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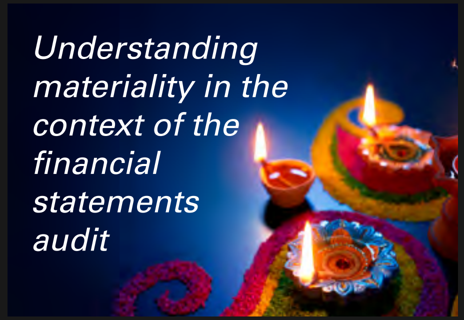

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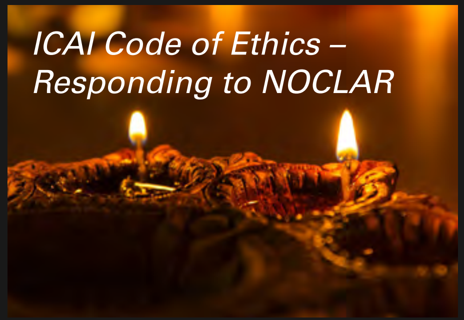

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Foreword

Special purpose financial statements are financial reports that are intended for presentation to a limited group of users. Such financial statements are prepared under certain specific circumstances where an entity would be required to submit financial statements as per the special purpose framework or an audited single financial statement, specific elements, accounts, or items of a financial statement to a specific category of stakeholders.

The financial statements (both general purpose financial statements and special purpose financial statements) can either be prepared as per the fair presentation framework or as per the compliance framework. A special-purpose financial statement may accompany a complete set of financial statements that is intended for general use, or it may be presented separately. The audits of such statements are conducted in accordance with all the Standards on Auditing (SAs). The Institute of Chartered Accountants of India (ICAI) has also formulated special consideration standards which are required to be followed by an auditor when undertaking such engagements. However, the manner of opining on special purpose financial statements is similar to opining on general purpose financial statements. This edition of Accounting and Auditing Update (AAU) carries an article on Special purpose framework which summarises the key considerations for financial statements to be prepared for a specific set of users.

The concept of materiality is an important consideration for financial reporting and auditing. The term 'materiality threshold' in the context of audits refers to the benchmark used to obtain reasonable assurance that financial statements do not carry any material misstatement that could impact the usability of the financial statements. The concept of materiality is fundamental to an audit and is a key judgement area for an auditor and it is determined at the planning stage and when performing the audit and evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. An auditor considers the needs of the users of an entity's financial statements when determining the appropriate benchmark, additionally they should also consider nature of the entity and the industry in which it operates as a factor on which to base their materiality calculations. Our article on this topic discusses the key concepts relating to materiality, how is it determined and how does it impact the audit of the financial statements.

A professional accountant may encounter a variety of acts or suspected acts of non-compliance with rules and regulations while performing professional activities for an employer or delivering professional services to clients. The responsibility of professional accountants is critical in these circumstances as they are expected to identify and report such instances. ICAI has issued an announcement for professional accountants' response to Non-Compliance with Laws and Regulations (NOCLAR). The Code of Ethics (Code of Ethics, 2019) introduced requirements relating to NOCLAR which sets out a framework that requires professional accountants to take actions when they become aware of any illegal or potential illegal act. The Code defines that NOCLAR comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations. The NOCLAR requirements are applicable with effect from 1 October 2022. The article on this topic summarises the key requirements of NOCLAR, obligations relating to compliance and the impact on professional accountants in practice and those in service.

There have been various regulatory developments in India and internationally during this month. Recently, the Securities Exchange Board of India (SEBI) in its board meeting approved an alternate approval mechanism for appointment and/or removal of independent directors and also approved amendment regarding schemes of arrangements for debt listed entities, in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Further, the Reserve Bank of India (RBI) has issued the Unhedged Foreign Currency Exposure (UFCE) Directions, 2022. These directions are a consolidation of all the existing instructions, and also include revisions and clarifications on certain matters. 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.

Sai Venkateshwaran
Partner - Assurance
KPMG in India

Ruchi Rastogi
Partner - Assurance
KPMG in India

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CHAPTER 1

Special purpose framework

This article aims to:

Summarise the key considerations for financial statements prepared for a specific set of users.

Introduction

An entity usually prepares general purpose financial statements as per the general-purpose framework. A general-purpose framework is designed to meet the common financial information needs of a wide range of users, e.g.:

a. Financials prepared as per applicable Generally Accepted Accounting Principles (GAAP) for tax filing purposes

b. Financials of a foreign subsidiary prepared as per Indian Accounting Standards (Ind AS)/ Accounting Standards (AS) for inclusion in the annual report.

The general-purpose framework i.e. Ind AS and AS are used for preparation and presentation of the financial statements. The Standards on Auditing (SA) issued by the Institute of Chartered Accountants of India (ICAI) apply to an audit of general-purpose financial statements.

However, under certain circumstances, an entity would be required to submit financial statements as per a special purpose framework or an audited single financial statement, specific elements, accounts, or items of a financial statement to a specific category of stakeholders. A special-purpose financial statement is a financial report that is intended for presentation to specific users, and it may accompany a complete set of financial statements that is intended for general use, or it may be presented separately. The audits of such statements are conducted in accordance with all the SAs. The ICAI has also formulated special consideration standards which are also required to be followed by an auditor when undertaking such engagements.

Therefore, in addition to the application of all the SAs (in the 100-700 series), an auditor is also required to comply with:

- SA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* which deals with the audit of financial statements prepared in accordance with a special purpose framework, and
- SA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* which deals with an audit of a single financial statement, a specific element, account or item of a financial statement to be prepared in accordance with a general or special purpose framework.

However, SA 805 does not apply to the report of a component auditor which is issued as a result of the work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements.

As per SA 800, a special purpose framework is designed to meet the financial information needs of specific users, example:

i. Financial statements prepared on cash receipts and disbursements basis of accounting for cash flow information that may be requested by the key supplier

ii. Financial statements prepared as per the financial reporting provisions established by a regulator to meet the requirements of that regulator

iii. Financial statements prepared as per the financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

It is pertinent to note that, when financial statements are prepared based on the needs of a regulator, it should not be construed that such financial statements are special purpose financial statements. Special purpose financial statements are financial statements with a special purpose framework i.e. a financial reporting framework designed to meet the financial information needs of specific users. Special purpose financial statements are not intended to meet the common information needs of a wide range of users.

