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Regulatory updates for the month of June 2023

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Regulatory updates for June 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:

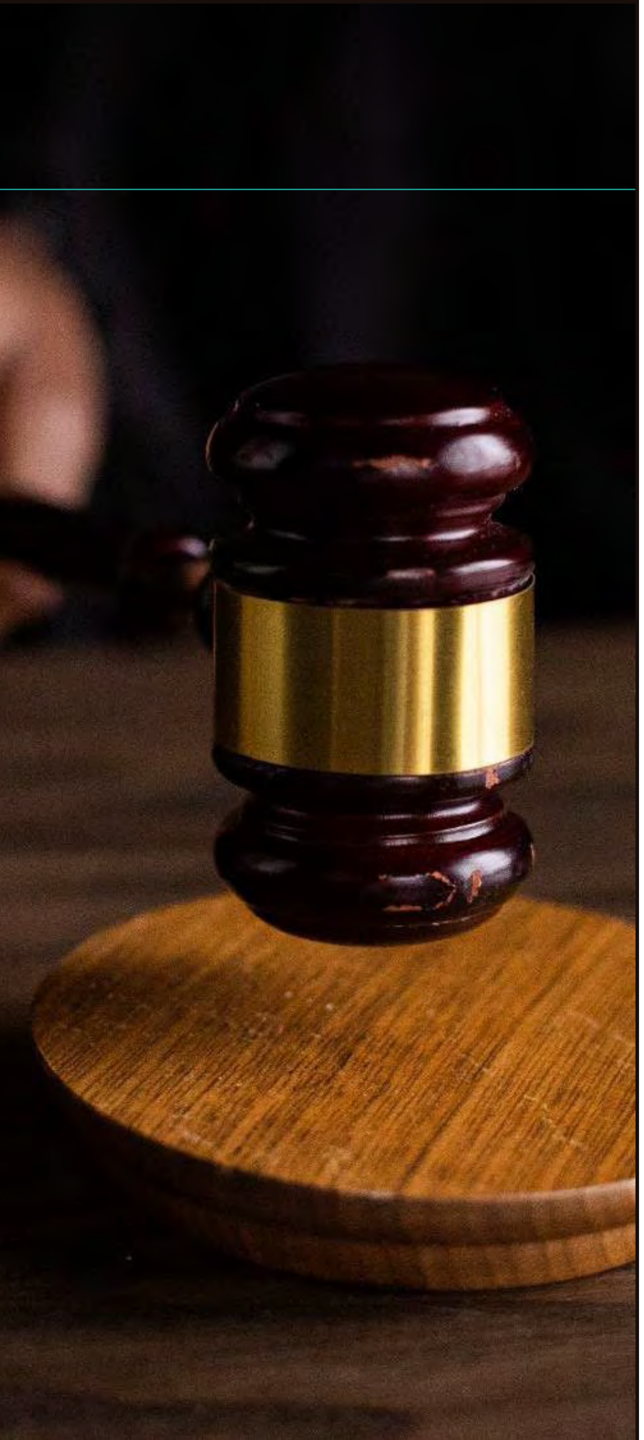
Recently, the Securities and Exchange Board of India (SEBI) issued certain amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The key amendments include:

- Strengthening corporate governance at listed entities by empowering shareholders
- Streamlining of disclosures by listed entities
- Disclosure of material events or information
- Other amendments

Additionally, on 26 June 2023, the International Sustainability Standards Board (ISSB) 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*. The standards provide guidance on certain key aspects, including:

- Applicability
- Overview of the key elements
- Consistency with the existing frameworks, and
- Interlinking sustainability and financial reporting

This issue of the regulatory updates publication covers some of the important updates on accounting, auditing and regulatory matters and other discussion/consultation papers and publications for the period from **1 June 2023 to 30 June 2023**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.



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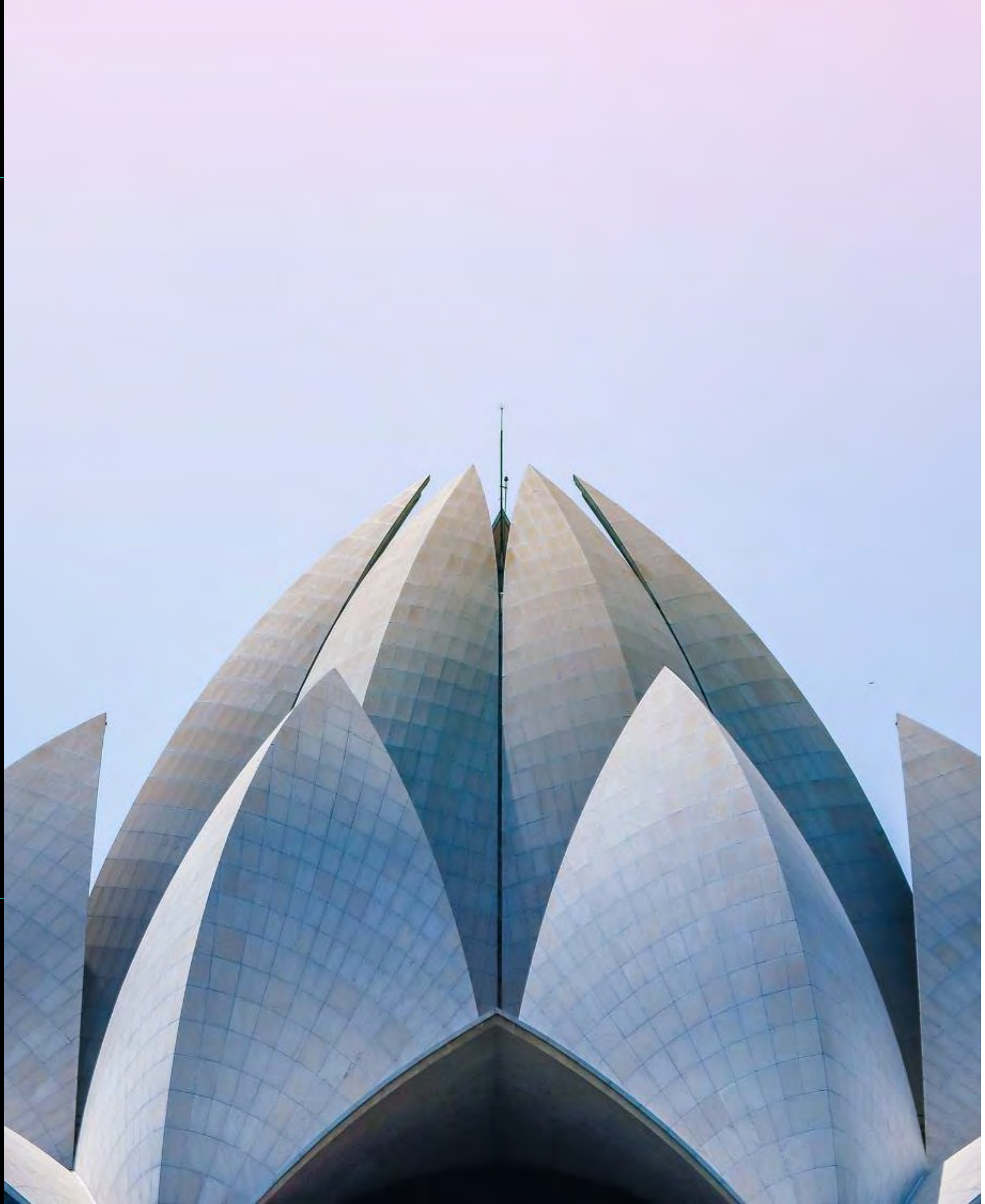

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Updates from NFRA

Statutory auditors' responsibilities in relation to fraud in a company

On 26 June 2023, the National Financial Reporting Authority (NFRA) issued a circular regarding statutory auditors' responsibilities in relation to fraud in a company. Following are some of the important points discussed in the circular:

- The circular reiterates that the auditor has a responsibility to report fraud or suspected fraud under the Companies Act, 2013[1], the Companies (Auditor's Report) Order (CARO) 2020[2] and SA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. The circular also emphasises that **resignation does not absolve an auditor of his/her responsibility to report fraud or suspected fraud as mandated by the law**

- Statutory auditors have a mandatory obligation to report fraud or suspected fraud if they observe any suspicious activities, transactions or operating circumstances in a company that indicate reasons to believe that an offence of fraud is being or has been committed against the company by its officers or employees. In such an event, he/she should initiate the steps prescribed under Rule 13 of the Companies (Audit and Auditors) Rules, 2014, i.e., **reporting the matter to the board/audit committee within two days of his/her knowledge of the fraud**

- In situations, wherein the reporting of a fraud involves or is expected to involve individually an amount of rupees one crore or above, and the statutory auditor fails to get any reply/observations from the board/audit committee within 45 days, then he/she should forward a report in the specified form i.e., **ADT-4** to the MCA secretary. **This requirement would also be applicable in cases wherein the statutory auditor is not the first person to identify the fraud/suspected fraud**

- Additionally, the circular also highlights that the statutory auditor should exercise his/her own professional skepticism while evaluating fraud and **need not be influenced by legal opinion provided by the company or its management.**

To access the text of the circular, please click here

[1] Section 143(12) of the Companies Act, 2013 and related Rules place certain reporting obligations on the auditor in relation to frauds.

[2] Clause (xi) of CARO 2020 requires auditors to make statements relating to reporting of fraud in his/her report.

