



Accounting and Auditing Update

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Foreword

The Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) lay down broad principles for periodic disclosures to be given by the listed entities operating in different segments of the capital markets such as equity shares, non-convertible debt securities and non-convertible redeemable preference shares. Since its notification, SEBI has made significant amendments to various provisions of the Listing Regulations to help streamline its implementation by the listed entities. In September 2021, SEBI has issued clarifications in the form of Frequently Asked Questions (FAQs) and provided guidance to certain important requirements under the Listing Regulations e.g., definition of a related party, approval of material related party transactions and disclosures to be provided with the stock exchange(s). In this issue of Accounting and Auditing Update (AAU), we aim to summarise the key clarifications issued by SEBI with respect to the provisions of the Listing Regulations applicable to the listed entities.

Additionally, SEBI has issued amendments to the provisions applicable to issuers of Non-Convertible Securities (NCS) through the SEBI (Listing Obligations and Disclosure Requirements) Fifth Amendment Regulations, 2021. The amendments are expected to align

the compliances of the debt listed companies (mainly high value) with those prescribed for the equity listed companies and also enhance the disclosures' obligations of debt listed companies. SEBI has also provided exemptions from reporting comparative quarterly figures for certain quarters when comparative amounts would not be available. We have analysed the financial results for the quarter ended 30 September 2021 published by 50 entities listed on the National Stock Exchange (NSE), that have issued NCS. In our article, we summarise the analysis basis the quarterly and half-yearly disclosures provided by the companies covered in this analysis.

Recently, the Ministry of Corporate Affairs (MCA) has allowed companies whose Annual General Meetings (AGMs) are due in the year 2021 or who are proposing to organise AGMs in 2022 for the financial year ending on or before 31 March 2022 to conduct their AGMs through Video Conferencing (VC) or Other Audio-Visual Means (OAVM) on or before 30 June 2022. Further, internationally, the International Accounting Standards Board (IASB) has issued a narrow-scope amendment to the transition requirements in IFRS 17, *Insurance Contracts*. Our regulatory updates article covers these and other important regulatory developments in India and internationally.

We would be delighted to receive feedback/ suggestions from you on the topics we should cover in the forthcoming editions of AAU.



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Chapter 1

SEBI issued
FAQs on
Listing
Regulations

This article aims to:

Discuss the key clarifications issued by SEBI with respect to the provisions of the Listing Regulations applicable to listed entities.

Introduction

On 2 September 2015, the Securities and Exchange Board of India (SEBI) notified the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations). The Listing Regulations lay down broad principles for periodic disclosures to be given by the listed entities operating in different segments of the capital markets such as equity shares, non-convertible debt securities, non-convertible redeemable preference shares, Indian Depository Receipts (IDRs), securitised debt instruments and units issued by mutual funds. Since the date of notification of the Listing Regulations, significant amendments have been made to the relevant provisions through issuance of various notifications and clarifications to help streamline its implementation by companies.

In September 2021, SEBI has issued clarifications in the form of Frequently Asked Questions (FAQs) and provided guidance to certain important requirements under the Listing Regulations. Those mainly relate to:

Definitions	Corporate governance	Financial results
Disclosures with the stock exchange(s)	Disclosures on the website	Others

In this article, we aim to summarise the key clarifications issued by SEBI under the Listing Regulations.

Overview of the clarifications

Definitions

Under the Listing Regulations, an associate company and a related party has been defined as follows:

- a. **Associate company (Regulation 2(1)(b)):** An associate company means any entity which is an associate under Section 2(6) of the Companies Act, 2013 (2013 Act) or under the applicable Accounting Standards (AS) or Indian Accounting Standards (Ind AS).
- b. **Related party (Regulation 2(1)(zb)):** Related party means a related party as defined under Section 2(76) of the 2013 Act or under the applicable AS or Ind AS. Further, any person or entity belonging to the promoter or promoter group of the listed entity and holding 20 per cent or more of shareholding in the listed entity shall be deemed to be a related party.

Clarification

As per the clarification, if either of the given conditions are met (i.e., an entity/related party is covered under the 2013 Act or under the applicable AS or Ind AS), then such an entity/party would be classified as an associate company/related party¹.

1. SEBI through a notification dated 9 November 2021 has issued certain amendments to the Listing Regulations which, *inter alia*, included amendments to the definition of related party. In accordance with the amendments, related party would include:

- a. Any person or entity forming a part of the 'promoter' or promoter group' of the listed entity (effective from 1 April 2022)
- b. Any person or any entity, holding equity shares in the listed entity either directly or on a beneficial interest basis as prescribed under Section 89 of the 2013 Act at any time during the immediately preceding financial year:
 - Of 20 per cent or more, or (effective from 1 April 2022)
 - Of 10 per cent or more (effective from 1 April 2023).

