



Voices on Reporting



7 January 2021

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Welcome



01

Series of knowledge sharing calls



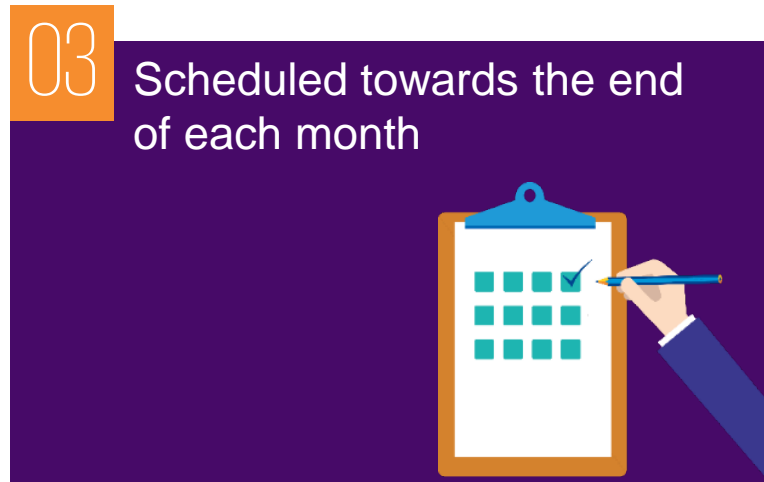
02

Covering current and emerging reporting issues



03

Scheduled towards the end of each month



04

Look out for our Accounting and Auditing Update, First Notes and Voices on Reporting publications



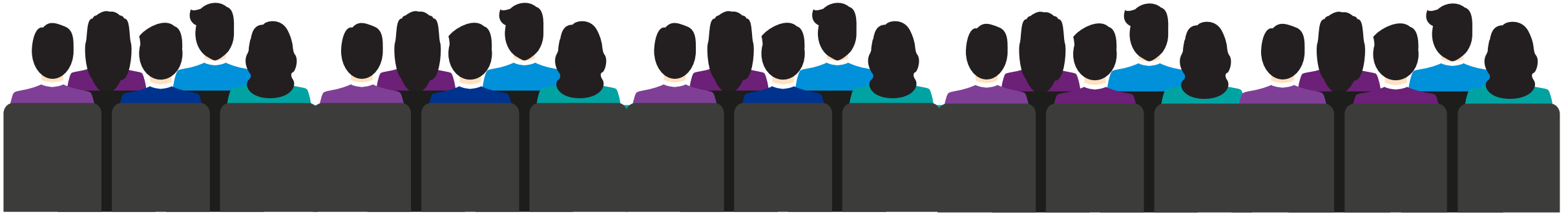
Speaker for the webinar



Ruchi Rastogi

Partner

Assurance
KPMG in India



Agenda



- 1. Disclosure norms on forensic audit by listed entities**
2. Revised framework for schemes of arrangements by listed entities
3. COVID-19 exemptions and relaxations
4. The Companies (Amendment) Act, 2020 and other updates
5. Key considerations for interim and year-end reporting amid COVID-19 based on enforcement priorities for 2020 issued by European Securities and Markets Authority (ESMA)

Disclosure norms on forensic audit by listed entities



On 8 October 2020, SEBI issued certain amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations).

Disclosure of forensic audit

Additional disclosures to stock exchange by a company with listed specified securities:

- Fact of initiation of forensic audit along with the name of the entity initiating the audit and reasons for the same, if available.
- Final forensic audit report (other than for audit initiated by a regulatory authority) on receipt along with the management comment, if any.



Clarification issued by SEBI



On 27 November 2020, SEBI issued FAQs on requirement of the disclosure of information regarding forensic audit of listed entities.

What constitutes forensic audits?

The audits (by whatever name called), which are initiated with the objective of detecting any mis-statement in financials, mis-appropriation/siphoning or diversion of funds. It does not seek to cover disclosure of audit on matters such as product quality control practices, manufacturing practices, recruitment practices, supply chain process including procurement and matters that would not require any revision to the financial statements disclosed by the listed entity.



Disclosure of initiation of forensic audit?

The fact of initiation of any forensic audit by the management of a listed entity, lenders, regulatory/enforcement agencies, is required to be disclosed.



Is it applicable to ongoing audits?

The new requirement is applicable prospectively and is applicable to all audits which are initiated and audit reports which are finalised after 8 October 2020.



What details may be expunged from the disclosure of the final forensic audit report?

Disclosure of any personally identifiable information including names of individuals and commercially sensitive information, if any, may be expunged.