Updates from MCA

MCA announces timelines for furnishing CSR report for FY 2022-23

On 11 February 2022, the Ministry of Corporate Affairs (MCA) had amended Rule 12 of the Companies (Accounts) Rules, 2014 (the Accounts Rules), thereby inserting a new sub-rule (1B) which required every company covered under section 135(1) of the Companies Act, 2013[3] to furnish a report on Corporate Social Responsibility in Form CSR-2 to the Registrar for the preceding Financial Year (F.Y. 2020-2021) and onwards, as an addendum to Form AOC-4 or AOC-4 XBRL or AOC-4 NBFC (Ind AS), as the case may be. The provisos to Rule 12(1B) specify the timelines for filing of Form CSR-2 for each F.Y.

In this regard, recently, MCA issued the Companies (Accounts) Second Amendment Rules, 2023, thereby inserting a third proviso to Rule 12(1B) of the Accounts Rules. It states that for F.Y. 2022-23, Form CSR-2 must be filed on or before **31 March 2024** after filing Form AOC-4, AOC-4-NBFC (Ind AS) or AOC-4 XBRL, as the case may be.

The amendment comes into force from the date of publication in the Official Gazette (i.e., 31 May 2023).

To access the text of the notification, please click here

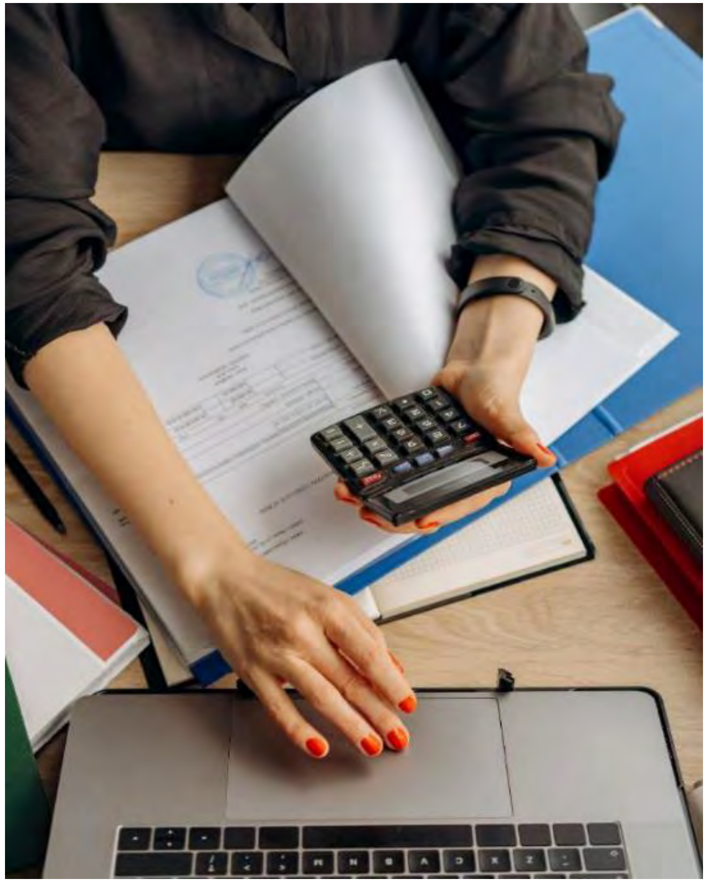
Action points for auditors

Auditors should engage with the companies covered under the provision of Section 135(1) of the Companies Act, 2013 and update them regarding the reporting timelines.

MCA provides relaxation in paying additional fees for delay in filing Form DPT-3

MCA, vide a circular dated 21 June 2023 has provided an extension for filing Form DPT-3 (Return of Deposits) by one month. Keeping in view the transition of MCA-21 portal, it was decided to allow the companies to file Form DPT-3 for the F.Y. ended 31 March 2023, without paying additional fees up to **31 July 2023** *(original due date was 30 June 2023)*.

To access the text of the circular, please click here



[3] Section 135(1) of the Companies Act, 2013 requires companies having net worth of INR500 crore or more, turnover of INR1,000 crore or more or a net profit of INR5 crore or more during the immediately preceding F.Y. to comply with the CSR provisions

Updates from SEBI

SEBI amends LODR Regulations

Over the years, the Securities and Exchange Board of India (SEBI) has introduced various amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), with a view to keep the business practices in line with the evolving regulatory and technological landscape. Recently, as a part of these measures, SEBI notified certain amendments to the LODR Regulations[4]. The diagram below explains the key amendments issued in this regard:

Key amendments in the LODR Regulations

(Source: Foundation for Audit Quality's analysis, 2023 read with the SEBI notification dated 14 June 2023

[4] The amendments have been issued vide the SEBI (LODR) (Second Amendment) Regulations, 2023

Part A: Strengthening corporate governance at listed entities by empowering shareholders

SEBI has introduced following amendments in this regard:

I. Board permanency at listed entities (Regulation 17(1D) of the LODR Regulations)

A permanent seat on the board of directors of a company is generally secured through two ways viz., (i) by having a clause inserted in the Articles of Association (AoA) of a company enabling appointment of a permanent director, and/or (ii) by getting appointed on the board as a director not liable to 'retirement by rotation' and without any defined tenure.

SEBI recently noticed that based on the regulations of the Companies Act, 2013, not all directors serving on the board of a listed company are subject to 'retirement by rotation' or subject to shareholders' approval after his/her initial appointment[5].

In the interest of good corporate governance, SEBI has inserted Regulation 17(1D) in the LODR Regulations to address the issue of board permanency at listed entities (entities), i.e., only those directors whose appointment/reappointment is ratified by the shareholders could continue on the board of directors (the board) of a company. Key provisions include:

- **Shareholders' approval:** The amendment provides that **w.e.f. 1 April 2024**, the continuation of a director serving on the board of an entity must be subject to the approval by shareholders in a general meeting at least once in **every five years** from the date of their appointment or reappointment, as the case may be.

- **Guidance w.r.t. existing directors:** The amendments state that the continuation of a director serving on the board of an entity as on 31 March 2024, without seeking any approval of the shareholders for the last five years or more would be subject to the approval of shareholders in the **first general meeting to be held after 31 March 2024**

- **Scope of the amendment:** The aforementioned requirements would **NOT** apply to:

a. Whole Time Directors (WTDs)
b. Managing Director (MD)
c. Manager
d. Independent Director (ID)
e. Any director retiring as per Section 152(6) of the Act, provided that the approval of the shareholders has been otherwise provided for by the provisions of these Regulations or the Act
f. A director appointed pursuant to the order of a Court or Tribunal
g. Nominee director of the Government, other than a public sector company
h. Nominee director of a financial sector regulator

[5] For example, few promoters of listed entities have been enjoying permanency on the board of listed entities

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i. Director nominated by a financial institution registered with or regulated by the Reserve Bank of India (RBI) under a lending arrangement in its normal course of business, or by a debenture trustee registered with SEBI under a subscription agreement for the debentures issued by the entity.

Effective date: The amendment came into force w.e.f. the 30th day from the date of its publication in the Official Gazette, i.e., 15 July 2023.

II. Special rights to shareholders (Regulation 31B of the LODR Regulations):

Currently, once an entity gets listed, it seeks onetime shareholders' approval for retaining any special rights conferred on any of the shareholders as per the AoA of the entity. SEBI, through the amendment has inserted Regulation 31B in the LODR Regulations. It provides that any special right granted to the shareholders of an entity must be subject to the approval by shareholders in a general meeting by way of a Special Resolution (SR) once in **every five years**[6], beginning from the date of grant of such special right.

Effective date: The amendment came into force w.e.f. the 30th day from the date of its publication in the Official Gazette, i.e., 15 July 2023.

III. Sale, lease or disposal of an undertaking outside a scheme of arrangement (Regulation 37A of the LODR Regulations):

Section 180(1)(a)[7] of the Act prescribes the requirement of seeking approval by way of a SR on matters related to sale, lease or disposal of assets of a company. Such sale, lease or disposal takes place either through a scheme of arrangement or a business transfer agreement.

SEBI has prescribed detail guidelines for transfer of the whole or substantially the whole of the undertaking of the listed entity, by way of a scheme of arrangement in a manner that would protect the interests of the minority shareholders. However, there is no explicit framework for protecting the interest of minority shareholders for sale, disposal or lease of the entire undertaking outside a scheme of arrangement. This in effect results in sale of the business undertaking without taking such shareholders into confidence.

Accordingly, SEBI has now inserted Regulation 37A in the LODR Regulations, providing guidance w.r.t. sale, lease or disposal of an undertaking **outside the scheme of arrangement**[8]. It states that where an entity carries out sale, lease or disposal of the whole or substantially the whole of one or more undertakings, it should:

- Obtain prior approval of the shareholders by way of a SR, and
- Disclose the object of and commercial rationale for carrying out such sale, lease or disposal and the use of proceeds arising therefrom, in the statement annexed to the notice to be sent to the shareholders.