Examples of single financial statement or the specific element, account or item of a financial statement are:

i. An audited cashflow statement to be submitted to potential investors.

ii. Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for 'incurred but not reported' claims in an insurance portfolio, including related notes.

iii. A schedule of externally managed assets and income of a private pension plan, including related notes.

iv. A schedule of net tangible assets, including related notes.

v. A schedule of disbursements in relation to a lease property, including explanatory notes.

vi. A schedule of profit participation or employee bonuses, including explanatory notes.

Key considerations for the management while preparing financial statements under special circumstances

The financial statements (both general purpose financial statements and special purpose financial statements) can either be prepared as per the fair presentation framework or as per the compliance framework.

A fair presentation framework is a financial reporting framework that requires compliance with the requirements of the framework and:

a. Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework, or

b. Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

A compliance framework is a financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgements in (a) or (b) above.

It is the primary responsibility of the management to prepare financial statements. In order to do so following aspects need to be considered:

Purpose

The management should understand the purpose for which such financial statements are being prepared and its intended users.

Accounting framework

While preparing financial statements under a special purpose framework, it is essential to understand the financial information needs of the intended users in order to determine the acceptability of the appropriate financial reporting framework to be applied in the preparation of the financial statements. If the special purpose financial statements are prepared in accordance with the applicable accounting standards, then a proper explanation should be provided for any material departures from those accounting standards. The management should ensure that the appropriate accounting policies are applied consistently,judgements and estimates are reasonable and prudent so as to give a true and fair view of the state of affairs of the entity.

In case the financial statements are prepared as per the financial reporting provisions laid down by the regulator or as per the terms of a contract, the same should be specified in the said financial statements.

Where the management intends to publish an audited single financial statement or an audited specific element of a financial statement together with the entity's audited complete set of financial statements, then the management should ensure that the presentation of such a single financial statement or of the specific element of a financial statement is sufficiently differentiated from the complete set of financial statements.

In certain situations, the laws or regulations may prescribe the financial reporting framework to be used by the management in the preparation of special purpose financial statements. In certain cases the financial reporting provisions are prescribed in a contract, then that reporting framework would be considered acceptable if the framework exhibits attributes of a normally acceptable financial reporting framework.

Adequate disclosures

Ensure that the special purpose financial statements contain adequate disclosures to enable the intended users to understand the information contained in the financial statements.

Key considerations for the auditor

Acceptance and planning

When accepting a special purpose audit, an auditor should consider the following:

a. Understand the purpose for which the financial statements are prepared

b. Understand the intended users

c. Obtain an understanding of the steps taken by the management to determine that the applicable financial reporting framework is acceptable in the circumstances and the entity's selection and application of accounting policies

d. Planning and performing the audit engagement to obtain sufficient and appropriate audit evidence

e. Should ensure compliance with the applicable laws and regulations

f. Communication with Those Charged with Governance (TCWG) regarding significant matters.

Compliance with SAs

SA 800 and SA 805 also draw reference to SA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing* thereby requiring an auditor to comply with:

a. The relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and

b. All SAs relevant to the audit unless in certain circumstances of the audit, the auditor is of the view that the entire SA is not relevant, or the requirement is not relevant because it is conditional, and the condition does not exist.

Forming an opinion and reporting

When forming an opinion and reporting on special purpose financial statements or single financial statement or on a specific element of a financial statement, an auditor should comply with the requirements in SA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*[1].

The report should also contain an explanation of the management's responsibility regarding the selection of the financial reporting framework and preparation of such financial statements. While auditing and reporting on special purpose financial statements or single financial statements or on a specific element of a financial statement, an auditor must take into consideration the impact of the following aspects included in the auditor's report on the complete financial statements:

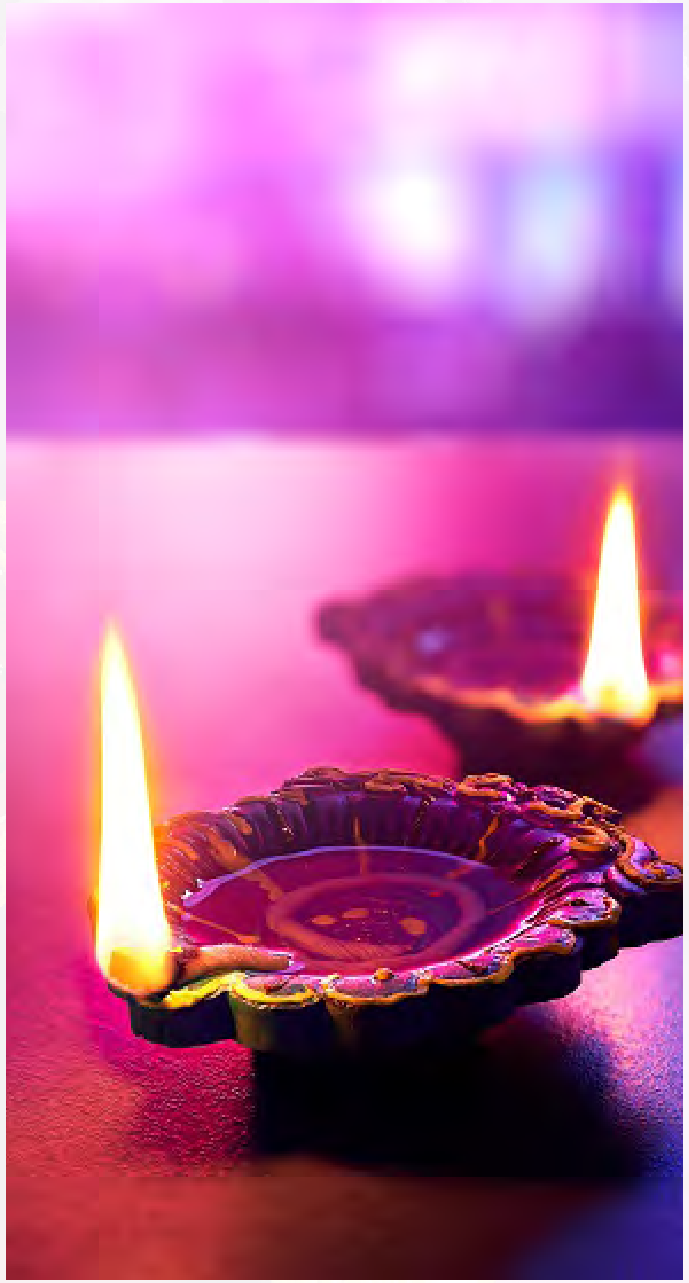
i. Material uncertainty related to going concern as per SA 570 (Revised), *Going Concern*,

ii. Key audit matters in accordance with SA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

iii. Other information as per SA 720, *The Auditor's Responsibilities Relating to Other Information*.

