Click here to access

FOUNDATION FOR AUDIT QUALITY

Enhancing professional excellence

Regulatory updates for the month of November 2024

xx November 2024

www.faqonline.org

Introduction

The regulatory updates publication issued by the Foundation for Audit Quality (FAQ) highlights the latest developments in auditing, accounting and regulatory space in India and internationally. This month's edition covers important updates on auditing, accounting and regulatory matters, other discussion/ consultation papers and publications from regulators for the period from 1 November 2024 to 30 November 2024.

Some of the key topics covered in this edition include:

- ICAI issued revised criteria for classification of non-company entities to determine applicability of accounting standards.
- SEBI issues a report on its study of the royalty payments made by public companies to its related parties.
- IAASB introduces ISSA 5000, *General Requirements for Sustainability Assurance Engagements*, a new standard for sustainability assurance engagements.

India updates

International updates

Discussion/Consultation papers and Publications

India updates

Accounting updates

Regulatory updates

Updates from ICAI

Revised criteria for classification of non-company entities

In March 2021, non-company entities were classified in the following four categories for the purpose of applicability of accounting standards, viz., Level I, Level II, Level III and Level IV[1]. This classification dictated the level of compliance required with the accounting standards by each category of non-company entities.

In November 2024, the Institute of Chartered Accountants of India (ICAI) announced a revised criteria for classifying non-company entities to determine the applicability of accounting standards. Effective for accounting periods beginning on or after 1 April 2024, the new classification divides non-company entities into two categories:

1. Micro, Small, and Medium Enterprises (MSMEs)

2. Large entities

MSMEs are defined as non-company entities that:

- Are not listed on any stock exchange, whether in India or abroad.
- Are not banks, financial institutions, or insurance companies.
- Have a turnover (excluding other income) not exceeding INR250 crore in the immediately preceding accounting year.
- Have borrowings not exceeding INR50 crore at any time during the immediately preceding accounting year.
- Are not holding or subsidiary entities of non-MSME entities.

1. Level I entities were large size entities, Level II entities were medium size entities, Level III entities were small size entities and Level IV entities were micro entities

Accounting updates

Large entities are any non-company entities that do not qualify as MSMEs.

Large entities are required to fully comply with all accounting standards, whereas MSMEs are granted certain exemptions and relaxations as follows:

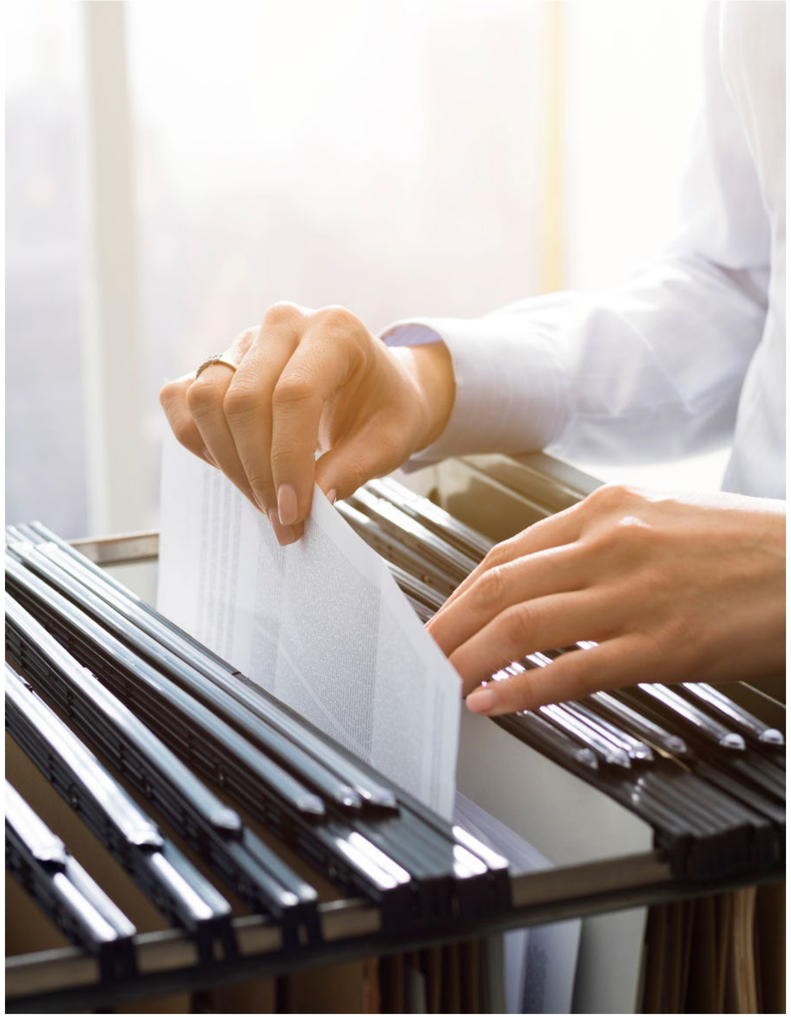
Full exemptions for MSMEs:

- AS 3: Cash Flow Statements
- AS 17: Segment Reporting
- AS 20: Earnings per Share
- AS 24: Discontinuing Operations
- AS 18: Related Party Disclosures (exemptions to MSMEs is subject to certain conditions)
- AS 28: Impairment of Assets (exemptions to MSMEs is subject to certain conditions)

Partial exemptions for MSMEs from certain paragraphs of the following standards:

- AS 10: Property, Plant, and Equipment
- AS 11: The Effects of Changes in Foreign Exchange Rates
- AS 15: Employee Benefits
- AS 19: Leases
- AS 22: Accounting for Taxes on Income
- AS 26: Intangible Assets
- AS 28: Impairment of Assets
- AS 29: Provisions, Contingent Liabilities, and Contingent Assets

MSMEs should disclose their status and the exemptions they have availed in their financial statements. Entities required to apply accounting standards under other regulatory requirements are not eligible for these exemptions.