[6] This requirement would not apply to the special rights made available by an entity to a financial institution registered with or regulated by the RBI under a lending arrangement in the normal course of business, or to a debenture trustee registered with SEBI under a subscription agreement for the debentures issued by the entity, if such financial institution or the debenture trustee becomes a shareholder of the entity as a consequence of such arrangement/agreement

[7] Section 180: Restrictions on powers of the Board

[8] The provisions of Regulation 37A would not apply in cases where the sale, lease or disposal is by virtue of a covenant covered under an agreement with a financial institution regulated by or registered with the RBI or with a debenture trustee registered with SEBI, in this regard. Further, the provisions would not be applicable to such sale, lease or disposal of undertakings, where the notice has already been dispatched to the shareholders of the entity

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The amendment has further clarified that such sale, lease or disposal of undertaking(s) should be acted upon, **only if votes cast by the public shareholders in favour of the resolution exceed the votes cast against the resolution** *(Additional approval criteria introduced)*. Other key points specified by the amendment include:

- **Sale, lease or disposal of undertaking to a wholly owned subsidiary:** The amendment provides that the aforementioned additional approval requirement would not apply to transactions involving sale, lease or disposal of the whole or substantially the whole of the undertaking by an entity to its Wholly Owned Subsidiary (WOS), whose accounts are consolidated with the entity. However, in cases where the WOS sells, leases or disposes off the whole or substantially the whole of the undertaking received, whether in whole or in part, to any other entity, it would be required to comply with the requirement specified above before convening such transaction.

- **Dilution of shareholding below 100 per cent in the WOS:** The amendment clarifies that an entity must comply with the above requirement, before diluting its shareholding below 100 per cent in its WOS to which the whole or substantially the whole of the undertaking of such entity had been transferred.

Effective date: The amendment came into force from the date of its publication in the Official Gazette, i.e., 14 June 2023.

Action points for auditors

With the provisions of Regulation 37A being applicable to WOS, the amendment is likely to have far reaching implications for the companies and their overall group structures. Such entities that have any WOS must identify whether there has been any transfer of an undertaking to its WOS or if the WOS is an outcome of the spin off from such entity. Thus, such entities and their auditors should carefully interpret the amendment and evaluate its potential impact on the financial statements and other relevant disclosures.

Part B: Streamlining of disclosures by listed entities

Following are the key provisions introduced in this regard:

I. Submission of financial results by newly listed entities (Regulation 33 of the LODR Regulations)

As per the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations), issuers must provide audited financial results in their offer documents, which should not be more than six months old prior to the issue opening date.

Post listing, companies are required to comply with Regulation 33 of the LODR Regulations for financial reporting. As per Regulation 33 of the LODR Regulations, entities are required to submit financial results in the manner prescribed below:

- Quarterly financial results within 45 days from the end of each quarter, other than the last quarter
- Quarterly financial results for the last quarter and the annual financial results within 60 days from the end of the F.Y.

However, there may be instances wherein the entities get listed closer to the timeline prescribed for submission of financial results, thus providing them a very short period of time post listing for disclosure of their financial results.

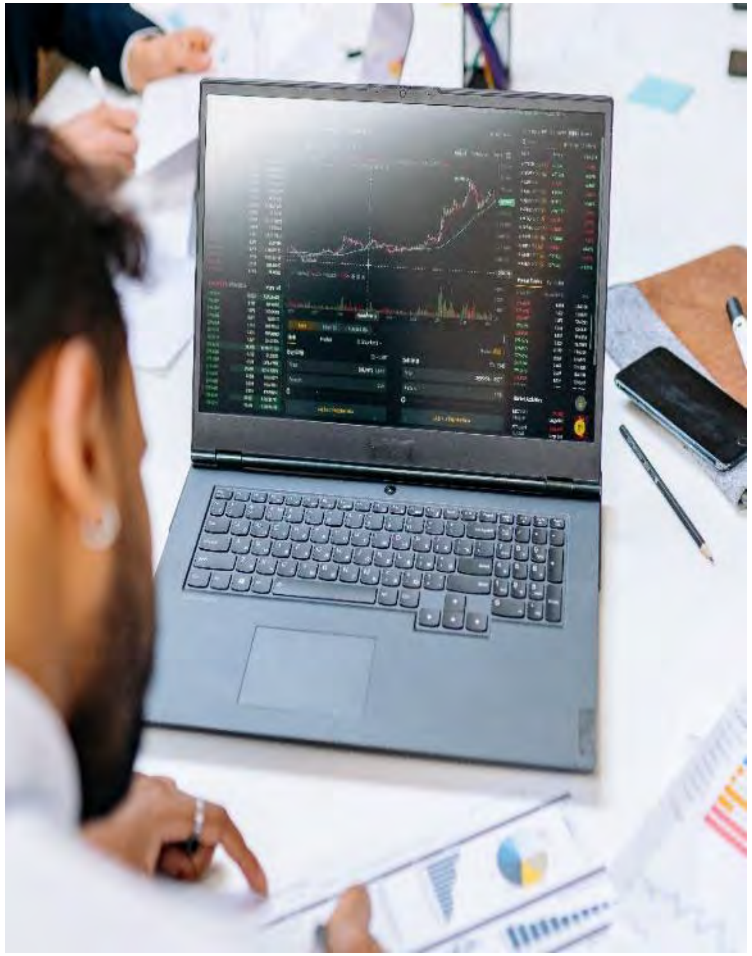
On the other hand, there could be a case where issuers list their shares immediately after 45 days from the end of a quarter. In such a case, the issuer would not be required to disclose the financial results for such a quarter in the offer document or post listing. This would result in a large time gap between the last financial results that were available to investors in the offer document and the financial results that are disclosed to the shareholders or to the public at large under Regulation 33 of the LODR Regulations by such newly listed entities. This would also lead to information asymmetry[9].

Considering the sensitivity of this information, SEBI has now issued an amendment, which requires a newly listed entity to disclose its first financial results post listing, for the period (quarter or F.Y.) immediately succeeding to the periods for which the financial results were disclosed in the offer document, within **21 days** from the date of listing or as per the timelines prescribed under the LODR Regulations, **whichever is later.**

Effective date: The provisions are applicable for the issuers whose public issues opened on or after these regulations came into effect, i.e., 15 July 2023.

Action points for auditors

Prior to the aforementioned amendment, newly listed entities faced challenges in terms of disclosing the financial results immediately post listing. Entities that got listed closer to the timeline prescribed for submission of financial results, faced a time crunch in the process of announcing their first financial results post listing. Thus, the auditors of such companies should take note of the revised timelines specified by SEBI and discuss the same with the management and Those Charged With Governance (TCWG) of entities which are planning to list their securities.



[9] This is because the company and its officials would have access to this information but the investors would not.

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Part C: Disclosure of material events or information

As per Regulation 30 of the LODR Regulations, an entity which has issued specified securities is required to provide disclosures of events or information, which in the opinion of the board of directors of the entity, is material. The disclosures are required to be provided in accordance with Part A[10] of Schedule III of the LODR Regulations.

SEBI has issued certain amendments in this regard. These include:

I. **Disclosure requirements for certain types of agreements binding entities:** As per the existing provisions, any agreement entered into by an entity, which is not in the ordinary course of business, must be disclosed under Clause 5 of Para A of Part A of Schedule III of the LODR Regulations (Para A). SEBI has now issued an amendment in this respect.

The amendment has inserted a new Clause 5A to Para A. Through the amendment, it is now mandatory for an entity to **disclose to the stock exchange(s)**, the agreements entered into by its shareholders, promoters, promoter group entities, related parties, directors, KMP, its employees or of its holding, subsidiary or associate company, among themselves or with the entity or with a third party, solely or jointly, which, either directly or indirectly[11] or potentially or whose purpose and effect is to:

- Impact the management or control of the entity
- Impose any restriction on the entity, or
- Create a liability on the entity.

However, the amendment has clarified that no such agreements, which have been entered into by an entity in the **normal course of business** would be required to be disclosed, unless they impact the management or control or are required to be disclosed in terms of any other provisions of the LODR Regulations.

The parties to the agreements must inform the entity about such agreements to which the entity is not a party, **within two working days** of entering into or signing such agreements. The entity should disclose the number of such existing agreements, if any, along with their salient features, including the link to the webpage where the complete details of such agreements are available, in the annual report for the **F.Y. 2022-23 or F.Y. 2023-24.**

II. **Materiality threshold for disclosure:** As the events stipulated in Para B are required to be disclosed on the basis of the materiality policy determined as per Regulation 30(4)(i) of the LODR Regulations, the amendment has introduced a quantitative threshold for determination of materiality for disclosure of events or information. Accordingly, the following criteria should be considered for determining the materiality of events/information:

a. The omission of an event or information, which is likely to result in discontinuity or alteration of event or information already available publicly, or

b. The omission of an event or information is likely to result in significant market reaction if the said omission came to light at a later date,

[10] The events specified in Para A of Part A of the Schedule (Para A) are deemed to be material events which are required to be disclosed by the entities. On the other hand, the events enumerated in Para B of Part A of Schedule III (Para B) are required to be disclosed based on the materiality policy of the entity.

[11] The term 'directly or indirectly' includes agreements creating obligation on the parties to such agreements to ensure that the entity shall or shall not act in a particular manner.

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c. **The omission of an event or information, whose value or the expected impact in terms of value, exceeds the lower of the following:**
   i. **Two per cent of turnover, as per the last audited consolidated financial statements of the entity**
   ii. **Two per cent of net worth, as per the last audited consolidated financial statements of the entity, except in case the arithmetic value of the net worth is negative**
   iii. **Five per cent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the entity.**

d. In case where the criteria specified in sub-clauses (a), (b) and (c) are not applicable, an event/information may be treated as being material, if in the opinion of the board of the entity, the event/information is considered material. **(*Emphasis added to highlight the change*)**

The amendment has further stated that any continuing event or information which becomes material pursuant to notification of these amendments should be disclosed by the entity by 13 August 2023.

