CHAPTER 3

Regulatory updates

Amendments to the SEBI Listing Regulations

On 14 June 2023, the Securities and Exchange Board of India (SEBI) issued a notification to amend the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 (Listing Regulations) through SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023 (the amendment).

The key amendments issued include:

- **Disclosure of material events or information (Regulation 30):** Regulation 30 of the Listing Regulations requires every listed company to provide disclosures of events or information which, in the opinion of the Board of Directors of the listed company, are material in accordance with the provisions of Part A of Schedule III of the Listing Regulations.

  The regulation 30 has been recently amended and these amendments are effective from 14 July 2023. The following are the amendments:

  i. **Materiality threshold for disclosure (Regulation 30(4)(i)):** Para B of Part A of Schedule III of the Listing Regulations (Para B) provides the list of events that are required to be disclosed as per the materiality policy framed by the listed companies. In addition to the existing requirements stipulated in Regulation 30(4)(i), the amendment has now introduced a quantitative threshold for disclosure of events specified under Para B. Therefore, events may be considered material if, *inter alia,* their value or the expected impact in terms of value, exceeds the lower of the following:

     i. Two per cent of turnover, as per the last audited consolidated financial statements of the listed company;

     ii. Two per cent of net worth, as per the last audited consolidated financial statements of the listed company, except in case the arithmetic value of the net worth is negative;

     iii. Five per cent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed company

     Further, where any continuing event or information becomes material on account of the notification of this amendment, then such a continuing event or information should be disclosed by 13 August 2023.

  ii. **Materiality policy (Regulation 30(4)(ii)):** The amendment has inserted a proviso requiring listed entities to ensure the following while determining the materiality policy:

     - The materiality policy should not dilute any requirement specified under the provisions of the Listing Regulations
     - The materiality policy should assist the relevant employees of the listed company in identifying any potential material event or information and reporting the same to the authorised Key Managerial Personnel (KMP) for determining the materiality of the said event or information and for making the necessary disclosures to the stock exchange(s).

  iii. **Timeline for disclosure (Regulation 30(6)):** The amendment has revised the timelines for disclosure, of material events or information, to the stock exchange. As per the amendment, the disclosure should be made as soon as reasonably possible and in any case not later than the following:

Event or information emanating from…	Timeline for disclosure to the stock exchange*
Outcome of a meeting of the Board of Directors	Within 30 minutes from closure of meeting in which the decision was taken
Within the listed company	Within 12 hours *(earlier 24 hours)* from occurrence of event
Externally (i.e. not emanating from within the listed company)	Within 24 hours from the occurrence of the event
Events specified in Part A of Schedule III of the Listing Regulations	Timelines specified within Part A of Schedule III of the Listing Regulations

*In case the disclosure is made after the abovementioned timelines, then the listed company should also provide an explanation for the delay in disclosure.

iv. **Verification of market rumours (Regulation 30(11)):** As per this sub-regulation, every listed entity should on its own initiative, confirm or deny any reported event or information to stock exchange(s).

In addition to the above-mentioned general provision, the amendment also requires certain specified listed companies to confirm, deny or clarify any reported event or information in the mainstream media which is not general in nature and which indicates that rumours of an impending specific material event or information in terms of the provisions of this regulation are circulating amongst the investing public.

The specified listed entities are as follows:

Top 100 listed entities[1]	With effect from 1 October 2023
Top 250 listed entities[1]	With effect from 1 April 2024

The confirmation by the above listed companies should be made within 24 hours from the reporting of the event or information. Further, the listed company should also provide the current stage of such event or information.