Accounting updates

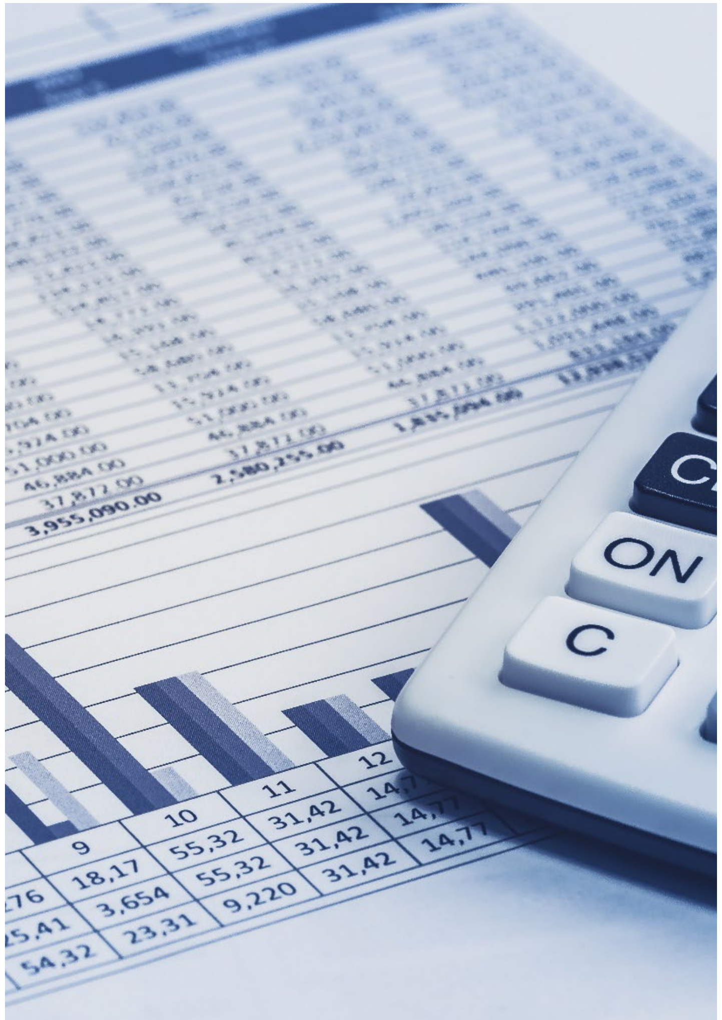
Movement of entity from MSME to non-MSME and vice versa

- An entity that subsequently becomes an MSME, cannot avail of the exemptions/relaxations available to an MSME until the entity remains as an MSME for two consecutive years.
- Where an MSME had qualified for any exemption/relaxation previously but no longer qualifies for the relevant exemption/relaxation in the current accounting period, figures for the corresponding period (for which exemption had been availed) need not be revised merely by reason of its having ceased to be an MSME. The fact that it was an MSME in the previous period and had availed of the exemptions/ relaxations should be disclosed in the notes to the financial statements, and also the fact that the comparatives are not restated should be disclosed.

To access the text of the ICAI announcement, please click here

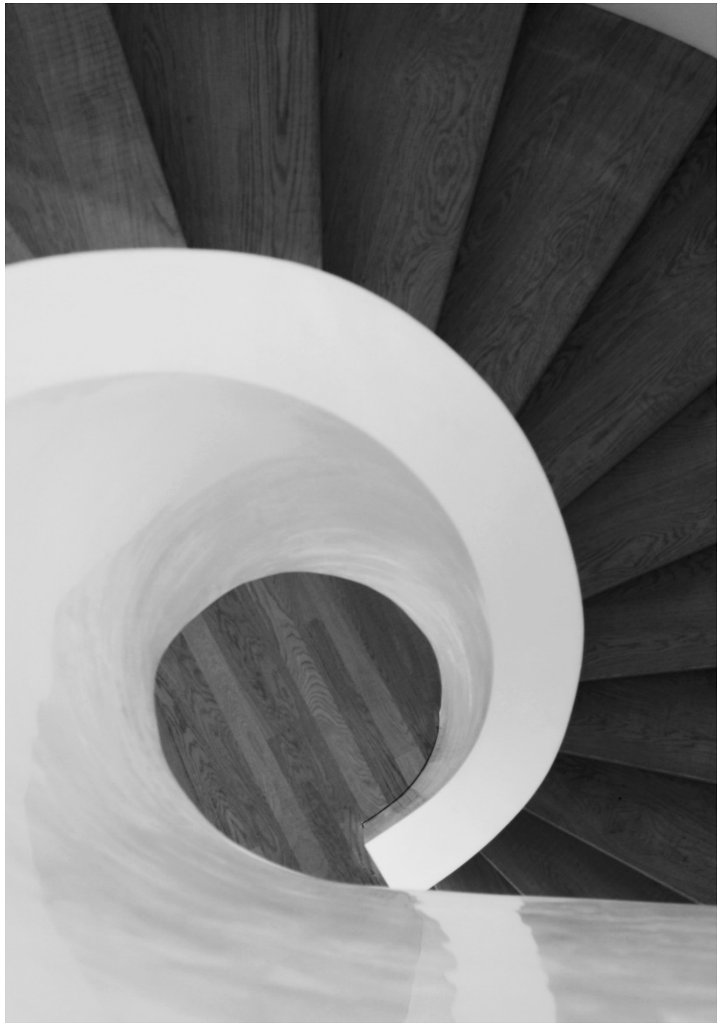
Action Points For Auditors

Auditors should note the classification of non-company entities for the purpose of applicability of accounting standards. Transitional requirements for entities that subsequently become MSMEs or that cease to be MSMEs should also be noted. It should be verified whether the non-company entities have made appropriate disclosures in their financial statements.



Updates from SEBI

Guidelines for Indian mutual funds investing in overseas funds



Paragraph 12.19.2.10 of the Master Circular for Mutual Funds permits Indian mutual funds to *inter-alia* invest in units/securities issued by overseas Mutual Funds (MFs) or Unit Trusts (UTs) (together referred to as 'overseas funds') registered with overseas regulators. These overseas funds should meet certain investment criteria.

The Securities and Exchange Board of India (SEBI) issued a circular on 4 November 2024, to facilitate investments by Indian mutual funds in overseas funds that have exposure to Indian securities. It has provided the following:

Investment guidelines:

- Indian mutual fund schemes can invest in overseas funds that have exposure to Indian securities, provided this exposure does not exceed 25 per cent of their assets.
- All investor contributions to the overseas funds must be pooled into a single investment vehicle, with no segregated portfolios.
- The overseas funds must maintain a common portfolio, ensuring all investors have equal rights and receive returns proportional to their contributions.
- An independent investment manager must manage the overseas fund to ensure unbiased investment decisions.
- The overseas funds must disclose their portfolios at least quarterly.
- There should be no advisory agreements between Indian mutual funds and the overseas funds as this wll prevent conflicts of interest.