When reporting on special purpose financial statements under SA 800, the auditor's report should describe the purpose for which the financial statements are prepared and the intended users. or refer to the note in the special purpose financial statements that contains information which states that the financial statements are prepared in accordance with a special purpose framework and may not be suitable for another purpose. The auditor is required to do so by including an Emphasis of Matter (EOM) paragraph in the audit report.

1. SA 700 (Revised) deals with the form and content of the auditor's report. It provides guidance with respect to the auditor's responsibility to form an opinion on the financial statements. SA 700 (Revised) requires an auditor to evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation should also be based on qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements. In order to form an opinion about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, the auditor must obtain reasonable assurance



If an auditor undertakes an engagement under SA 805 to report on a single financial statement or on a specific element of a financial statement, then the auditor should not express an opinion on the effectiveness of the entity's internal control. Further, where an auditor has undertaken an engagement to report on the single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor should express a separate opinion for each engagement and must ensure that the presentation of a single financial statement or of the specific element of a financial statement sufficiently differentiates from a complete set of financial statements. If not, the auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until the auditor is satisfied with the differentiation.

An auditor should not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole, unless the following conditions are satisfied:

- The auditor is not prohibited by law or regulation from doing so
- The opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion, and
- The specific element does not constitute a major portion of the entity's complete set of financial statements.

Bottom line

Financial statements prepared under a special purpose framework or special circumstance are unique engagements that provide specific and relevant information to a specific group of users. Therefore, due consideration should be given by the management and the auditor to the requirements of such specific users. As the audit reports of general-purpose financial statements and special purpose financial statements are governed by two different auditing standards (SA 700 and SA 800), an auditor is expected to obtain clarity about the difference between the two frameworks. Further, auditors should exercise professional skepticism and should have professional experience for issuing such audit reports as it helps maintain stakeholder confidence in the assurance process.

CHAPTER 2

Understanding materiality in the context of the financial statements audit

This article aims to:

Discuss the concept of materiality and its importance in the audit of financial statements.

When establishing the overall audit strategy, an auditor determines materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor would also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures.

The auditor would determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.

In this article we will discuss the concept of materiality, how is it determined and how does it impact the audit of the financial statements.

What is materiality?

Ind AS 1, *Presentation of Financial Statements* states that 'material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor'. Therefore, omission or misstatement which could influence the decision of the users of financial statements is said to be material. The concept of materiality is therefore fundamental to the audit. It is applied by auditors at the planning stage and considering that auditors should design their audit in such a way that there is a reasonable possibility that all material misstatements are detected during the audit.

In order to achieve the above objective, an auditor determines an appropriate materiality amount, and the audit scoping is based on this amount. Therefore, materiality is the most critical element of an audit which drives the way an audit is planned and also the manner in which it is performed.

Determining materiality

Determining materiality is a key judgement area for an auditor and it is determined at the time of planning an audit. While an auditor should consider the needs of the users of an entity's financial statements when determining the appropriate benchmark, they should also consider nature of the entity and the industry in which it operates as a factor on which to base their materiality calculations.

Generally, Profit Before Tax (PBT) is considered to be the most important metric for any user of financial statements and hence it is considered to be the most appropriate benchmark for determining materiality. In many cases, materiality can be set in a range of 3 to 10 per cent of PBT depending upon various other factors like whether a company is listed or unlisted (at the lower end of the range for listed entities), whether financial covenants of debts are sensitive to operating results, stability of business environment, sensitivity to earnings per share, etc.

In case an entity is in a loss, Loss Before Tax from Continuing Operations (LBTCO) may still be the relevant benchmark in case it most influences the judgement of the users of financial statements, and it represents the normal operations of the entity and is in line with the management's budget and strategy.

In case of certain industries, even if an entity's normal margins are low, for example, retail industry, Profit Before Tax from Continuing Operations (PBTCO) would continue to be the appropriate benchmark.

Different approaches to materiality benchmarks

In certain situations, PBT may not be considered as an appropriate benchmark to determine materiality. These may be situations like when the users of the financial statements may not focus on PBT and hence, other metrics like revenue, total assets, etc. may be considered as a benchmark to determine materiality, depending upon which metrics is most important to the users of financial statements. Different situations in which a benchmark other than PBTCO may be considered to determine materiality are as follows:

- Investments funds or trusts where the presumed benchmark for determining materiality is likely to be total assets since the focus of the users would be on total assets considering the nature of the industry.
- Entities that trade mainly for capital gains for example, investment property companies, the presumed benchmark is most likely to be total assets since profit in such entities would be generated through increase in the value of the underlying assets. However, it is important to

note that merely having a large asset base does not mean that the focus of the users is on the total assets, and it becomes the benchmark, even though it may be a relevant metric e.g. banks, insurance companies, airline companies, mining companies, etc. where the benchmark is likely to be PBT.

- Start-up entities that are predominantly focussed on capital expenditure or asset development and have not yet earned significant revenues or profits, total assets are the likely benchmark. Conversely, start-up entities that are not focussed on capital expenditure or asset development are likely to have total expenses as the benchmark.

Further, there could be situations where there can be a change from the generally applicable PBT benchmark to some other metric like total revenue or total assets or net assets, etc. in the following situations:

a. Change in the focus of the users of the financial statements: The common scenarios where there can be a change in the focus of the users are:

- Change in the life cycle, for example, from start-up to growth.
- Significant business acquisition during the year that changed an entity's primary industry.
- Entity is going through a period of low profitability during a restructuring exercise and the users are currently focussed on sustainability and growth of revenue rather than short term profit.

b. Volatility on PBT/LBT: When PBT/LBT is volatile, an auditor can first assess whether they can normalise the PBT/LBT by adjusting or averaging for any non-recurring items, prior to considering a more stable metric like total revenues or net assets or another relevant metric as the benchmark for determining materiality.

Determining performance materiality

Having determined materiality, the auditors then determine a performance materiality. SA 320, *Materiality in Planning and Performing an Audit* defines performance materiality as 'the amount or amounts set by an auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by an auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures. To explain this in simple terms, the audit is planned and performed to detect material misstatements, it is possible that a number of individually immaterial misstatements may cause the financial statements to be materially misstated. To address this risk, the audit is performed at a lower materiality called performance materiality, such that it reduces the aggregation risk at an acceptable level i.e. the risk that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole (aggregation risk).