1. The top 100 and 250 listed entities shall be determined on the basis of market capitalisation, as at the end of the immediately preceding financial year

The amendment also defines the term 'mainstream'. Accordingly, 'mainstream media' includes print or electronic mode of the following:

i. Newspapers registered with the Registrar of Newspapers for India

ii. News channels permitted by Ministry of Information and Broadcasting under Government of India

iii. Content published by the publisher of news and current affairs content as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 and

iv. Newspapers or news channels or news and current affairs content similarly registered or permitted or regulated, as the case may be, in jurisdictions outside India

v. **Disclosure of communication from any regulatory, statutory, enforcement or judicial authority (Regulation 30(13)):** The amendment has inserted a new sub-regulation which requires a listed company to disclose communication received from any regulatory, statutory, enforcement or judicial authority with respect to an event or information which is required to be disclosed in terms of the provisions of this regulation. However, the disclosure of such communication should not be made if the listed company is prohibited to do so by the concerned authority.

vi. **Disclosure requirements for certain types of agreements binding listed companies (Regulation 30A):** The amendment now requires listed companies to disclose agreements (including rescission, amendment, or alteration), which directly, indirectly or potentially impacts the management, or control of a listed company, or imposes any restriction, or creates any liability on a listed company, whether or not the listed company is a party to such agreements.

Such agreements can be entered into by the shareholders, promoters, promoter group entities, related parties, directors, Key Managerial Personnel (KMP) and employees of a listed company or of its holding, subsidiary and associate company. Such parties should inform the listed company about such agreement within two working days of entering into such agreements or signing an agreement to enter into such agreements.

The listed company should disclose such agreements under Para A of Part A of Schedule III of the Listing Regulations (Para A). Further, the listed company should disclose the following in the Annual Report for the financial year 2022-23 or for the financial year 2023-24:

- The number of agreements that subsist as on 14 June 2023 under Para A
- Salient features of such agreements
- Link to the webpage where the complete details of such agreements are available.

vii. **Addition and modification of events in Para A and Para B:** The events specified in Para A are deemed to be material events which are required to be disclosed by the listed companies whereas the events enumerated in Para B are required to be disclosed based on the materiality policy of the listed company. The amendment has added and modified certain events/ information under Para A and Para B.

- **Board permanency at listed companies (Regulation 17(1D)):** SEBI has inserted Regulation 17(1D) in the Listing Regulations, which states that with effect from (w.e.f) 1 April 2024, for directors to continue to serve on the board of directors (the board) of a listed company, shareholders' approval in a general meeting should be obtained at least once in every five years from the date of their appointment or reappointment, as the case may be. The amendment further clarifies that every director serving on the board of a listed company as on 31 March 2024, and for whom a shareholders' approval has not been obtained in the last five years, the approval of shareholders should be obtained in the first general meeting to be held after 31 March 2024.

- **Prescribed timeline for filling the vacancy of directors and key managerial personnel (Regulation 6(1A), 17(1E) and 26A):** The amendment has prescribed the following timelines for filling of vacancy:

Role	Timeline to fill vacancy
Directors	Any vacancy of directors to be filled at the earliest but not later than three months from the date such vacancy. In case of non-compliance of Regulation 17(1)[2] due to expiration of the term of office of any director, the resulting vacancy so created shall be filled-up on that day itself. However, this is not applicable if listed company complies with Regulation 17(1) of the Listing Regulation without filling up the vacancy created.
• Compliance Officer • CFO • CEO/Managing Director (MD)/ Whole Time Director (WTD)/ Manager	Any vacancy created should be filled-up at the earliest but not later than three months from the date of such vacancy. However, the listed company shall not fill such a vacancy by appointing a person in interim capacity, unless such appointment is made in accordance with the laws applicable in case of a fresh appointment to such office and the obligations under such laws are made applicable to such person.

The above timelines are effective from 14 July 2023.

- **Special rights to shareholders (Regulation 31B):** As per the existing provisions of the Listing Regulations, once an entity gets listed, it seeks one-time approval of the shareholders for retaining any special rights granted as per the Articles of Association (AOA) of the company. The amendment has introduced Regulation 31B which specifies that any special right granted to the shareholders must be subject to the approval by shareholders in a general meeting through a Special Resolution (SR) once in every five years, beginning from the date of grant of such special right. This amendment is applicable from 14 July 2023.