Breach of the 25 per cent limit:

- If the exposure to Indian securities exceeds 25per cent, Indian mutual funds have a 6-month observance period to monitor portfolio rebalancing by the overseas fund.
- During this period, no fresh investments can be made in the overseas fund.
- If the exposure of overseas funds to Indian securities remains above 25 per cent after the observance period, Indian mutual funds must liquidate their investments in the next 6 months unless the exposure falls below 25 per cent.

Non-compliance consequences:

If there has been a breach of the 25 per cent limit and if the Indian mutual funds do not liquidate their investments, then the Indian mutual fund/Asset Management Company cannot accept new subscriptions, launch new schemes, or levy exit loads on investors exiting the scheme.

This circular aims to enhance transparency and ensure that Indian mutual funds can diversify their investments while maintaining regulatory compliance.

To access the circular click here.

Action Points For Auditors

Auditors of mutual funds and asset management companies that have invested in units issued by overseas funds with exposure to Indian securities should check compliance with these requirements. Non-compliances should be assessed in accordance with SA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*.

SEBI's analysis of royalty payments by listed companies to related parties

The Securities and Exchange Board of India (SEBI) recently conducted an extensive study on royalty payments made by listed companies to their related parties over a decade (FY 2013-14 to 2022-23). The study, which analysed data from 233 companies across various sectors, uncovered several significant findings which are as follows:

Over the last decade, royalty payments by listed companies to their Related Parties (RPs) more than doubled in magnitude.

- While the royalty payments grew substantially until FY 2018-19, such payments tempered briefly post FY 2018-19, when these payments were brought under regulatory ambit by requiring majority of minority shareholders' approval for royalty exceeding 5 per cent of consolidated turnover of the listed entities.
- When measured with turnover metric, these royalty payments do not look concerning. However, when viewed through profitability lens, the data offers a contrasting picture.
- When comparing royalty with net profit, it can be observed that, with increasing 'royalty to RPs as per centage of Net Profit (NP)', percentage of instances where such royalty payments exceeded total dividend went up significantly. Accordingly, as 'royalty to RPs as per centage of NP' increases, such royalty payments may erode the profitability of a company, eventually affecting interests of minority shareholders.

Disclosure of royalty

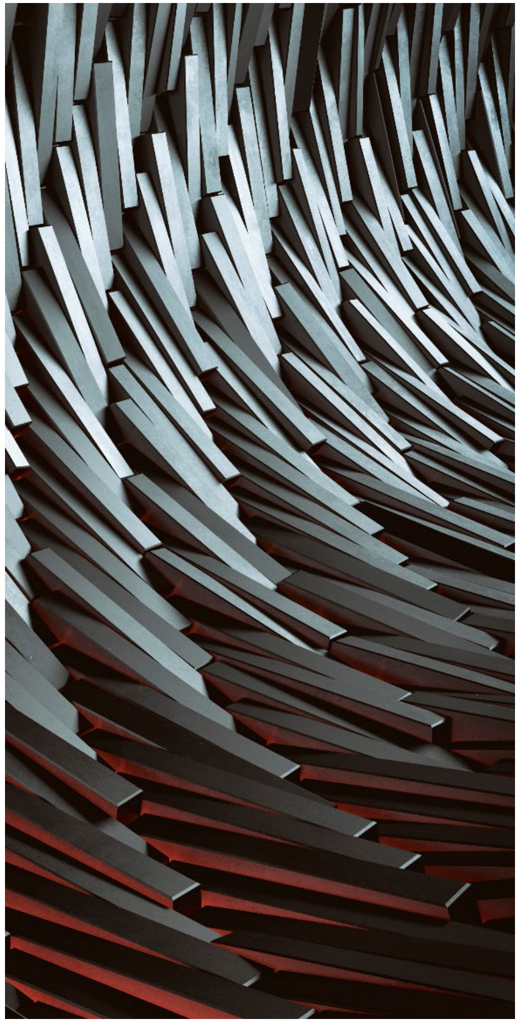
- Companies are not providing details with respect to the rationale and rate of royalty paid.
- Classification of royalty payment made towards the purposes of brand usage, technology know-how, etc. is not being disclosed.

Approval of RPTs

- Further, companies seeking approval of shareholders with respect to royalty payments, are not disclosing period or tenure of approval of such transactions. This is suggestive of the company seeking a perpetual approval for transactions.
- Any such transaction would require approval of shareholders, only if there is any upward revision in rate of such royalty or if there is a prospective regulation prescribing periodicity of such an approval.

Observations of proxy advisors

- Royalty payments had little correlation to profits or revenue over the years.
- Significant royalty is being paid to parent companies by listed companies, despite the listed company themselves spending significantly on adding value to the parent brand (like advertisements, brand promotion, etc.).
- Cash outflows to RPs can take many forms, other than royalty or brand payments- like management fees, technology fees, etc. which are not within the ambit of royalty from regulatory perspective and quantum of such payments can be uncomfortably large.
- Shareholders don't have information on royalty rates applicable to fellow subsidiaries in other geographies for the purpose of comparison.
- Some royalty-paying companies pay less than 5 per cent to more than one RP without requiring shareholders' approval, while the cumulative payment to all RPs together is much in excess of the regulatory threshold.



Matters that require policy discussion

- Should policy on materiality of royalty payments be reviewed by linking it to a profitability threshold?
- Should definition of payments to related parties be more standardized and encompassing, to include both royalty and other payments?
- Whether stipulating separate thresholds for each component of royalty payment enables shareholder to develop an informed opinion on the royalty payable?
- Should the regulation be amended so that the threshold applies to cumulative royalty pay-out to multiple RPs?
- Should there be any additional regulatory requirements for loss-making royalty payers?
- Should companies that skip dividend payments but pay royalty, or pay more royalty than dividends be subject to enhanced scrutiny from shareholders?
- Whether the resolution seeking shareholders' approval for royalty payments should have a validity period?
- Should the royalty agreements between the royalty-paying company and its parent company or concerned RP contain relevant sunset provisions, reflecting the principle that such payments are not meant to be perpetual?
- Should royalty agreements also factor in the spends done by the royalty-paying company towards brand promotion, R&D expenditure, etc. for due offsets?
- Should there be a change in approval of royalty payments?
- Streamlining Disclosures with respect to royalty and brand payments?