Setting the performance materiality is a judgemental matter and is affected by an auditor's understanding of the entity specific factors like deficiencies in entity-level controls, number and severity of deficiencies in control activities including pervasiveness of internal control deficiencies, history of misstatements that were accumulated in the audit of the financial statements of prior periods (both corrected and uncorrected), level of turnover of senior management or key financial reporting personnel, management's preparedness/willingness to correct misstatements, etc. Depending on the extent to which these factors apply, performance materiality could be determined to be in the range of 85 to 50 per cent of the materiality amount.

Performance materiality affects the amount of audit work to be performed in a number of ways. Performance materiality is used to scope areas of the financial statements and business and activities (components) of groups that will be subject to audit. However, there could be other qualitative factors, due to which amounts lower than the performance materiality can be selected for audit, for example, managerial remuneration can be important to users. Hence, even though it may be below the performance materiality, an auditor may audit it due to the qualitative considerations.

Other consideration relating to materiality

In case of a first-time audit engagement (audit that have been previously audited by a predecessor auditor), it would be difficult for an auditor to assess the factors to be considered for determining performance materiality, as mentioned above, in the absence of previous experience of auditing the entity. In such a case, due to the absence of sufficient information to assess aggregation risk, an auditor may consider the aggregation risk to be on a higher side.

Other than the presumed benchmark, there would be other relevant metrics which are considered important to the users of the financial statements based on the auditors' understanding. An auditor considers what is important to the users and considers those as other metrics. Generally, for profit seeking entities, other metrics would be total revenues, total or net assets.

If there is one or more particular significant account or disclosure for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the decisions of users taken on the basis of the financial statements, an auditor should also determine lower materiality level to be applied to those particular significant accounts or disclosures. For example, a company has introduced a new product segment in the last couple of years which is likely to be the most significant product segment in the coming years, the auditor may determine a lower materiality for this product segment, even though it may be lesser than the performance materiality currently, but considering the users focus on the revenue growth in this product segment, an auditor determines that a smaller misstatement in that product segment revenue would be material to the users. Therefore, an auditor establishes a lower materiality for that product segment revenue.

A benchmark once determined is expected to continue from the previous period. However, it may be appropriate to change the benchmark from the prior period, when there is a significant change in the circumstances of an entity. A change in circumstance of an entity may include a change in business model, disposal of a major operating segment or in cases where entity has been consistently making profits and now has become a loss-making entity or vice-versa due to change in the circumstances of the entity, such that the needs of the users of the financial statements have changed significantly from the previous year. Additional changes to circumstances could include change in the entity's life cycle (for example from start-up to growth phase) or change in the entity's primary industry on account of an acquisition/ restructure, etc. or situations where an entity is going through a period of low profitability such that the focus of the users is on sustainability and revenue growth instead of short-term profits.

Once the materiality amount is determined at the stage of planning, it is required to be reassessed as the audit progresses since there may be events and conditions which may include not only quantitative changes to the metrics and financial statements' amounts but also changes affecting the auditors' consideration of other qualitative factors. Reassessing materiality helps the auditor confirm that it is appropriate for the circumstances and allows them to perform appropriate audit procedures.

In certain jurisdictions like in UK, auditors are required to communicate in their audit report the materiality considered by them in auditing and the basis for determining it. The other element of materiality which is important to understand is materiality calculated during a group audit scenario. Materiality is calculated for each of the component which is scoped in for group audit (the extent of audit procedures on each of these components can vary depending on the relative size and qualitative attributes of the component). In case the component auditor is also required to do statutory audit, the audit procedures would need to be performed by the component auditor using the lower of either component materiality allocated by the group or the materiality determined as the statutory auditor of that component.

Lastly, as required by SA 260 (Revised), *Communication with Those Charged with Governance*, the auditor is required to discuss and communicate the basis of materiality with those charged with governance. This would help Those Charged with Governance (TCWG) understand the audit has been performed to what level of materiality. Also the materiality threshold should also be discussed with the audit committee and auditor should disclose the quantitative level of materiality applied to the financial statements as a whole and where applicable the materiality level or levels for particular classes of transactions, account balances or disclosures and the qualitative factors which were considered when setting the level of materiality.

The bottom line

On an overall basis, materiality is the crux of the audit since the audit scoping and the nature, extent and timing of the audit procedures are significantly dependent on the materiality determined for the financial statements. It may be worthwhile, from the users of financial statements perspective, for audit reports to include reporting around materiality considered by the auditor during the audit, to enable the users of financial statements to take more informed decisions.

CHAPTER 3

ICAI Code of Ethics – Responding to NOCLAR

This article aims to:

Discuss the key requirements pertaining to Non-Compliance with Laws and Regulations (NOCLAR) which are enunciated in the Institute of Chartered Accountants of India (ICAI) Code of Ethics on professional accountants in service and public practice.

Introduction

The Code of Ethics (the Code) issued by ICAI lays down the professional obligations and ethical responsibilities of the members whether in practice or in service. The 12 edition of the Code of Ethics (Code of Ethics, 2019) introduced requirements relating to NOCLAR for both members in service as well as in practice (professional accountants), coming into effect from 1 July 2020. However, the applicability was deferred due to COVID-19 pandemic.

Recently, ICAI, vide an announcement dated 29 September 2022 made the NOCLAR requirements applicable with effect from 1 October 2022. In this article, we aim to discuss the impact of NOCLAR provisions on both members in service as well as in practice and the related key takeaways.

What is NOCLAR?

A professional accountant[1] may encounter an instance of NOCLAR or suspected NOCLAR, while rendering professional services to a client, or carrying out professional activities for an employer. Section 260 and 360, contained in Volume I of the Code provides detailed guidance in assessing the implications of NOCLAR instances encountered and the possible courses of action for addressing the same.

1. A professional accountant refers to an individual who is a member of the ICAI

Objectives of NOCLAR

Professional accountants have a responsibility to act in the public interest. They should comply with principles of integrity and professional behaviour. They should alert management/Those Charged With Governance (TCWG) on situations of identified/suspected non-compliance.