- **Sale, lease or disposal of an undertaking outside scheme of arrangement (Regulation 37A):** SEBI has inserted Regulation 37A to prescribe the provisions for sale, lease or disposal of an undertaking outside the scheme of arrangement. It provides that where an entity carries out the sale, lease or disposal of the whole or substantially the whole of one or more than one undertaking (where it owns more than one undertaking), it should:
  - Obtain prior approval of the shareholders by way of a SR, and
  - Disclose the object of and commercial rationale for carrying out such sale, lease or disposal and the use of proceeds arising therefrom, in the statement annexed to the notice to be sent to the shareholders.

  Further, such SR should be acted upon, only if the votes cast by the public shareholders in favour of the resolution exceed the votes cast against the resolution.

  The aforementioned requirement would not be applicable to transactions involving sale, lease or disposal of the whole or substantially the whole of the undertaking by an entity to its Wholly Owned Subsidiary (WOS), whose accounts are consolidated with the entity. However, where the WOS sells, leases or disposes off the whole or substantially the whole of the undertaking received, whether in whole or in part, to any other entity, it must comply with this requirement before convening such transaction.

  This amendment is applicable from 14 June 2023.

2. Regulation 17(1) of Listing Regulations specifies the composition of board of directors for the listed entities including minimum number of directors, independent directors, non-executive directors, woman director and independent woman director

- **Submission of financial results by newly listed entities (Regulation 33(3)):** The amendment issued by SEBI requires a newly listed company to disclose its first financial results post its listing, for the period (quarter or financial year) immediately succeeding to the periods for which financial results were disclosed in the offer documents for an initial public offer, within 21 days from the date of listing or as per the applicable timeline under the Listing Regulations, whichever is later. This amendment is applicable to the issuers whose public issues open on or after 14 July 2023.
- **Applicability of corporate governance provisions to High Value Debt Listed Entities (HVDLEs) (Regulation 15(1A)):** The amendment has extended the applicability of corporate governance provisions, on a 'comply or explain' basis to HVDLE till 31 March 2024 *(earlier, it was applicable till 31 March 2023).* The corporate governance provisions, would be applicable on a mandatory basis to HVDLEs post 31 March 2024.
- **Disclosure of cyber security incidents or breaches and loss of data/documents (Regulation 27):** Listed entities are now required to provide details of cyber security incidents, breaches, loss of data, or documents in the quarterly corporate governance report which is required to be submitted to the recognised stock exchange(s) within 21 days from the end of each quarter, in the format as prescribed by SEBI. This amendment is effective from 14 July 2023.
- **Submission of Business Responsibility and Sustainability Report (BRSR) (Regulation 34(2)(f)):** Top 1,000 listed entities[3] are required to submit BRSR which consists of Environmental, Social and Governance (ESG) disclosures, in the format prescribed by SEBI.
- The amendment clarifies that:

  a. assurance for the BRSR Core should be obtained in the manner to be specified by the SEBI from time to time.

  b. The listed entities are also required to make disclosures and obtain assurance as per the BRSR Core for their value chain in the manner to be specified by the SEBI from time to time.

  The amendment further states that the remaining listed entities, including the entities which have listed their specified securities on the SME Exchange, may voluntarily disclose the BRSR or may voluntarily obtain the assurance of the BRSR Core, for themselves or for their value chain, as the case may be.

  This amendment is effective from 14 June 2023.
- **Disclosure on listed company's website (Regulation 46(2)(o)):** As per the amendment the disclosure of schedule of the analysts or institutional investors' meet and presentations should be made on the entity's website at least two working days in advance (excluding the date of the intimation and the date of the meet). The amendment is effective from 14 July 2023.
- **Intimation to stock exchanges (Regulation 57):** The amendment has clarified that a listed company should submit a certificate to the stock exchange regarding status of payment of interest, dividend, repayment, or redemption of principal of non-convertible securities, within one working day of it becoming due, in the specified format. The amendment is effective from 14 June 2023.

