

Regulatory updates for the month of December 2023

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Introduction

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. This month's edition covers some of the important updates on accounting, auditing and regulatory matters and other discussion/consultation papers from regulators for the period from 1 December 2023 to 31 December 2023.

Some of the key topics covered in this edition include:

- The Securities and Exchange Board of India (SEBI) has issued certain modifications/additions to the framework for Social Stock Exchange (SSE). These include disclosure requirements of past social impact, procedures regarding the public issuance of Zero Coupon Zero Principal (ZCZP) instruments and other conditions relating to issuance of ZCZP instruments
- The Reserve Bank of India (RBI) issued Frequently Asked Questions (FAQs) on the framework for acceptance of green deposits. These FAQs provide certain clarifications on the existing framework that RBI had issued in 2023
- Consultation paper issued by SEBI on verification of market rumours.



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Updates from SEBI

Framework for Social Stock Exchange

On 19 September 2022, SEBI had notified the detailed framework on Social Stock Exchange (SSE)¹. Based on the feedback received from various stakeholders, on 28 December 2023, SEBI issued certain modifications/additions to this framework. The key amendments include:

- **Disclosure of details of past social impact:** As part of the minimum initial disclosure requirements for Not-for-Profit Organisations (NPOs) raising funds through the issuance of Zero Coupon Zero Principal (ZCZP) instruments, details of past social impact carried out should be provided. In this regard, SEBI has now clarified that the past social impact should highlight trends in key metrics/parameters relevant to the NPO for which it seeks to raise funds on SSE, number of beneficiaries, cost per beneficiary and administrative overheads.
- **Procedure for public issuance of ZCZP instruments:** SEBI has now prescribed the procedure for public issuance of ZCZP instruments by NPOs and states that:
 - NPOs need to file the draft fund-raising document with the SSE, where it is registered, and an application seeking in-principle approval for listing of its ZCZP instruments on the SSE

- The draft fund raising document should be made available on the website of the SSE and the NPO for a period of at least 21 days for public comments
- The SSE should provide its observation on the draft fund raising document within a time period of 30 days from the date of filing of the draft fund raising document or receipt of clarification, if any, sought by the SSE, whichever is later
- The NPO must incorporate the observations of the SSE in the draft fund raising document and file the final fund raising document, prior to opening the issue
- SEBI would prescribe the disclosures to be included in the draft and final fund raising documents. The SSE could mandate additional disclosures in this regard.

- **Other conditions relating to issuance of ZCZP instruments:** SEBI has laid down certain other conditions w.r.t. the issuance of ZCZP instruments. Some of these include:
 - ZCZP instruments would be issued in dematerialised form only
 - They would not be transferable from the original subscriber/holder till the expiry of the tenure of the said instrument
 - The minimum issue size would be **INR50 lakhs** (earlier INR1 crore)
 - The minimum application size would be **INR10 thousand** (earlier INR2 lakh)



¹ The framework on SSE included the following:

- Minimum requirements to be met by a Not-for-Profit Organization (NPO) for registration with SSE
- Minimum Initial Disclosure Requirement for NPOs that are raising funds through the issuance of Zero Coupon Zero Principal (ZCZP) instruments
- Annual disclosure by NPOs that are either registered on or raise funds through the SSE
- Disclosure of Annual Impact Report (AIR) by all social enterprises which have registered or raised funds using SSE
- Requirement to issue a statement of utilisation of funds

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- The minimum subscription required would be **75 per cent** of the funds proposed to be raised through issuance of ZCZP instruments. In case of undersubscription of the funds, stipulated details would need to be provided in the final fund-raising document.

Effective date: The provisions of the circular are effective immediately, i.e., 28 December 2023.

To access the text of the circular, please [click here](#)

Action points for auditors

NPOs desirous of raising funds by way of issue of ZCZP instruments must put in place processes and system of internal controls to ensure compliance with the SEBI framework. This may involve significant time and effort by the NPOs, involvement of specialists to ensure compliance with the new framework, etc. Auditors of NPOs should ensure compliance with the new requirements of the SSE framework.

