updates for the month of April 2023

11 May 2023

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Regulatory updates for April 2023

The regulatory updates publication issued by the Foundation for Audit Quality (FAQ) highlights the latest developments in accounting, auditing and regulatory developments in India and internationally.

In this edition

Key updates covered in this publication are as follows:

The Reserve Bank of India (RBI) issued the Framework for acceptance of green deposits (the framework). The framework would be applicable to the Regulated Entities (REs) w.e.f. 1 June 2023. Some of the key aspects enunciated in the Framework include:

- Frameworks/policies to be developed by REs
- Financing framework
- Use of proceeds
- Third-party verification/assurance and impact assessment
- Reporting and Disclosures

Additionally, various publications have been released by the regulators during this month. Some of these include:

- ICAI Technical Guide on Disclosure and Reporting of KPIs in Offer Documents
- Compendium of Indian Accounting Standards (Year 2023-2024)
- SEBI FAQs on Prohibition of Insider Trading Regulations
- IAASB consultation paper on its revised going concern standard

This issue of the regulatory updates publication covers some of the important updates on regulatory matters and other Discussion/Consultation papers and Publications for the period from **1 April 2023 to 30 April 2023**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.

India updates

International updates

Discussion/Consultation papers and Publications

India updates

Regulatory updates

Updates from MCA

Companies to apply to C-PACE for removal of names from register of companies

The Government of India, in its budget for FY 2022-23 had announced the establishment of the Centre for Processing Accelerated Corporate Exit (C-PACE) to facilitate and speed-up the voluntary winding up of companies from the currently required two years to less than six months. Subsequently, in March'23, the Ministry of Corporate Affairs (MCA) announced the establishment of C-PACE, at the Indian Institute of Corporate Affairs (IICA) at Manesar.

Currently, Section 248 of the Companies Act, 2013 read with Rule 4 of the Companies (Removal of Names of Companies from the Register of Companies) Rules, 2016 (removal of names of companies rules) inter alia requires companies to file an application in form STK-2 along with fees of INR10,000 to the **Registrar of Companies (ROC)** for removing the name of the company from the register of companies.

On 17 April 2023, the Ministry of Corporate Affairs (MCA), issued the Companies (Removal of Names of Companies from the Register of Companies) Amendment Rules, 2023 (the amendment), thereby making following key revisions to Rule 4:

- **Authority for removal of name:** With the establishment of the C-PACE, an application for removal of name of a company (under Section 248(2) of the Companies Act, 2013) should be made to the **Registrar, C-PACE** (and not to the ROC). This application will be made in Form No. STK-2 along with the prescribed fee *(emphasis added to highlight the change)*
- **Omitted certain requirements:** Earlier, the approval by way of a special resolution or by consent of 75 per cent of members in terms of paid-up share capital (special resolution or consent) was required.

This requirement has now been omitted.

Jurisdiction of C-PACE: It has been specified that for the purpose of exercising functional jurisdiction, disposal of applications and all related matters, the Registrar of C-PACE would be the RoC.

- **Revised forms:** Revised formats of the following forms have been issued:
  - **Form No. STK-2**: Application by a company to the ROC for removing its name from the register of companies
  - **Form No. STK-6:** Public notice in the matter of striking off the name of a company under Section 248(2) of the Companies Act, 2013, and
  - **Form No. STK-7:** Notice of striking off and dissolution.

Effective Date: The amendments would come into force w.e.f. 1 May 2023.

To access the text of the notification for establishment of C-PACE, please click here