(Source: SEBI notification no. No. SEBI/LAD-NRO/GN/2023/131 dated 14 June 2023)

3. Based on market capitalisation as calculated as on 31 March of every financial year

Amendments to the underwriting and bonus framework

On 23 May 2023, SEBI issued a notification to amend the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations). The key amendments are as follows:

- **Underwriting in a public issue:** The SEBI has amended Regulation 40 and Regulation 136 of the ICDR Regulation. Regulation 40 lays down the underwriting provisions in case of an Initial Public Offer (IPO) whereas Regulation 136 prescribes the underwriting provisions for a Further Public Offer (FPO).

  The amendment provides that in case of a public issue, prior to the filing of the prospectus, the issuer should enter into an underwriting agreement with the merchant bankers or stock-brokers registered with SEBI to act as underwriters. The underwriting agreement should include the maximum number of specified securities that the underwriters would subscribe to, either by themselves or by procuring subscription, at a predetermined price which should not be less than the issue price. A disclosure of the underwriting agreement entered into is required to be made in the prospectus.

- **Bonus issue:** SEBI has amended the conditions for a bonus issue enumerated in Regulation 293 and Regulation 294 of ICDR Regulations. The conditions for a bonus issue enumerated in Regulation 293 of the SEBI ICDR Regulations would also be applicable for announcement of bonus shares. The amendment provides that:

  a. The issuer would be eligible to announce its bonus issue and issue bonus shares if it has received approval from the stock exchanges for listing and trading of all the securities, excluding options granted to employees pursuant to an employee stock option scheme and convertibles securities, issued by the issuer prior to the issuance of bonus shares.

  b. The allotment of shares in a bonus issue shall be made only in the dematerialised form.

- **Disclosures in the offer document:** As per the amendment, if an extract of any industry report is disclosed in the offer document, then the complete industry report should be provided as part of the material documents under Schedule VI of the ICDR Regulations.

The above amendments are effective from 23 May 2023.

(Source: SEBI circular no. SEBI/LAD-NRO/GN/2023/130 dated 23 May 2023)

Timeline for submission of form CSR-2 for FY 2022-23

As per the provisions of the Companies (Accounts) Rules, 2014 (Accounts Rules), every company covered under Section 135(1)[4] of the Companies Act, 2013 (2013 Act) should furnish a Corporate Social Responsibility (CSR) report in Form CSR-2, to the Registrar of Companies (RoC), as an addendum to Form No. AOC-4 or Form No. AOC-4-NBFC (Ind AS), as the case maybe.

The Ministry of Corporate Affairs (MCA) issued a notification on 2 June 2023 to provide the timeline for submission of Form CSR-2 for financial year 2022-2023. As per the notification, Form CSR-2 should be filed separately on or before 31 March 2024 after filing Form No. AOC-4 or Form No. AOC-4-NBFC (Ind AS), or Form No. AOC-4 XBRL[5], as the case may be.