Corporate governance

Chapter IV of the Listing Regulations lays down the provisions relating to the corporate governance to be complied by a listed entity that has listed specified securities² and non-convertible debt instruments. SEBI has issued following clarifications relevant to the corporate governance norms under the Listing Regulations:

- **Compliance certificate (Regulation 17(8)):** Currently, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) of a listed entity are required to furnish a compliance certificate to their board of directors. Schedule II (Part B) of the Listing Regulations specifies the minimum information to be included as part of the compliance certificate. Those, *inter alia*, include:
 - a. Quarterly results for the listed entity and its operating divisions or business segments
 - b. Minutes of meetings of audit committee and other committees of the board of directors
 - c. Show cause, demand, prosecution notices and penalty notices, which are materially important
 - d. Any material default in financial obligations to and by the listed entity, or substantial non-payment for goods sold by a listed entity

- e. Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer, etc.

The issue relates to whether such a certificate can be certified by a Managing Director (MD) or Whole Time Director (WTD) in case a listed company has not designated a CEO.

Clarification

SEBI has clarified that such compliance certificates may be signed by the officials who hold powers, duties and responsibilities of a CEO/CFO irrespective of their designations.

- **Approval of material RPTs (Regulation 23(4)):** Currently, all material Related Party Transactions (RPTs) entered into by a listed entity are required to be approved by the shareholders through a resolution. Further, no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.

In this regard, the issue relates to whether those related parties who are related to the concerned transaction/contract should not vote to approve or whether related parties should altogether not vote to approve such transaction.

Clarification

As per the clarification, the requirement to obtain shareholders' approval for material RPTs under Regulation 23(4) of the Listing Regulations is applicable to the specified listed entities covered under Section 15 of the Listing Regulations (i.e., entities to whom corporate governance norms are applicable under the Listing Regulations)³. Accordingly, for applicable entities, it has been clearly provided that all material RPTs require approval of the shareholders through resolution and no related party shall vote to approve such resolutions whether the entity is a related party for the particular transaction or not.

- **Corporate governance requirements with respect to subsidiary of a listed entity (Regulation 24):** Regulation 24 of the Listing Regulations specifies certain corporate governance requirements to be complied by a listed entity with respect to its unlisted subsidiary (including material subsidiary)⁴. Those, *inter alia*, include the following:
 - a. At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not

- b. An audit committee of the listed entity shall also review the financial statements, in particular, the investments made by the unlisted subsidiary.
- c. The minutes of the meetings of the board of directors of the unlisted subsidiary shall be placed at the meeting of the board of directors of the listed entity.
- d. The management of the unlisted subsidiary shall periodically bring to the notice of the board of directors of the listed entity, a statement of all significant transactions and arrangements⁵ entered into by the unlisted subsidiary.

Clarification

SEBI has clarified that wherever the term 'unlisted material subsidiary' and 'unlisted subsidiary' have been distinctly mentioned under any sub-regulation of Regulation 24 of the Listing Regulations, such sub-regulation shall be applicable to material unlisted subsidiaries or all unlisted subsidiaries as the case may be. Accordingly, the requirement to furnish a statement of significant transactions and arrangements is applicable with respect to all unlisted subsidiaries of a listed entity. On the other hand, a listed entity is required to ensure that at least one independent director on its board of directors is a director on the board of directors of each of its unlisted material subsidiaries.

2. Equity shares and convertible securities defined under Regulation 2 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

3. Entities with listed specified securities and non-convertible debt securities.

4. Material subsidiary shall mean a subsidiary, whose income or net worth exceeds 20 per cent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

5. Significant transaction or arrangement mean any individual transaction or arrangement that exceeds or is likely to exceed 10 per cent of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted subsidiary for the immediately preceding accounting year.

- **Maximum limit for membership in a committee (Regulation 26):** A director could be a member in 10 committees or could act as a chairperson of five committees across all listed entities in which he/she is a director.

While determining the limit of a director to act as a chairperson, following inclusion/exclusions are required:

- a. Include the limit of the committees on which a director could serve in all public limited companies (listed or unlisted)
- b. Exclude all other companies including private limited companies, foreign companies, high value debt listed entities and companies formed under Section 8 of the 2013 Act.

The issue relates to whether a director can be a committee member for 10 listed entities only or the same includes unlisted public companies as well.

Clarification

As per the clarification, a director of a listed entity can be a member in maximum 10 committees and chairperson of more than five committees of listed entities and unlisted public limited companies put together.

Financial results

Regulation 33(3) of the Listing Regulations requires an entity with listed specified securities to submit audited standalone financial results for the financial year along with an audit report and a statement on impact of audit qualifications (in case of an audit report with modified opinion) with the stock exchange(s), within 60 days from the end of the financial year.

Additionally, the listed entity should submit the audited or limited reviewed financial results in respect of the last quarter along with the results for the entire financial year, with a note stating that the figures of last quarter are the balancing figures between audited figures in respect of the full financial year and the published year-to-date figures upto the third quarter of the current financial year.

Clarification

In accordance with above, SEBI has clarified that the financial results for the last quarter shall necessarily be audited.