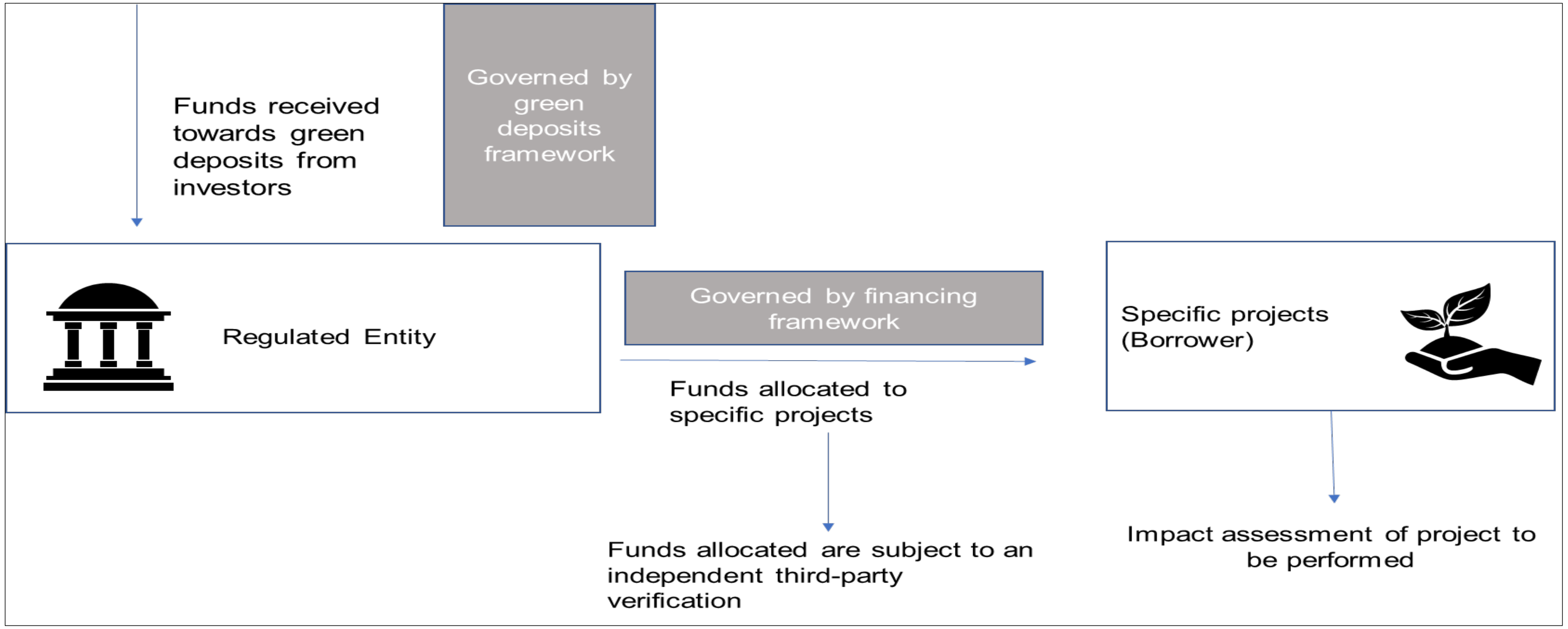
To access the text of the amendment, please click here

Updates from RBI

Framework for acceptance of green deposits

Green finance[1] has been progressively gaining traction in India and could play a pivotal role in mobilising resources and their allocation in green activities and projects. The Reserve Bank of India (RBI) observed that some Regulated Entities (REs) have already offered green deposits for financing green activities and projects. In this regard, on 11 April 2023, RBI issued a Framework for acceptance of green deposits (the Framework) for the REs. An illustration of how the system for green deposits works is given in figure 1 below:

Figure 1: An illustration of the system for green deposits



(Source: Foundation for Audit Quality's analysis, 2023)

[1] Green finance refers to the lending to and/or investing in the activities/projects meeting the prescribed requirements, that contribute to climate risk mitigation, climate adaptation and resilience, and other climate-related or environmental objectives-including biodiversity management and nature-based solutions.

Some of the key aspects enunciated in the Framework include:

- **Applicability and Effective Date:** The Framework would be applicable to the following Regulated Entities (REs):
  a. Scheduled Commercial Banks (SCBs) including Small Finance Banks (excluding Regional Rural Banks, Local Area Banks and Payments Banks), and
  b. All Deposit taking Non-Banking Financial Companies (NBFCs) registered with the RBI, including Housing Finance Companies (HFCs).

The framework would come into effect from 1 June 2023.