FAQs on registration as an ESG Rating Provider (ERP)

In July 2023, SEBI had issued the Master Circular for ESG Rating Providers (ERPs) (the master circular). The master circular specified the procedural/disclosure requirements and obligations with respect to ERPs. SEBI has now issued certain Frequently Asked Questions (FAQs) on the registration as an ERP. Some of these relate to:

- Meaning and scope of ESG rating
- Eligibility criteria for becoming an ERP
- Requirement for registration of ERP before functioning in India
- Meaning of Indian and global asset classes in the context of ESG ratings
- Meaning and requirements of Core ESG rating
- Specific transparency and disclosure requirements for ERPs with respect to publishing ESG ratings, etc.

To access the text of the FAQs, please [click here](#)



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Updates from RBI

Guidelines on investments in AIFs

Regulated Entities (REs)² make investments in units of Alternative Investment Funds (AIFs), as part of their regular investment operations. However, RBI observed certain transactions that raised regulatory concerns. These transactions entail substitution of direct loan exposure of REs to borrowers, with indirect exposure through investments in units of AIFs³.

In order to address these concerns, RBI, vide a notification dated 19 December 2023 has prescribed certain important guidelines. These mainly pertain to:

- **Downstream investments:** REs should not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company⁴ of the RE
- **Liquidation of investments and provisioning requirements:** If an AIF scheme, in which the RE is already an investor, makes a downstream investment in any such debtor company, then the RE must liquidate its investment in the scheme within **30 days** from the date of such downstream investment by the AIF. In case REs are not able to liquidate their investments within the aforementioned time limit, then they would be required to make **100 per cent provision** on such investments



² Regulated entities, for the purpose of this circular, include all commercial banks (including small finance banks, local area banks and regional rural banks), all primary (urban) co-operative banks/state co-operative banks/ central co-operative banks, all-India financial institutions and all non-banking financial companies (including housing finance companies)

³ To give an example, an RE has extended a loan to a debtor (A Ltd.). The same RE invests in AIFs which further invests or subscribes to the instruments of A Ltd.. Thus A Ltd. obtained funds from AIFs and could use it to pay back the REs, which would result in evergreening of loans extended by the REs.

⁴ The debtor company of the RE, for this purpose, would mean any company to which the RE currently has or previously had a loan or investment exposure anytime during the preceding 12 months.

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- **Investment by REs in the subordinated units of an AIF scheme with 'priority distribution model':** RBI has specified that the investment done by REs in the subordinated units of any AIF scheme with a 'priority distribution model' should be subject to **full deduction** from RE's capital funds.

Effective date: The above guidelines are applicable with immediate effect, i.e., 19 December 2023.

To access the text of the notification, please [click here](#)

Practitioners that are auditing the AIFs, should be mindful of arrangements between an investor RE, wherein it directs the AIFs to make investments in a particular entity (or a particular group of entities).

Practitioners that are auditing the investee company, should be mindful of situations where the investee receives investments from an AIF, and loan repayments have been made therefrom.

Action points for auditors

The above guidelines would affect the investment balance and provisioning amount of banks and NBFCs. Auditors should discuss these with the management of REs and evaluate their impact on the financial statements for the year ending 31 March 2024.

Practitioners that are auditing the REs, the AIFs and the investee companies, should apply professional skepticism to ensure compliance with this circular.

Where REs have invested in AIFs, the auditors should review the downstream investments of the AIF and evaluate whether there is any element of evergreening involved. Additionally, it should be verified whether in accordance with the RBI circular, a provision against investments in AIF has been made by the RE where required.



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FAQs on framework for acceptance of green deposits

On 11 April 2023, RBI had issued the Framework for acceptance of Green Deposits (the framework). The framework is effective from 1 June 2023 and aims to direct the flow of funds to sustainable projects and initiatives, protect the interest of the depositors as well as address greenwashing concerns.