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Revised framework for schemes of arrangements by listed entities



On 3 November 2020, SEBI made certain amendments to the regulatory framework¹ for schemes of arrangements undertaken by listed companies.



Document to be submitted by a listed company to stock exchanges before the scheme is submitted to NCLT

- Audit Committee to comment upon the following matters:
 - Need/rationale for the scheme
 - Synergies of business of involved entities
 - Impact of scheme on shareholders and
 - Cost benefit analysis.
- Report by committee of independent directors to consider and recommend the scheme.
- Valuation report from a registered valuer (Section 247 of the 2013 Act).



Obligation of stock exchange(s) and processing of the draft scheme by SEBI

Stock exchange to provide a 'No-Objection' letter instead of an observation letter to SEBI on the draft scheme in coordination with each other.



Conditions for companies seeking relaxation under Rule 19(7) of the Securities Contracts (Regulation) Rules, 1957 (SCRR)

- Additional disclosures prescribed while issuing a newspaper advertisement for seeking relaxation from minimum public shareholding
- Disclosures to be provided in the form of an information document to the stock exchange by a transferee company.
- Listing and trading of specified securities to commence within 60 days (earlier 45 days) of receipt of the order of the high court/NCLT
- Non applicability of minimum offer and allotment requirements to the listing of equity shares with superior voting rights issued to promoter group.

The amendments are applicable for all listed entities seeking listing approval from the stock exchanges after 3 November 2020.

¹As per circular dated 10 March 2017

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COVID-19 exemptions and relaxations



Relaxations by MCA



CARO 2020

MCA deferred the applicability of CARO 2020 for audit of financial statements to the financial years commencing on or after the 1 April 2021 (earlier applicable from 1 April 2020).



Revised norms for databank of Independent Directors – Effective 18 December 2020

- Time limit to pass online proficiency self-assessment test increased to two years
- Score to pass the test reduced to 50 per cent from 60 per cent
- Exemption from passing the online proficiency test - served for a total period of not less than three years (earlier 10 years)
- Additional circumstances prescribed when the test is not required

Additional relaxations by MCA



Extended relaxation relating to minimum residency of a director for FY2020-21



Exempted compliance with the requirement of having at least one director who stays in India for a total period of not less than 182 days during the Financial Year (FY) under Section 149(3) of the 2013 Act for FY2020-21 as well.

Relaxation on passing of ordinary and special resolutions by companies



Extended the timeline and allowed companies to conduct their Extra Ordinary General Meetings (EGMs) through Video Conferencing (VC) or Other Audio Visual Means or transact items through postal ballot in accordance with prescribed conditions up to 30 June 2021 (earlier 31 December 2020).

Conducting of board meeting through VC or OAVM



Relaxation extended upto to 30 June 2021 (earlier 31 December 2020).

Relaxations by the Ministry of Finance



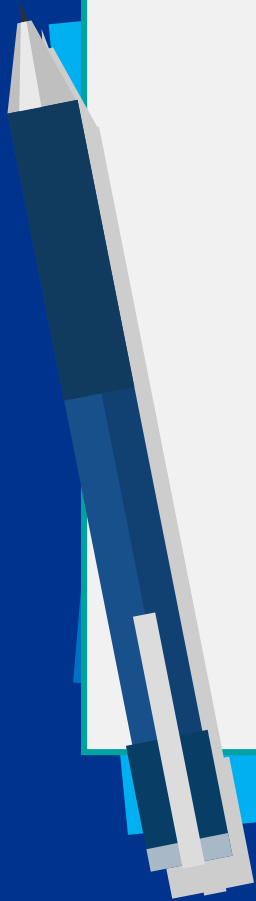
Extension for tax audit reports

- Due date for furnishing tax audit reports under the IT Act including tax audit report and report in respect of international/specified domestic transaction extended to 15 January 2021 (earlier 31 December 2020).

Extension of due date of IT returns

- For the taxpayers (including their partners) who are required to get their accounts audited - 15 February 2021 (earlier 31 January 2021) (due date as per IT Act is 31 October 2020)
- For the taxpayers who are required to furnish report in respect of international/specified domestic transactions - 15 February 2021 (earlier 31 January 2021) (due date as per IT Act is 30 November 2020).
- Due date for furnishing IT returns for other taxpayers (for whom the due date as per the IT Act is 31 July 2020) – 10 January 2021 (earlier 31 December 2020).