NOCLAR in case of employment with listed entities (Section 260)	NOCLAR during the course of audit engagements of listed entities (Section 360)
Applicability: The section guides the **senior professional accountants in service** (senior professional accountants), who are in employment of the listed entities. Senior professional accountants are the directors, officers or senior employees who are able to exert significant influence over, and make decisions regarding the acquisition, deployment and control of the employing organisation's human, financial, technological, physical and intangible resources. Senior professional accountants refer to the KMP of the entity. The section helps assess the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with: a. Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the employing organisation's financial statements and b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the employing organisation's financial statements, but compliance with which might be fundamental to the operating aspects of the employing organisation's business, to its ability to continue its business, or to avoid material penalties. These include compliances with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations etc. These requirements do not address: • Personal misconduct unrelated to the business activities of the employing organisation, and • Non-compliance by parties, other than those specified in the definition below **Definition:** The Code defines that NOCLAR comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties: • The professional accountant's employing organisation • TCWG of the employing organisation • Management of the employing organisation, or • Other individuals working for or under the direction of the employing organisation.	**Applicability:** The reporting under this section is required by a professional accountant in practice during the course of audit engagements[2] of entities, the shares of which are listed on recognised stock exchange(s) in India and have a **net worth of INR250 crore or more**. This section guides the professional accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with: a. Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client's financial statements, and b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties. These include compliances with the terms of an operating license, regulatory solvency requirements, or environmental regulations, etc. These requirements do not address: • Personal misconduct unrelated to the business activities of the client, and • Non-compliance by parties, other than those specified in the definition below. **Definition:** The Code defines that NOCLAR comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties: • A client • TCWG of a client • Management of a client, or • Other individuals working for or under the direction of a client.

2. For Section 360 an 'audit' or 'audit engagement' shall mean a reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements give a true and fair view in accordance with an applicable financial reporting framework.

Responsibility of the senior professional accountants in service relating to NOCLAR

- The Code lays down steps that a senior professional accountant should follow while assessing the nature of the matter and the potential harm to the interests of the employing organisation, investors, creditors, employees or general public. It highlights that a professional accountant would need to apply knowledge, expertise and professional judgement to determine the need for, and nature and extent of further action. It might require seeking advice and determining whether to disclose the matter to an appropriate authority.
- If, during the course of carrying out professional activities, a senior professional accountant becomes aware of any information relating to NOCLAR or suspected NOCLAR, he/she should obtain an understanding of the relevant matter and thus determine:
  a. The nature of the matter encountered and the circumstances in which it has occurred or might occur,
  b. The application of the relevant laws and regulations to the circumstances, and
  c. An assessment of the potential consequences to the organisation, investors, creditors, employees or the wider public.
- Depending on the nature and significance of the matter, a senior professional accountant might take appropriate steps to investigate the matter internally. He/she might also consult confidentially with others within the employing organisation, ICAI, or a legal counsel.
- A senior professional accountant should discuss the matter with his/her immediate superior(s). If the immediate superior(s) appear to be involved in the matter, the matter should be discussed with the next higher level of authority within the employing organisation.
- Basis the response of the senior professional accountant's superiors and TCWG, the accountant should determine if further action is needed in the public interest.
- Additionally, it must also be determined if there is a need to disclose the matter to the employing organisation's external auditor.
- Further action that the senior professional accountant might take includes:
  a. Informing the management of the parent entity of the matter, if the employing organisation is a member of a group,
  b. Disclosing the matter to an appropriate authority as specified under respective law, or
  c. Resigning[3] from the employing organisation.

Responsibility of the employing organisation's management and TCWG

It is the responsibility of the management or TCWG of the employing organisation to identify and address any instances of NOCLAR and also ensure that the business activities are conducted in accordance with the appropriate laws and regulations.

Responsibility of the professional accountants in public practice relating to NOCLAR

- If a professional accountant engaged to perform an audit of financial statements becomes aware of any information relating to NOCLAR or suspected NOCLAR, he/she should obtain an understanding of the relevant matter and thus determine the nature of the matter encountered and the circumstances in which it has occurred or might occur.
- Depending on the nature and significance of the matter, the professional accountant might consult confidentially with others within the firm, a network firm, ICAI, or a legal counsel.
- The matter so identified should be discussed with the appropriate level of management and, where appropriate, TCWG. The purpose of the discussion is to clarify the professional accountant's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion might also prompt management or TCWG to investigate the matter.
- The professional accountant should discuss the non-compliance or suspected non-compliance with management/TCWG to take appropriate and timely actions. Basis the communication the management/TCWG should communicate the matter to appropriate authorities.
- In case of audit of consolidated financial statements, the professional accountant should communicate the matter to the group engagement partner and the group partner should consider whether the matter would be relevant to one or more components and communicate to components engagement teams.
- Additionally, it should be determined if there is a need to discuss the matter with the internal auditors, where applicable.
- Further action that a professional accountant might take includes:
  a. Disclosing the matter to an appropriate authority as specified under respective law, or
  b. Withdrawing[4] from the engagement and the professional relationship where permitted by law or regulation.

3. Resigning is not a substitute for taking other actions that might be needed to achieve the senior professional accountant's objectives under Section 260. However, there might be limitations as to the further actions available. In such circumstances, resignation might be the only available course of action.
4. Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the professional accountant's objectives under Section 360. However, there might be limitations as to the further actions available. In such circumstances, withdrawal might be the only available course of action.

Responsibility of the management and TCWG of the client

It is the responsibility of the management or TCWG of the client to identify and address any instances of NOCLAR and also ensure that the business activities are conducted in accordance with the appropriate laws and regulations.

Examples: Some of the examples of laws and regulations addressed by Section 260 and 360 of the Code include those that deal with:

- Fraud, corruption and bribery,
- Money laundering, terrorist financing and proceeds of crime,
- Securities markets and trading,
- Banking and other financial products and services,
- Data protection,
- Tax and pension liabilities and payments,
- Environmental protection,
- Public health and safety.