Recently, RBI issued certain FAQs for ease of implementation of the said framework. Some of the important issues addressed by the FAQs include:

- **Scope of the framework:** The framework is applicable only in respect of the green deposits raised by Regulated Entities (REs) on or after **1 June 2023**⁵. Further, it is not permissible for the REs to finance green activities/projects first and raise green deposits thereafter.
- **Investment of unallocated proceeds of green deposits:** As per the framework, unallocated proceeds of green deposits can be invested in liquid instruments with maturity up to one year. In this regard, RBI has clarified that:
 - Liquid instruments refer to the 'Level 1 High Quality Liquid Assets' as per the RBI guidelines,
 - REs can temporarily park proceeds of green deposits, pending allocation towards green activities/projects, in liquid instruments with maximum maturity up to one year (to be specified under the financing framework), and

- The framework does not specify any penalty for non-allocation of proceeds towards green activities/projects. However, it would be subject to supervisory review.

- **Interest on green deposits:** REs are not permitted to offer differential interest rate on green deposits. Further, there is no restriction on premature withdrawal of green deposits. Further, such premature withdrawal would not have any bearing on activities/projects undertaken using the proceeds of the green deposits.
- **Eligibility criteria for external review and impact assessment:** The FAQs state that REs can engage with any appropriate and reputed domestic/international agency for external review, third-party verification/assurance and impact assessment.
- **Foreign banks:** It has been specified that foreign banks can have a common global policy for green deposits raised in India after 1 June 2023.
- **Denomination of green deposits:** The FAQs clarify that green deposits can be denominated in Indian Rupees only.

To access the text of the FAQs, please [click here](#)

⁵ It has been clarified that it is not mandatory for REs to raise green deposits, however, in case REs intend to raise green deposits from their customers, they should follow the framework prescribed.



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Updates from IAASB

International Standard on Auditing for Audits of Less Complex Entities

Recently, the International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCEs). It is a new standalone auditing standard and contains all requirements necessary to obtain **reasonable assurance** regarding whether the financial statements as a whole are free from material misstatements, whether due to fraud or error. The ISA for LCEs cannot be used if:

- Law or regulation prohibits the use of the ISA for LCE or specifies the use of auditing standards other than ISA for LCE for the audit of the financial statements in that jurisdiction
- Entity is a listed entity
- Entity falls into one of the following classes:
 - An entity one of whose main functions is to take deposits from the public
 - An entity one of whose main functions is to provide insurance to the public, or
 - A class of entities where use of the ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.

- Certain group audits

The standard comprises of nine parts:

- **Part 1:** Fundamental concepts and general principles
- **Part 2:** Audit evidence and documentation
- **Part 3:** Engagement quality management
- **Part 4:** Acceptance or continuance
- **Part 5:** Planning
- **Part 6:** Risk identification and assessment
- **Part 7:** Responding to assessed risks of material misstatement
- **Part 8:** Concluding, and
- **Part 9:** Forming an opinion and reporting.

Effective date: The ISA for LCEs would be effective for audits of financial statements for periods beginning on or after 15 December 2025. Early adoption is permitted.

To access the text of the standard, please [click here](#)



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Updates from FASB

Accounting Standard Update on crypto assets

Recently, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update (ASU), *Intangibles – Goodwill and Other-Crypto Assets (Subtopic 350-60)* to improve the accounting for and disclosure of certain crypto assets. The amendments in the ASU apply to all assets that meet **all** of the following criteria:

- Fall within the definition of intangible asset as defined in the FASB Accounting Standards Codification
- Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
- Are created or reside on a distributed ledger based on blockchain or similar technology
- Are secured through cryptography
- Are fungible, and
- Are not created or issued by the reporting entity or its related parties.

These criteria together are referred to as the 'crypto assets criteria'.