Disclosures with the stock exchange(s)

In accordance with Regulation 30 of the Listing Regulations, every entity with listed specified securities is required to make disclosures of any events or information which, in the opinion of the board of directors of a listed company, is material to the stock exchange(s). Further, certain events or information are deemed to be material and are to be disclosed as soon as reasonably possible and not later than 24 hours from the occurrence of an event or information (Part A of Schedule III). Those, *inter alia*, include:

- Fraud/defaults by promoter or key managerial personnel or by a listed entity, or arrest of key managerial personnel or promoter
- Detailed reasons for resignation of an auditor of a listed entity
- Letter of resignation along with detailed reasons for the resignation of independent directors.

The events or information which has been disclosed to stock exchange(s) should also be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

Clarification

Following clarifications have been issued with respect to the disclosure requirements specified under the Listing Regulations:

- a. Disclosure on website:** The listed entity shall disclose on its website all such events or information which have been disclosed to stock exchange(s) under Regulation 30(8) of the Listing Regulations on or after 1 December 2015. Such disclosures shall be hosted on the website of the listed entity for a minimum period of five years from the date of disclosure to the stock exchange.
- b. Disclosure with respect to subsidiary:** Regulation 30(9) of Listing Regulations requires listed entities to provide disclosure of all events or information with respect to subsidiaries which are material for the listed entity.

In case both the parent and subsidiary are listed entities, then the parent and material subsidiary in their own right as listed entities have to provide disclosure separately under the Listing Regulations.

Further, Regulation 30(9) of the Listing Regulations places emphasis on materiality of the events or information. Therefore, disclosure would be required in cases where the event or information originating from a subsidiary is material to the

listed entity, irrespective of whether such a subsidiary is material or not as defined under Regulation 16(1)(c)⁶ of the Listing Regulations.

- c. Disclosure regarding acquisition by a listed entity:** Every listed entity is required to disclose information relating to acquisition or agreeing to acquire shares or voting rights, a company, whether directly or indirectly, such that the listed entity holds shares or voting rights aggregating to five per cent or more of the shares or voting rights in the said company without application of the guidelines for materiality as such an event is considered as 'deemed to be material'.

SEBI has clarified that the disclosure is required with respect to a listed entity's acquisition of shares or voting rights in the company wherein such target company can be listed or unlisted.

- d. Disclosure regarding proposed fund raising:** A listed entity is required to disclose within 30 minutes of the closure of the meeting the decision with respect to fund raising proposed to be undertaken. As per the clarification, fund raising by way of Further Public Offer (FPO), rights issue, American Depositary Receipts/Global Depositary Receipts/Foreign Currency Convertible Bonds, qualified institutions placement, debt issue, preferential issue and any other method are to be disclosed to the stock exchange(s).

Disclosures on the website

- **Agreements with media companies (Regulation 46(2)(n)):** Regulation 46(2) of the Listing Regulations provides the list of information to be disseminated by an entity with listed specified securities and non-convertible securities on its website. Those, *inter alia*, include:
 - a. Terms and conditions of appointment of independent directors
 - b. Policy on dealing with RPTs and policy for determining 'material' subsidiaries
 - c. Details of establishment of vigil mechanism/ whistle blower policy
 - d. Details of agreements entered into with the media companies and/or their associates, etc.

Clarification

With respect to disclosure of details of agreements with the media companies and/or their associates, SEBI has clarified that only such agreements that are not in the normal course of business should be disclosed by a listed entity on its website.

- **Update to the content on website (Regulation 46(3)):** Every listed entity is required to:
 - a. Ensure that the contents of its website are correct

6. Material subsidiary shall mean a subsidiary, whose income or net worth exceeds 10 per cent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

- b. Update any change in the content of its website within two working days from the date of such change in content.

Clarification

In accordance with the clarification, Regulation 46(3) refers to the update of any change in the content which is provided as per the requirements of Regulation 46(2) of the Listing Regulations.

Others

- **Transfer or transmission of securities (Regulation 40(3)):** In case of transfer of securities by an entity with listed specified securities, the listed entity shall register transfer of its securities in the name of the transferee(s) and issue certificates or receipts or advices, as applicable, of transfers or issue any valid objection or intimation to the transferee or transferor, as the case may be, within a period of 15 days from the date of such receipt of request for transfer.

Further, it provides that a listed entity should ensure that the transmission requests are processed for securities held in dematerialised mode and physical mode within seven days and 21 days respectively, after receipt of the specified documents. Also, proper verifiable dated records of all correspondences with the investor shall be maintained by the listed entity.

The issue relates to how a listed entity would ensure compliance where companies have no role to play in processing of transmission of securities held in dematerialised mode.

Clarification

As per the clarification, the provision in Regulation 40(3) may be read in context with Regulation 7(1) of the Listing Regulations which requires a listed entity to appoint a share transfer agent or manage the share transfer facility in-house. In cases where the listed entity is managing the share transfer in-house, such compliance may be ensured. In this regard, the share transfer agent is an agent of the listed entity and it is imperative that the listed entity as a principal should supervise the activities of its agent.

