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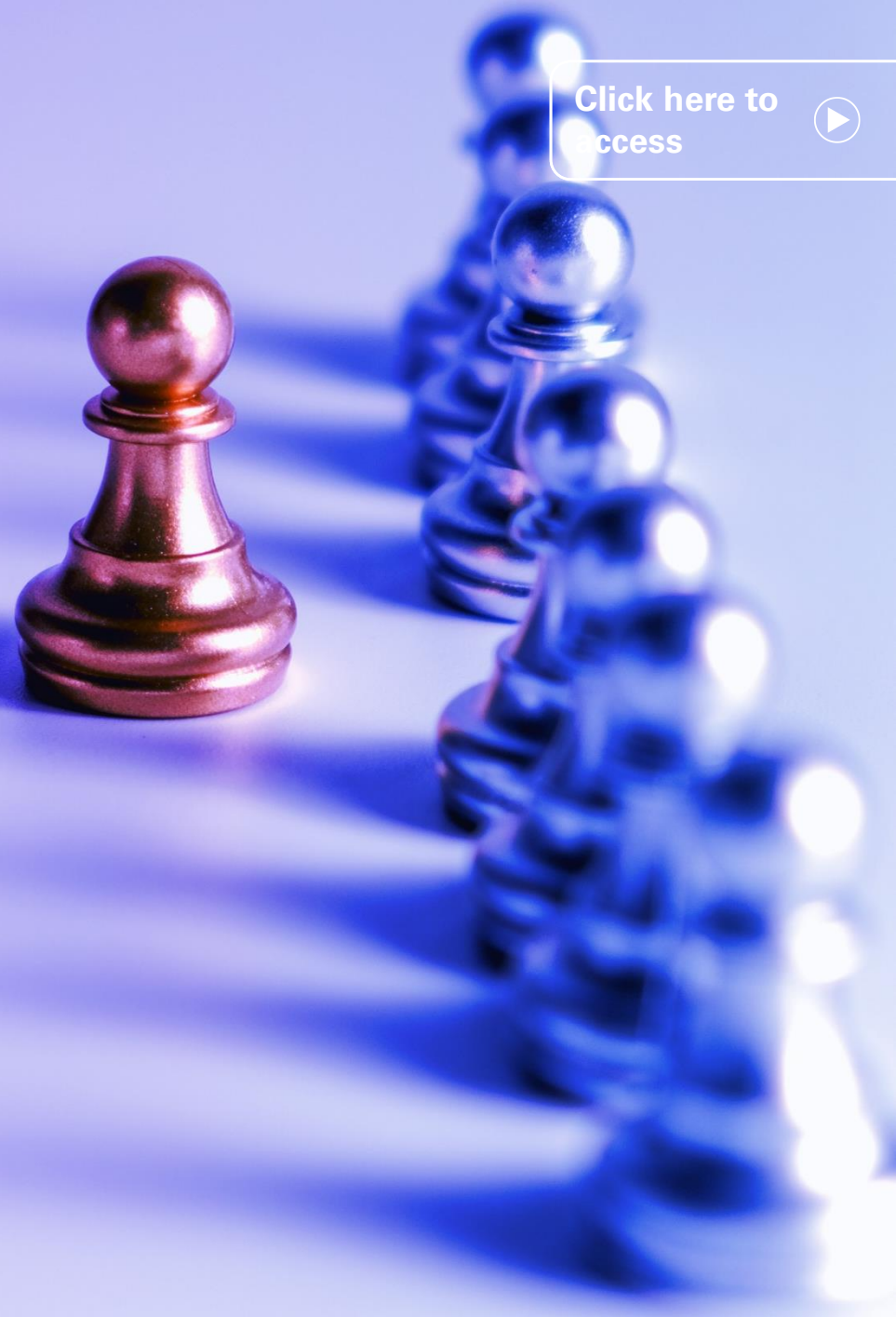
Quarterly updates publication



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July 2023

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In this publication, we have summarised important financial reporting and regulatory updates relevant for the quarter ended 30 June 2023 from the Ministry of Corporate Affairs (MCA), Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), National Financial Reporting Authority (NFRA) and Institute of Chartered Accountants of India (ICAI).

1. Amendments to the SEBI Listing Regulations

On 14 June 2023, the Securities and Exchange Board of India (SEBI) amended the SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 (Listing Regulations) through SEBI Listing Regulations (Second Amendment) Regulations, 2023 (the amendment).

