



Voices on Reporting



7 July 2021

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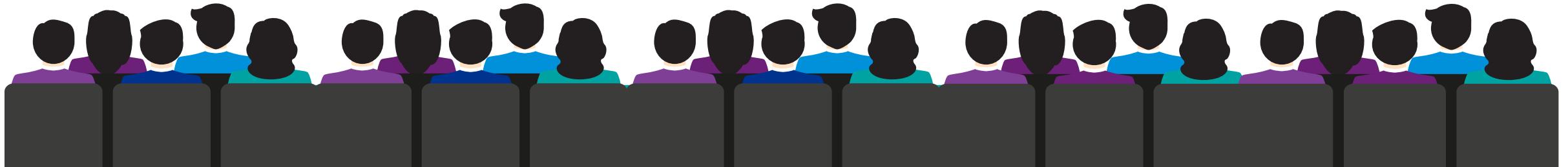
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Agenda



- 1. MCA overhauls financial reporting requirements**
2. Recent SEBI updates
 - Disclosures in corporate governance report
 - Key amendments to Listing Regulations
 - Board decision on Independent Directors regulations
 - Business responsibility and sustainability reporting
3. Annexures: COVID-19 relaxations

MCA overhauls financial reporting requirements



Ministry of Corporate Affairs (MCA) has issued certain amendments to the provisions relating to the Companies Auditor's Report Order 2020 (CARO 2020) , Schedule III, disclosures in board's report and additional reporting obligation for auditors effective from 1 April 2021. An overview of the amendments is as follow :

| | |
|--|--|
| CARO 2020 | <ul style="list-style-type: none">• CARO 2020 includes several new clauses and has revised certain existing clauses of CARO 2016.• The new CARO has increased the reporting requirements for auditors and put greater onus on companies to share information with the auditors and users of the financial statements. |
| Amendments to Schedule III | <ul style="list-style-type: none">• Additional disclosures for certain financial statements captions e.g. ageing of trade payables.• Clarifications on certain item e.g. lease liability, security deposits given, etc.• Disclosures on various regulatory matters introduced and certain disclosures have been aligned with CARO 2020 |
| Amendments to Audit Rules (Audit Report) | <p>Additional reporting obligations for auditors e.g. funding transactions, payment of dividend, etc.</p>  |
| Amendments to Accounts Rules (Board's Report) | <p>Additional disclosures in the Board's report e.g. status of an application/proceedings under the Insolvency and Bankruptcy Code 2016 (IBC), etc.</p> |

Amendments to Schedule III - aligned with CARO 2020



The amendments to Schedule III are largely driven by requirements relating to CARO 2020 to be applicable from financial year beginning 1 April 2021 as given below:

Title deeds of immovable properties:

Disclosure of details of title deeds of immovable properties not held in the name of the company (excluding leased assets)

CARO
Clause 3(i)(c)

Revaluation:

Disclosure regarding revaluation of Property, Plant and Equipment (PPE)/intangible assets:

- Amount of change due to revaluation (if change is 10 per cent or more in the aggregate of the net carrying value of each class of PPE/intangible assets)
- Whether revaluation is based on the valuation by a registered valuer as defined under the 2013 Act

CARO
Clause 3(i)(d)

Benami property:

Details of benami property held

CARO
Clause 3(i)(e)

Borrowings against security of current assets:

In case of borrowings from banks or financial institutions on the basis of security of current assets, disclose details relating to quarterly returns and summary of reconciliations.

CARO
Clause 3(ii)(b)

Loans and advances:

Disclosure of loans and advances granted in the nature of loans to promoters, directors, Key Managerial Personnel (KMPs) and the related parties, repayable on demand or granted without specifying terms (in the prescribed format).