Further, in terms of Regulation 8 of the Listing Regulations, the listed entity, wherever applicable, should cooperate with and submit correct and adequate information to the intermediaries registered with SEBI including registrar to an issue and share transfer agents.

In case the listed entity has not effected transfer of securities within 15 days or where the listed entity has failed to communicate to the transferee(s) any valid objection to the transfer, within the stipulated time period of 15 days, then the listed entity is required to compensate the aggrieved party for

the opportunity losses caused during the period of the delay in terms of Regulation 40(8) of the Listing Regulations. Additionally, a listed entity should ensure that the share transfer agent and/or the in-house share transfer facility, as the case may be, produces a certificate from a practicing company secretary within 30 days from the end of the financial year, certifying that all certificates have been issued within 30 days of the date of lodgment for transfer, sub-division, consolidation, renewal, exchange or endorsement of calls/allotment monies.

In this regard, it has been clarified that the listed entity may seek such reports from share transfer agents, so as to ensure compliance within the time period of 15 days for transfer of securities as stipulated in Regulation 40(8) of the Listing Regulations.

- **Preservation of documents (Regulation 9):** Every listed entity is required to formulate a policy for preservation of documents approved by its board of directors, classifying them in at least two categories as follows:
 - a. Documents whose preservation shall be permanent in nature
 - b. Documents with preservation period of not less than eight years after completion of the relevant transactions.

Clarification

As per the clarification, the documents preserved under Regulation 9 include documents which are required to be preserved by a listed entity in terms of securities laws defined under Regulation 2(1) (zf)⁷ of the Listing Regulations and other laws and statutes applicable to such a listed entity.

Conclusion

Listed entities should take cognisance of the clarifications issued by SEBI, in particular those relating to related party, disclosures with the stock exchanges and disclosures on the website to ensure effective compliance with the requirements of the Listing Regulations. With the recent amendments to the Listing Regulations, many corporate governance related provisions applicable to an entity with listed equity and convertible equity shares have been aligned with that of high-value debt listed entities. Accordingly, these clarifications are timely and would also be relevant for such high value debt listed entities.

7. The SEBI Act, the Securities Contracts (Regulation) Act, 1956, the Depositories Act, 1996, and the provisions of the Companies Act, 2013, and the rules, regulations, circulars or guidelines made thereunder.

Chapter 2

Practical perspectives for issuers of non-convertible securities

This article aims to:

Analyse the financial reporting trends of 50 issuers of Non-Convertible Securities (NCS) in financial results reported in the quarter ended 30 September 2021.

Background

On 7 September 2021, the Securities and Exchange Board of India (SEBI) issued amendments to provisions applicable to issuers of Non-Convertible Securities (NCS) in the Listing Regulations¹ through the SEBI (Listing Obligations and Disclosure Requirements) Fifth Amendment Regulations, 2021 (amendments). The amendments mainly pertain to the following areas:



Subsequently, on 5 October 2021, SEBI issued a circular prescribing a revised format for quarterly financial reporting required to be submitted by issuers of NCS. The circular also provided exemptions from reporting comparative quarterly figures for certain quarters when comparative amounts would not be available.

In this article, we aim to capture emerging trends and practices by analysing financial results of issuers of NCS.

Profile of companies covered

We reviewed 109 debt listed entities at NSE. We have analysed the financial results for the quarter ended 30 September 2021 published by 50 entities listed on NSE, that have issued NCS. While selecting these companies, we have taken the top issuers of NCS (by asset value) from each sector in order to ensure a holistic analysis. This article analyses whether exemptions from disclosing comparative amounts have been availed, the ratios that have been reported (including sector specific ratios) and analysis of other metrics by the entities that are part of this analysis.



1. The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulations, 2015

Analysis

Reporting of standalone and consolidated financial results

Of the 50 companies which reported their financial results, 41 are also issuers of specified securities², and balance nine are only issuers of NCS.

As per Regulation 52 (as amended), issuers of NCS are required to submit un-audited or audited quarterly and year to date standalone financial results on a quarterly basis, and submit audited standalone and consolidated financial results at year end.

Further, entities that have listed both, their specified securities and NCS on a recognised stock exchange, are required to comply with the provisions of Regulation 33 (in accordance with the requirement

of Regulation 63(1) of the Listing Regulations). Regulation 33 requires issuers of specified securities to submit quarterly and year to date standalone and consolidated financial results in each quarter.

Basis our analysis, we observed, of the nine entities that have only issued their NCS, eight have reported stand-alone quarterly financial results and one entity has reported half-yearly financial results.

Of the 41 entities, that have listed both, their specified securities and NCS, 38 have reported both, consolidated and stand-alone financial results. The balance three entities do not have any subsidiary, associate or joint venture and hence, they reported stand-alone financial results.

The table below explains the mix of issuers and format of their quarterly reports.