- **Frameworks/policies to be developed by REs:** REs would be required to develop and publish the following policies on their websites, after they are duly approved by the board of directors of the REs:
  - **Policy on green deposits:** The policy on green deposits would lay down all aspects pertaining to the issuance and allocation of green deposits. This includes the following:
    - Green deposits would be issued in INR as a cumulative/non-cumulative deposit
    - On maturity, the green deposits would be renewed or withdrawn, at the option of the depositor
    - The policy would also define the tenor, size, interest rate and other terms and conditions (as applicable to the RE).
  - **Financing framework:** REs would be required to put in place a board approved Financing Framework (FF) for effective allocation of green deposits. The FF would cover the following:
    - The eligible green activities/projects that could be financed out of proceeds raised through green deposits.
    - Process for identifying, evaluating and selecting the projects fit for lending/investing within the eligible categories. Also monitoring and validating the sustainability information provided by the borrower.
    - Allocation of proceeds of green deposits to the various projects and reporting of such allocation.
    - Third party verification or assessment of allocation of proceeds and assessment of impact associated with funds lent for or invested in green finance activities/projects.
    - Particulars of temporary allocation of green deposit proceeds[2], pending their allocation to eligible activities/projects.

The FF would also undergo a review by an external agency – this review report would also be made available on the RE's website.

[2] Temporary allocation of proceeds of green deposits would be only in liquid investments, which have a maximum original tenure up to one year.

- **Use of proceeds:** The Framework states that the REs must allocate the proceeds raised through green deposits towards the activities/projects which encourage energy efficiency in resource utilisation, reduce carbon emissions and greenhouse gases, promote climate resilience, adaptation and value, improve natural ecosystems and biodiversity. Some of the key sectors specified in this regard include:
  - Renewable energy
  - Energy efficiency
  - Clean transportation
  - Climate change adaptation
  - Sustainable water and waste management
  - Pollution prevention and control
  - Green buildings
  - Sustainable management of living natural resources and land use
  - Terrestrial and aquatic biodiversity conservation.
- **Third-party verification/assurance and impact assessment:** The Framework has provided that the allocation of funds raised through green deposits during a Financial Year (FY) would be subject to an independent third-party verification/assurance, on an **annual basis**. Further, the third-party verification/assurance report should, at the minimum, cover the following aspects:
  - Use of the proceeds to be in accordance with the eligible green activities/projects. The REs should monitor the end-use of funds allocated against the deposits raised, and
  - Policies and internal controls, including project evaluation and selection, management of proceeds and validation of sustainability information provided by the borrower to the REs and adequate reporting and disclosures.

Also, it has been specified that the REs, with the assistance of external firms, must annually assess the impact associated with the funds lent for, or invested in green finance activities/projects through an impact assessment report[3]. In this regard, the Framework states that the impact assessment exercise should be undertaken on a **voluntary basis for F.Y. 2023-24. However, this would become mandatory from F.Y. 2024-25 onwards.**

- **Reporting and Disclosures:** The Framework states that a review report should be placed by the RE before its board of directors within three months of the end of the FY, which must cover the following details:
  - Amount raised under green deposits during the previous FY
  - List of green activities/projects to which proceeds have been allocated, along with a brief description of the projects
  - Amounts allocated to the eligible green activities/projects, and

[3] An illustrative list of impact indicators has been provided in Annex 1 of the Framework.

- A copy of the third-party verification/assurance report and the impact assessment report.

Additionally, disclosures are required to be provided in the annual financial statements of the RE regarding the use of green deposit funds in the format prescribed by the Framework.

To access the text of the Framework, please click here

Action Points for Auditors

As part of the framework, external reviewers/agencies/consultants would need to be involved in the following aspects:

- Reviewing the FF developed by the RE and issuing a review report on the same
- Verify the allocation of funds raised by way of green deposits towards green initiatives or activities
- Perform an impact assessment along with the RE (on an annual basis) of the green finance activities or projects where the RE has invested or has lent funds which have been raised through green deposits.

Also, clarification is required on whether the review report to be placed by the RE before its board of directors within three months on an annual basis providing certain information would be subject to an external review by auditors or an external agency.

International update

Regulatory updates

Updates from IESBA

IESBA has strengthened global ethics standards to respond to transformative effects of technological innovation

In April 2023, the International Ethics Standards Board for Accountants (IESBA) released final revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code). These revisions increase the Code's robustness and expand its relevance in a world being fundamentally reshaped by rapid technological advancements and accelerating digitalisation.

These technology-related revisions will guide the ethical mindset and behavior of professional accountants in both business and public practice as they take advantage of the opportunities created by technology and adapt to new technology. Developed to remain relevant and applicable in the ever-evolving landscape of technology transformation, the revisions apply to the use of any technology, including to the extent possible, future technologies.