CARO
Clause 3(iii)(f)

Amendments to Schedule III-aligned with CARO 2020 (Cont.)



| | | | |
|---|--|--|--|
| <p>Undisclosed income: Details of undisclosed income in terms of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income in the tax assessment.</p> | <p>CARO Clause 3(viii)</p> | <p>Utilisation of borrowed funds: Where the company has not used the borrowings from banks and Financial Institution for the specific purpose for which it was taken at the balance sheet date - disclose details of where they have been used.</p> | <p>CARO Clause 3(ix)(c)</p> |
| <p>Wilful defaulter: Disclose if the company is declared as a wilful defaulter by any bank/Financial Institution/other lender:</p> <ul style="list-style-type: none">• Date of such declaration• Details of defaults. | <p>CARO Clause 3(ix)(b)</p> | <p>Ratios: Disclosure of certain ratios e.g. current ratio, debt-equity ratio, etc. (Explain items included in numerator and denominator of these ratios)</p> | <p>CARO Clause 3(xix)</p> |
| | | <p>Corporate Social Responsibility (CSR): Details of CSR including amount required to be spent, spent, shortfall, previous years shortfall, reasons for shortfall, nature of CSR, etc.</p> | <p>CARO Clause 3(xx)</p> |

Other key amendments to Schedule III



- Detailed disclosure where company has:

- Advanced
- Loaned
- Invested funds,

Also part of the
auditor's report

(borrowed funds/share premium/any other sources or kind of funds) to intermediaries* with the understanding that the intermediary would:

- Directly/indirectly lend or invest in ultimate beneficiaries** or
- Provide any guarantee, security or the like to or on behalf of the ultimate beneficiaries**

(Similar disclosures on receipt of funds from funding party*).

- Lease liability as per Ind AS 116, *Leases* to be presented as a separate item under financial liabilities.

- Amendments/new disclosure requirements in relation to:

- Security deposits under the heading 'current/non-current other financial assets'
- Current maturities of long-term borrowings under the heading 'short term borrowings schedule'
- Ageing of trade receivables, trade payable (with specific sub-classification as disputed/undisputed) and separate disclosure of unbilled dues
- Ageing of Capital Work-in-Progress (CWIP) and intangible assets under development
- Effects of a scheme of arrangement accounted as per the approved scheme and accounting standards and any deviations

- Option to present remeasurement of defined benefit plans and fair value changes relating to own credit risk of financial liabilities designated at Fair Value Through Profit and Loss (FVTPL) as a separate column under reserves and surplus.

*any other person(s) or entity(ies), including foreign entities

**other persons or entities identified in any manner whatsoever by or on behalf of the company

Additional matters to be reported in the auditor's report



As per the amendments, an auditor is required to include his/her views and comments on the following additional matters in the auditor's report:

1

Auditor to report whether the management has represented that, to the best of its knowledge and belief (other than as disclosed in the notes to the accounts) :

No funds have been advanced or loaned or invested (either from borrowed funds, share premium or any other sources/kind of funds) by the company to/in any other person(s) or entity(ies), including foreign entities (intermediaries), with the understanding (recorded in writing or otherwise) that the intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (ultimate beneficiaries) or provide any guarantee, security or the like on behalf of the ultimate beneficiaries.

No funds have been received by the company from any person(s) or entity(ies), including foreign entities (funding parties), with the understanding (recorded in writing or otherwise) that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the funding party (ultimate beneficiaries) or provide any guarantee, security or the like on behalf of the ultimate beneficiaries.



2

Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the above representations contain any material mis-statement.

3

Dividend declared or paid during the year by the company is in compliance with Section 123 of the 2013 Act.

Additional disclosures in the board's report



In addition to the current matters, the amendments require board of directors of every company to provide following disclosures in its report with effect from 1 April 2021:

01

Details of application made or any proceeding pending under the Insolvency and Bankruptcy Code, 2016 (IBC) during the year along with their status as at the end of the financial year.

02

Details of difference between amount of the valuation done at the time of one-time settlement and the valuation done while taking loan from the banks or financial institutions along with the reasons thereof.