The key amendments issued include:

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

   The following amendments to Regulation 30 are effective from 15 July 2023:

   - **Materiality threshold for disclosure (Regulation 30(4)(i)):** Para B of Part A of Schedule III of the Listing Regulations (Para B) provides a list of events that are required to be disclosed[1] as per the materiality policy framed by the listed entities. In addition to the existing requirements stipulated in Regulation 30(4)(i), the amendment has 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 entity;

     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;

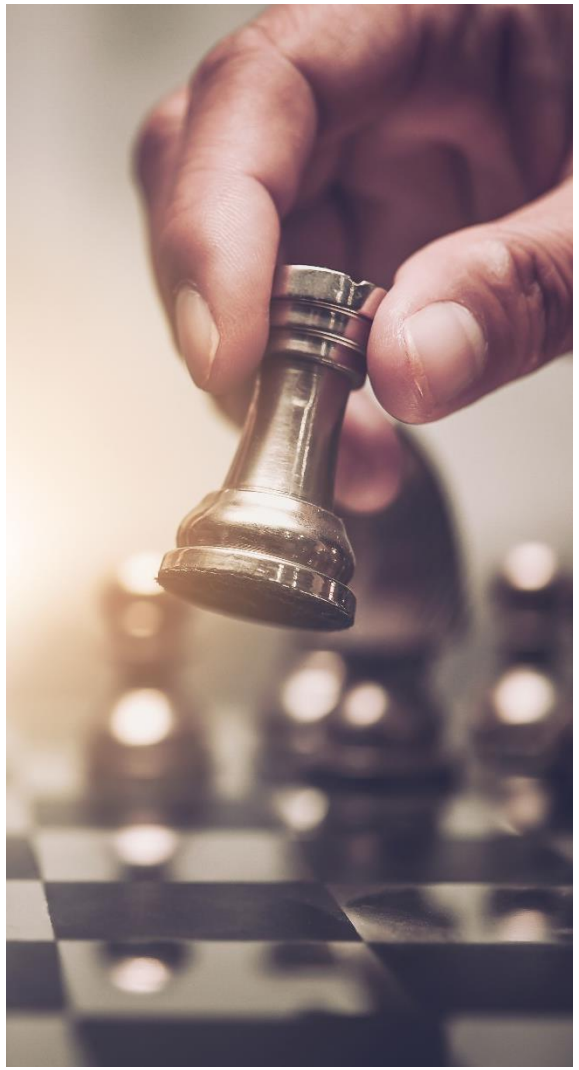
     iii. Five per cent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed company

     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 14 August 2023.

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

     i. The materiality policy should not dilute any requirement specified under the provisions of the Listing Regulations

     ii. The materiality policy should assist the relevant employees of the listed entity 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).



1. Regulation 30(8) provides that the listed entity should disclose on its website all such events or information which has been disclosed to stock exchange(s) under Regulation 30, and such disclosures shall be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

1. Amendments to the SEBI Listing Regulations

- **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 entity	Within 12 hours (earlier 24 hours) from occurrence of event
Externally (i.e. not emanating from within the listed entity)	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 entity should also provide an explanation for the delay in disclosure.

- **Mandatory 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 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[2]	With effect from 1 October 2023
Top 250 listed entities	With effect from 1 April 2024

  The confirmation by the 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.

  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.

2. 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.