Issuers	Total number	Entities that issued stand-alone quarterly financial results	Entities that issued consolidated quarterly financial results
Specified securities and NCS	41	41	38
NCS	9	8 ³	-
Total	50	49	38

(Source: KPMG in India's analysis, 2021 basis the financial results of 50 entities listed with NSE for the quarter ended 30 September 2021)

2. Specified securities mean equity shares and convertible securities.
3. One entity has issued half-yearly financial results.



Exemption from reporting comparative numbers

A. Quarterly financial results

The circular issued by SEBI on 5 October 2021 has, *inter alia*, provided issuers of NCS an exemption from reporting comparatives for certain quarterly financial results. As per the circular, where an entity does not have corresponding quarterly financial results for the four quarters ended September 2020, December 2020, March 2021 and June 2021, the column on corresponding figures for such quarters would not be applicable.

In this regard, since presentation of quarterly financial results is not a new requirement for entities that have issued specified securities, these comparatives have been provided by all 41 entities that are issuers of both specified securities and NCS. Of the nine entities that are issuers of NCS, one entity has availed the exemption and has disclosed this fact in the form of a note to the financial results. Another company has published half yearly financial results instead of quarterly results.

The table below explains the comparatives that have been disclosed.

Issuers	Total number	Corresponding quarterly financial results provided	Exemption in relation to corresponding quarterly financial results
Specified securities and NCS	41	41	NA
NCS	9	7 ⁴	1
Total	50	48	1

(Source: KPMG in India's analysis, 2021 basis the financial results of 50 entities listed with NSE for the quarter ended 30 September 2021)

4. One entity has issued half-yearly financial results,

B. Statement of cash flows

As per Regulation 52(2), issuers of NCS are required to submit a statement of cash flows as at the end of the half year. In this regard, the 5 October 2021 circular provided exemption to entities from providing a corresponding cash flow statement for the half year ended September 2020 where the entity does not have this information.

Issuers of specified securities and NCS have been following Regulation 33(3) which requires disclosure of cash flows for the half-year, as part of its standalone and consolidated financial results for the half year. The exemption from disclosure of statement of cash flows is available to issuers of

NCS and not to issuers of specified securities and NCS.

However, of the 41 entities that are issuers of both specified securities and NCS, one entity has provided a comparative of 31 March 2021 in the cash flow statement, instead of 30 September 2020. 15 entities have provided a comparative of both, cash flows for half-year ended 30 September 2020 and year ended 31 March 2021. Of the nine entities that are issuers of NCS, one entity has not provided a cash flow statement.

The table below depicts the number of entities that provided the corresponding half year statement of cash flows.

Issuers	Total number	Corresponding half year ended statement of cash flows as at 30 September 2020	Statement of cash flows as at 31 March 2021	Cash flow comparatives of both as at 30 September 2020 and 31 March 2021
Specified securities and NCS	41	25	1	15
NCS	9	8	-	-
Total	50	33	1	15

(Source: KPMG in India's analysis, 2021 basis the financial results of 50 entities listed with NSE for the quarter ended 30 September 2021)

Reporting on ratios

Regulation 52(4) of the Listing Regulations requires issuers of NCS to provide certain disclosures (ratios) while submitting their quarterly/annual financial results. However, banks, NBFCs and HFCs registered with RBI have been exempt from disclosing debt service coverage and interest service coverage ratios.

Of the 50 entities whose results we observed, 36 entities have reported the ratios along with their quarterly financial results. 14 entities have reported ratios for the six months ended 30 September 2021 and have not provided the ratios along with the quarterly financial results.

The table below depicts the ratios disclosed by the covered companies in this analysis.

Ratios to be disclosed	Entities that have reported these disclosures in the financial results of the quarter ended 30 September 2021	Entities for whom these disclosures are not applicable	Entities that have not provided these disclosures	Entities that have provided the formula for calculating these disclosures	Entities that have provided these disclosures for all periods reported in their financial results	Entities that have provided these disclosures for both standalone and consolidated results
Existing ratios						
Debt-equity ratio	50	None	None	30	35	15
Debt service coverage ratio	16 ⁵	35	None	14	14	10
Interest service coverage ratio	16 ⁵	35	None	14	14	10
Outstanding redeemable preference shares ⁶	-	-	-	-	-	-
Capital redemption reserve/ debenture redemption reserve	39	None	11	Not applicable	28	18
Net worth	50	None	None	14	34	16
Net profit after tax	50	None	None	None	50	38
Earnings per share	50	None	None	1	50	38

(Source: KPMG in India's analysis, 2021 basis the financial results of 50 entities listed with NSE for the quarter ended 30 September 2021)

5. One housing finance company has reported the debt service coverage ratio and interest service coverage ratio despite these ratios being exempt for housing finance companies.

6. Most of the entities have not disclosed the outstanding redeemable preference shares. The entities that have provided this disclosure they, have reported it as Nil. Therefore, it seems none of the entities considered in our analysis have outstanding redeemable preference shares, hence, we have not performed analysis on this ratio.