To access the press release please click here

Action Points For Auditors

- While performing procedures on RPT, auditors should verify the classification of expenses- i.e. expenses are correctly classified under management fees, technology fees, royalty, etc.
- Where royalty payments are being paid to multiple parties, auditors should assess the limit threshold of five per cent on the overall royalty paid by the company under audit.
- Auditors should review the disclosures in the financial statements to check whether disclosures pertaining to royalty payments are being provided.

SEBI's Buy-back of Securities (Second Amendment) Regulations, 2024

The SEBI (Buy-Back of Securities) (Second Amendment) Regulations, 2024, effective from 20 November 2024, introduced several significant changes to the existing buy-back regulations[2]:

1. Computation of entitlement ratio:

If any member of the promoter or promoter group declares their intention not to participate in the buy-back, their shares will not be considered when calculating the entitlement ratio.

2. Terminology adjustments:

The word record date under Regulation 17(ii) of the buyback regulations is substituted by the word as date of public announcement, accordingly buy-back offer would open not later than four working days from the date of public announcement.

3. Subsisting obligations:

The regulations previously barred companies from issuing any shares or securities until the expiry of the buy-back period. The amendment allows companies to discharge existing obligations through the conversion of warrants, stock options, sweat equity, or preference shares into equity shares within this period. These obligations and their potential impact must be disclosed in the public announcement.

4. Disclosure requirements: Corresponding amendments have been made in schedules II, III and IV[3].

To access the amendment please click here

Action Points For Auditors

The entitlement ratio for buy back must be computed excluding the share of those promoters who decide not to participate in the buy back.

2. Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018
- **3. Schedule II**: Requires disclosure of relevant details and the potential impact of subsisting obligations.
- **Schedule III**: The cover page of the Letter of Offer should include the entitlement ratio for small and general shareholders and provide a web link for shareholders to check their entitlement.
- **Schedule IV**: Adds a requirement to disclose the relevant details and potential impact of subsisting obligations.

SEBI's notification on valuation of repurchase transactions by mutual funds

The SEBI issued a circular on 26 November 2024, introducing changes to the valuation methodology for repurchase (repo) transactions by mutual funds. This circular aims to standardise the valuation methodology for all money market and debt instruments to prevent regulatory arbitrage. Previously, repo transactions with a tenor of up to 30 days were valued on a cost-plus-accrual basis.

The new regulation mandates that repo transactions, including tri-party repos (TREPS) with a tenor of upto 30 days would be valued on a mark-to-market basis.

Further, valuation of all repo transactions (except for overnight repos) and all money market and debt securities (not just those with residual maturity of over 30 days) would be obtained from valuation agencies[4].

Amendments have been made in the Master Circular for Mutual Funds.

The provisions of this circular would come into effect from 1 January 2025.

Please click here to access this notification.

Action Points For Auditors

Auditors should consider this amendment when determining the valuation of securities/investments held by mutual funds.

4. If security level prices given by valuation agencies are not available for a new security, it may be valued at the purchase yield/price on the date of allotment/purchase.

Updates from the Ministry of Environment, Forest and Climate Change (MoEFCC)

MoEFCC introduced penalty clauses for contravention of requirements under various rules

The Ministry of Environment, Forest and Climate Change has recently issued the below mentioned rules to bring in penalty clauses in cases of failure to comply or on contravention to the provisions of the original rules and also outline the procedures for holding inquiries and imposing penalties.

- Water (Prevention and Control of Pollution) Rules, 2024

- E Waste (Management) Second Amendment Rules, 2024

- Publication of Hazardous and Other Wastes (Management and Transboundary Movement) Second Amendment Rules 2024

- Air (Prevention and Control of Pollution) (Manner of Holding Inquiry and Imposition of Penalty) Rules, 2024

- Battery Waste Management (Third Amendment) Rules, 2024.

(Please click the respective rules, to access the relevant circular)

International updates

Auditing updates

Accounting updates

Auditing updates

Updates from IAASB

International standard on sustainability assurance (ISSA) 5000

The International Auditing and Assurance Standards Board (IAASB) has introduced ISSA 5000 *General Requirements for Sustainability Assurance Engagements*, a new standard for Sustainability Assurance Engagements. This standard aims to build trust and confidence among investors, regulators, and other stakeholders in sustainability information. It aims to serve as a comprehensive, standalone standard appropriate for all types of sustainability assurance engagements. It would apply to sustainability information reported across any sustainability topic and prepared under multiple frameworks.

ISSA 5000 would not address sustainability information which is required to be included in the entity's financial statements, in accordance with the applicable financial reporting framework .

Some of the key requirements of ISSA 5000 are given below:

- **Quality management:** ISSA 5000 requires the engagement leader to be a member of a firm that applies either the International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1), or other professional or regulatory requirements which are at least as demanding as ISQM 1.
- **Preconditions for an audit engagement:** As preconditions, sustainability matters within the scope of the engagement are appropriate, such that they are identifiable and capable of consistent measurement or evaluation against the applicable criteria, and the resulting sustainability information can be subjected to procedures for obtaining sufficient and appropriate evidence.

Auditing updates

- **Considering materiality:** To determine whether the sustainability information is free from material misstatement, the practitioner should consider materiality for qualitative disclosures and determine materiality for quantitative disclosures. Further, if double materiality is required to be applied by the reporting framework or entity-developed criteria, the practitioner must consider **both financial and impact** materiality perspectives.

- **Risk assessment:** As part of risk assessment, practitioners should understand the entity and its environment, make inquiries with appropriate parties and understand the components of an entity's internal control. This will enable auditors to determine the nature, timing and extent of procedures required to be adopted.

- **Responding to the risks of material misstatement:** This would be done by testing the operating effectiveness of controls and adopting substantive procedures on disclosures that are material.