Key considerations

- Currently, the provisions of Section 360 of the Code are applicable to only such listed entities that have a net worth of INR250 crore or more. However, it has been specified that the applicability would be subsequently extended to all listed entities. Thus, the management and the practitioners auditing listed entities having net worth of less than INR250 crore should start preparing the required system and necessary procedures for appropriate identification and disclosure of instances of NOCLAR.
- The requirements have placed a greater expectation on the senior professional accountants to take appropriate action for responding to NOCLAR instances. This is largely on account of their roles, positions and spheres of influence within the employing organisation. Accordingly, senior professional accountants should take note of the NOCLAR provisions to effectively discharge their responsibilities in this regard.
- Audit Committee(s) of companies should note NOCLAR requirements. Many organisations have established protocols and procedures for raising non-compliance or suspected non-compliance internally. These protocols and procedures include, for instance, an ethics policy or internal whistle-blowing mechanism. Thus, organisations would need to assess whether such frameworks meet the requirements of NOCLAR as per the Code. They may also develop training programmes for the employees for identifying, reporting and minimising NOCLAR instances.
- Presently, SA 250, *Consideration of laws and regulations in an audit of financial statements* and relevant clauses under the Companies (Auditor's Report) Order, 2020 (CARO 2020) provide guidance to the auditors for identifying and reporting violations relating to non-compliance or suspected non-compliance. Additionally, Section 143 of the Companies Act, 2013 provides that if the auditor of a company, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of INR1 crore or more, has been committed against the company by its officers or employees, he/she must report the matter to the Central Government. Section 177 of the Companies Act, 2013 states the requirement for every listed company, or such classes of companies, as may be prescribed to establish a vigil mechanism for directors and employees to report any concerns, if encountered during the course of performing their duties. Thus, NOCLAR provisions are another tool to report such violations and minimise such threats.

NOCLAR is a complex subject matter and would require analysis and judgement. The professional accountants may obtain legal advice or consult on a confidential basis with the ICAI.

CHAPTER 4

Regulatory updates

SEBI approves certain proposals through its board meeting

On 30 September 2022, the Securities Exchange Board of India (SEBI) conducted a board meeting to approve proposals on certain significant matters pertaining to the SEBI Regulations. Following are the key takeaways from the board meeting:

a. Flexibility in approval process for appointment and/or removal of Independent Directors (IDs)

Currently under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), appointment, re-appointment or removal of IDs is to be made through a special resolution.

The SEBI in its board meeting approved an alternative method under the LODR Regulation for appointment and removal of IDs appointed for the first term in listed entities. As per the alternate method, if a special resolution for appointment/ removal of an ID does not attain the requisite majority, then following thresholds would be tested:

i. Threshold for an ordinary resolution

ii. Threshold for majority of minority shareholders.

If the resolution crosses the above two thresholds, in the same voting process, then such a resolution for appointment of an independent director would be deemed to be approved by the shareholders. The same threshold would also be applicable for removal of an independent director appointed under this alternate mechanism.

b. Amendment regarding schemes of arrangements in the LODR Regulations

The SEBI has approved to introduce provisions pertaining to following:

- Schemes of arrangement for debt listed entities,
- Handling of unclaimed amounts pertaining to non-convertible securities of listed entities which do not fall within the definition of a 'company' under the Companies Act, 2013 (2013 Act) and the Rules made thereunder, and
- Continuous disclosure norms for entities with listed non-convertible securities, pertaining to financial results and related requirements.

The key amendments are explained below:

i. Introduction of provisions pertaining to schemes of arrangement for entities which have listed non-convertible debt securities/non-convertible redeemable preference shares. The new provisions approved are related to filing of draft schemes of arrangement/schemes of arrangement with stock exchange(s) for obtaining the no-objection letter, the process to be followed by the stock exchange(s) including forwarding the draft schemes to SEBI and consequential fee payments.

ii. Any unclaimed amount lying in the escrow account for more than seven years pertaining to non-convertible securities issued by listed entities which do not fall within the definition of a 'company' under the 2013 Act and the rules made thereunder and are governed by separate statutes, should be transferred to the Investor Protection and Education Fund (IPEF) created by SEBI in accordance with Section 11 of the SEBI Act, 1992.

iii. Uniformity in the disclosure requirements for entities with listed non-convertible securities, pertaining to financial results and related requirements has been introduced.

c. New disclosures

Issuers proposing Initial Public Offer (IPO) would be required to make certain disclosure of the Key Performance Indicators (KPIs) and price per share of issuer based on past transactions and past fund raising undertaken by the issuer from the investors. These disclosures will be given in the 'Basis for Issue Price' section of the offer document and in price band advertisement under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations).

d. Introduction of pre-filing of offer document

SEBI has approved the proposal of a pre-filing mechanism of offer documents as an alternative to the existing mechanism of filing offer documents, in relation to initial public offers on the main board of the stock exchanges.

The pre-filing mechanism would allow issuers to carry out limited interaction without having to make any sensitive information public. Further, the document which incorporates SEBI's initial observations would be available to investors for a period of at least 21 days, thereby, assisting them better in their investment decision making process. The existing mechanism of processing offer document shall continue in addition to this alternative mechanism of pre-filing.

e. Review of the existing framework for Offer for Sale (OFS) of shares

The SEBI approved certain modifications to the framework for OFS of shares through stock exchange in order to provide more flexibility and efficiency to the framework. The key modifications are as follows:

i. Currently, non-promoter shareholders holding at least 10 per cent of the share capital of an eligible company and who are willing to offer shares of at least INR25 crore would be eligible to offer their shares through OFS mechanism. However, it has now been decided to do away with minimum 10 per cent shareholding requirement for the non-promoter shareholders for offering shares through OFS mechanism.

ii. The existing cooling off period of +12 weeks for OFS has been reduced to a range of + 2 weeks to +12 weeks, based on the liquidity of securities of such eligible companies.

iii. Retail investors have been allowed to bid for the unsubscribed portion of non-retail segment.

iv. OFS mechanism would be available to unit holders/sellers of listed Real Estate Investment Trust (REITs)/Infrastructure Investment Trust (InvITs) to offer their holdings.

f. Inclusion of units of Mutual Funds under the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations)

The proposal to cover dealings in mutual funds under the PIT Regulations in order to harmonise the regulations governing the trading in securities, while in possession of Unpublished Price Sensitive Information (UPSI) has been approved.

(Source: SEBI press release no. PR No.29/2022 on board meeting dated 30 September 2022)

SEBI prescribes regulations for Social Stock Exchange Governing Council

On 25 July 2022, SEBI amended the ICDR Regulations and inserted a Chapter X-A on Social Stock Exchange (SSE). As per Regulation 29D of the ICDR Regulations, every SSE shall constitute a Social Stock Exchange Governing Council (SGC) to supervise the functioning of the SSE.

Considering this, SEBI through its circular dated 13 October 2022 has prescribed specific requirements relating to composition and terms of reference of SGC. The SGC is expected to provide an oversight and guidance to facilitate the smooth functioning of the operations of the SSE, with regard to registration, fund raising and disclosures by Social Enterprises (SEs).