III. Determination of materiality policy: With respect to determination of materiality policy, the amendment has inserted a proviso to Regulation 30(4)(ii), thereby requiring the entities to ensure that:

a. Materiality policy does not dilute any requirement specified under the provisions of the LODR Regulations, and

b. Materiality policy should assist the relevant employees in identifying any potential material event or information and reporting the same to the authorised KMP for determining the materiality of the said event or information and for making the necessary disclosures to the stock exchange(s).

IV. Timeline for disclosure of events: The amendment has revised the timelines for disclosure of material events or information under Regulation 30(6) to the stock exchange(s). As per the amendment, the disclosure should be made as soon as reasonably possible and, in any case, not later than:

a. **Information resulting from an outcome of a meeting of the board:** Within 30 minutes from the closure of the meeting in which the decision has been taken
b. **Event or information emanating from within the entity:** Within 12 hours (*earlier 24 hours*) from the occurrence of the event or information
c. **Event or information not emanating from within the entity:** Within 24 hours from the occurrence of the event or information.

Further, disclosure of events for which timelines that have already been specified in Part A of Schedule III, should be made within those timelines. Further, if the disclosure is made after the above-specified timelines, then the entity should also provide the explanation for such delay in disclosure.

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V. Verification of market rumors: As per the provisions of Regulation 30(11), an entity may on its own initiative, confirm or deny any reported event or information to stock exchange(s).

The amendment introduced by SEBI now, additionally requires following entities to confirm, deny or clarify any reported event or information in the mainstream media[12], which is not general in nature and which indicates that rumours of an impending specific material event or information in terms of the provisions of this Regulation are circulating amongst the investing public:

- Top 100 listed entities – w.e.f. 1 October 2023
- Top 250 listed entities – w.e.f. 1 April 2024.

The above information should be disclosed as soon as reasonably possible and not later than 24 hours from the reporting of the event or information. The entity should also provide the current stage of such event or information.

VI. Disclosure of communication received from any regulatory, statutory, enforcement or judicial authority: The amendment has now inserted Regulation 30(13), as per which an entity must disclose communication received from any regulatory, statutory, enforcement or judicial authority w.r.t. an event or information, which is required to be disclosed in terms of the provisions specified in this regard.

Further, the disclosure of such communication should not be made if the entity is prohibited to do so by the concerned authority.

Effective date: The above amendments came into force w.e.f. the 30th day from the date of its publication in the Official Gazette, i.e., 15 July 2023.

Action points for auditors

Auditors should take note of the amendments specified above, evaluate the changes introduced and consider the potential impact on the information to be disclosed by the entities.

[12] As per the amendment, ‘mainstream media’ shall include – print or electronic mode of the following:

i. Newspapers registered with the registrar of newspapers for India.
ii. News channels permitted by Ministry of Information and Broadcasting under Government of India.
iii. Content published by the publisher of news and current affairs content as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021, and
iv. Newspapers or news channels or news and current affairs content similarly registered or permitted or regulated, as the case may be, in jurisdictions outside India.

Part D: Other amendments

I. Extension of applicability of corporate governance provisions to High Value Debt Listed Entities (HVDLEs): As per Regulation 15(1A) of the LODR Regulations, the corporate governance provisions are applicable to HVDLEs. These were applicable to HVDLEs on a comply or explain basis up to 31 March 2023 and on a mandatory basis post that. Basis the amendment introduced, the corporate governance provisions would be applicable to a HVDLE on a 'comply or explain' basis till 31 March 2024 and would become mandatory thereafter.

II. Timeline for filling the vacancy of directors and key managerial personnel [Regulation 17(1E) and 26A of the LODR Regulations]

Regulation 17(1) of the LODR Regulations prescribes provisions w.r.t. board composition of entities. Also, as per Regulation 25(6) of the LODR Regulations, an Independent Director (ID) who resigns or is removed from the board of an entity should be replaced by a new ID at the earliest, but not later than three months from the date of such vacancy.

The existing provisions do not prescribe any timeline for filling up the vacancies of IDs that arise out of reasons other than resignation and removal (such as death, disqualification etc.) and for any other category of directors. In this regard, SEBI has now introduced an amendment, which provides that any vacancy of directors and Key Managerial Personnel (KMPs) (Compliance Officer, CFO and CEO/Managing Director/Whole-Time Director/Manager) should be filled within **three months** from the date of such vacancy.

Effective date: The amendment came into force w.e.f. the 30th day from the date of its publication in the Official Gazette, i.e., 15 July 2023.

III. Disclosure of cyber security incidents or breaches and loss of data/documents: As per the amendment introduced, entities are required to provide details of cyber security incidents, breaches, loss of data, or documents in the quarterly corporate governance report which must be submitted to the recognised stock exchange(s) within 21 days from the end of each quarter, in the format as prescribed by SEBI.

Effective date: The amendment came into force w.e.f. the 30th day from the date of its publication in the Official Gazette, i.e., 15 July 2023

IV. Submission of Business Responsibility and Sustainability Report (BRSR): As per Regulation 34(2)(f) of the LODR Regulations, top 1,000 listed entities are required to make filings as per BRSR with effect from FY 2022-23. BRSR consists of Environmental, Social and Governance (ESG) disclosures, in the format prescribed by SEBI.

In this regard, the amendment issued by SEBI states that:

a. Certain entities should obtain assurance for the BRSR Core[13] in the manner which would be specified by SEBI from time to time, and
b. Certain entities are also required to make disclosures and obtain assurance as per the BRSR Core for their value chain in the manner to be specified by SEBI from time to time.

The amendment further states that the remaining entities, including the ones which have listed their specified securities on the Small and Medium Scale Enterprises (SME) Exchange, may voluntarily disclose the BRSR or voluntarily obtain the assurance on the BRSR Core, for themselves or their value chain, as the case may be.

Effective date: The amendment came into force from the date of its publication in the Official Gazette, i.e., 14 June 2023.

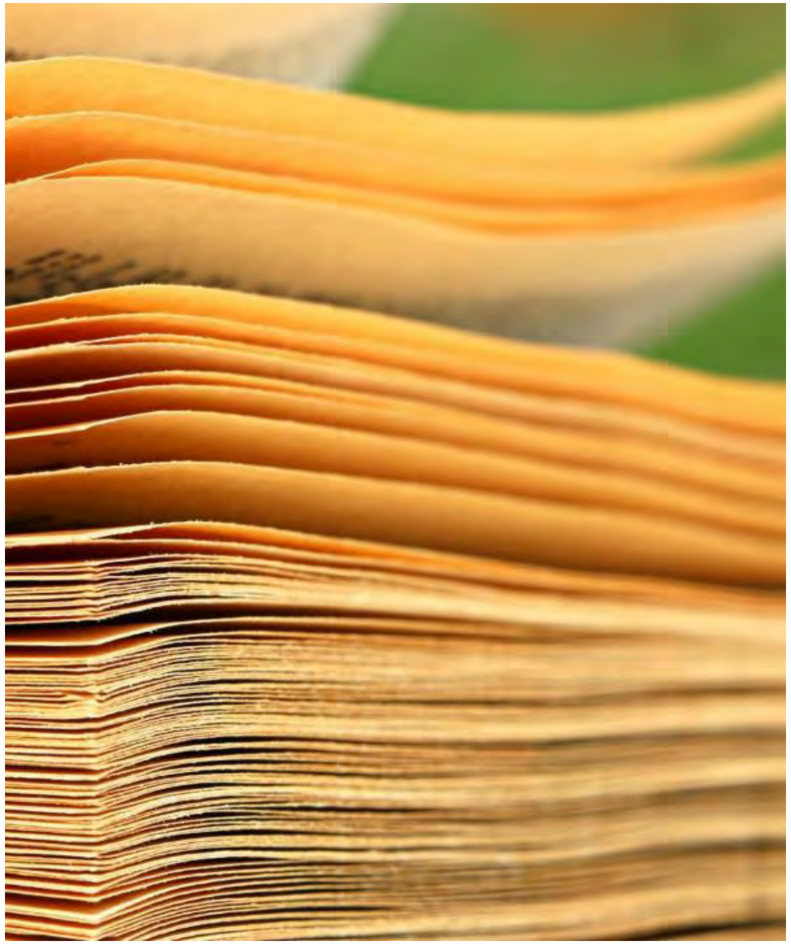
V. **Disclosure on entity's website:** As per Regulation 46(2)(o) of the LODR Regulations, an entity should disclose a schedule of the analysts' or institutional investors' meet and presentations on its website. The amendment issued by SEBI has stipulated the timelines for such disclosure. As per the amendment, the disclosure should be made on the entity's website **at least two working days in advance** (excluding the date of intimation and date of the meet).

Effective date: The amendment would come into force w.e.f. the 30th day from the date of its publication in the Official Gazette, i.e., 15 July 2023.

VI. **Intimation to stock exchange(s):** The provisions of Regulation 57 have been revised. As per the amendment, an entity should submit a certificate to the stock exchange(s) regarding status of payment of interest, dividend, repayment, or redemption of principal of non-convertible securities, within one working day of it becoming due, in the specified format.