1. Amendments to the SEBI Listing Regulations

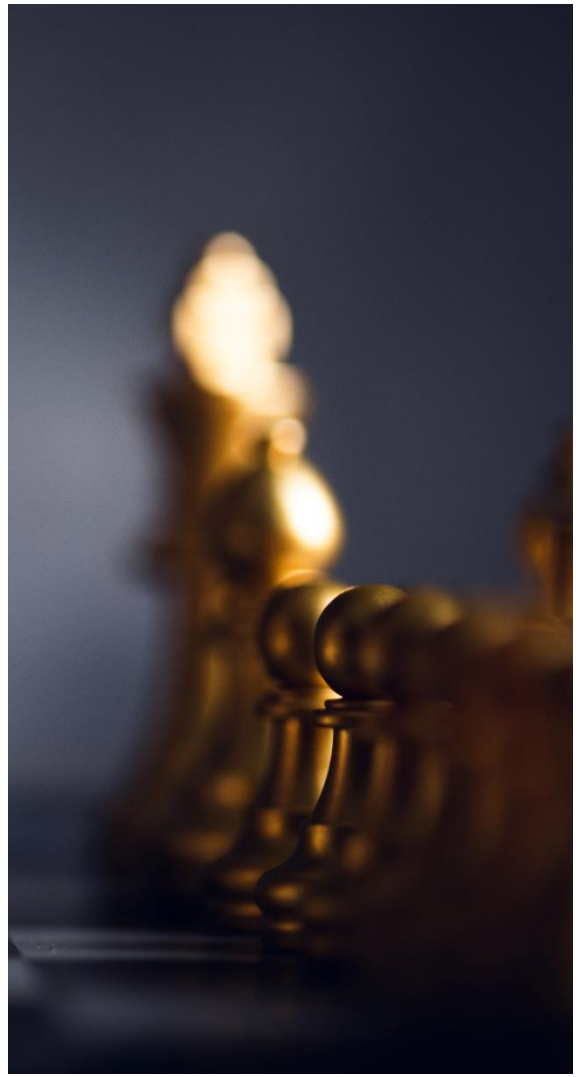
- **Disclosure of communication from any regulatory, statutory, enforcement or judicial authority (Regulation 30(13)):** The amendment has inserted a new sub-regulation which requires a listed entity to disclose communication received from any regulatory, statutory, enforcement or judicial authority 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.
- **Disclosure requirements for certain types of agreements binding listed companies (Regulation 30A):** The amendment requires listed entities to disclose agreements (including rescission, amendment, or alteration), which directly, indirectly or potentially impacts the management, or control of a listed entity, or imposes any restriction, or creates any liability on a listed entity, whether or not the listed entity 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 entity or of its holding, subsidiary and associate company. These parties should inform the listed entity about any such agreement within two working days of entering into these agreements or signing an agreement to enter into such agreements.

The listed entity should disclose these types of agreements under Para A of Part A of Schedule III of the Listing Regulations (Para A). Further, it 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 agreements
- Link to the webpage where the complete details of such agreements are available.

- **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 entities whereas the events enumerated in Para B are required to be disclosed based on the materiality policy of the listed entity. The amendment has added and modified certain events/information under Para A and Para B.



1. Amendments to the SEBI Listing Regulations

2. **Board permanency at listed companies (Regulation 17(1D)):** SEBI has inserted Regulation 17(1D) in the Listing Regulations, which states that effective 1 April 2024, continuation of directors on the board of a listed entity will be subject to shareholders' approval in a general meeting. The approval should be obtained at least once in every five years from the date of such director's appointment or reappointment, as the case may be. The amendment further clarifies that every director serving on the board of a listed entity 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.

3. **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)[3] due to expiration of the term of office of any director, the resulting vacancy so created shall be filled-up on the same day it arose. However, this is not applicable if the listed entity 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 entity should not fill such a vacancy by appointing a person in an 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 15 July 2023.

4. **Special rights to shareholders (Regulation 31B):** The existing provisions of the Listing Regulations provide for one-time approval of the shareholders for retaining any special rights granted as per the Articles of Association (AOA) of the company post its listing. An 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 once in every five years, beginning from the date of grant of such special right. This amendment is applicable from 15 July 2023.

5. **Sale, lease or disposal of an undertaking outside scheme of arrangement (Regulation 37A):** The amendment has inserted Regulation 37A prescribing the provisions for sale, lease or disposal of an undertaking outside the scheme of arrangement. It states 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 special resolution, and
   - Disclose the object of and commercial rationale for conducting 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.

   Such a special resolution 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.

3. 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

1. Amendments to the SEBI Listing Regulations

The above-mentioned requirements would not be applicable to transactions involving sale, lease or disposal of the whole or substantially the whole of the undertaking by a listed entity to its wholly owned subsidiary, whose accounts are consolidated with the entity. However, such a listed entity should ensure compliance with the above-mentioned requirements prior to the wholly owned subsidiary selling, leasing or disposing off the whole or substantially the whole of the undertaking received, whether in whole or in part, to any other entity.