(Source: SEBI circular no. SEBI/HO/MRD/MRD-RAC-2/P/CIR/2022/141 dated 13 October 2022)

Clarification on disclosure of absolute figures in e-forms

As per Schedule III to the 2013 Act, companies are mandatorily required to round off the figures appearing in the financial statements depending upon their total income. In this regard, the Ministry of Corporate Affairs (MCA) has issued a clarification on 26 September 2022, that, if the companies provide absolute figures in e-forms for filing of the financial statements i.e. Form AOC-4, the same would not be treated as incorrect certification by the professionals.

(Source: MCA clarification dated 26 September 2022)

RBI issues revised guidelines on unhedged foreign currency exposure

On 11 October 2022, the Reserve Bank of India (RBI) issued the Unhedged Foreign Currency Exposure (UFCE) Directions, 2022 (UFCE Directions 2022) after receiving references from banks seeking clarification on various aspects pertaining to UFCE. These revised guidelines are a consolidation of all the existing instructions, and also include revisions and clarifications[1] on certain matters.

The UFCE Directions, 2022 are applicable from 1 January 2023 to all commercial banks (excluding payments banks and regional rural banks). The UFCE Directions, 2022 are also applicable to overseas branches/subsidiaries of banks incorporated in India.

The key amendments are as follows:

i. **Modification in the definition of 'entities':** Banks are required to assess UFCE of all entities. Presently, the term 'entities' is defined as those entities which have borrowed from banks including borrowing in Indian Rupee (INR) and other currencies irrespective of the size of exposure/entity. As per the revised definition, an entity means a counterparty to which the bank has an exposure in any currency.

ii. **Extension of exemption category:** Currently, the exposures arising from derivative transactions are excluded from the purview of extant UFCE guidelines. This UFCE Directions, 2022 have expanded the exemption category to factoring transactions. Accordingly, banks' exposures to an entity arising from derivative transactions and/or factoring transactions shall be excluded from the purview of UFCE guidelines.

iii. **Assessment for smaller entities:** At present, banks have an option to follow an alternative method for computing exposures to 'smaller entities' which have:

   a. UFCE; and

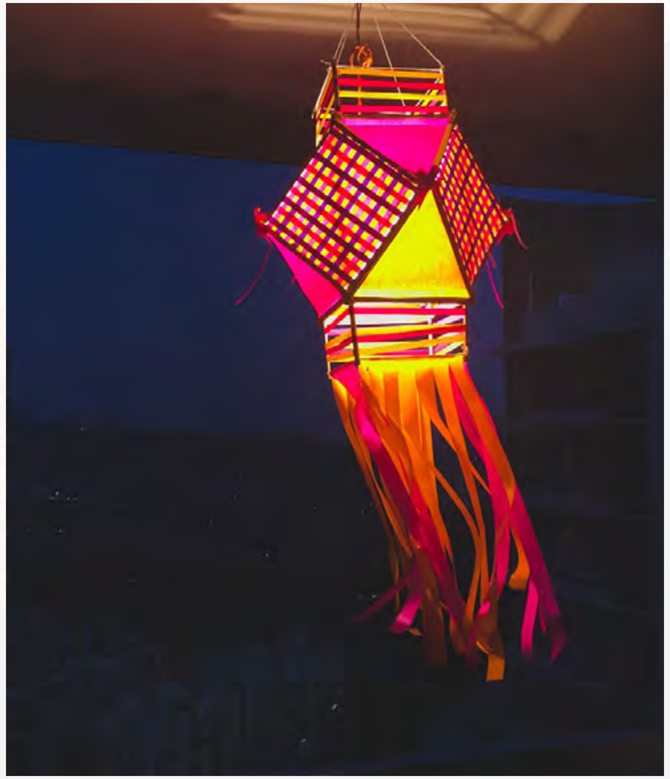
   b. Are not in a position to provide information on their UFCE to the bank.

   The UFCE Directions, 2022 have now made the alternative method applicable for exposure to 'smaller entities' which have:

   a. Foreign Currency Exposure (FCE), instead of UFCE, and

   b. Are not in a position to provide information on their UFCE to the bank.

   Further, the definition of 'smaller entities' has also been amended. As per the revised guidelines, smaller entities are those entities on which total exposure of the banking system is INR50 crore or less (earlier INR25 crore or less).



1. RBI circular DBOD.BP.BC.37/21.04.048/2001-2002, 27 October 2001, DBOD.BP.BC.51/21.04.103/2003-2004, 5 December 2003, DBOD.BP.BC.96/21.04.103/2008-09, 10 December 2008, DBOD.BP.BC.No.76/21.04.103/2011-12, 2 February 2012, DBOD.BP.BC.No.61/21.04.103/2012-13, 21 November 2012, DBOD.No.BP.BC.85/21.06.200/2013-14, 15 January 2014, DBOD.No.BP.BC.116/21.06.200/2013-14, 3 June 2014, Mailbox Clarification dated 8 July 2016 and DOR.No.MRG.BC.41/21.06.200/2020-21, 17 February 2021

iv. **Explanation for incremental capital requirement:** Banks are required to apply incremental capital and provisioning requirements as follows:

Potential Loss / EBID (%)[2]	Incremental provisioning requirement	Incremental capital requirement
Upto 15 per cent	0	0
More than 15 per cent and upto 30 per cent	20bps	0
More than 30 per cent and upto 50 per cent	40bps	0
More than 50 per cent and upto 75 per cent	60bps	0
More than 75 per cent	80 bps	25 per cent increase in the risk weight

The UFCE Directions, 2022 clarified that, the incremental capital requirement for exposures falling in the last bucket is provided as 25 per cent point increase in risk weight. For example, if an entity which otherwise attracts a risk weight of 50 per cent falls in the last bucket, the applicable risk weight would be 75 per cent (i.e. 50 per cent +25 per cent). This is because the exposures falling in the same bucket will have equal increase in their riskiness irrespective of the original risk weight applicable.

(Source: RBI notification no. RBI/2022-23/131 DOR.MRG.REC.76/00-00-007/2022-23 dated 11 October 2022)

2. Earnings Before Interest and Depreciation – EBID is computed as Profit after tax + Interest on debt + Depreciation + Lease rentals (if any)

Amendments to the directions on presentation and disclosures of financial statements by banks

The RBI (Financial Statements-Presentation and Disclosures) Directions, 2021 (Master Directions) incorporates all the guidelines, instructions and directives issued by RBI to banks. The guidelines require commercial banks (excluding Regional Rural Banks (RRBs)) to disclose details of divergence in asset classification and provisioning if such divergence exceeds certain specified thresholds.