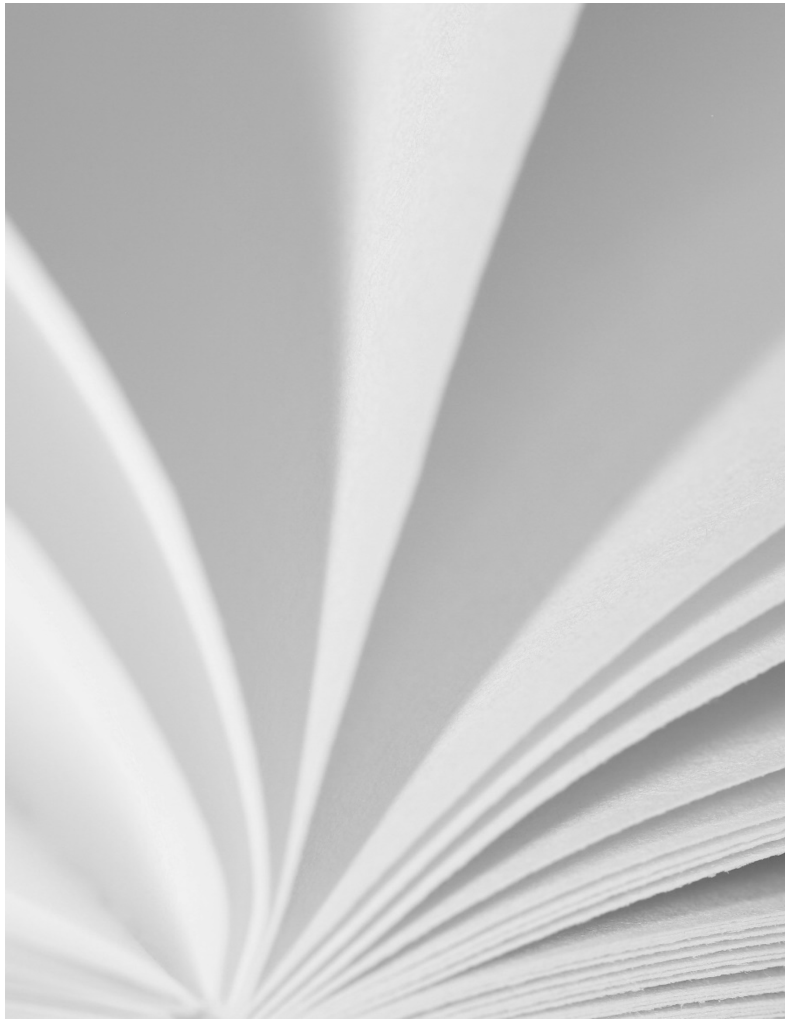
Auditing updates

- **Reporting and documentation:** The engagement team would need to form a conclusion on whether the sustainability information is free from material misstatement post evaluating the sufficiency and appropriateness of evidence obtained. Additionally, it should be ensured that the assembly of the final engagement file should be completed within not more than 60 days after the date of assurance report.

Effective date: ISSA 5000 applies to all assurance engagements on sustainability information, regardless of presentation, and covers both reasonable and limited assurance engagements. The standard is effective for periods beginning on or after 15 December 2026, or at a specific date on or after 15 December 2026, with earlier adoption permitted.

Action Points For Auditors

- ISSA 5000 aims to serve as the global baseline, standalone sustainability assurance standard for the companies in India as well as abroad. Further, IAASB has aligned most of the provisions of ISSA 5000 with the extant ISAE 3000 (revised), in order to ensure interoperability for the assurance.
- ISSA 5000 is practitioner-agnostic and would therefore permit assurance to be provided by people with quite differing backgrounds, such as audit firms or sustainability specialists.



Updates from FASB

FASB enhances expense disclosure requirements for public companies

The Financial Accounting Standards Board (FASB) has issued an Accounting Standards Update (ASU) to enhance financial reporting by requiring public companies to provide more detailed disclosures about certain expenses in the notes to financial statements at each interim and annual reporting periods.

Key updates in the ASU include:

Enhanced disclosures: Public companies should now disclose the following specific expenses:

a. Purchases of inventory
b. Employee compensation
c. Depreciation
d. Intangible asset amortisation
e. Depreciation, depletion, and amortisation related to oil- and gas-producing activities included in each relevant expense caption.

Qualitative descriptions: Companies should provide qualitative descriptions of amounts not separately disaggregated quantitatively.

Selling expenses: Companies should disclose total selling expenses and, in annual reports provide a definition of selling expenses.

The amendments are effective for annual reporting periods beginning after 15 December 2026, and for interim periods beginning after 15 December 2027. Early adoption is permitted.

To access the ASU please click here

Clarification with respect to effective date vide a proposed accounting standard update

Following the release of this update, there was confusion about the initial effective date for entities with non-calendar year-ends (i.e year ends other than 31 December). The Board clarified that all public business entities should adopt the new disclosure requirements in the first annual reporting period beginning after 15 December 2026, and in interim periods **within annual periods starting after** 15 December 2027. This clarification ensures that the initial adoption aligns with an annual reporting period, providing a complete operating cycle for better investor comparison. The Board issued this proposed update to resolve any ambiguity and confirm the intended effective dates. Early adoption is permitted.

The comments on the proposed ASU closed on 10 December 2024.

FASB issues ASU to clarify induced conversion guidance for convertible debt

The FASB has released an Accounting Standards Update (ASU) to improve the relevance and consistency of the guidance on induced conversions in Subtopic 470-20, *Debt—Debt with Conversion and Other Options.*

Currently, the guidance on induced conversions applies only to conversions that include the issuance of all equity securities issuable pursuant to the conversion privileges provided in the terms of the debt at issuance. Current Generally Accepted Accounting Principles (GAAP) do not address how this criterion should be applied to the settlement of a convertible debt instrument that does not require the issuance of equity securities upon conversion (for example, a convertible debt instrument with a cash conversion feature).

The ASU clarifies the requirements for determining whether certain settlements of convertible debt instruments should be accounted for as an induced conversion. Under the amendments, to account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer is required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument. An entity should assess whether this criterion is satisfied as of the date the inducement offer is accepted by the holder. If, when applying this criterion, the convertible debt instrument had been exchanged or modified (without being deemed substantially different) within the one-year period leading up to the offer acceptance date, an entity should compare the terms provided in the inducement offer with the terms that existed one year before the offer acceptance date. The amendments do not change the other criteria that are required to be satisfied to account for a settlement transaction as an induced conversion.