The revisions mainly include the following:

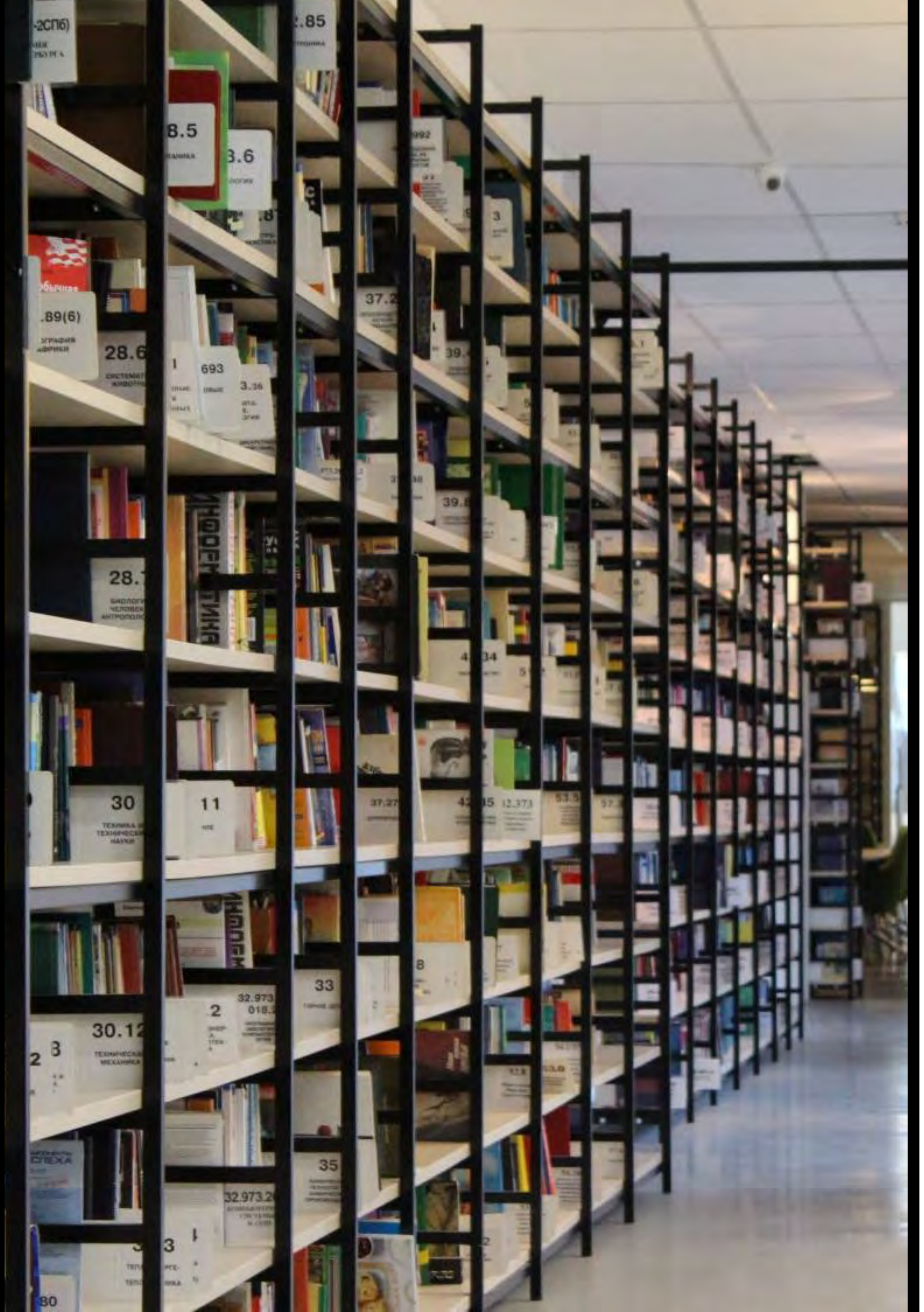
- Strengthen the Code in guiding the mindset and behavior of professional accountants when they use technology
- Provide enhanced guidance fit for the digital age in relation to the fundamental principles of confidentiality, and professional competence and due care, as well as in dealing with circumstances of complexity
- Strengthen and clarify the International Independence Standards (IIS) by addressing the circumstances in which firms and network firms may or may not provide a technology-related non-assurance service to an audit or assurance client.