Ratios to be disclosed	Entities that have reported these disclosures in the financial results of the quarter ended 30 September 2021	Entities for whom these disclosures are not applicable	Entities that have not provided these disclosures	Entities that have provided the formula for calculating these disclosures	Entities that have provided these disclosures for all periods reported in their financial results	Entities that have provided these disclosures for both standalone and consolidated results
Additional ratios						
Current ratio	17	None	33	14	14	10
Long-term debt to working capital ratio	17 ⁷	None	33	13	14	10
Bad-debts to account receivable ratio	14 ⁸	None	36	14	13	10
Current liability ratio	17	None	33	13	14	10
Total debts to total assets ratio	49	None	1	29	34	15
Debtors turnover ratio	16 ⁸	None	34	13	13	10
Inventory turnover ratio	11 ⁸	None	39	11	10	9
Operating margin (%)	27	Nil	23	20	19	11
Net profit margin (%)	39	Nil	11	28	24	14
Sector-specific equivalent ratios	34	Nil	16	15	21	10

(Source: KPMG in India's analysis, 2021 basis the financial results of 50 entities listed with NSE for the quarter ended 30 September 2021)

7. Of these 17 entities, two entities have mentioned that the long-term debt to working capital ratios are not measurable due to negative working capital.

8. Only one HFC in the financial services sector has reported the debtors turnover ratio. Only one NBFC in the financial services sector has reported the bad debts to account receivable ratio. Further, none of the entities in the financial services sector have reported the inventory turnover ratio.

A.Sector specific ratios

As per Regulation 52(4) of the Listing Regulations, entities are required to disclose ‘sector specific equivalent ratios’. Based on our observation, most of the entities in the financial services sector (35 entities that are part of this analysis) have disclosed ‘sector specific’ ratios, these ratios majorly include:

Ratio	Number of entities
Gross non-performing assets	32
Net non-performing assets	32
Provision coverage ratio	24
Capital risk adequacy ratio	29
Liquidity coverage ratio	5 ⁹

(Source: KPMG in India’s analysis, 2021 basis the financial results of 50 entities listed with NSE for the quarter ended 30 September 2021)

Companies belonging to other sectors (sectors other than the financial services sector) have not provided any ‘sector specific equivalent ratios’.

B.Disclosure of ratios for all periods presented

The amendments to the Listing Regulations do not provide any specific exemption with regard to disclosure of ratios for all the periods presented in the financial results, rather, entities are required to include ratios as part of the financial results. Further, the format as per the circular dated 5 October 2021 on publishing financial results in the newspaper requires disclosure of certain ratios for all the periods presented. Additionally, Listing Regulations lay down the ‘Principles governing disclosures and obligations’ which require that periodic filings, reports, statements, documents and information reports should contain information that shall enable investors to track the performance of a listed entity over regular intervals of time and shall provide sufficient information to enable investors to assess the current status of a listed entity. Based on this analysis, ratios should be disclosed for all periods presented and would also be subjected to limited review/audit by auditors. However, where entities avail the exemption specified in the SEBI circular dated 5 October 2021, and do not present the financial information pertaining to the comparative periods, the ratios for the corresponding periods may not be presented.

In this regard, we observed that out of 50 entities that have reported the ratios (as required under Regulation 52(4) of the Listing Regulations), 34 entities have reported the ratios for all the periods presented (i.e., for all quarters and year to date results presented). One entity has reported the ratios for the current quarter, and with regard to comparatives, it has disclosed ratios for the half-yearly and annual comparative period (i.e., half-year ended 30 September 2020 and year-ended 31 March 2021). Another entity has reported the ratios (for the captions before amendment) for all periods presented, and has reported the additional ratios (as prescribed by the amendments) for the current quarter, for the half-yearly and annual comparative period.

Of the balance 14 entities, 13 entities have reported ratios for half year ended 30 September 2021, however, they have not reported the comparatives for these ratios, and one entity has reported the ratios for the half year ended 30 September 2021, and has also provided a comparative for these ratios for the periods ended 30 September 2020 and 31 March 2021.

9. Five companies have disclosed the liquidity coverage ratio in the financial results. Six companies (apart from these aforementioned five companies) have given reference to the company’s website for the liquidity coverage ratio.



C. Ratios for standalone and consolidated financial results

As per Regulation 52 of the Listing Regulations, entities that have issued NCS are required to present standalone financial results for the first three quarters and consolidated and standalone financial results for the last quarter.

However, as per Regulation 63(1) read with Regulation 33, entities that have issued both, equity and NCS are required to present both standalone and consolidated financial results for all periods presented.

In this regard, where entities have disclosed standalone financial results, the ratios pertaining to the standalone financial results should be disclosed. Where entities have disclosed both the standalone and consolidated financial results, ratios for both, the standalone and consolidated financial results should be provided.

In view of the above, we observed that, of the 12 entities that have reported only standalone financial results, they all have reported the ratios for the standalone financial results.

And of the 38 entities that have reported both standalone and consolidated financial results, 19 entities have reported the ratios for both, standalone and consolidated financial information and balance 19 entities have reported information only for standalone financial information.