Some of the key amendments introduced pertain to:

- **Accounting for crypto assets:** An entity is required to subsequently measure assets that meet the crypto assets criteria at fair value with changes recognised in net income each reporting period.

- **Presentation of crypto assets:** An entity should present – crypto assets measured at fair value separately from other intangible assets in the balance sheet, and changes from the remeasurement of crypto assets separately from changes in the carrying amounts of other intangible assets in the income statement (or statement of activities for not-for-profit entities).
- **Presentation of cash receipts arising from crypto assets:** The amendments require specific presentation of cash receipts arising from crypto assets that are received as non-cash consideration in the ordinary course of business (or as a contribution, in the case of a not-for-profit entity) and are converted nearly immediately into cash.
- **Disclosure requirements:** The amendments prescribe that for **annual and interim reporting periods**, an entity should disclose:
 - a. The name, cost basis, fair value, and number of units for each significant crypto asset holding and the aggregate fair values and cost bases of the crypto asset holdings that are not individually significant
 - b. For crypto assets that are subject to contractual sale restrictions – the fair value of those crypto assets, the nature and remaining duration of the restriction(s), and the circumstances that could cause the restriction(s) to lapse.



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Further, for **annual reporting periods**, the amendments require the following information to be disclosed:

- A roll-forward, in aggregate, of activity in the reporting period for crypto asset holdings, including additions (with a description of the activities that resulted in the additions), dispositions, gains, and losses
- For any dispositions of crypto assets in the reporting period, the difference between disposal price and the cost basis and a description of the activities that resulted in the dispositions
- If gains and losses are not presented separately, the income statement line item in which those gains and losses are recognised, and
- The method for determining the cost basis of crypto assets.

Effective date: The amendments are effective for all entities for fiscal years beginning after 15 December 2024, including interim periods. Early adoption is permitted for both interim and annual financial statements that have not yet been issued.

To access the text of the ASU, please [click here](#)

Accounting Standard Update for enhancing income tax disclosures

Recently, FASB issued the ASU, *Income Taxes (Topic 740)* on improvements to income tax disclosures. The ASU improves the transparency of income tax disclosures by requiring:

- Consistent categories and greater disaggregation of information in the rate reconciliation, and
- Income taxes paid disaggregated by jurisdiction.

Further, the ASU also includes certain other amendments to improve the effectiveness of income tax disclosures. These include:

- Requiring all entities to disclose – income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign, and income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign taxes
- Eliminating the requirement to disclose the nature and estimate of the range of reasonably possible change in the unrecognised tax benefits balance in the next 12 months, or make a statement that an estimate of the range cannot be made



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- Removing the requirement to disclose the cumulative amount of each type of temporary difference when a deferred tax liability is not recognised, because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

Effective date: For public business entities, the amendments are effective for fiscal years beginning after 15 December 2024. For other than public business entities, the amendments are effective for annual periods beginning after 15 December 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance.

To access the text of the ASU, please [click here](#)



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Updates from ISSB

ISSB releases resources to facilitate implementation of IFRS S1 and S2

In June 2023, the International Sustainability Standards Board (ISSB) had issued the first two IFRS Sustainability Disclosure Standards – IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2, *Climate-related Disclosures*, which come into effect from January 2024 onwards. In order to facilitate smooth implementation of the standards by the companies, on 14 December 2023, ISSB has released certain important resources. These include:

- **Enhanced SASB standards:** The ISSB has issued certain amendments to the non-climate related content in the Sustainability Accounting Standards Board (SASB) standards, with a view to enhance their international applicability. The amendments introduced mainly remove and replace **jurisdiction-specific references**, without significantly altering industries, topics or metrics. The key amendments issued include:
 - Replacing jurisdiction-specific terms of reference with internationally applicable references for standards, definitions or calculation methods
 - Providing general descriptions for standards, definitions or calculation methods to replace jurisdiction-specific terms of reference

- Permitting preparers to use applicable jurisdictional laws or regulations to replace jurisdiction-specific terms of reference and align with preparers' legal and regulatory compliance requirements
- Removing certain jurisdiction-specific metrics that are unsuitable for international application, had no identified international equivalents or were not adaptable to general descriptions.
- **New educational material for IFRS S2:** Additionally, ISSB has issued the new education material to help companies consider the nature and social aspects of climate-related risks and opportunities, when applying IFRS S2. The material sets out three examples, thereby illustrating how companies need to approach certain aspects of their climate-related disclosures.