Additionally, the provisions of this regulation would not be applicable in cases where the sale, lease or disposal is by virtue of a covenant covered under an agreement with a financial institution regulated by or registered with the RBI or with a debenture trustee registered with SEBI, in this regard.

This amendment is applicable from 14 June 2023.

6. **Submission of financial results by newly listed entities (Regulation 33(3)):** The amendment issued by SEBI requires a newly listed entity 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. The financial results should be published within 21 days from the date of listing or as per the applicable timeline under the Listing Regulations, whichever is later. This amendment is effective from 15 July 2023.

7. **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 HVDLEs till 31 March 2024 *(earlier 31 March 2023).* Further, it would be applicable on a mandatory basis to HVDLEs post 31 March 2024.

8. **Disclosure of cyber security incidents or breaches and loss of data/documents (Regulation 27):** Listed entities are additionally required to provide details of cyber security incidents, breaches, loss of data, or documents along with 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 prescribed format. This amendment is effective from 15 July 2023.

9. **Submission of Business Responsibility and Sustainability Reporting (BRSR) (Regulation 34(2)(f)):** Top 1,000 listed entities[4] 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, can voluntarily disclose the BRSR or can 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.

10. **Information on the listed entity'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 15 July 2023.

11. **Intimation to stock exchanges (Regulation 57):** The amendment has clarified that a listed entity 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.

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

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

2. Legal Entity Identifier (LEI) system made mandatory for issuers of non-convertible securities, securitised debt instruments and security receipts

On 3 May 2023, SEBI introduced the LEI system for issuers that have listed or are planning to list non-convertible securities, securitised debt instruments and security receipts. The LEI code is a unique 20-character code used as a global identifier for legally distinct entities engaging in financial transactions, in any jurisdiction. It encourages transparency in financial markets and mitigates system related risks by providing a comprehensive global database.

Presently, the RBI's directions require non-individual borrowers having aggregate exposure of above INR25 crore, to obtain an LEI code.

Additionally, depositories are required to map the LEI code with the existing ISINs by 30 September 2023 and the future issuances should be mapped at the time of ISIN activation.

Further, SEBI has specified a roadmap to explain the applicability of the LEI code by issuers, as tabulated below:

Category of security	Relevant regulation	Applicability	Timeline
Non-convertible Securities	SEBI (Issue and listing of Non-convertible Securities) Regulations, 2021 (NCS Regulations)	Issuer proposing to issue and list non-convertible security	On or after 1 September 2023
		Issuer having outstanding listed non-convertible security as on 31 August 2023	On or before 1 September 2023
Securitised Debt Instruments and Security Receipts	SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008	Issuer proposing to issue and list securitised debt instruments or security receipts	On or after 1 September 2023
		Issuer having outstanding listed securitised debt instruments and security receipts as on 31 August 2023	On or before 1 September 2023

The SEBI would additionally specify the requirement of LEI for issuers proposing to list or that have outstanding municipal debt securities in future.

(Source: SEBI circular no. SEBI/HO/DDHS/DDHS_Div1/P/CIR/2023/64 dated 3 May 2023)

3. Standardised valuation methodology for AIF investments

On 21 June 2023, SEBI issued a circular on standardised approach with respect to the valuation of investment portfolio of Alternative Investment Funds (AIFs). It aims to ensure fair disclosure of investment portfolio value to the investors and encourages standardisation along with benchmarking across the AIF industry.

The valuation of investment portfolio should be based on criteria specified by SEBI from time to time. In this regard, some of the key aspects specified in the circular are as follows:

Manner of valuation

a) Valuation of securities which are carried out basis the SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) should continue to be valued as per the norms prescribed under MF Regulations

b) For securities other than those mentioned above, valuation should be in accordance with the guidelines approved by the AIF Industry Association

Responsibility of AIF manager

a) The manager should be responsible for true and fair valuation of the investments of the scheme of the AIF

b) The manager should ensure that an independent valuer, who is appointed basis criteria specified by SEBI, computes and conducts the valuation of the investments of the AIF scheme in the manner as specified by SEBI periodically

c) The manager should make an annual disclosure to SEBI and the investors regarding changes in accounting policies/practices, valuation methodology related to the scheme of AIF as a part of changes made in the private placement memorandum

d) In case of deviation of more than 20 per cent between two consecutive valuations or more than 33 per cent in a financial year in respect of each asset class, the manager should inform the investors the reasons for the same.