Effective date: The amendment came into force from the date of its publication in the Official Gazette, i.e., 14 June 2023.

To access the text of the amendments issued by SEBI, please click here



[13] BRSR Core would comprise of such key performance indicators as may be specified by SEBI from time to time

SEBI issues amendments to the Alternative Investment Funds Regulations

Recently, SEBI issued certain amendments[14] to the SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations). The key amendments issued include:

a. **Specified AIF notified:** Regulation 3(4) of the AIF Regulations provides guidance w.r.t. registration of Alternative Investment Funds (AIFs). Under the existing guidelines, three categories of AIFs had been specified:
   - Category I AIFs
   - Category II AIFs, and
   - Category III AIFs.

   In this regard, SEBI has notified a new registration entity, known as the **specified AIFs**

b. **Issue of units in dematerialised form:** A new clause has been inserted in Regulation 10(a) of the AIF Regulations, which states that every AIF seeking to invest, must issue its units in dematerialised form only. The amendment would help in reducing operational and fraud risks[15] and help in enhancing transparency and monitoring activities.

c. **Approval of unitholders required for buying/selling investment from certain persons:** Regulation 15 of the AIF Regulations prescribes guidance on the general investment conditions. SEBI has now amended the erstwhile requirements.

   The amended norms prescribe that the approval of **75 per cent of the investors by value of their investment** in the scheme would be required to buy or sell investments, from or to:

   - Associates, or
   - Schemes of AIF managed or sponsored by its manager, sponsor or associates of its manager or sponsor, or
   - An investor who has committed to invest at least 50 per cent of the corpus of the scheme of AIF[16].

d. **Requirement of compliance officer:** Regulation 20 of the AIF Regulations specifies provisions regarding general obligations and responsibilities and transparency.

   Basis the amendment introduced, every AIF should now have a compliance officer. Such compliance officer would be responsible for monitoring compliance with the provisions and guidelines prescribed by SEBI from time to time. Additionally, it would be his/her duty to immediately and independently report to SEBI about any non-compliance observed by him/her. Such non-compliance should be reported **not later than seven working days** from the date of observing such non-compliance.

e. **Modification to the valuation procedure and methodology for valuing assets:** Regulation 23 of the AIF Regulations provides guidance to AIFs regarding the valuation of its investments. In this regard, SEBI issued certain amendments to the valuation procedure and methodology for valuing assets.

[14] Amendments have been issued vide the SEBI (AIF) (Second Amendment) Regulations, 2023.
[15] Such as fake certificates, delays, bad deliveries, missing certificate, mutilation or theft.
[16] While obtaining approval of the investors, those investors who have committed to invest at least 50 per cent of the corpus of the scheme of AIF and are buying or selling the investment, from or to, the AIF, would be excluded from the voting process.

Regulatory updates

Consequently, on 21 June 2023, SEBI issued a circular on the standardised approach to valuation of investment portfolio of AIFs (the circular)[17]. Some of the key aspects discussed in the circular include:

The key amendments to Regulation 23 of the AIF Regulations and the key clarifications issued by the circular include the following:

- **Valuation of securities:** Currently, Regulation 23(1) of the AIF Regulations require the AIF to provide their investors with a description of their valuation procedure and of the methodology for valuing assets.

  Regulation 23(1) has now been amended and requires AIFs to carry out the valuation of its investments in the manner specified by SEBI from time to time and provide its investors with a description of its valuation procedure and of the methodology for valuing assets.

  Further Regulation 23(5) has been inserted in the AIF Regulations, which requires the manager and the Key Managerial Personnel (KMP) of the manager of the AIF to ensure that an independent valuer computes and carries out valuation of the investments of the scheme of the Alternative Investment Fund in the manner specified by SEBI from time to time.

Clarification issued by the circular

The circular states that in respect of securities for which valuation norms have already been prescribed under the SEBI (Mutual Funds) Regulations, 1996 (Mutual Funds Regulations), valuation should be carried out as per the norms prescribed therein. However, for the securities which are not covered under the Mutual Funds Regulations, valuation should be carried out as per the valuation guidelines endorsed by an AIF industry association[18].

- **Responsibility of the manager of the AIF:** The amendments have inserted Regulation 23(6) of the AIF Regulations to state that the manager of the AIF would be responsible for true and fair valuation of the investments of the schemes of the AIF.

  Provisos to Regulation 23(6) of the AIF Regulations have also been inserted which state that if the established policies and procedures of valuation do not result in fair and appropriate valuation, the manager would deviate from the established policies and procedures in order to value the assets or securities at a fair value and document the rationale for such deviation. Such deviation and its rationale would be reported to the trustee or the trustee company or the board of directors or designated partners of the AIF and investors of the AIF.

[17] The manager of the AIF should submit a report on compliance with the provisions of this circular on SEBI Intermediary Portal (www.siportal.sebi.gov.in) in the format as specified therein. The trustee/sponsor of AIF, as the case may be, shall ensure that the 'Compliance Test Report' prepared by the manager in terms of SEBI Circular No. CIR/IMD/DF/14/2014dated June 19, 2014, includes compliance with the provisions of this circular.

[18] An AIF industry association for this purpose, refers to one, which in terms of membership represents at least 33 per cent of the number of SEBI registered AIFs. The eligible AIF industry association should endorse appropriate valuation guidelines after taking into account recommendations of Alternative Investment Policy Advisory Committee of SEBI.

Regulatory updates

Clarification issued by the circular

- At each asset level, in case there is a deviation of more than 20 per cent between two consecutive valuations or a deviation of more than 33 per cent in a financial year, the manager should inform the investors the reasons/factors for the same (both generic and specific), including but not limited to changes in accounting practices/policies, assumptions/projections, valuation methodology and approach, etc. and reasons thereof.
- Any change in the methodology and approach for valuation of investments would be considered as a material change.
- As a part of the changes in the Private Placement Memorandum (PPM), which needs to be submitted annually to SEBI and investors, the manager should disclose:
  - The details of changes in the valuation methodology and approach, if any,
  - Changes in accounting practices/policies, if any, of the investee company, and
  - The scheme and details of its impact in terms of valuation of the investments of the scheme.

- **Appointment of independent valuer:** The amendment has inserted Regulation 23(4) of the AIF Regulations, which requires the manager of the AIF to appoint an independent valuer who satisfies the criteria specified by SEBI from time to time.

Clarification issued by the circular

- The independent valuer should not be an associate of the manager or the sponsor or the trustee of the AIF.
- The independent valuer should have at least three years of experience in valuation of unlisted securities.
- The independent valuer should fulfil one of the following criteria:
  - The independent valuer is a valuer registered with Insolvency and Bankruptcy Board of India and has membership of Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India or CFA Institute; or
  - The independent valuer is a holding company or subsidiary of a Credit Rating Agency registered with SEBI; or
  - Any other criteria as may be specified by SEBI from time to time.

Regulatory updates

- **Reporting of valuation of investments to performance benchmarking agencies:** To ensure timely and appropriate reporting of valuation of investment portfolio to performance benchmarking agencies, the circular provides that the manager must ensure that a specific timeframe for providing audited accounts by the investee company to the AIF is included as one of the terms in the subscription/investment agreement with the investee company.
  This is required so as to enable the AIFs to report valuation based on audited data of investee companies as on 31 March within the prescribed period of six months. Further, the valuation based on audited data of the investee company must be reported to the performance benchmarking agencies, only after the audit of books of accounts of the AIF has been completed.

Effective Date: The provisions of the circular would come into force w.e.f. 1 November 2023. All the other amendments specified above came into force from the date of publication in the Official Gazette, i.e., 15 June 2023.

To access the text of the circular, please click here

To access the text of the other amendments issued by SEBI, please click here

Disclosure of information on issuers not cooperating with Credit Rating Agencies (CRAs)

The SEBI (Credit Rating Agencies) Regulations, 1999 (the CRA Regulations) requires every CRA to carry out periodic reviews of all published ratings during the lifetime of securities, unless the rating is withdrawn. However, in case a company does not cooperate with the CRA, the CRA is required to carry out the review on the basis of the best available information or in the manner specified by SEBI.

SEBI observed that over time, the number of issuers that are non-cooperative with the CRAs have increased significantly, with a vast majority of such issuers being unlisted and small entities. In this regard, in order to provide enhanced transparency and information regarding non-cooperative issuers, on 27 June 2023, SEBI issued a circular specifying the disclosure of information on Issuers Not Cooperating (INC) with CRAs. The circular provides:

a. CRAs should disclose two lists of issuers who are non-cooperative with the CRA, separately for:
   - Securities that are listed, or proposed to be listed, on a recognised stock exchange, and
   - Other ratings.
b. Format for disclosure of such lists
c. The disclosure is required to be updated on a daily basis.

Effective Date: The circular came into force w.e.f. 15 July 2023 and CRAs should report on compliance with the circular (subject to ratification by their respective board of directors) to SEBI within one quarter from the date of applicability of this circular.

To access the text of the circular, please click here

Action points for auditors

The circular states that monitoring of the provisions should be done in terms of the half-yearly internal audit for CRAs, as mandated under Regulation 22 of the CRA Regulations and circulars issued thereunder. Thus, internal auditors should actively discuss the aforementioned provisions with the companies and evaluate the impact on disclosures and other related requirements.