Agenda

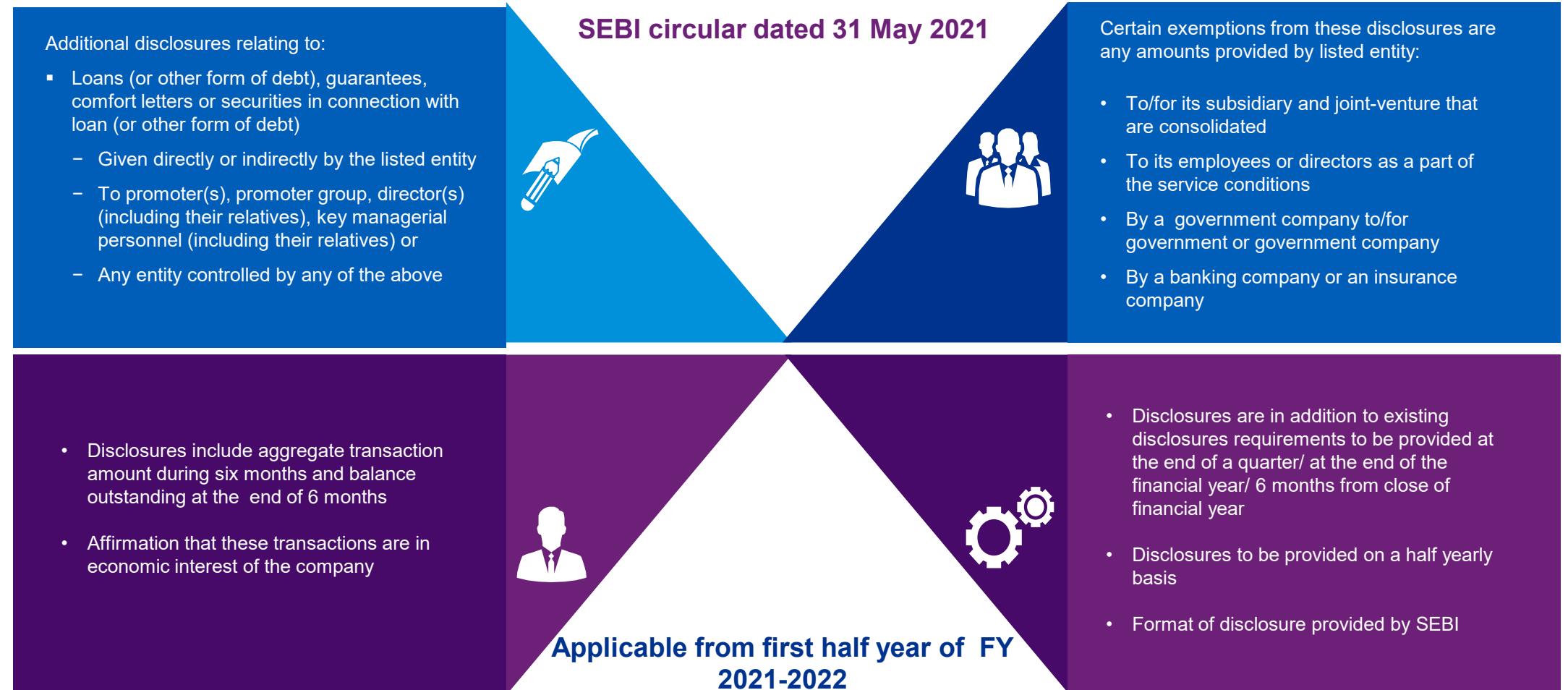


1. MCA overhauls financial reporting requirements
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Disclosures in corporate governance report