Reporting requirements

a) AIFs are required to report valuation based on audited data of investee companies as on 31 March to performance benchmarking agencies within the specified timeline of six months

a) The reporting mentioned in point (a) should take place only after the audit of books of accounts of the AIF in terms of Regulation 20(14) of AIF Regulations, within the stipulated timelines

b) A report on compliance with the provisions of the circular dated 21 June 2023 should be submitted by the manager of AIF on the SEBI portal.

This circular is applicable from 1 November 2023.

(Source: SEBI circular no. SEBI/HO/AFD/PoD/CIR/2023/97 dated 21 June 2023)

4. Modifications to the underwriting framework for public issues

On 23 May 2023, SEBI issued amendments to the underwriting framework applicable to public offerings under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations).

Regulation 40 and 136 of the ICDR Regulations has been amended to provide that an issuer should enter into an underwriting agreement, prior to the filing of the prospectus, with the merchant bankers or stockbrokers that are registered with the Board to act as underwriters.

The underwriting agreement should include the maximum number of specified securities that the underwriters will 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.

The amended norms further state that 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.

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

5. Additional requirements pertaining to issue of transition bonds

In February 2023, SEBI issued amendments to certain provisions of the NCS Regulations which, *inter alia,* expanded the definition of green debt security that included transition bonds as one of the sub-categories of green debt security. Further, as per the NCS Regulations, transition bonds comprise of 'funds raised for transitioning to a more sustainable form of operations, in line with India's Intended Nationally Determined Contributions.

Additionally, on 6 February 2023, SEBI issued the revised disclosure requirements for such issuances.

On 4 May 2023, with an aim to facilitate transparency and informed decision-making among the investors and to ensure that the funds raised through transition bonds are not being misallocated, SEBI prescribed certain additional disclosure requirements for issuance and listing of transition bonds. The additional requirements are as follows:

- For differentiating transition bonds from other categories of green debt security, an issuer should disclose the denotation GB-T in the offer documents on the cover page and in type of instrument field in the term sheet. The same denotation should also be disclosed in the centralised database for corporate bonds/debentures.
- Details of transition plans such as interim targets, project implementation strategy, usage of technology and overseeing mechanism should be disclosed in the offer document.
- Revised transition plan accompanied by an explanation for each revision should be disclosed to the stock exchanges.
- Details of transition plans along with a brief on the progress of its implementation should be disclosed in the annual report.

(Source: SEBI circular no. SEBI/HO/DDHS/DDHS-POD2/P/CIR/2023/105 dated 27 June 2023)

6. CRAs required to disclose information related to non-cooperative issuers

As per the SEBI (Credit Rating Agencies) Regulations, 1999 (CRA Regulations), every CRA is required to conduct periodic reviews of all published ratings during the lifetime of the securities, unless the rating is withdrawn. In case of non-cooperation from a client, the CRA should review on the basis of best available information or in the manner specified by SEBI.

SEBI observed that the number of issuers that are not cooperating with the CRAs have increased over time with majority issuers being unlisted and small entities.

In order to encourage enhanced transparency towards various stakeholders, SEBI has prescribed the following:

- CRA should disclose two lists of issuers who are non-cooperative with CRA, separately for:
  - Securities that are listed, or proposed to be listed, on a recognised stock exchange, and
  - Other ratings
- The aforementioned lists should be disclosed in the prescribed format and updated on a daily basis.

Applicability and monitoring: The above mentioned circular is applicable from 15 July 2023. CRAs are required to report on their compliance with this circular to SEBI within one quarter from the date of applicability of this circular. Further, such compliances should be monitored by half-yearly internal audits for CRAs.

(Source: SEBI circular no. SEBI/HO/DDHS/DDHS-POD2/P/CIR/2023/105 dated 27 June 2023)

1. Stricter regulations for removal of a company's name from RoC

Rule 4 of the Companies (Removal of Names of Companies from the Registrar of Companies) Rules, 2016 (Removal of names Rules) lays down the procedure to be followed by companies for making an application for removal of its name from the Registrar of Companies (RoC).

On 17 April 2023, the Ministry of Corporate Affairs (MCA) issued amendments to Rule 4 of the Removal of names Rules notifying the establishment of Centre for Processing Accelerated Corporate Exit (C-PACE) in order to centralise the process of striking off companies and promoting smooth business activities along with the ease of exit for the companies.