Updates from RBI

Framework for compromise settlements and technical write-offs

The Reserve Bank of India (RBI) has from time to time, issued several instructions to the Regulated Entities (REs) regarding compromise settlements in respect of stressed accounts. This includes the Prudential Framework for Resolution of Stressed Assets dated 7 June 2019 (the prudential framework), which recognises compromise settlements as a valid resolution plan.

In order to provide further guidance regarding the resolution of stressed assets as well as to rationalise and harmonise the instructions across all REs, on 8 June 2023, RBI issued a framework for compromise settlements[19] and technical write-offs[20] (the framework).

Subsequently, on 20 June 2023, RBI issued certain clarifications on the framework in the form of Frequently Asked Questions (FAQs). Following are some of the key aspects of the framework and FAQs:

- **Applicability and Effective Date:** The provisions of the framework would be applicable to the following REs:
  a. Commercial banks (including small finance banks, local area banks and regional rural banks)
  b. Primary (urban) co-operative banks/state co-operative banks/central co-operative banks
  c. All-India financial institutions
  d. Non-Banking Financial Companies (NBFCs) (including housing finance companies)

  The framework has come into force with immediate effect (i.e., from 8 June 2023).

- **Board-approved policy:** The framework states that REs should put in place board-approved policies for undertaking compromise settlements with the borrowers as well as for technical write-offs. Such policies must comprehensively lay down the process to be followed for all compromise settlements and technical write-offs (including delegation of power for approval of such compromise settlements and technical write offs), with specific guidance on the necessary conditions precedent such as minimum ageing, deterioration in collateral value, etc.

[19] Compromise settlement refers to any negotiated arrangement with the borrower to fully settle the claims of the RE against the borrower in cash. It may entail some sacrifice of the amount due from the borrower on the part of REs with corresponding waiver of claims of the RE against the borrower to that extent.

[20] Technical write-off refers to cases where the non-performing assets remain outstanding at borrowers' loan account level but are written-off (fully or partially) by the RE only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.

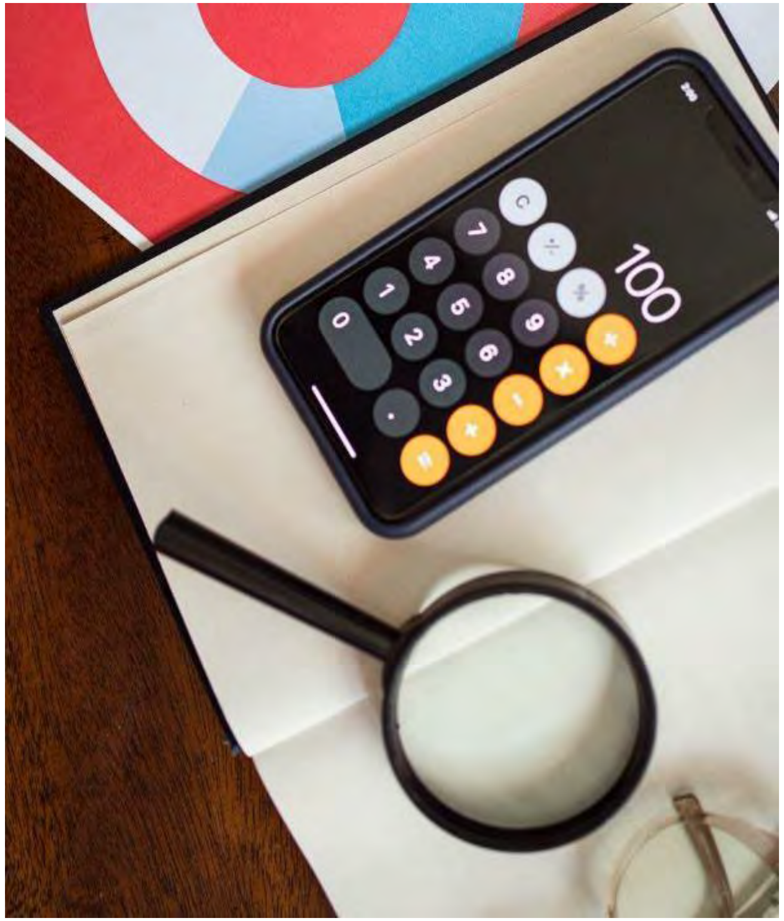
For compromise settlements, the policy should inter alia also contain the permissible sacrifice for various categories of investments while arriving at the settlement amount after determining the value of the security or collateral.

The compromise settlements and technical write-offs included in the policy would be without prejudice to any mutually agreed contractual provisions between the RE and the borrower relating to future contingent realisations or recovery by the RE, subject to such claims not being recognised in any manner on the balance sheet of the REs till actual realisations of the receivables[21].

- **Delegation of power for approval of compromise settlements and technical write offs:** The REs should ensure that compromise settlements and technical write offs are approved as follows:

Compromise settlement with…	Approval required of…
Debtors classified as fraud or wilful defaulters	The board of directors of the REs in all cases
Other debtors	An individual or committee (authority) which is at least one level higher in hierarchy than the authority vested with the power to sanction the credit/investment exposure. An official who was a part of sanctioning the loan would not be a part of approving the compromise settlement of the same loan.

- **Cooling period:** As a disincentive to both the lenders and the borrowers from seeking a compromise settlement for resolution of stressed assets on a regular basis, the framework has introduced the concept of cooling period for normal cases of compromise settlement during which the lender undertaking settlement shall not take any fresh exposure on the borrower entity. This is given in the table below:



[21] It is to be noted, that any claims recognised on the balance sheet of the RE would render the arrangement to be a restructuring.

Exposure	Minimum cooling period[22]
Compromise settlement for Farm credit exposure[23]	As per RE's board approved policies
Compromise settlement for debtors classified as fraud or wilful defaulters	Five years (as per penal measures applicable to borrowers classified as wilful defaulters or fraud)
Compromise settlement for other exposures	Floor of 12 months
Technical write offs	As per RE's board approved policies

- **Reporting mechanism:** The framework specifies that there must be a reporting mechanism to the next higher authority, at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority. Accordingly, such settlements and technical write-offs which have been approved by the MD and CEO/board level committee would be reported to the board. Further, the board would mandate a suitable reporting format, covering the following aspects at the minimum:

  a) Trend in the number of accounts and amounts subjected to compromise settlement and/or technical write-off (quarter on quarter and year on year)

  b) A separate breakup of the accounts in (a) classified as fraud, red-flagged, wilful default and quick mortality accounts

  c) Amount-wise, sanctioning authority-wise, and business segment/asset-class-wise grouping of such accounts, and

  d) Extent of recovery in technically written-off accounts.

[22] REs are free to stipulate higher cooling periods in terms of their Board approved policies.

[23] Farm credit for the above purpose shall refer to credit extended to agricultural activities as listed in Annex 2 to the Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances as amended from time to time.

- **Prudential treatment:** The prudential treatment for exposures subject to compromise settlement and technical write offs is as under:

Particulars	Prudential treatment
Compromise settlement	Where the time for payment of the agreed settlement amount exceeds three months, the settlement shall be treated as restructuring[24].
Partial technical write off	The prudential requirements in respect of residual exposure, including provisioning and asset classification, shall be with reference to the original exposure.

- **Treatment of debtors classified as fraud and wilful defaulter:** REs may undertake compromise settlements or technical write-offs w.r.t. the debtors categorised as wilful defaulters or fraud, without prejudice to the criminal proceedings underway against such debtors.

  RBI vide the FAQs has clarified that penal measures[25] currently applicable to borrowers classified as fraud or wilful defaulter remain unchanged and shall continue to be applicable in cases where the banks enter into compromise settlement with such borrowers.

To access the text of the notification, please click here

To access the text of the FAQs, please click here

[24] Defined in terms of the Prudential framework on Resolution of Stressed Assets dated June 7, 2019.

[25] Penal measures include:
- No additional facilities should be granted by any bank/financial institution to borrowers listed as wilful defaulters, and that such companies (including their entrepreneurs/promoters) get debarred from institutional finance for floating new ventures for a period of five years from the date of removal of their name from the list of wilful defaulters.
- Borrowers classified as fraud are debarred from availing bank finance for a period of five years from the date of full payment of the defrauded amount.

Guidelines on Default Loss Guarantee (DLG) in digital lending

On 2 September 2022, the Reserve Bank of India (RBI) issued guidelines on digital lending, which are applicable to all Regulated Entities (REs). The REs must ensure that the Lending Service Providers (LSPs) engaged by them, and the digital lending apps of the REs and of the LSPs comply with these guidelines. However, these guidelines did not stipulate the regulation for First Loss Default Guarantee (FLDG).

In this regard, on 8 June 2023, RBI issued guidelines on DLG (DLG guidelines), commonly known as FLDG, in digital lending. Some of the key aspects of the DLG guidelines are discussed below:

- **DLG arrangement:** There must be a contractual arrangement between the RE and a DLG Provider under which the DLG Provider should guarantee to compensate the RE for the loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront (as per the DLG guidelines, the amount of DLG cover on any outstanding portfolio should not exceed **five per cent** of the amount of that loan portfolio). Any other implicit guarantee of similar nature linked to the performance of the loan portfolio of the RE and specified upfront, should also be covered under the definition of DLG.

The DLG arrangement would remain in force for a minimum period of the longest tenor of the loan in the underlying loan portfolio.