In order to strengthen the compliance with income recognition, asset classification and provisioning norms, RBI through its notification dated 11 October 2022, introduced similar disclosure requirements for primary (urban) co-operative banks and revised the specified thresholds for commercial banks which are as follows:

a. The additional provisioning for Non-Performing Assets (NPAs) assessed by the RBI exceeds 5 per cent (earlier 10 per cent) of the reported profit before provisions and contingencies for the reference period; and

b. The additional Gross NPAs identified by the RBI exceeds 5 per cent (earlier 10 per cent) of the reported incremental Gross NPAs for the reference period.

Provided further that in the case of urban co-operative banks the threshold for reported incremental Gross NPAs specified in paragraph (b) above shall be 15 per cent, which would be reduced progressively in a phased manner, after review.

The thresholds specified above would be applicable for disclosures in the notes to the annual financial statements for the year ending 31 March 2024 and onwards.

(Source: RBI notification no. RBI/2022-23/130 DOR.ACC.REC. No.74/21.04.018/2022-23 dated 11 October 2022)

Aggregation of group NBFC's assets for middle layer classification

As per the master direction on Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions 2016, all applicable Non-Banking Financial Companies (NBFCs) that are part of a common group or are floated by a common set of promoters should be assessed at a consolidated level.

In this regard, RBI through its circular dated 11 October 2022,provided that, the total assets of all the NBFCs (including NBFCs are classified as Base Layer – NBFC-Peer to Peer Lending Platform, NBFC-Account Aggregator, Non-Operative Financial Holding Company and NBFC without public funds and customer interface) forming part of the same group[3] should be consolidated to determine the middle layer classification status of NBFCs and all the regulations applicable to the middle layer category of NBFCs would be applicable to them.

Therefore, if the consolidated asset size of the group is INR1,000 crore and above, then each of the NBFCs classified as NBFC-Investment and Credit Company (NBFC-ICC), NBFC-Micro Finance Institution (NBFC-MFI), NBFC-Factor and NBFC-Mortgage Guarantee Company (NBFC-MGC), forming part of the group should be considered as an NBFC in the middle layer.

The circular further provides that, the statutory auditors are required to certify the asset size of all the NBFCs in the group as on 31 March of every year. The certificate would be submitted to the Department of Supervision of the RBI under the jurisdiction in which the NBFCs are registered.

The provisions of the circular are effective from 1 October 2022 and would not be applicable for NBFCs classified in the upper layer.

(Source: RBI notification no. RBI/2022-23/129 DOR.CRE.REC. No.78/03.10.001/2022-23 dated 11 October 2022)

3. Paragraph 3(vi) of the Master Direction – Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions 2016 defines 'companies in group'.

RBI issued concept note on Central Bank Digital Currency (CBDC)

RBI through its press release on 7 October 2022, has issued a concept paper on CBDC which is a digital form of currency notes issued by the Central Bank. The concept note explains the objectives, choices, benefits and risks of issuing a CBDC in India and it would be termed as e₹ (digital Rupee). The purpose for the issuing the concept note is to create awareness about CBDCs and discuss the planned features of the digital rupee.

The concept note provides insights on the key considerations relating to CBDC such as technology and design choices, possible uses of digital rupee, issuance mechanisms, etc. It also discusses the implications of introduction of CBDC on the banking system, monetary policy, financial stability, and analyses privacy issues.

The concept paper provides that RBI would soon commence the limited pilot launches of e₹ for specific use cases and RBI would communicate about the specific features and benefits of e₹, from time to time.

(Source: RBI press release no. 2022-2023/1012 dated 7 October 2022)

Narrow scope amendments to IFRS 16, *Leases* for sale and leaseback transactions

Amendments to IFRS 16, *Leases* impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following.

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

Example

A seller-lessee enters into a sale-and-leaseback transaction in which the carrying amount of the underlying asset immediately before the sale is 80. The present value of the expected lease payments (all variable) is 50 and the fair value of the underlying asset is 100, which equals the consideration received.

At the date of the transaction

The seller-lessee would measure the right-of-use asset at 40 (80*(50/100)) and the gain to be recognised in profit or loss at 10 ((100-80)*(50/100)). Therefore, it would measure the lease liability at 50, even though all of the lease payments are variable.

Subsequent accounting for the lease liability

The seller-lessee would reduce the lease liability as if the 'lease payments' estimated at the date of the transaction had been paid. It would recognise any difference between those lease payments and the amounts actually paid in profit or loss.

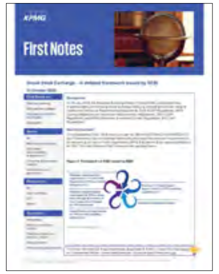
It could determine the lease payments to be deducted from the lease liability in a number of ways – e.g. as 'expected lease payments' or as 'equal periodic payments' over the lease term.

Effective date: The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

Under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of IFRS 16. This means that it will need to identify and re-examine sale-and-leaseback transactions entered into since implementation of IFRS 16 in 2019, and potentially restate those that included variable lease payments.

(Source: IAASB announcement dated 22 September 2022 and KPMG IFRG Ltd's web article on Lease liability in a sale-and-leaseback dated 26 September 2022)

First Notes



Social Stock Exchange - A detailed framework issued by SEBI

On 25 July 2022, the Securities Exchange Board of India (SEBI) incorporated new chapters relating to the Social Stock Exchange (SSE) by amending the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) and SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations).

On 19 September 2022, SEBI issued a detailed framework prescribing the minimum requirements to be followed by a Not for Profit Organisation (NPO) that desires to be registered/listed on an SSE. The main themes of the Framework are depicted below:

a. Registration of a Not for Profit Organisation (NPO)

b. Disclosure to be provided by NPOs for raising funds through the issuance of Zero Coupon Zero Principal (ZCZP) Instruments

c. Annual disclosures and disclosures forming part of the Annual Impact Report (AIR)

d. The circular also prescribes the time limit for submission of statement of utilisation of funds by an NPO.

This issue of the First Notes provides an overview of the SSE framework issued by SEBI.

To access the First Note, please click **here.**

On 21 October 2022, KPMG in India released its VOR – Quarterly updates publication. The publication provides a summary of key updates from the Ministry of Corporate Affairs (MCA), the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Insurance Regulatory and Development Authority of India (IRDAI) and the Institute of Chartered Accountants of India (ICAI) for the quarter ended 30 September 2022.

To access the publication, please click **here**.

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