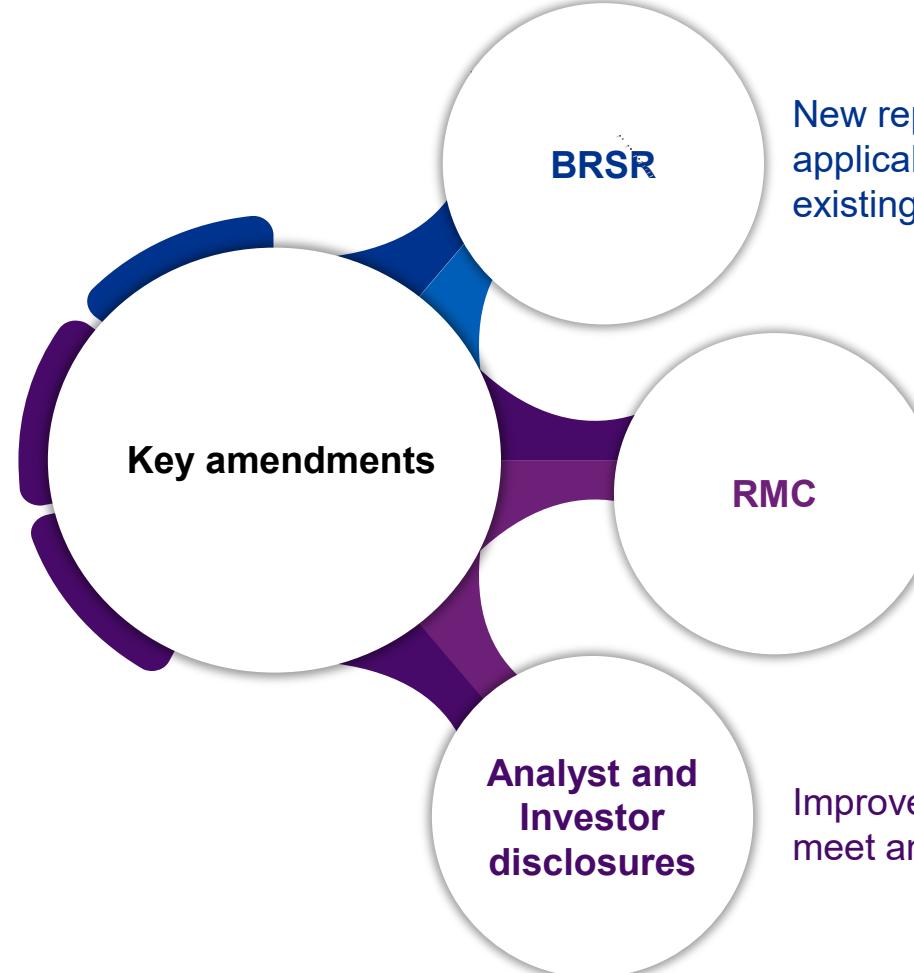
SEBI mandated additional disclosures in the compliance report on corporate governance. Key disclosures are as follows:



Key amendments to Listing Regulations



On 5 May 2021, Securities Exchange Board of India (SEBI) has issued various amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations).



New report Business Responsibility and Sustainability Reporting (BRSR) applicable to the top 1,000 listed entities by market capitalisation instead of existing Business Responsibility Report (BRR)

Requirement of constituting Risk Management Committee (RMC) extended to top 1,000 listed entities instead of top 500 listed entities based on market capitalisation.

Improved disclosures required pertaining to analyst and investor meet and conference calls.

Amendments to Listing Regulations-RMC



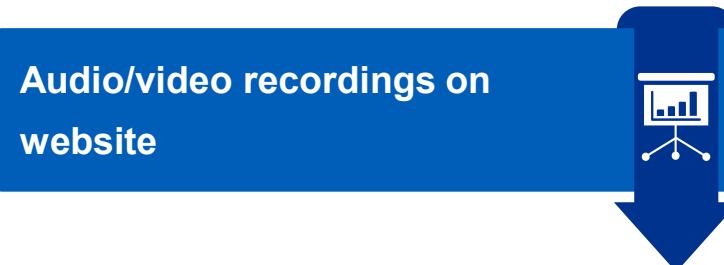
Key amendments relating to applicability and role of a Risk Management Committee (RMC)

| | | | |
|----|--|---|---|
| 01 |  | Applicability extended | <ul style="list-style-type: none">To be constituted by top 1,000 listed entities (on the basis of market capitalisation as at the end of the immediate previous financial year) |
| 02 |  | Membership of RMC | <ul style="list-style-type: none">Minimum three members with majority of them being members of the board of directors, including at least one independent directorFor listed entity with outstanding SR equity shares, at least two thirds of the RMC shall comprise independent directors |
| 03 |  | Number of meetings and quorum | <ul style="list-style-type: none">At least twice a yearQuorum of at least two members or one-third of the members of the committee, whichever is greater including at least one member of the BOD in attendance |
| 04 |  | Enhanced role and responsibility | <ul style="list-style-type: none">To formulate a detailed risk management policyTo ensure that appropriate methodology, processing and systems are in place to monitor and evaluate risksTo periodically review the risk management policy, at least once in two years, etc. |