D. Asset cover ratio

Regulation 54(3) of the Listing Regulations requires entities with non-convertible debt securities to disclose the asset cover available with its financial results in the format as specified by SEBI.

In this regard, we observed that of the 50 entities that are issuers of non-convertible debt securities, 24 entities have disclosed the asset cover available in the quarterly financial results.

Conclusion

We observed that most of the issuers of NCS considered in our analysis have complied with the amendments i.e. they have issued standalone quarterly financial results. However, one entity reported half-yearly results instead of quarterly financial results. Further, most of the entities also provided disclosures for the comparative periods, and did not avail the exemption provided in the 5 October 2021 circular (which provided exemption to entities from disclosure of financial results pertaining to previous periods, where such information was not available).

Regarding the disclosure of ratios under Regulation 52(4) of the Listing Regulations, not every entity covered in this analysis could provide this disclosure along with the quarterly financial result. Further, we observed sector specific ratios have not been given by entities except in the financial services sector, the expectation from the stakeholders would be to see more detailed information regarding ratios in the future quarterly financial reporting.

Chapter 3

Regulatory updates

MCA relaxation for conduct of AGMs and EGMs through VC/OAVM

Recently, the Ministry of Corporate Affairs (MCA) provided relaxations in respect of the following:

- **Conduct of AGMs:** Companies whose Annual General Meetings (AGMs) are due in the year 2021 have been allowed to conduct their AGMs through Video Conferencing (VC) or Other Audio-Visual Means (OAVM) on or before 30 June 2022 (earlier was allowed up to 31 December 2021). Further companies who are proposing to organise AGMs in 2022 for the financial year ending on or before 31 March 2022 have also been allowed to hold AGMs through VC or OAVM facility as per the respective due dates up to 30 June 2022.

It has been further clarified that the circular should not be construed as conferring any extension of time for holding of AGMs by the companies under the Companies Act, 2013 (2013 Act). Companies which have not adhered to the relevant timelines would remain subject to legal action under the 2013 Act.

(Source: MCA general circular no. 19/2021 dated 8 December 2021 and general circular no. 21/2021 dated 14 December 2021)

- **Conduct of EGMs:** Companies can conduct their Extraordinary General Meetings (EGMs) through VC/OAVM or transact items through postal ballot upto 30 June 2022 (earlier was allowed up to 31 December 2021). This will be in accordance with the framework provided in the circulars dated 8 April 2020, 13 April 2020, 15 June 2020, 28 September 2020, 31 December 2020 and 23 June 2021.

(Source: MCA general circular no. 20/2021 dated 8 December 2021)

ECB and TC Policy – Changes due to LIBOR transition

Currently, the benchmark rate for Foreign Currency (FCY) External Commercial Borrowings (ECB)/Trade Credit (TC) is specified as six-months' LIBOR rate or any other six-month interbank interest rate applicable to the currency of borrowing.

In view of the imminent discontinuance of LIBOR as a benchmark rate, on 8 December 2021, the Reserve Bank of India (RBI) has issued following changes to the all-in-cost benchmark and ceiling for FCY ECBs/TCs:

- **Redefining benchmark rate for FCY ECBs and TCs:** Currently, the benchmark rate is defined as the 'benchmark rate in case of FCY ECB/TC refers to six-months' LIBOR rate of different currencies or any other six-month interbank interest rate applicable to the currency of borrowing, e.g., EURIBOR'. Henceforth, the benchmark rate in case of FCY ECB/TC shall refer to any widely accepted interbank rate or Alternative Reference Rate (ARR) of six-month tenor, applicable to the currency of borrowing.
- **Change in all-in-cost ceiling for new ECBs/TCs:** To take into account differences in credit risk and term premia between LIBOR and the ARRs, the all-in-cost ceiling for new FCY ECBs and TCs has been increased from 450 bps to 500 bps and from 250 bps to 300 bps, respectively, over the benchmark rates.
- **One-time adjustment in all-in-cost ceiling for existing ECBs/TCs:** To enable smooth transition of existing ECBs/TCs linked to LIBOR whose benchmarks are changed to ARRs, the all-in cost ceiling for such ECBs/TCs has been revised upwards from 450 bps to 550 bps and from 250 bps to 350 bps, respectively, over the ARR. AD Category-I banks must ensure that any such revision in ceiling is only on account of transition from LIBOR to alternative benchmarks.

There is no change in the all-in-cost benchmark and ceiling for INR ECBs/TCs.

(Source: RBI notification no. RBI/2021-22/135 dated 8 December 2021)

Maintenance of SLR by banks under MSF

RBI previously allowed scheduled commercial banks to avail of funds under the Marginal Standing Facility (MSF) by dipping into the Statutory Liquidity Ratio (SLR) up to three per cent of their net demand and time liabilities (NDTL) outstanding at the end of the second preceding fortnight. This facility was initially available up to 30 June 2020 which was later extended up to 31 December 2021.

In accordance with the RBI notification dated 10 December 2021, banks will be able to dip into the SLR up to two per cent of NDTL instead of three per cent for overnight borrowing under the MSF with effect from 1 January 2022.