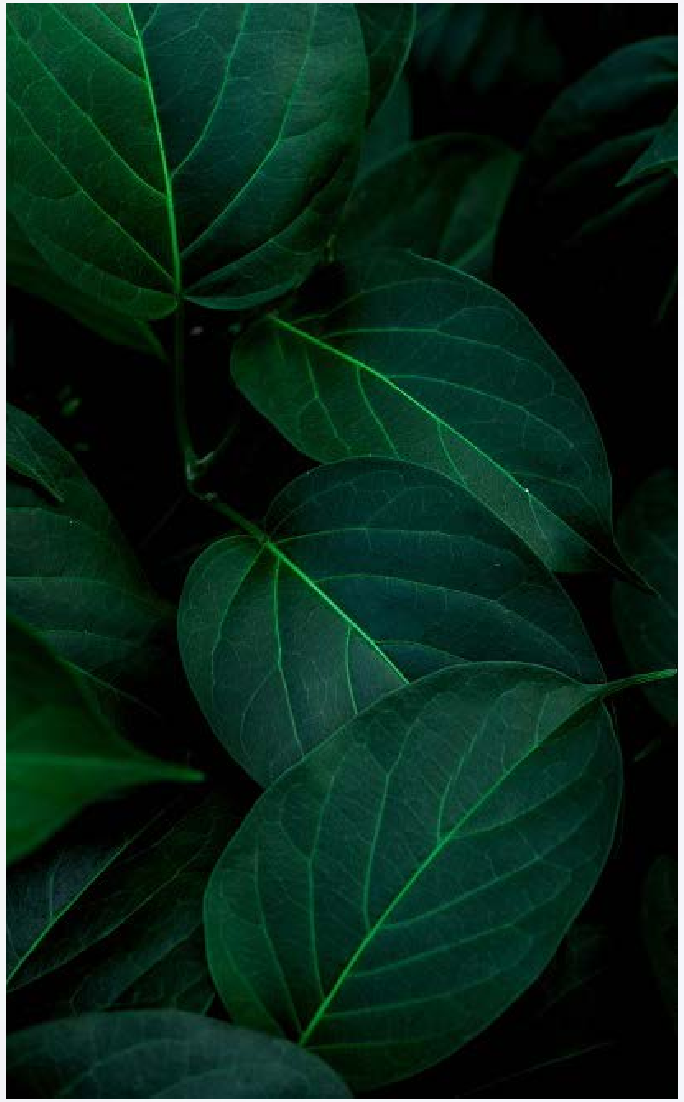
(Source: MCA notification no. G.S.R. 408(E) dated 2 June 2023)

4. As per Section 135(1) of the 2013 Act, every company having net worth of INR500 crore or more, or turnover of INR1000 crore or more or a net profit of INR5 crore or more during the immediately preceding financial year should constitute a CSR Committee of the Board consisting of three or more Directors, out of which at least one director shall be an independent director

5. Form AOC 4 - Form for filing financial statement and other documents with the Registrar

   Form No. AOC-4-NBFC (Ind AS) - Form for filing financial statement and other documents with the Registrar for NBFCs

   Form No. AOC-4 XBRL - Form for filing XBRL document in respect of financial statement and other documents with the Registrar.



RBI issued guidelines on Default Loss Guarantee (DLG) in digital lending

On 2 September 2022, the Reserve Bank of India (RBI) issued guidelines on digital lending, which are applicable to all Regulated Entities (REs)[6]. The REs needs to ensure that the Lending Service Providers (LSPs)[7] engaged by them, and the digital lending apps of the REs and of the LSPs engaged by the REs comply with these guidelines. However, these guidelines did not stipulate the regulation for First Loss Default Guarantee (FLDG).

In this regard, on 8 June 2023, RBI issued guidelines on DLG, commonly known as FLDG, in digital lending. It is be noted that the DLG arrangements conforming to these guidelines should not be treated as 'synthetic securitisation'[8] and/or should also not attract the provisions of 'loan participation'[9].

The key takeaways from DLG guidelines are as follows:

- **DLG arrangement:** There must be a contractual arrangement between the RE and a DLG Provider under which the DLG Provider should guarantee to compensate the RE for the loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront. Any other implicit guarantee of similar nature linked to the performance of the loan portfolio of the RE and specified upfront, should also be covered under the definition of DLG.
- **Eligibility for a DLG Provider:** DLG arrangements are to be entered with only LSP/other RE with which it has entered into an outsourcing (LSP) arrangement. Further, the LSP providing DLG should be incorporated as a company under the 2013 Act.
- **Approval by Board of Directors:** REs shall put in place policies approved by the Board of Directors before entering into any DLG arrangement.