The revisions to the IIS will be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024. The other revisions to the ethics provisions of the Code will be effective as of December 15, 2024. Early adoption is permitted.

To access the text of the revisions to the Code, please click here

Discussion/Consultation papers and Publications

- Publications – India
- Publications – International



Publications – India

The table below provides an overview of some important publications released by various regulators during this month:

Regulator	Publication	Particulars
ICAI	**Technical Guide on Disclosure and Reporting of Key Performance Indicators (KPIs) in Offer Documents**	The Key Performance Indicators (KPIs) refer to the numerical measures of an issuer company's historical financial or operational performance and financial or operational positions. The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) mandates the disclosure of such KPIs in the offer document by the issuer company under the heading **'Basis for Issue Price'**. Further, the KPIs disclosed in the offer document should be approved by the audit committee of the issuer company and also certified by the statutory auditor(s) before such disclosure is made. In this regard, on 6 April 2023, the Institute of Chartered Accountants of India has issued the Technical Guide on Disclosure and Reporting of KPIs in Offer Documents (Technical Guide). Some of the key guidance provided in the Technical Guide includes: - Recent amendments to the ICDR Regulations in relation to disclosure of KPIs - Disclosure/relevance of KPIs - Roles and responsibilities of bankers, issuer company and practitioners - Liability for misstatement in prospectus - Illustrative format of independent auditor's/practitioner's report on KPIs To access the text of the Technical Guide, please click here
ICAI	**Compendium of Indian Accounting Standards (Year 2023-2024)**	Recently, the Institute of Chartered Accountants of India (ICAI) issued the Compendium of Indian Accounting Standards (Ind AS) (Year 2023-24) – Volume I and Volume II publication (the compendium). The compendium encompasses all the amendments issued by the Ministry of Corporate Affairs (MCA) till date which are effective as of 1 April 2023. To access the text of the compendium, please click here

Publications – India

Regulator	Publication	Particulars
ICAI	**Handbook on Disallowance of Expenses under the head Income from Business and Profession**	Recently, ICAI released a Handbook on Disallowance of Expenses under the head Income from Business and Profession (the handbook). It provides basic knowledge and guidance on disallowance of expenses under the Income Tax Act, 1961. The handbook incorporates specific provisions for disallowance of expenses, which include: - Section 40 – Amounts not deductible - Section 40A – Expenses or payments not deductible in certain circumstances - Section 43B – Certain deductions to be only on actual payment To access the text of the handbook, please click here
ICAI	**Handbook on Income Tax – Tax Collection at Source**	Collection of tax at source (TCS) is a set of provisions requiring taxpayers to collect tax at source while collection of proceeds of sale. A complete set of provisions for prescribing situations for TCS, its rate and administrative provisions are included in this handbook. To access the text of the handbook, please click here
SEBI	**FAQs on Prohibition of Insider Trading Regulations**	In order to keep pace with the evolving market dynamics, the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) have been amended from time to time. In 2021, SEBI had also issued certain FAQs to explain the various requirements of the PIT Regulations. In this regard, recently SEBI has revised and updated the aforementioned FAQs, particularly w.r.t. structured digital database and contra-trade. To access the text of the revised FAQs, please click here

The table below provides an overview of some important publications released by various regulators during this month:

Regulator	Publication	Particulars
COSO	**Achieving Effective Internal Control Over Sustainability Reporting (ICSR)**	On 30 March 2023, the Committee of Sponsoring Organisations (COSO) issued the supplemental guidance, 'Achieving Effective Internal Control Over Sustainability Reporting' for organisations to achieve effective Internal Control over Sustainability Reporting (ICSR) based on the globally recognised COSO Internal Control-Integrated Framework (ICIF). The guidance includes several key themes as organisations and practitioners begin or continue their journeys towards establishing and maintaining an effective system of internal control over financial and sustainable business information. It is based on COSO's 2013 framework for evaluating and improving internal control systems over all types of business information used for external reporting and enterprise decision-making. To access the text of the guidance, please click here
IESBA	**Proposed IESBA strategy and work plan, 2024 – 2027 (Towards a more sustainable future: Advancing the centrality of ethics)**	The proposed strategy and work plan sets out the IESBA's vision, strategic drivers and themes to guide its actions over the next strategy period of 2024-2027, as well as a number of topics the IESBA has identified as potential new work streams for the period. While the International Code of Ethics for Professional Accountants (including International Independence Standards) has been significantly strengthened in recent years, the IESBA believes it is important to continue to evolve the Code with developments in business and the external environment to maintain its robustness and relevance, a need further emphasized by continuing corporate failures around the world that erode public trust in the accountancy profession. Among other actions to achieve its strategic vision, the IESBA plans to devote significant efforts to expanding and strengthening its working relationships with a wide range of stakeholders. Additionally, the IESBA plans to continue to strengthen its coordination with the International Auditing and Assurance Standards Board (IAASB), as well as other international and national standard setters, to enhance the Code's interoperability with reporting and assurance standards within the financial and sustainability reporting ecosystems. Comments are invited by 7 July 2023. To access the text of the proposed work plan, please click here