- **Eligibility for a DLG Provider:** DLG arrangements are to be entered into with LSPs which are corporates/other REs. An outsourcing arrangement should have been entered into with these parties.

- **Declaration from DLG provider**: Prior to initiating or renewing a DLG arrangement, the RE should at the minimum obtain a declaration from the DLG provider, certified by the LSP's statutory auditor on (a) aggregate DLG amount outstanding, (b) the number of REs (c) The respective number of portfolios against which DLG has been provided and (d) past default rates on similar portfolios.

- **Approval by board of directors:** REs should put in place policies approved by the board of directors before entering into any DLG arrangement. At the minimum, the policy should include:
  a. The eligibility criteria for DLG provider
  b. Nature and extent of DLG cover
  c. Process of monitoring and reviewing the DLG arrangement, and
  d. The details of the fees, if any, payable to the DLG provider.

Regulatory updates

- **Forms of DLG:** RE should accept DLG only in one or more of the following forms:
  a. Cash deposited with the RE
  b. Fixed Deposits maintained with a scheduled commercial bank with a lien marked in favour of the RE
  c. Bank Guarantee in favour of the RE

- **Recognition of Non-Performing Asset (NPA):** The RE would be responsible for recognition of individual loan assets in the portfolio as NPA and consequent provisioning as per the extant asset classification and provisioning norms irrespective of any DLG cover available at the portfolio level. Additionally, the amount of DLG invoked should not be set off against the underlying individual loans. The DLG guidelines have also clarified that DLG should be invoked within 120 days, unless the amount is made good by the borrower before that.

- **Disclosure Requirements:** The REs should have a mechanism to ensure that LSPs with whom they have a DLG arrangement should publish on their website – the total number of portfolios and the respective amount of each portfolio on which DLG has been offered.

Effective date: The aforementioned DLG guidelines have come into force w.e.f. 8 June 2023.

To access the text of the DLG guidelines, please click here

Updates from IRDAI

Guidelines on remuneration of non-executive directors and KMPs of private sector insurers

In 2016, the Insurance Regulatory and Development Authority of India (IRDAI) had issued the framework for remuneration of non-executive directors/chief executive officer/whole time director/managing director of private sector insurers (the framework).

On 2 May 2023, IRDAI had issued an Exposure Draft (ED), thereby proposing to replace the extant guidelines of the framework. Based on the feedback received from various stakeholders, on 30 June 2023, IRDAI issued the final guidelines on remuneration of directors and KMPs of insurers (the guidelines). The guidelines aim to:

a. Bring the remuneration of other KMPs also within the ambit of the proposed guidelines, and
b. Provide better clarity to the extent of variable pay with respect to the total remuneration of directors and KMPs, variable pay deferral, malus and claw back provisions, accounting, disclosures, etc.

Some key aspects discussed include:

- **Remuneration policy:** It has been provided that the process of framing/reviewing the remuneration policy should be completed within three months of the issuance of the guidelines in this behalf.
- **Components of remuneration structure:** The remuneration policy should cover all aspects of the remuneration structure and the remuneration policy should be reviewed annually by the Nomination and Remuneration Committee (NRC).
- **Disclosures:** Certain quantitative and qualitative disclosures have been mandated in the notes to accounts forming part of the annual report.

Effective date: The guidelines would be applicable w.e.f. F.Y. 2023-24.

To access the text of the guidelines, please click here

International update

Accounting updates

Accounting updates

Updates from ISSB

ISSB Sustainability Disclosure Standards

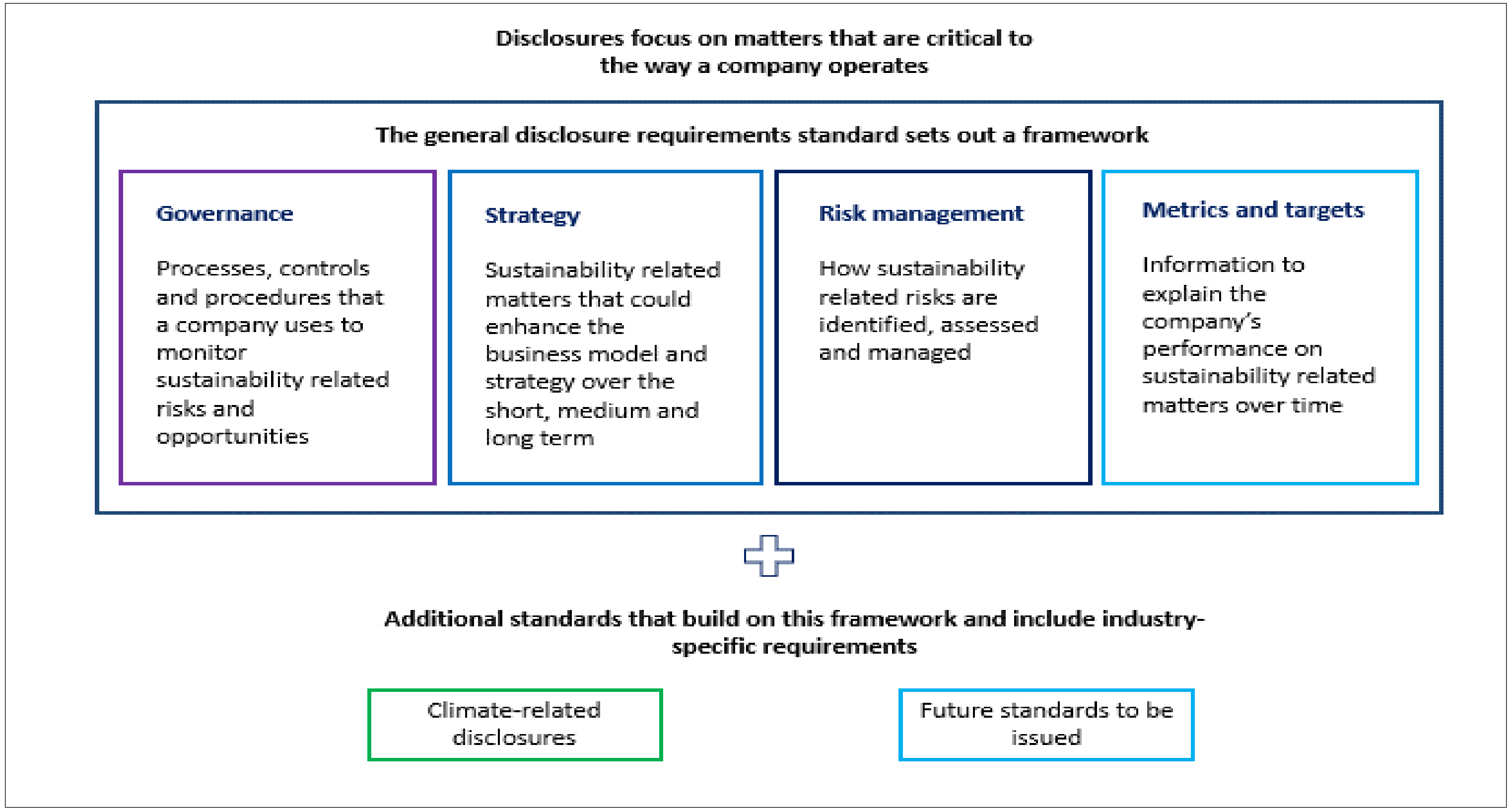
Over the last few years, there has been an increase in emphasis towards the disclosure of non-financial information and related risks and opportunities by the companies, alongside the traditional financial information and disclosures. In order to facilitate the creation of a global baseline for investor-focused sustainability and non-financial reporting, in March 2022, the International Sustainability Standards Board (ISSB) had issued the Exposure Drafts (EDs) of its first two IFRS Sustainability Disclosure Standards – IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2, *Climate-related Disclosures*.

Based on the feedback received from different stakeholders, on 26 June 2023, ISSB released the final standards. The standards are designed to meet the needs of all companies, and provide a clear idea of what companies need to report on, in order to meet the needs of global capital markets. In this regard, some important aspects which need to be considered are:

- **Applicability:** The standards are effective from **1 January 2024**, but it would be for individual jurisdictions to decide whether and when to adopt them.

  Some public and private companies may choose to adopt them voluntarily on account of investor or societal pressure.

- **Overview of the standards:** The standards are designed to be applied together and are complementary in nature. IFRS S1 provides a framework for companies to report on all relevant sustainability-related topics across the areas of **governance, strategy, risk management, and metrics and targets** and provides guidance on general reporting aspects such as materiality, connected information, reporting boundary, fair presentation, etc. It is supported by more detailed guidance on how to report on climate-related risks and opportunities by IFRS S2.



(Source: Foundation for Audit Quality's analysis, 2023 read with IFRS S1 and IFRS S2)

Accounting updates

- **Consistency with the existing frameworks:** The standards have not been developed by the ISSB from scratch, but are based on the existing frameworks and standards, including the Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB). The ISSB is also committed to working with the Global Reporting Initiative (GRI) to ensure that the standards are complementary to and compatible with the existing GRI standards. Additionally, ISSB has also been working closely with the jurisdictional standard setters and incoming mandatory reporting frameworks – for example, the European Commission and the European Financial Reporting Advisory Group (EFRAG) in the EU, and the Securities and Exchange Commission (SEC) in the US.

- **Interlinking sustainability and financial reporting:** The standards refer to the information disclosed by companies as '**sustainability-related financial disclosures**' – thereby implying that the sustainability-related and non-financial disclosures must be connected with the information in the financial statements and should thus, not be a separate exercise.