  At the minimum, the policy should include

  a. The eligibility criteria for DLG provider
  b. Nature and extent of DLG cover
  c. Process of monitoring and reviewing the DLG arrangement, and
  d. The details of the fees, if any, payable to the DLG provider
- **Declaration from DLG providers:** Every time an RE enters into or renews a DLG arrangement, RE should obtain a declaration from the DLG provider which should be certified by the statutory auditor on the following matters:

  a. Aggregate DLG amount outstanding,
  b. The number of REs
  c. The respective number of portfolios against which DLG has been provided.
  d. Past default rates on similar portfolios.
- **Credit appraisal requirements:** It has been clarified that a DLG arrangement should not act as a substitute for credit appraisal requirements and that robust credit underwriting standards need to be put in place irrespective of DLG cover.
- **Structure of DLG arrangements:** Every DLG arrangement should be backed by an explicit legally enforceable contract between the RE and the DLG provider. Such contract, should inter alia include:

  a. Extent of DLG cover
  b. Form in which DLG cover is to be maintained with the RE
  c. Timeline for DLG invocation
  d. Disclosure requirements of the LSPs

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6. The guidelines on digital lending issued on 2 September 2022 are applicable to REs which are:
   a. All Commercial Banks (including Small Finance Banks),
   b. Primary (Urban) Co-operative Banks, State Co-operative Banks, Central Co-operative Banks; and
   c. Non-Banking Financial Companies (including Housing Finance Companies)
7. As defined under Para 2.5 of the Annex to the Circular on 'Guidelines on Digital Lending' dated 2 September 2022
8. Synthetic securitisation means "a structure where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or credit guarantees that serve to hedge the credit risk of the portfolio which remains on the balance sheet of the lender", as defined under Para 5(y) of the RBI (Securitisation of Standard Assets) Directions, 2021 dated 24 September 2021.
9. Loan participation means "a transaction through which the transferor transfers all or part of its economic interest in a loan exposure to transferee(s) without the actual transfer of the loan contract, and the transferee(s) fund the transferor to the extent of the economic interest transferred which may be equal to the principal, interest, fees and other payments, if any, under the transfer agreement", as defined under Para 9(e) of the RBI (Transfer of Loan Exposures) Directions, 2021 dated 24 September 2021.

- **Forms of DLG:** RE should accept DLG only in one or more of the following forms:
  a. Cash deposited with the RE
  b. Fixed Deposits maintained with a scheduled commercial bank with a lien marked in favour of the RE
  c. Bank Guarantee in favour of the RE
- **Cap of DLG:** RE should ensure that total amount of DLG cover on any outstanding portfolio which is specified upfront should not exceed five per cent of the amount of that loan portfolio. In case of implicit guarantee arrangements, the DLG Provider should not bear performance risk of more than the equivalent amount of five per cent of the underlying loan portfolio.
- **Tenor of DLG:** The DLG arrangement should remain in force for a minimum period of the longest tenor of the loan in the underlying loan portfolio.
- **Recognition of Non-Performing Asset (NPA):** The RE would be responsible for recognition of individual loan assets in the portfolio as NPA and consequent provisioning as per the extant asset classification and provisioning norms irrespective of any DLG cover available at the portfolio level. Additionally, the amount of DLG invoked should not be set off against the underlying individual loans. Also the recovery by the RE, if any, from the loans on which DLG has been invoked and realised, can be shared with the DLG provider in terms of the contractual arrangement.
- **Treatment of DLG for regulatory capital:** Capital computation on individual loan assets[10] in the portfolio shall continue to be governed by the extant norms.
- **Invocation of DLG:** The RE should invoke DLG within a maximum overdue period of 120 days, unless made good by the borrower before that.
- **Disclosure Requirements:** The RE should have a mechanism to ensure that LSPs with whom they have a DLG arrangement should publish on their website the total number of portfolios and the respective amount of each portfolio on which DLG has been offered.

The abovementioned guidelines are applicable from 8 June 2023.

(Source: RBI notification no. RBI/2023-24/41 DOR.CRE. REC.21/21.07.001/2023-24 dated 8 June 2023)

10. This includes computation of exposure and application of Credit Risk Mitigation benefits on individual loan assets

RBI issued framework for compromise settlements and technical write-offs

The RBI, from time to time, has issued various instructions on compromise settlements for stressed accounts, including the Prudential Framework for Resolution of Stressed Assets, dated 7 June 2019 (Prudential Framework). With an aim to rationalise and harmonise the instructions (issued earlier), on 8 June 2023, RBI issued a comprehensive regulatory framework governing compromise settlements and technical write-offs.