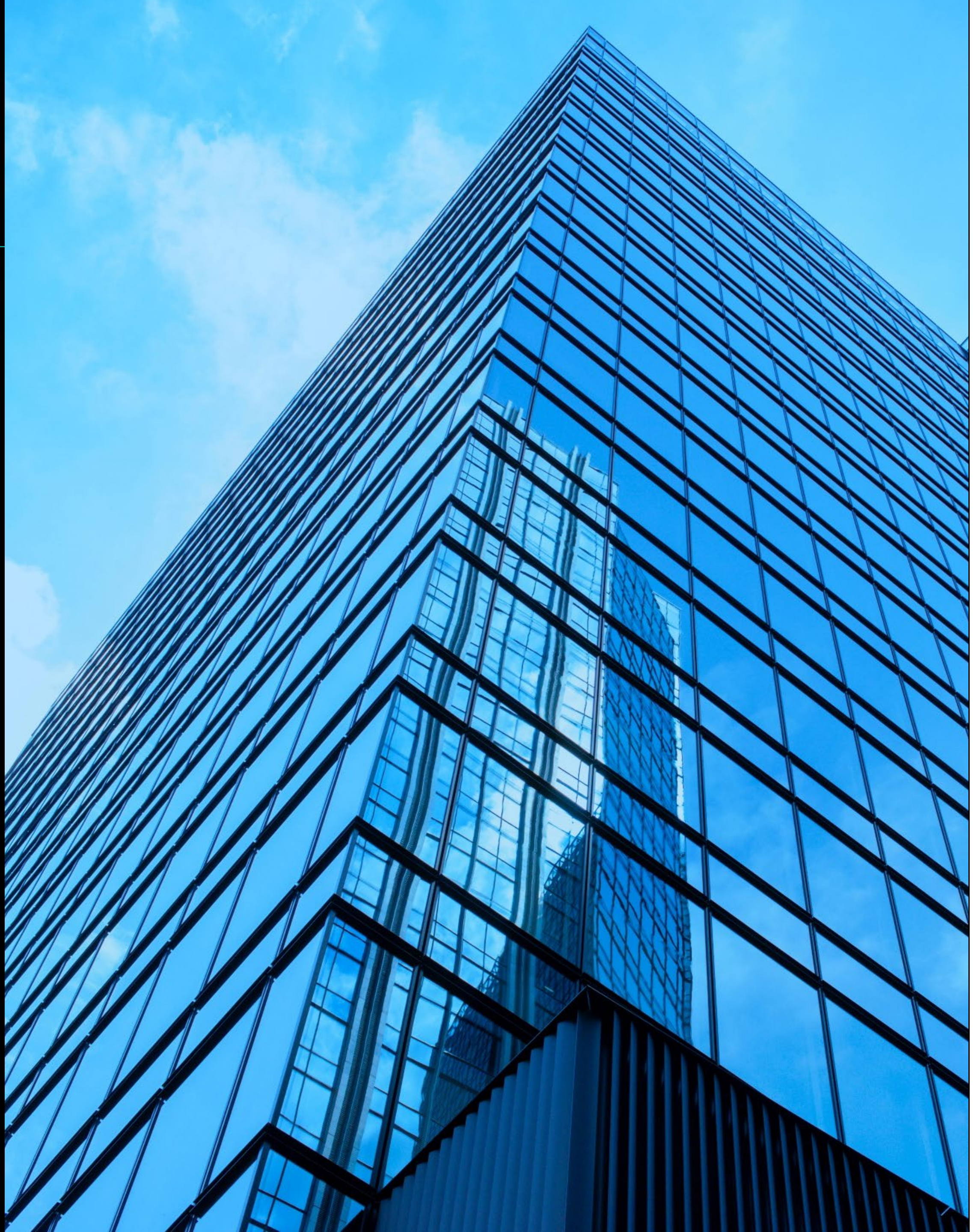
The amendments in the ASU are effective for annual reporting periods beginning after 15 December 2025, with early adoption permitted. The transition requirements have also been provided for the amendments.

To access the text please click here

Discussion/Consultation papers and Publications

Exposure Drafts/consultation papers – India

Publications – India & International



EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
SEBI	**Consultation paper on review of SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008 (SDI Regulations)**	Securitisation[5] in India is regulated and governed by SEBI via the SDI Regulations and by RBI via the provisions of Master Direction-RBI (Securitisation of Standard Assets) Directions, 2021 – for standard assets (RBI SSA Directions). Given the passage of time since the SDI Regulations were formulated and the availability of revised directions issued by RBI that can serve as a benchmark, a need was felt to update the SDI Regulations. Various areas of proposed changes in the consultation paper are as follows: 1. Amendments relating to form and nature of SDIs, ticket size, meaning of debt etc. 2. Amendments relating to structural elements of the securitisation transaction. 3. Amendments relating to trustees 4. Amendments relating to disclosure requirements. 5. Some clarificatory changes 6. Revisions to legislative references 7. Amendments to SEBI LODR To access the text please click here.

5.Securitisation is a process in which assets/ receivables are pooled together and then re-packaged into pass through instruments. The cash flow from these underlying assets/ receivables is passed on to the purchasers/ investors in the pass-through instruments.

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
SEBI	**Consultation Paper on proposed review of the definition of Unpublished Price Sensitive Information under (UPSI) SEBI (Prohibition of Insider Trading) Regulations, 2015**	The SEBI consultation paper issued on November 9, 2024, proposes a review of the definition of UPSI under the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) to align the definition of UPSI with events listed in Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations). The events listed in Para A and B of Part A of Schedule III of LODR Regulations have been evaluated by the working group[6] in order to identify those events and conditions that may potentially be price sensitive and have been recommended to be included in the definition of UPSI. The comments on this consultation paper closed on 30 November 2024. To access the text please click here