  Although, it may differ in nature from the information presented in the financial statements, the same needs to be consistent to the extent possible. This is required irrespective of whether the financial statements are prepared under IFRS Accounting Standards (AS) or other Generally Accepted Accounting Principles (GAAP).

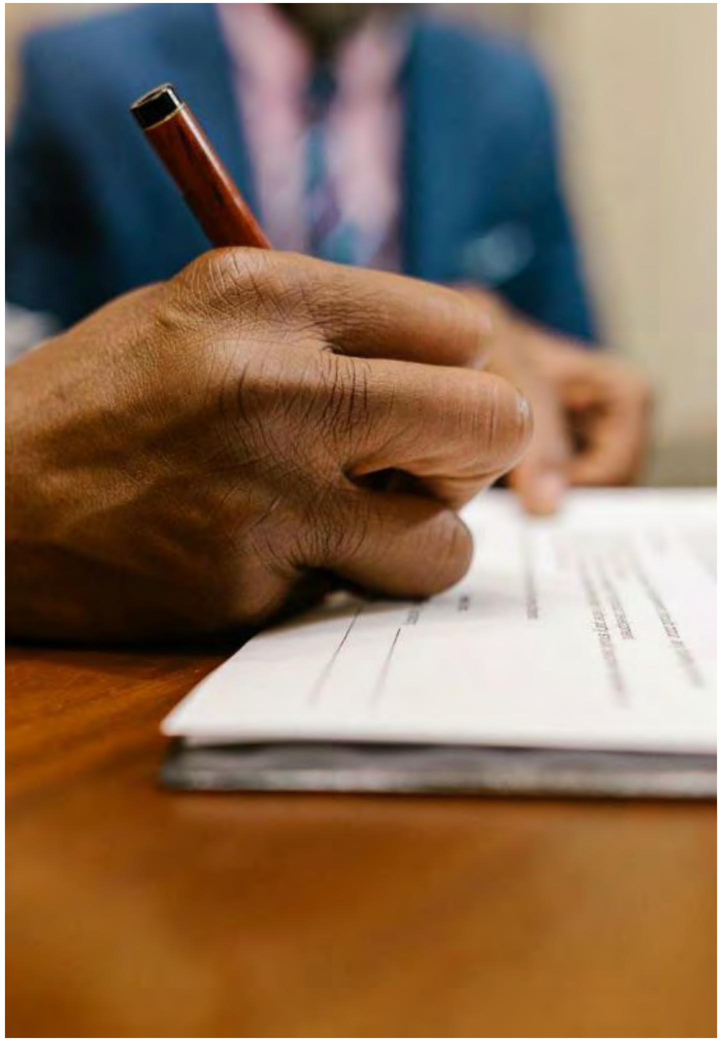
To access the text of IFRS S1, please click here
To access the text of IFRS S2, please click here

Action points for auditors

- Since sustainability reporting is currently at a nascent stage worldwide, companies would need the necessary processes and controls in place to provide sustainability-related information of the same quality, and at the same time, as the financial statements.

- Currently, top 1,000 listed companies in India are required to furnish a Business Responsibility and Sustainability Reporting (BRSR) to the stock exchanges as a part of their annual report. 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 GRI, SASB, TCFD, Integrated Reporting (<IR>) and cross-refer the disclosures made under such frameworks to the disclosures sought under the BRSR. 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.

- ISSB has also released a consolidated industry-based guidance along with IFRS S2. It contains an exhaustive list of metrics/parameters which companies operating in different industries should report on while preparing their respective sustainability disclosures. Thus, the members should get an understanding of the same and discuss them with the management for developing necessary controls and processes to provide sustainability-related information.



Discussion/Consultation papers and Publications

- Exposure Drafts/consultation papers – India and international
- Publications – India
- Publications – International
- Matter for Auditor’s attention

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

Regulator	Publication	Particulars
ICAI	**Exposure Drafts of Guidance Notes on Forensic Accounting and Investigation Standards (FAIS)**	On 1 June 2023, the Institute of Chartered Accountants of India (ICAI), through the Digital Accounting Assurance Board issued the Exposure Drafts (EDs) of the Guidance Notes on Forensic Accounting and Investigation Standards(FAIS). These include: − Guidance Note - FAIS 000: Over Arching Documents − Guidance Note - FAIS 110: Nature of Engagement − Guidance Note - FAIS 120: Fraud Risk − Guidance Note - FAIS 130: Laws and Regulations − Guidance Note - FAIS 140: Applying Hypotheses − Guidance Note - FAIS 210: Engagement Objectives − Guidance Note - FAIS 220: Engagement Acceptance and Appointment − Guidance Note - FAIS 230: Using the Work of An Expert − Guidance Note - FAIS 240: Engaging with Agencies − Guidance Note - FAIS 250: Communication with Stakeholders − Guidance Note - FAIS 310: Planning the Assignment − Guidance Note - FAIS 320: Evidence and Documentation − Guidance Note - FAIS 330: Conducting Work Procedures − Guidance Note - FAIS 340: Conducting Interviews − Guidance Note - FAIS 350: Review and Supervision − Guidance Note - FAIS 360: Testifying Before a Competent Authority − Guidance Note - FAIS 410: Applying Data Analysis − Guidance Note - FAIS 420: Evidence Discovery in Digital Domain − Guidance Note - FAIS 430: Loans Or Borrowings − Guidance Note - FAIS 510: Reporting Results − Guidance Note - FAIS 610: Quality Control The comment period ended on 21 June 2023. To access the text of the ICAI announcement, please click here

Regulator	Publication	Particulars
FASB	**Proposal to improve the accounting for purchased financial assets**	Under current Generally Accepted Accounting Principles (GAAP), if a purchased financial asset has experienced a more-than-insignificant deterioration in credit quality since origination, it is accounted for under the **Purchased Credit Deteriorated (PCD) model** (referred to as the gross-up approach), with no credit loss recorded on acquisition. However, in other cases, it is accounted for in a manner consistent with an **originated financial asset** (referred to as non-PCD accounting). Under non-PCD accounting, a day one credit loss is recorded in addition to any credit discount reflected in the fair value of the acquired assets. Investors and preparers of financial information highlighted that the aforementioned accounting process is complex and they would instead prefer to apply a single accounting model to recognise credit losses for all purchased financial assets. In this regard, on 27 June 2023, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU), *Financial Instruments – Credit Losses (Topic 326): Purchased Financial Assets*. The proposed ASU would address the concerns raised by the stakeholders by requiring that all acquired financial assets, (with certain limited exceptions), would follow the existing gross-up approach. The comment period is open up to 28 August 2023. To access the text of the proposed ASU, please click here

Publications – India

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

Regulator	Publication	Particulars
ICAI	Checklist on Standards on Auditing	Recently, the Institute of Chartered Accountants of India (ICAI) issued the Checklist on Standards on Auditing. The publication covers the checklist on all 38 Standards on Auditing (SAs), thereby incorporating various audit requirements provided in this regard. It also contains various "Notes" to explain these checklists, wherever deemed necessary and contains the relevant guidance, as enunciated in the SAs. To access the text of the checklist, please click here
ICAI	Compendium of Social Audit Standards	Recently, SEBI through notifications dated 25 July 2022 and 19 September 2022 had prescribed the detailed framework for Social Stock Exchange (SSE) in India. Consequently, ICAI, through the Sustainability Reporting Standards Board (SRSB) had issued 16 Social Audit Standards (SAS) and a detailed framework for the same. In this regard, ICAI has released a Compendium of Social Audit Standards (the compendium). The compendium contains the text of various SAS, framework for SAS, preface and a glossary of terms for ease of reference of the users. To access the text of the compendium, please click here

Publications – International

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

Regulator	Publication	Particulars
FASB	FASB issues new chapter of its Conceptual Framework: Chapter 2, *The Reporting Entity*	Recently, the Financial Accounting Standards Board (FASB) issued a new chapter of its Conceptual Framework: Chapter 2, *The Reporting Entity*. The new chapter establishes the concepts that FASB would use in developing standards of financial accounting and reporting. It provides a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing as well as potential investors, lenders, donors, and other resource providers of a reporting entity. It describes a reporting entity as "a circumscribed area of economic activities that can be represented by general purpose financial reports that are useful to existing and potential investors, lenders, and other resource providers in making decisions about providing resources to the entity." It also specifies the following three features of a reporting entity: • Economic activities have been conducted • Those economic activities can be distinguished from those of other entities • The financial information in general purpose financial reporting faithfully represents the economic activities conducted within the circumscribed area and is useful in making decisions about providing resources to the reporting entity. To access the text of the chapter, please click here

Matter for Auditors' Attention

Regulator	Publication	Particulars
ICAI	Request for information on post-implementation review of IFRS 9, Financial Instruments –Impairment	IFRS 9, *Financial Instruments* replaced IAS 39, *Financial Instruments: Recognition and Measurement*. Consequently, the International Accounting Standards Board (IASB) started the post-implementation review of IFRS 9 by looking at the classification and measurement requirements. In this regard, ICAI has now requested for public comments on the request for information on post-implementation review of IFRS 9. Comments can be sent to ICAI by 31 July 2023. Comments can be sent to IASB by 27 September 2023. To access the text of the post-implementation review, please click here

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