To access the text of the resources, please [click here](#)

Action points for auditors

Currently, top 1,000 listed companies in India are required to furnish the Business Responsibility and Sustainability Reporting (BRSR) to the stock exchange(s). As per the BRSR guidance note, listed companies could prepare and disclose sustainability reports (as part of annual report) based on internationally accepted reporting framework such as the Sustainability Accounting Standards Board (SASB), Global Reporting Initiative (GRI), etc. The mandatory reporting under BRSR does not restrict companies from adopting the ISSB framework and thus, companies may look to adopt these standards on a voluntary basis. In this regard, members should get an understanding of the aforementioned resources and discuss them with the management of companies that might be applying the ISSB standards in near future.



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The table below provides an overview of some important exposure drafts/consultation papers released by various regulators during this month:

Regulator	Publication	Particulars
SEBI	Consultation Paper on review of provisions of NCS Regulations and LODR Regulations for ease of doing business and introduction of fast track public issuance of debt securities	<p>One of the key announcements in the Union Budget for FY 2023-24 was to simplify, ease and reduce the cost of compliance and promote ease of doing business. In this regard, a working group was formed to suggest measures for listed debt issuers and review the applicability of the provisions under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the LODR Regulations) and the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (the NCS Regulations).</p> <p>Consequently, based on the feedback received from different stakeholders, in December 2023, SEBI issued a consultation paper on:</p> <ul style="list-style-type: none"> • Review of provisions of NCS Regulations and LODR Regulations for ease of doing business, and • Introduction of fast track public issuance of debt securities. <p>The comment period ended on 30 December 2023.</p> <p>To access the text of the consultation paper, please click here</p>
SEBI	Consultation Paper on changes in the regulatory framework for Special Situation Funds (SSFs), a sub-category of Category I AIFs, necessary to facilitate SSFs to acquire stressed loans in terms of the RBI (Transfer of Loan Exposures) Directions, 2021 (consultation paper)	<p>The challenges of stressed loans faced by the Indian financial system necessitated regulators exploring AIFs as a potential source of risk capital to supplement the efforts of Asset Reconstruction Companies ('ARCs') in resolution of stressed loans. This infusion of capital could help the underlying companies in distress, which are unable to function optimally and generate value for stakeholders due to over-leveraging, but have the potential to turnaround.</p> <p>In this regard, recently, SEBI issued the consultation paper to amend the SEBI (Alternative Investment Funds) Regulations, 2012 (the AIF Regulations) to make changes in the regulatory framework for SSFs, in order to facilitate the SSFs in acquiring stressed loans in terms of the RBI (Transfer of Loan Exposures) Directions, 2021.</p> <p>The comment period ended on 27 December 2023.</p> <p>To access the text of the consultation paper, please click here</p>