6. A working group was constituted to review the definition of UPSI in light of Para A and Para B of Part A of Schedule III read with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
SEBI	**Consultation paper on review of SME segment framework under SEBI (ICDR) Regulations, 2018, and applicability of corporate governance provisions under SEBI (LODR) Regulations, 2015 on SME companies to strengthen pre-listing and post-listing SME provisions**	The SEBI consultation paper on the review of the Small and Medium Enterprise (SME) segment framework under SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2018, (ICDR Regulations) and the applicability of corporate governance provisions under the LODR Regulations, aims to strengthen pre-listing and post-listing provisions for SMEs. Some of the key changes proposed are: • **IPO process**: Increase the minimum application size from INR1 lakh to INR2 lakh or INR4 lakh to protect the interest of smaller investors and to attract investors with greater risk taking appetite to enhance the overall credibility of SME segment. • **Allocation for Non-Institutional Investors (NIIs)**: Align SME IPO allocation with Main Board IPOs by introducing sub-categories in the NII category and a draw of lots for oversubscription. • **Allotment process**: Increase the minimum number of allottees from 50 to 200 in an IPO to ensure broader investor participation. • **Offer for sale (OFS)**: Restrict OFS to 20% of the issue size to ensure funds are used for growth. • **Monitoring of issue proceeds**: Lower the threshold triggering the appointment of a monitoring agency from INR100 crore to INR20 crore and mandate monitoring incase of specific objects like funding subsidiaries or repay loans or an acquisition. • **Lock-in period**: Increase the lock-in period for promoters' contributions to 5 years and phase the release of excess holdings to ensure promoters continue to have some skin in the game until company is on the SME exchange.

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

Regulator	Topic	Particulars
SEBI (Contd)	**Consultation paper on review of SME segment framework under SEBI (ICDR) Regulations, 2018, and applicability of corporate governance provisions under SEBI (LODR) Regulations, 2015 on SME companies to strengthen pre-listing and post-listing SME provisions**	• **General corporate purposes (GCP)**: Limit GCP to 10% instead of 25% of the issue size or INR10 crore, whichever is lower. • **Eligibility Criteria for SME IPOs:** Introduce a 2-year cooling-off period for companies formed from LLPs or partnerships and for those with a change in promoters before filing the draft offer document. Require a minimum issue size of INR10 crore and operating profit of INR3 crore for at least two out of three preceding financial years. • **Migration to Main Board:** Allow SMEs to raise funds without migrating to the Main Board if they comply with Main Board corporate governance and disclosure norms when their post-issue paid-up capital exceeds INR25 crore. **Corporate governance**: Extend LODR provisions pertaining to related party transactions, disclosure of board composition and meetings and periodic filings to SME listed entities. Comments on this paper closed on 4 December 2024. To access the text please click here

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
SEBI	**Consultation paper on review of regulatory framework for angel funds in AIF Regulations**	This paper aims to seek views from public on the need for channelizing capital from Angel investor pools through a regulated structure. If the need for a regulatory environment for Angel Funds is acknowledged, paper also aims to seek views on proposals to streamline regulatory framework for Angel Funds to: (i) Rationalize their fundraising processes, (ii) Strengthen disclosure and governance requirements, and (iii) Provide operational clarity and investment flexibility. These proposals aim to, inter-alia, restrict Angel Funds to investors with commensurate risk appetite and ability to evaluate investment proposals, while also enhancing the ease of doing business in this space Consultation on this paper closed on 28 November 2024 To access the text please click here

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
MoEFCC	**Draft notification on Environmental standards for aluminum plants.**	The MoEFCC has proposed amendments to the Environment (Protection) Act, 1986 (the Act), to control air pollution caused by aluminum industry. The draft notification aims to reduce emissions by lowering emission limits for plants, refineries and furnaces by providing stricter emission standards. It mandates use of cleaner fuels like low sulfur diesel oil (LDO) and minimise fluoride emissions impacting surrounding vegetation. The proposal is open for comments till 31 December 2024. To access the text please click here

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
International Accounting Standard Board (IASB)	**IASB proposes improvements to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets***	The IASB has proposed the following key changes to IAS 37: **When should an entity recognize provisions** • The IASB has proposed three new tests to determine whether a present obligation exists, and • IASB has proposed specific guidance for threshold based obligations (this could result in the withdrawal of IFRIC 21, *Levies*) Under the proposals, companies may need to start recognising some provisions sooner if they expect to exceed a specific threshold. This would require management to make new judgements. **Which costs should be included in measuring provisions** The IASB proposes to include all direct costs in measuring any type of provision. This may result in some provisions becoming larger. **Which discount rate should be used to discount a long-term provision** The IASB proposes to use a risk-free discount rate in measuring a long-term provision. Depending on the company's current accounting policy, some provisions may become larger. The consultation is open for comments until 12 March 2025. To access text please click here click here

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
FASB	**FASB Stakeholders invited to share their views on financial key performance indicators**	The Financial Accounting Standards Board (FASB) has released an Invitation to Comment (ITC) seeking feedback on financial key performance indicators (Financial KPIs). This is a part of FASB's research project to explore potential standard setting for Financial KPIs. Financial KPIs are financial measures derived from numbers in financial statements but not presented in GAAP financial statements, such as EBITDA, free cash flow, organic sales growth, and adjusted net income. The feedback that is being sought inter alia includes whether Financial KPIs should be standardised, and whether they should be disclosed in GAAP financial statements. The ITC is open for submission till 30 April 2025. To access the text of the ITC please click here

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
FASB	**FASB seeks public comment on proposal to improve interim reporting guidance**	The FASB has issued a proposed ASU aimed at enhancing the clarity and navigability of interim reporting disclosures. This proposed ASU seeks to provide clearer guidance and improve the usability of interim financial disclosures without changing the fundamental nature of disclosure obligations. The proposed amendments are as follows: **Applicability**: Confirm that Topic 270- *Interim reporting* guidance applies to all entities providing interim financial statements and notes under GAAP. **Comprehensive list**: Establish a detailed list of required interim disclosures in Topic 270. **Disclosure principle**: Introduce a principle requiring disclosure of post-fiscal year-end events and changes with a material impact, modeled after a previous SEC principle. **Guidance improvement**: Enhance guidance on the content and format of interim financial statements. Stakeholders are invited to review and comment on the proposal by 31 March 2025. To access the text of the proposed ASU, please click here

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
FASB	**FASB seeks public comment on proposal to add guidance on accounting for government grants by businesses**	The FASB has issued a proposed ASU to establish authoritative guidance on accounting for government grants received by business entities. The proposed ASU would leverage the guidance in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* with respect to: • **Recognition, measurement and presentation**: Establishes guidance for recognition, measurement and presentation of government grants related to an asset and related to income. • **Disclosure requirements**: Mandates disclosures about the nature of the grant, accounting policies, and significant terms and conditions. Stakeholders are invited to review and comment on the proposal by 31 March 2025. To access the text please click here