Amendments to Listing Regulations-analyst and investors



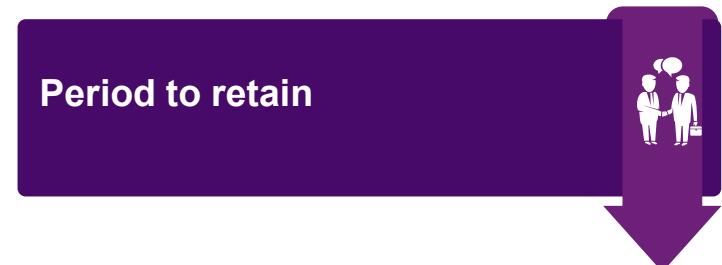
Key amendments relating to analyst and investor disclosures include:



To be uploaded on the website immediately after the conclusion of the earnings conference call, before the commencement of the next trading day or within 24 hours from the conclusion of such calls, whichever is earlier



To be uploaded on the website within five working days of the conclusion of such calls.



- Recordings to be uploaded on the website for a minimum period of five years and thereafter as per the archival policy as disclosed on website.
- The written transcript of such calls should be preserved permanently in accordance with the Listing Regulations.

Voluntary from 1 April 2021 and Mandatory from 1 April 2022

Other amendments to the Listing Regulations



Other amendments to listing regulations include:



Board meetings held for more than one day - Financial results to be disclosed by listed entities within 30 minutes of end of the board meeting for the day on which the financial results are considered.



Any provision of listing regulations once applicable would continue to apply even if entities subsequently fall below the specified thresholds based on the market capitalisation criteria.



Timelines for submission of periodic reports i.e., statement of investor complaints, corporate governance report and shareholding pattern harmonised to 21 days from the end of each quarter.



Corporate governance provisions of listing regulations once applicable would continue to apply unless the paid-up capital or net-worth falls and continues to remain below the threshold for a period of three consecutive financial years.

Key amendments to IDs regulations



SEBI in its meeting dated 29 June 2021, approved amendments to Listing Regulations pertaining to regulatory provisions related to Independent Directors (IDs). Key amendments are as follows:

Appointment/re-appointment and removal

- Shareholders' approval for appointment of a director including IDs to be taken at the next general meeting or within 3 months of appointment, whichever is earlier
- Elaborated and transparent procedure to be followed by Nomination and Remuneration Committee (NRC) including enhanced disclosures
- Composition of NRC to include 2/3rd of IDs
- Appointment/re-appointment/removal of IDs through special resolution

Eligibility requirement

- A cooling off period of three years for KMPs (and their relatives) or employees of the promoter group companies
- Relatives of employees of the company, its holding, subsidiary or associate company have been permitted to become IDs without cooling off period in line with 2013 Act

Resignation

- Resignation letter of ID to be disclosed along with a list of her/his present directorships and membership in board committees.
- Introduced a cooling-off period of one year for an ID transitioning to a whole-time director in the same company/ holding/ subsidiary/ associate company or any other company belonging to the promoter group

Audit Committee

- At least 2/3rd of the members of the audit committee to be IDs
- All related party transactions to be approved by only IDs on the audit committee

Directors and Officers insurance

- The requirement of undertaking D&O insurance has been extended to the top 1,000 companies (by market capitalisation)



Effective date: The amendments are effective from 1 January 2022

Amendments to Listing Regulations-BRSR



Transition from BRR to BRSR

Over the decade the mandate on ESG reporting has gained an edge



Value based reporting aligning to multiple frameworks



INTEGRATED REPORTING <IR>



SUSTAINABLE DEVELOPMENT GOALS



United Nations
Global Compact

Listed companies disclosing information against other frameworks like GRI, SASB, TCFD, <IR> can align and sought to reference it with BRSR