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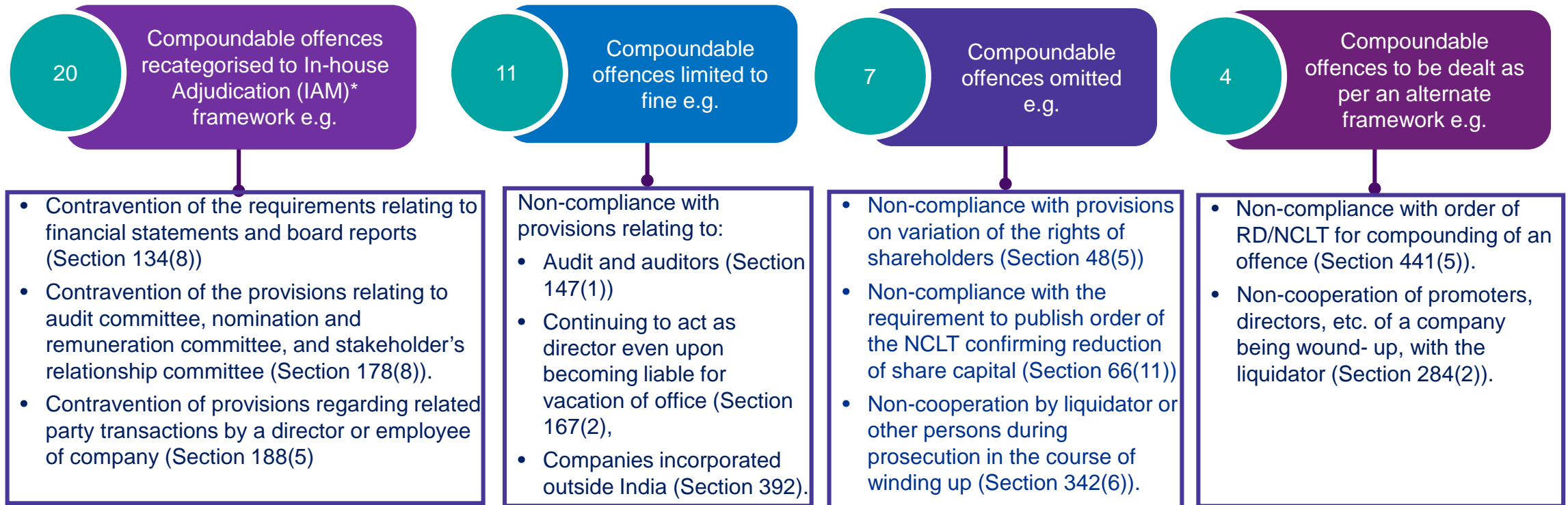
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The Companies (Amendment) Act, 2020 - Notified



On 21 December 2020, MCA notified certain sections of the Companies (Amendment) Act, 2020.

The chart below summarises the notified section relating to 42 offences into four categories:



*Section 454 of the 2013 Act provides that the IAM framework is a mechanism for levy of civil penalties by Adjudicating Officers (AO). The Amendment Act shifted offences relating to minor or less serious issues to the In-House Adjudication (IAM) framework.

The Companies (Amendment) Act, 2020 (cont.)



Modified penalties in respect of following six sections (notified):




Failure or delay in filing notice for alteration of share capital




Section 64

Failure or delay in filing annual return




Section 92

Failure or delay in filing of certain resolutions or agreements to ROC



Section 117

Failure or delay in financial statements



Section 137

Failure/delay in filing statement by auditor after resignation



Section 140

Accepting directorships beyond specified limits



Section 165

Fines for non-compliance - NCDS/NCRPS/CPs



On 13 November 2020, SEBI issued a uniform structure for imposing fines and taking appropriate actions by the stock exchange(s) in respect of non-compliance with continuous disclosure requirements (as laid down in Listing Regulations and related SEBI circulars) by issuers of listed Non-Convertible Debt Securities (NCDS)/Non-Convertible Redeemable Preference Shares (NCRPS)/Commercial Papers (CPs)



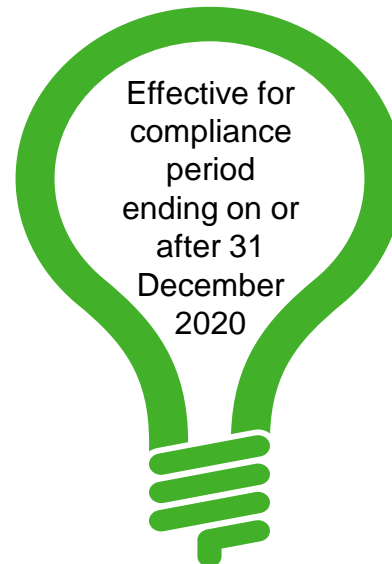
The fine payable by an entity that has listed NCDS/NCRPS would be follows:

INR5,000 per day*

For non-submission of the financial results within the period prescribed under this regulation. (Regulation 52(1))

INR1,000 per day per ISIN**

For non-disclosure of information related to payment obligations. (Regulation 57(1))



INR1,000 per day

- For non-submission of deviations variations in utilization of issue proceeds. (Regulation 52(7))
- For non-disclosure of extent and nature of security created and maintained. (Regulation 54(2))

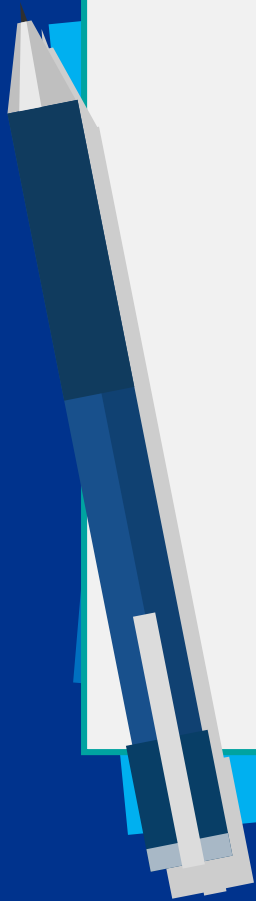
INR50,000 per instance

Failure to obtain prior approval of stock exchange for any structural change in terms of NCDs/ NCRPS. (Regulation 59(1))

* Also applicable to issuer of listed CPs.

** International Securities Identification Number

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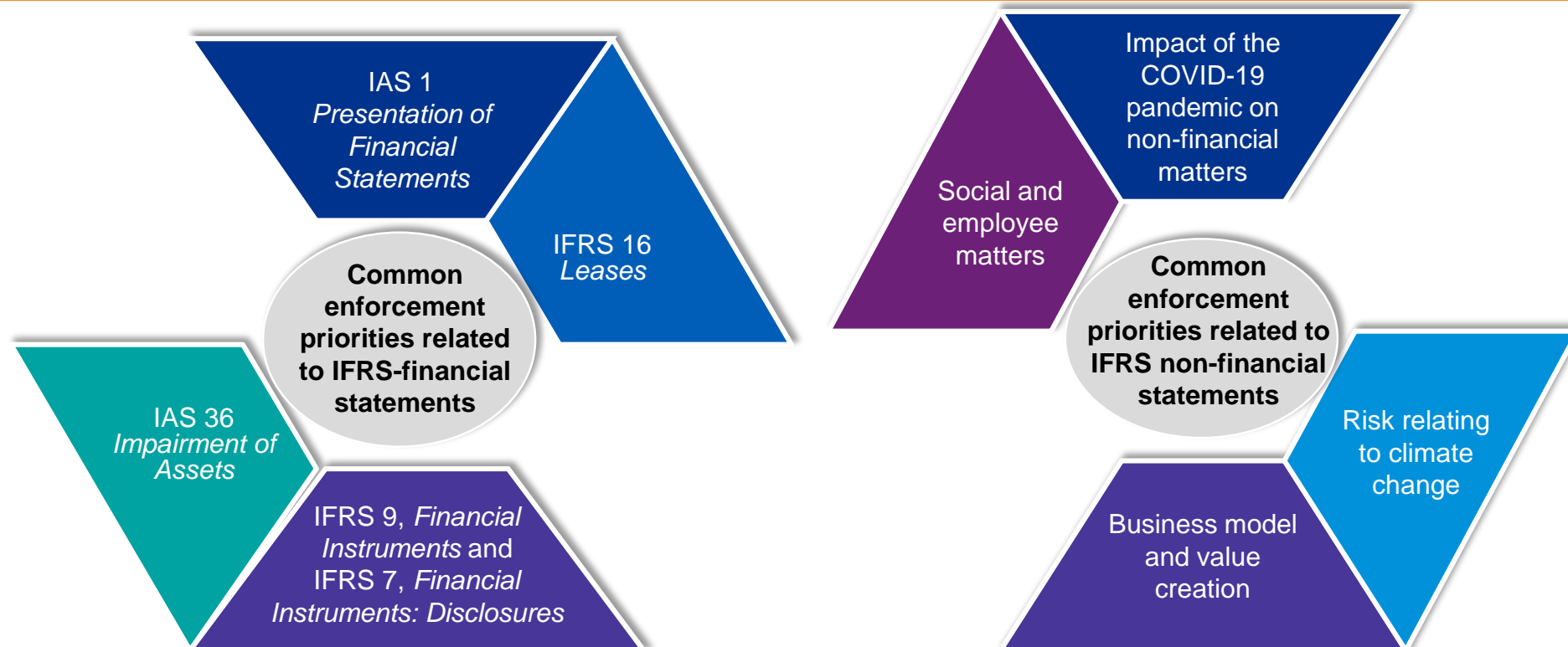
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ESMA's enforcement priorities for 2020



On 28 October 2020, ESMA issued its enforcement priorities for 2020 annual financial reports. Given the severe impact of the coronavirus pandemic (COVID-19), ESMA's key priority is transparent and timely disclosure of information on the effects of the pandemic on a company's financial performance, position and cash flows.