This framework is applicable to REs and should be applicable without prejudice to the provisions of the Prudential Framework or any other guidelines applicable to the REs on resolution of stressed assets. For the purpose of this framework, REs are as follows:

a. Commercial banks (including small finance banks, local area banks and regional rural banks)
b. Primary (urban) co-operative banks/state co-operative banks/ central co-operative banks
c. All-India financial institutions
d. Non-Banking Financial Companies (including housing finance companies)

The key takeaways are as follows:

- **Meaning of compromise settlement and technical write off:**
  a. *Compromise settlement* refers to any negotiated arrangement with the borrower to fully[11] settle the claims of the RE against the borrower in cash. It may entail some sacrifice of the amount due from the borrower on the part of the REs with corresponding waiver of claims of the RE against the borrower to that extent.
  b. *Technical write-off* refers to cases where the non-performing assets remain outstanding at borrowers' loan account level but are written-off (fully or partially) by the RE only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.
- **Board-approved policy:** The framework requires REs to put in place Board-approved policies for undertaking compromise settlements with the borrowers as well as for technical write-offs. The policy should comprehensively lay down the process to be followed with specific guidance on the necessary conditions such as minimum ageing, deterioration in collateral value, etc.

11. Any arrangement involving part settlement with the borrower shall fall under the definition of restructuring, as defined in the Prudential Framework and shall be governed by the provisions applicable thereto.

- **Delegation of power:** The board approved policy should cover delegation of powers for approval/sanction of compromise settlements and technical write-offs. The delegation of power for approvals should rest with an authority (individual or committee, as the case may be) which is at least one level higher in hierarchy than the authority vested with power to sanction the credit or the investment exposure. Further, the proposals for compromise settlements in respect of debtors classified as fraud or wilful defaulter requires an approval of the Board in all cases.
- **Prudential treatment:** In case of compromise settlements wherein the time for payment of the agreed settlement amount exceeds three months, the arrangement should be treated as a restructuring arrangement as defined in in the Prudential Framework. In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, should be with reference to the original exposure, however, the amount of provision including the amount representing partial technical write-off should meet the extant provisioning requirements, as computed on the gross value of the asset.
- **Reporting mechanism:** The framework requires a reporting mechanism to the next higher authority at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority. Compromise settlements and technical write-offs approved by the Managing Director (MD) and Chief Executive Officer (CEO), or Board level committee would be reported to the Board.
- **Cooling Period:** The framework also requires a cooling period in respect of borrowers that are subject to compromise settlements. The cooling period should be determined by the Board approved policies before the REs can assume fresh exposures to such borrowers. The framework also provides the provisions for cooling period for farm credit exposures.
- **Treatment of accounts categorised as fraud and wilful defaulter:** REs may undertake compromise settlements or technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.

The above framework is effective from 8 June 2023.

(Source: RBI notification no. RBI/2023-24/40 DOR.STR.REC.20/21.04.048/2023-24 dated 8 June 2023)

Amendments to IAS 12, *Income Taxes*

In December 2021, the Organisation for Economic Co-operation and Development (OECD) issued Global Anti Base Erosion Rules (GloBE) (i.e. Pillar Two model rules) wherein large multinational companies would be subject to a minimum of 15 per cent tax rate.

In order to address the concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of these rules, on 23 May 2023, the International Accounting Standards Board (IASB) issued amendments to IAS 12. These amendments are as follows:

- **Exception from deferred tax accounting:** The amendments provide a temporary mandatory exception from accounting for deferred tax that arise from the legislation implementing the GloBE model rules (including any qualified domestic minimum top-up tax). Under the exception, companies are effectively exempt from providing for and disclosing deferred tax related to top-up tax. However, they need to disclose that they have applied this exception. The exception is effective immediately and applies retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. It will apply until the IASB decides either to remove it or to make it permanent.
- **New disclosures:** New disclosure requirements have been introduced which are applicable for financial statements from 31 December 2023. However, no disclosures are required for the interim periods ending on or before 31 December 2023. The disclosure requirements are as follows:

  a. **Once tax law is enacted but before top-up tax is effective:** The company is required to disclose information that is known or can be reasonably estimated and that helps users of its financial statements to understand its exposure to Pillar Two income taxes at the reporting date. This information does not need to reflect all the specific requirements in the legislation – companies can provide an indicative range. Disclosures may include quantitative and qualitative information.