Business responsibility report (BRR)

BRR will continue to be mandatory for:

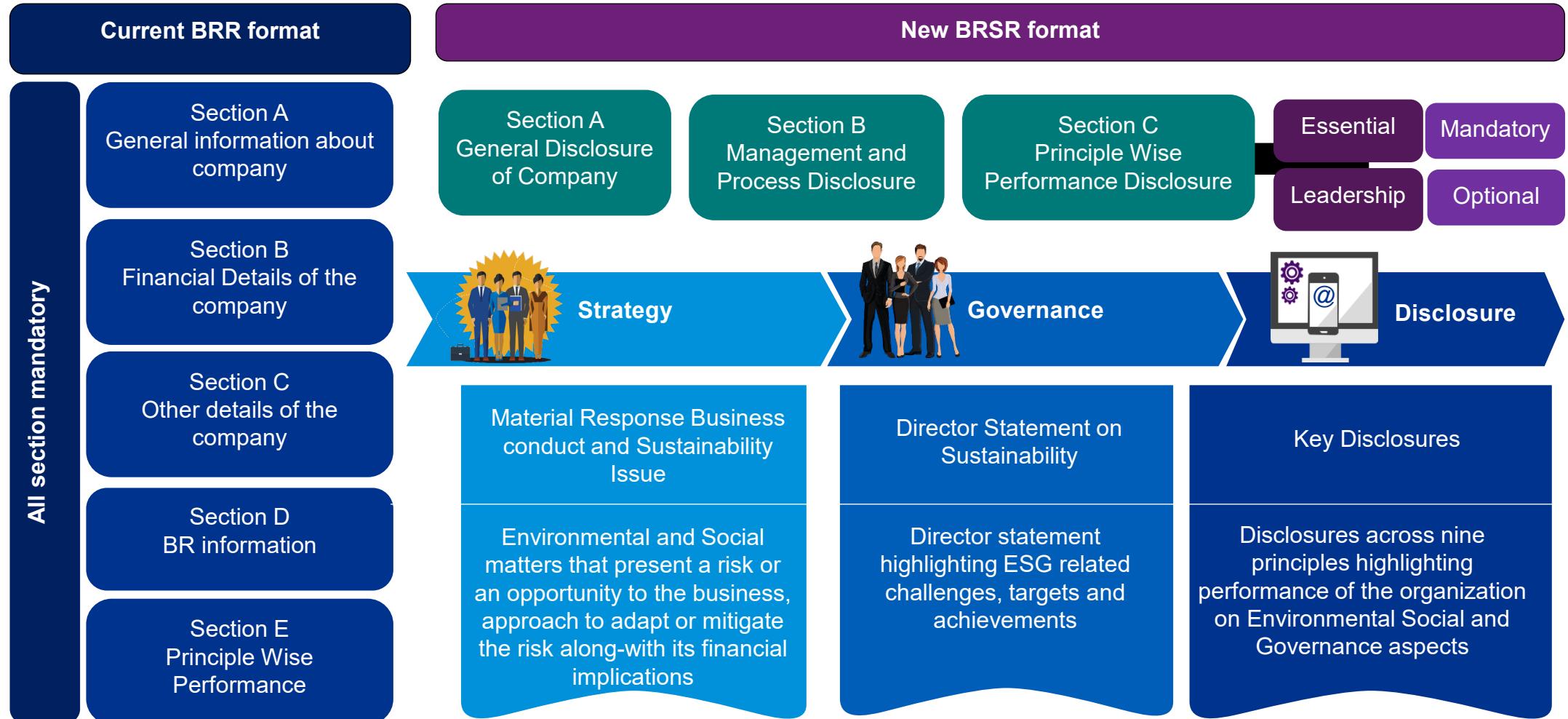
- FY 2021-22 for top 1,000 listed companies by market capitalisation (unless it voluntarily opts to provide BRSR)

Business responsibility & sustainability report (BRSR)

BRSR to replace the existing BRR expected to bring in greater transparency through disclosure of material ESG-related information top 1,000 listed companies by market capitalisation - filing of BRSR:

- Voluntary for FY 2021-22
- Mandatory from FY 2022-23

Key changes and highlights - BSR (Cont.)