Regulator	Publication	Particulars
IAASB	**IAASB issues consultation paper on its revised going concern standard**	IAASB has issued amendments to its current standard on going concern. The proposed changes aim to: • Promote consistent practice and behavior and facilitate effective responses to identified risks of material misstatement related to going concern; • Strengthen the auditor's evaluation of management's assessment of going concern, including reinforcing the importance, throughout the audit, of the appropriate exercise of professional skepticism; and • Enhance transparency with respect to the auditor's responsibilities and work related to going concern where appropriate, including strengthening communications and reporting requirements. Comments are requested by 24 August 2023. To access the text of the consultation paper, please click here
FASB	**Proposed Accounting Standards Update (ASU): Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60)**	***Highlights of the key points in the proposed ASU*** The amendments in this proposed Update would apply to crypto assets that meet all the following criteria: 1. Meet the definition of intangible asset as defined in the Codification Master Glossary 2. Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets 3. Are created or reside on a distributed ledger based on blockchain technology 4. Are secured through cryptography 5. Are fungible 6. Are not created or issued by the reporting entity or its related parties. An entity would be required to subsequently measure crypto assets that meet those criteria at fair value with changes recognised in net income each reporting period. Comment deadline: 6 June 2023 To access the text of the proposed accounting standard update, please click here

Regulator	Publication	Particulars
FASB	**Proposed accounting standards update: Income taxes (Improvements to income tax disclosures)** **(Subtopic 740)**	***Highlights of the key points in the proposed ASU*** The amendments in this proposed Update would require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than five percent of the amount computed by multiplying pretax income [or loss] by the applicable statutory tax rate). For entities other than public business entities, the amendments in the proposed update would require qualitative disclosure about specific categories of items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. Comment deadline: 30 May 2023 To access the text of the proposed accounting standard update, please click here

Matters for auditors’ attention

Matters for auditors' attention

Regulator	Publication	Particulars
ICAI	**FAQs relating to professional ethics of members pertaining to bank assignments**	Recently, ICAI issued certain FAQs relating to professional ethics of members pertaining to bank assignments (the FAQs). Some key matters clarified by the FAQs include: **a. Long Form Audit Report (LFAR):** One of the FAQs mentions that: *Whether the concurrent auditor of a branch of a bank can undertake the assignment of LFAR of the same branch?* In this regard, it has been provided that the concurrent auditor of a branch can undertake the assignment of LFAR only with respect to branches which are not subject to statutory audit. With regard to other branches, the LFAR assignment should be undertaken by the statutory auditor. **b. Miscellaneous certification:** The FAQs clarify that the concurrent auditor/internal auditor may undertake the assignment of certification for a bank branch, only if the certificates are addressed to the bank's management i.e., not addressed to the statutory auditor/regulator etc. **c. Certification of audited financial statements:** The FAQs state that a concurrent auditor/internal auditor can neither perform statutory audit of the financial statements of a bank branch, nor certify them as audited financial statements. To access the text of the FAQs, please click here
ICAI	**The ICAI will be setting up an expert panel for addressing queries related to statutory audit pertaining to auditing aspects**	The ICAI has formed an Expert Panel (the panel) in order to provide necessary support to the members in practice with respect to their queries on auditing aspects (pertaining to statutory audits) with the objective of enhancing audit quality. The panel will address the queries from 17th April, 2023 till 30th September, 2023. The queries are to be sent at email address: auditfaq@icai.in.

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