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Regulator	Publication	Particulars
SEBI	Consultation Paper on amendments to SEBI Regulations w.r.t. verification of market rumours	<p>The first proviso to Regulation 30(11) of the LODR Regulations requires listed entities to verify and confirm, deny or clarify market rumours which are reported in the mainstream media. This requirement would be applicable to top 100 listed entities w.e.f. 1 February 2024 and to top 250 listed entities w.e.f. 1 August 2024, as specified by the SEBI circular dated 30 September 2023.</p> <p>In this regard, on 28 December 2023, SEBI has issued a Consultation Paper on proposed amendments to SEBI Regulations w.r.t. verification of market rumours (the consultation paper). The consultation paper seeks inputs on the following proposals:</p> <ol style="list-style-type: none"> Material price movement should be the criteria to verify market rumours instead of material events in terms of Regulation 30 of the LODR Regulations Mechanism to ensure that unaffected price is considered w.r.t. the transactions relating to securities of a listed entity upon confirmation of market rumour Obligation on promoters, directors, Key Managerial Personnel (KMP) and senior management to provide adequate, accurate and timely response to the queries raised or explanation sought in respect of market rumours by the listed entity in order to ensure compliance with Regulation 30(11) of the LODR Regulations Classification of information which was not verified by listed entities as unpublished price sensitive information. <p>The consultation paper is open for comments up to 18 January 2024.</p> <p>To access the text of the consultation paper, please click here</p>
ICAI	Exposure Draft of Guidance Note on audit of banks (2024 edition)	<p>Recently, the Institute of Chartered Accountants of India (ICAI) issued the Exposure Draft (ED) of Guidance Note on audit of banks (2024 edition). The ED comprises of the following two sections:</p> <ul style="list-style-type: none"> Section A – Statutory Central Audit Section B – Bank Branch Audit <p>The comment period ended on 31 December 2023.</p> <p>To access the text of the ED, please click here</p>

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ICAI	Exposure Draft on Financial Instruments with Characteristics of Equity – Proposed amendments to IAS 32, IFRS 7 and IAS 1	<p>In view of the challenges in classifying complex financial instruments that combine some characteristics of both debt – financial liabilities and ordinary shares – equity instruments, ICAI, on 12 December 2023 issued the Exposure Draft (ED) on Financial Instruments with Characteristics of Equity – Proposed amendments to IAS 32, IFRS 7 and IAS 1. The proposals in the ED include:</p> <ul style="list-style-type: none"> - Clarification of the underlying classification principles of IAS 32, <i>Financial Instruments: Presentation</i> to help companies distinguish between financial liabilities and equity - Disclosures to further explain complexities around instruments that have both financial liability and equity characteristics, and - Presentation requirements for amounts – including profit and total comprehensive income – attributable to ordinary shareholders separately from amounts attributable to other holders of equity instruments. <p>The ED is open for comments up to 10 February 2024.</p> <p>To access the text of the ED, please click here</p>
FASB	FASB seeks input on a new chapter of its conceptual framework	<p>Recently, FASB proposed new chapter of its Conceptual Framework – Proposed Statement of Financial Accounting Concepts, Concepts Statement No. 8, <i>Conceptual Framework for Financial Reporting – Chapter 6: Measurement</i> relating to the measurement of items recognised in financial statements.</p> <p>The proposed chapter would establish concepts that FASB would consider in developing standards of financial accounting and reporting. It provides concepts to consider when choosing a measurement system for an asset or a liability recognised in general purpose financial statements. It describes:</p> <ul style="list-style-type: none"> • Two relevant and representationally faithful measurement systems – the entry price system and the exit price system and • Considerations when selecting a measurement system. <p>The comment period is open up to 20 March 2024.</p> <p>To access the text of the new chapter, please click here</p>

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The table below provides an overview of some important matters for the consideration of Chartered Accountants:

Regulator	Publication	Particulars
ICAI	FAQs on notification dated 3 May 2023 under the Prevention of Money Laundering Act, 2002	<p>The Committee on Commercial Laws, Economic Advisory and NPO Cooperative of ICAI, on 7 December 2023, released information on red flag indicators, issued by FIU-IND w.r.t. the notification dated 3 May 2023 under the Prevention of Money Laundering Act, 2002 (the notification). ICAI has now issued certain FAQs on the notification in order to guide the members regarding the potential implications and responsibilities, including:</p> <ul style="list-style-type: none">• Scope of covering Chartered Accountants under the money laundering offences• Obligations of reporting entities under the PMLA• Meaning of 'transaction'• Dealing with non-compliances, etc. <p>To access the text of the FAQs, please click here</p>



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