Agenda

Annexures: COVID-19 relaxations



COVID-19 exemptions and relaxations by MCA



Relaxation in matters to be dealt in the board meetings through VC or OAVM facility



MCA has allowed matters such as approval of the annual financial statements, board's report, prospectus, etc to take place through Video Conferencing (VC) or Other Audio-Visual Means (OAVM) facility

MCA relaxation for conduct of EGMs through VC



Extraordinary General Meetings (EGMs) by companies can be conducted through VC/OAVM or transact items through postal ballot upto 31 December 2021

Time gap between two board meetings



Companies are permitted to extend the gap between two consecutive board meetings upto 180 days during the quarters from 1 April 2021 to 30 June 2021 and 1 July 2021 to September 2021, instead of 120 days.

COVID-19 exemptions and relaxations (cont.)



CBDT* extended timelines for certain filings

| Particulars | Due date | Revised timeline |
|--|-------------------------------------|--------------------------------------|
| Certificate of Tax Deducted at Source (TDS) in Form No 16 | 15 June 2021 | 31 July 2021 |
| Statement of income paid or credited by an investment fund to its unit holder in Form No 64C for the PY2020-21 | 30 June 2021 | 31 July 2021 |
| Return of income for the Assessment Year (AY) 2021-22 | 31 July 2021 | 30 September 2021 |
| Report of audit under any provision of the IT Act for the PY2020-21 | 30 September 2021 | 31 October 2021 |
| Report from an accountant by persons entering into international transaction or specified domestic transaction under Section 92E of the IT Act for PY2020-21 | 31 October 2021 | 30 November 2021 |
| Return of income for AY2021-22 | 31 October 2021 30 November 2021 | 30 November 2021 31 December 2021 |
| Belated/revised return of income for AY2021-22 | 31 December 2021 | 31 January 2022 |

*Central Board of Direct Taxes



Q&A



Abbreviations



NVG: National Voluntary Guidelines

ESG: Environmental, Social, and Governance

GRI: Global Reporting Initiative

SASB: Sustainability Accounting Standards Board

TCFD: Task Force on Climate-Related Financial Disclosures

IR: Integrated Reporting

SR: Equity shares having superior voting rights

D&O: Directors and Officers

Sources



1. MCA order no. S.O.4588(E) dated 17 December 2020, MCA notification no. G.S.R 205(E)/206(E)/207(E) dated 24 March 2021
2. SEBI circular no. SEBI/HO/CFD/CMD-2/P/CIR/2021/567 dated 31 May 2021
3. SEBI notification no. SEBI/LAD/-NRO/GN/2021/22 dated 5 May 2021 and SEBI notification no. SEBI/HO/CFD/CMD-2/P/CIR/2021/562 and press release no.18/2021 dated 10 May 2021
4. SEBI press release no. 22/2021 dated 29 June 2021



Links to previous recordings of VOR



| Month | Topics | Link |
|-------------------------------------|--|----------------------------|
| 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, 2020Amendments 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 mattersDisclosure norms on forensic audit by listed entitiesRevised framework for schemes of arrangements by listed entities | Click here |
| January 2021 | <ul style="list-style-type: none">The Companies (Amendment) Act,2020 notified by MCAKey considerations for interim and year-end reporting amid COVID-19 based on enforcement priorities for 2020 issued by European Securities and Markets Authority (ESMA)Other regulatory updatesAmendments to Corporate Social Responsibility (CSR) provisions under the 2013 ActThe Companies (Amendment) Act, 2020 and consequent amendments to Rules and Schedules to the 2013 Act | Click here |
| April 2021 | <ul style="list-style-type: none">Additional reporting in an auditor's report and additional disclosures in board's reportMaintenance of books of account in electronic modeOther regulatory updates | Click here |

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Our publications

Accounting and Auditing Update



First Notes

Coming up next

New issue of:

- Accounting and Auditing Update
- First Notes
- Voices on Reporting - publication

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Voices on Reporting – Annual updates publication





Thank you

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