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
FASB	**FASB Seeks Public Comment on Proposal to Clarify Guidance for Identifying the Accounting Acquirer in a Business Combination**	The FASB has released a proposed ASU aimed at improving how the accounting acquirer is identified in business combinations under Topic 805. The proposed ASU aims to standardize the process for determining the accounting acquirer in equity interest exchanges, which can significantly impact the combined entity's financial statements. It also seeks to align the requirements for identifying the accounting acquirer in variable interest entity (VIE) acquisitions with the existing requirements applicable to non-VIE transactions. This alignment is expected to enhance the comparability of financial statements for similar transactions. The comments on this proposal closed on 16 December 2024. To access the text please click here

EDs/Consultation papers – India and International

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

Regulator	Topic	Particulars
FASB	**FASB Seeks Public Comment on Targeted Improvements to Internal-Use Software Guidance**	FASB has issued a proposed ASU to revise the guidance on accounting for software to improve operability of recognition guidance considering different methods of software development. The proposed ASU would eliminate references to sequential development stages in Subtopic 350-40, *Intangibles—Goodwill and Other—Internal-Use Software* and introduce the following two criteria for capitalising software costs: a) Management's authorization and commitment to funding the software project, and a) Probability that the project would be completed and software would be used for its intended functions – referred to as “probable to complete recognition threshold” For the probable to complete recognition threshold companies would also need to consider any significant uncertainties in the development activities. Additionally, the proposed amendments would require companies to report cash paid for capitalized internal-use software costs as investing cash outflows in the statement of cash flows. The proposal is open for comments till 27 January 2025. To access the text of the proposed amendment, please click here.

Publications - International

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

Regulator	Topic	Particulars
International Sustainability Standards Board (ISSB)	**IFRS Foundation publishes guide to help companies identify sustainability-related risks and opportunities and material information to provide**	The IFRS Foundation has issued an education material for companies in identifying and disclosing material information about sustainability-related risks and opportunities that could impact cash flows, access to finance, or cost of capital in the short, medium and long-term. This guide aims to support global implementation of ISSB standards and help companies provide relevant sustainability information. Key Points: • **Investor demand**: The guide addresses the growing demand from investors and global markets for sustainability information to make informed decisions. • **Focus**: It explains sustainability-related risks and opportunities as per IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, emphasising a company's dependencies and impacts. • **Integrated thinking**: Highlights the importance of considering the interconnectedness of a company with its stakeholders, society, economy, and environment throughout the value chain. • **Materiality judgments**: Provides guidance on using existing processes for materiality judgments, especially for those already applying IFRS Accounting Standards. • **Alignment**: Offers considerations for aligning sustainability disclosures with a company's financial statements. The guide aims to help companies meet the needs of investors and broader stakeholders, including those using European Sustainability Reporting Standards (ESRS) or Global Reporting Initiative (GRI) Standards. To access the text please click here

Publications - International

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

Regulator	Topic	Particulars
IFRS Foundation	**Progress on Corporate Climate-related Disclosures—2024 Report**	In the 2024 report on progress on corporate climate-related disclosures, the IFRS Foundation details the progress of 30 jurisdictions in adopting ISSB Standards and how companies are transitioning from Task Force on Climate-related Financial Disclosures (TCFD) to ISSB disclosures. This report informs the work of the Financial Stability Board (FSB), in co-ordination with the International Organisation of Securities Commissions (IOSCO) and the IFRS Foundation: • To assist jurisdictions—through a broad capacity-building programme—to consider how they might adopt, apply or otherwise use ISSB Standards; • To promote timely and widespread adoption of ISSB Standards, in line with jurisdictions' individual circumstances; and • To continue to report annually to the G20 on jurisdictions' and companies' progress in implementing climate-related disclosures and reporting in line with international standards. To access the report please click here

Publications - International

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

Regulator	Topic	Particulars
European Securities and Markets Authority (ESMA)	**ESMA announces 2024 European Common Enforcement Priorities (ECEP) for corporate reporting** [7]	ESMA, the European Union's financial markets regulator, has released its annual ECEP Statement for 2024 corporate reporting. Issuers, auditors, and supervisory bodies should consider the topics and recommendations in this document when preparing, auditing, and supervising the 2024 annual financial reports, taking into account materiality and relevance. In 2025, ESMA and European enforcers would focus on: • **IFRS financial statements**: Liquidity considerations, accounting policies, judgments, and significant estimates. • **Sustainability statements**: Materiality in reporting under the European Sustainability Reporting Standards (ESRS), the scope and structure of sustainability statements, and disclosures related to Article 8 of the Taxonomy Regulation. • **European single electronic format (ESEF) digital reporting**: Common filing errors in the Statement of Financial Position. To access the text please click here.

7. The ECEP outlines ESMA and National Competent Authorities' (NCA's) expectations for the enforcement and supervision of annual financial reports for securities traded on European Economic Area (EEA) regulated markets.

FOUNDATION FOR AUDIT QUALITY

Enhancing professional excellence

HOME

FAQ on social media

Twitter	LinkedIn	Facebook

For any comments or questions, you can write to us at FAQ@faqonline.org

Please note that this publication has been issued to provide general guidance and information and should not be relied on as being definitive or all-inclusive. As with all other FAQ resources, this publication is not a substitute for the authoritative literature, including Standards on Auditing and other engagement and quality controls standards and Guidance Notes, issued by the Institute of Chartered Accountants of India (ICAI) or other relevant body . Readers are urged to refer to relevant rules and standards. If legal advice or other expert assistance is required, the services of a competent professional should be sought. The FAQ makes no representations, warranties, or guarantees of any kind, express or implied, about the completeness, accuracy, reliability, suitability of it for any purpose, and assumes no responsibility for, the content or application of the material contained herein. The FAQ expressly disclaims all liability whatsoever for any loss or damages including without limitation, indirect or consequential loss or damage arising out of the use of, reference to, or reliance on this material. This publication does not represent an official position of the FAQ, its board, governing body or its members.

The Foundation for Audit Quality is an autonomous, non-partisan and not-for-profit organization.
Registered office: Level 9, Spaze i-Tech Park, A1 Tower, Sector - 49, Sohna Road, Gurgaon, Haryana 122018

https://www.faqonline.org

This document is for e-communication only