(Source: RBI notification no. RBI/2021-22/138 dated 10 December 2021)

PCA framework for NBFCs

RBI through a notification dated 14 December 2021 has introduced a Prompt Corrective Action (PCA) framework for Non-Banking Financial Companies (NBFCs). The PCA framework for NBFCs will come into effect from 1 October 2022, based on the financial position of NBFCs on or after 31 March 2022.

Key features of the PCA framework are as follows:

- **Applicability:** The PCA framework is applicable to the following category of NBFCs:
 - a. All Deposit taking NBFCs (excluding government companies) (NBFCs-D)
 - b. All Non-Deposit taking NBFCs in Middle, Upper and Top Layers (NBFCs-ND).

Exclusion

The PCA framework will not be applicable to:

- a. NBFCs not accepting/not intending to accept public funds
- b. Government companies
- c. Primary dealers and
- d. Housing Finance Companies (HFCs).

A NBFC will generally be placed under PCA framework based on the audited annual financial results and/or the supervisory assessment made by the RBI. However, the RBI may impose PCA on any NBFC during the course of a year (including migration from one threshold to another) in case the circumstances so warrant.

- **Exit from PCA and withdrawal of restrictions under PCA:** Once a NBFC is placed under PCA, taking the NBFC out of PCA framework and/or withdrawal of restrictions imposed under the PCA framework will be considered:
 - a. If no breaches in risk thresholds in any of the parameters are observed as per four continuous quarterly financial statements, one of which should be annual audited financial statement (subject to assessment by RBI) and
 - b. Based on supervisory comfort of the RBI, including an assessment on sustainability of profitability of the NBFC.
- **Actions under the framework:** Some of the actions that can be taken under the PCA framework are:
 - *Special supervisory actions:*
 - a. RBI to cause a special audit/inspection of NBFC/group entities by the extant supervisory mechanism and/or through external auditors
 - b. Show cause notice for cancellation of Certificate of Registration (CoR) and winding up of the NBFC.

- *Strategy related action:*

- a. Undertake a detailed review of business model in terms of sustainability of the business model, profitability of business lines and activities-, medium- and long-term viability, etc.
- b. Review short-term strategy focusing on addressing immediate concerns
- c. Undertake restructuring of operations or business process reengineering as appropriate.

- *Governance related actions:*

- a. RBI may recommend to promoters/ shareholders to bring in new management/ board
- b. RBI may remove managerial persons under the RBI Act, as applicable
- c. Removal of a director and/or appointment of another person as a director in his/her place
- d. Impose restrictions on directors' or management compensation, as applicable.

- *Capital related actions:*

- a. Requiring the NBFC to bolster reserves through retained profits
- b. Restriction on investment in subsidiaries/associates
- c. Restriction in expansion of high risk-weighted assets to conserve capital.

- *Credit risk related actions:*

- a. Preparation of time bound plan and commitment for reduction of stock of NPAs
- b. Strengthening of loan review mechanism
- c. Restrictions/reduction in total credit risk weight density
- d. Sale of assets.

(Source: RBI notification no. RBI/2021-22/139 dated 14 December 2021)

IASB provides transition option to insurers applying IFRS 17

The International Accounting Standards Board (IASB) has issued a narrow-scope amendment to the transition requirements in IFRS 17, *Insurance Contracts*, providing insurers with an option aimed at improving the usefulness of information to investors on initial application of the new standard.

IFRS 17 and IFRS 9, *Financial Instruments* have different transition requirements. For some insurers, these differences can cause temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information they present in their financial statements when applying IFRS 17 and IFRS 9 for the first time.

The amendment will help insurers to avoid these temporary accounting mismatches by providing insurers with an option for the presentation of comparative information about financial assets.

IFRS 17, including this amendment, is effective for annual reporting periods starting on or after 1 January 2023.

(Source: IASB announcement dated 9 December 2021)





KPMG in India's IFRS institute

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First Notes



The International Sustainability Standards Board 7 December 2021

On 3 November 2021, the International Financial Reporting Standards (IFRS) Foundation announced the formation of the new International Sustainability Standards Board (ISSB). The ISSB will develop a comprehensive global baseline of high – quality sustainability disclosure standards which are focussed on enterprise value. The ISSB will focus on meeting the sustainability information needs of investors for assessing enterprise value and making investment decisions. The standards will help investors understand how companies are responding to ESG issues, like climate, diversity etc. to inform capital allocation decisions.

This issue of First Notes aims to provide an overview of the ISSB and the work plan laid out by the Technical Readiness Working Group (TRWG) for consideration by the ISSB.



Special session on some accounting issues for certain start-up companies

On 16 December 2021, KPMG in India organised a VOR webinar to discuss some key issues under Ind AS relevant for start-up companies. The issues mainly relates to:

- Gross vs net presentation of revenues (consideration payable to end user)
- Accounting for Compulsorily Convertible Preference Shares (CCPS).

To access the recording and presentation of the webinar, please [here](#).

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