Areas of focus highlighted by ESMA in its public statement are given below:



ESMA's enforcement priorities for 2020 (contd.)



Areas relating to financial statements

IAS 1 *Presentation of Financial Statements*

- a. Detailed disclosure on going concern assumptions
- b. Disclosure of assumptions underlying significant judgements and estimates made while applying their accounting policies, and the impact of COVID-19.
- c. Presentation of COVID-19 related items - quantitative and qualitative information

IAS 36 *Impairment of assets*

Disclosure pertaining to:

- a. How uncertainty has been factored into impairment testing
- b. Key assumptions and estimates underlying and how these have changed compared to the last annual and interim reporting

IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instruments: Disclosures*

- a. IFRS 9 for credit institutions:
 - Reflect the significant uncertainty affecting the economic environment in the measurement of ECL in an unbiased way.
- b. Adequate disclosure of risks arising from financial instruments and should be based on information used for internal reporting.
- c. Important disclosures:
 - Liquidity risks
 - Other financial risk considerations
 - Disclosures for credit institutions.

IFRS 16, *Leases*

Specific disclosures required to be given by lessors and lessees as below:

- a. Disclosures required by lessors:
 - Nature of rent concession granted
 - Accounting policy adopted for rent concessions
 - Risks posed by current market conditions on assets under operating lease, and
 - Requirements of other standards for assets under operating lease.
- b. Disclosures required by lessees:
 - How companies have applied the practical expedient that provides relief to lessees
 - Depreciation and expenses
 - Future cash flows not reflected in measurement of lease liabilities
 - Additional information on impact of COVID-19

ESMA's enforcement priorities for 2020 (contd.)



Areas relating to non-financial matters

Social and employee matters

Some issues that have attracted attention from users of corporate disclosures include:

- Inclusion and diversity, to ensure equality and to fight against racism
- Health and safety of employees, including extensive use of remote working arrangements and strategies to bring employees back to workplace.

Business model and value creation

There is a need to provide disclosures on the impact of the pandemic on the business model and value creation over the short, medium and long-term and on the policies put in place to address the non-financial matters.

Risk relating to climate change

- a. Companies are encouraged to explain risks associated with climate change and the related mitigating actions put in place in the context.
- b. Disclosures should also be made with regard to opportunities that may arise in connection with climate change.
- c. The explanations should serve to contextualise disclosures on the degree to which pre-set targets can be achieved and to explain any uncertainty surrounding them



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Q&A



Links to previous recordings of VOR



Month	Topics	Link
April 2020	<ul style="list-style-type: none">• COVID-19: Potential financial reporting impacts	Click here
July 2020	<ul style="list-style-type: none">• COVID-19: Key financial reporting considerations for interim reporting• CARO 2020 – Key considerations• Ind AS 116, <i>Leases</i> – Exposure draft on COVID-19 related rent concessions issued by ICAI• Additional relaxations provided by the Securities and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs (MCA) amid COVID-19.	Click here
September 2020 (Special session)	<ul style="list-style-type: none">• Implementation issues relating to CARO 2020 (Session 1 and 2)	Click here
October 2020	<ul style="list-style-type: none">• Key updates on the Companies (Amendment) Act, 2020• Amendments to Ind AS issued by the Ministry of Corporate Affairs (MCA)• Resolution Framework for COVID-19 related stressed assets issued by the Reserve Bank of India (RBI)• Other key amendments and clarifications issued by MCA and the Securities and Exchange Board of India (SEBI) amid COVID-19.	Click here
November 2020 (Special session)	<ul style="list-style-type: none">• Accounting issues for technology sector in relation to taxation matters	Click here

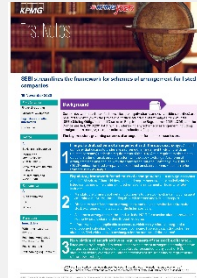
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Our publications

Accounting and Auditing Update



First Notes



Coming up next

New issue of:

- Accounting and Auditing Update
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- Voices on Reporting - publication

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Thank you

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