     – *Qualitative information:* How the company is affected by Pillar Two taxes and in which jurisdictions the exposure arises – e.g. where the top-up tax is triggered and where it will need to be paid.

     – *Quantitative information:* The proportion of profits that may be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits, or how the average effective tax rate would have changed if Pillar Two legislation had been effective.

     If information is not known or cannot be reasonably estimated at the reporting date, then a company discloses a statement to that effect and information about its progress in assessing the Pillar Two exposure.

  b. **After top-up tax is effective:** Only one disclosure is required – i.e. current tax expense related to top-up tax.

(Source: IASB amendment to IAS 12, Income Taxes dated 23 May 2023 and KPMG IFRG article 'Global minimum top-up tax' dated 23 May 2023)

IASB issued supplier finance disclosure requirements

In order to enhance the transparency of supplier finance arrangements, on 25 May 2023, IASB issued amendments to IAS 7, *Statement of Cash Flows* and IFRS 7, *Financial Instruments: Disclosures*. The amendments introduce two new disclosure objectives – one in IAS 7 and another in IFRS 7 – for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk.

The disclosure requirements as per the amendment are as follows:

- **Qualitative information:** The terms and conditions of supplier finance arrangements
- **Quantitative information:** As at the beginning and end of the reporting period:
  - The carrying amounts of supplier finance arrangement breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities exist on the balance sheet;
  - The range of payment due dates for the liabilities that are part of the arrangement and comparable trade payables that are not part of such arrangements.
- The type and effect of non-cash changes in the carrying amounts of the financial liabilities that are a part of the arrangement.
- The amendments have also added supplier finance arrangements as an example to the existing disclosure requirements in IFRS 7 on factors a company might consider when providing specific quantitative liquidity risk disclosures about its financial liabilities.

The amendments are effective for periods beginning on or after 1 January 2024. These amendments do not apply to arrangements for financing receivables or inventory. However, they apply to supplier finance arrangements that have all of the following characteristics:

- A finance provider pays amounts a company (the buyer) owes its suppliers.
- A company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid.
- The company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

(Source: IASB amendment on supplier finance dated 25 May 2023 and KPMG IFRG's article 'Disclosure of supplier finance arrangements' dated 31 May 2023)

FASB published conceptual framework on reporting entity

A conceptual framework is intended to be a coherent system of interrelated objectives and fundamental concepts. The term 'reporting entity' is used multiple times in existing concepts statements. The objective[12] of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other resource providers in making decisions about providing resources to the entity. In order to be consistent with objective of general-purpose financial reporting, on 8 June 2023, the Financial Accounting Standard Board (FASB) issued a conceptual framework that provides a description of 'reporting entity' to focus on the notion of a circumscribed area of economic activities.

As per the conceptual framework, a reporting entity has three features:

a. Economic activities have been conducted.

b. Those economic activities can be distinguished from those of other entities.

c. The financial information in general purpose financial reporting faithfully represents the economic activities conducted within the circumscribed area and is useful in making decisions about providing resources to the reporting entity.

The framework further states that identifying the reporting entity in a specific situation requires considering the boundary of the economic activities that have been conducted. It is important to note that the existence of a legal entity is not necessarily a means to identify the reporting entity. The reporting entity can include more than one entity, or it can be a portion of an entity.

(Source: FASB media advisory dated 8 June 2023)

12. The objective of general-purpose financial reporting is described in paragraph OB2 of Chapter 1, *The Objective of General-Purpose Financial Reporting, of this Concepts Statement.*