Subsequently, on 10 May 2023, the MCA issued certain additional requirements to be followed by companies while filing application for removal of a company's name from RoC:

- The company should not file an application unless the company has filed overdue financial statements under Section 137 and overdue annual returns under Section 92 of the 2013 Act up to the end of the financial year in which the company ceased to conduct its business operations
- In case a company intends to file an application after the RoC has initiated steps to remove the name of the company, then it can only file the application after filing all pending financial statements under Section 137[5] and all pending annual returns under Section 92[6] of the 2013 Act
- Once RoC has issued a notice for publication pursuant to action initiated under Section 248(1), then the company will not be allowed to file the application under this sub-rule.

The above-mentioned amendments were effective from 10 May 2023.

(Source: MCA notification dated 17 April 2023 and 10 May 2023)

5. Section 137 of the 2013 Act deals with filing a copy of financial statements with the RoC
6. Section 92 of the 2013 Act deals with filing of an annual return with the RoC

2. Amendments to expedite the approval process of merger and amalgamation of companies

Rule 25 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 (Compromises, Arrangements and Amalgamations Rules) deals with the approval procedure of merger and amalgamation of certain companies.
On 15 May 2023, MCA notified certain amendments to Rule 25 of the Compromises, Arrangements and Amalgamations Rules.

The amendment specifies the procedure through which companies would be able to receive approval or deemed approvals within 15 days or maximum of 60 days, in case of mergers and acquisitions. The below mentioned sub-rules to Rule 25 (Directions at hearing of the application) have been modified to bring clarity with respect to deemed approvals in the following cases:

- **No objection received (Rule 25(5)):** The amended rule provides that if no objection/suggestion is received within a period of 30 days from RoC/official liquidator by the Central Government (CG), and if the CG is of the opinion that the scheme is in the public interest or in the interest of creditors, then CG can issue a confirmation order of such scheme of merger or amalgamation in Form No. CAA.12 within a period of 15 days after the expiry of the said 30 days. However, if the CG does not issue a confirmation order within 60 days, it will be deemed that there is no objection, and a confirmation order will be issued by the CG.
- **Objections received from RoC (Rule 25(6)):** The amended rule provides that if objections or suggestions are received within the 30 days window from the RoC or official liquidator, then the CG should undertake the following action:
  - Issue a confirmation order within 30 days, if the CG is of the opinion that the objections/suggestions are unsustainable, and the scheme is in the public interest or the interest of creditors.
  - If CG is of the opinion that the scheme is not in the public interest or the interest of creditors, CG can file an application before the Tribunal within 60 days, stating the objections/opinion and requesting the Tribunal to consider the scheme under Section 232 of the 2013 Act.

Further, if the CG does not issue a confirmation order or file an application within a period of 60 days of the receipt of the scheme under Section 233 of the 2013 Act, it would be deemed that it has no objection to the scheme and a confirmation order would be issued accordingly.

(Source: MCA notification no G.S.R. 367(E) dated 15 May 2023)

3. Extended timelines

- **Form CSR-2 by companies for FY 2022- 23**

  Rule 12(1B) of the Companies (Accounts) Rules, 2014 (Accounts Rules) requires every company covered under Section 135(1) of the 2013 Act, to 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.

  On 2 June 2023, the MCA issued a notification specifying the timeline for submission of Form CSR-2 for the 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[7] or Form No. AOC-4-NBFC (Ind AS), or Form No. AOC-4 XBRL, as the case may be.

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

- **Form DPT-3**

  Rule 16 of the Companies (Acceptance of Deposits) Rules, 2014 (Deposit Rules) provides that every company (other than a government company) should file with the registrar a return of deposits in Form DPT-3 on or before the 30 June of every year. This report would comprise information as on 31 March of that year duly audited by the auditor of the company.

  On 21 June 2023, the MCA issued a circular extending the due date for filing form DPT-3 for the financial year ended on 31 March 2023, without payment of additional fees, up to 31 July 2023.

  (Source: MCA circular no. 06/23 dated 21 June 2023)

7. Form AOC 4 - Form for filing financial statement and other documents for each financial year with the RegistrarForm No. AOC-4-NBFC (Ind AS) - Form for filing financial statement and other documents of NBFCs for each financial year with the Registrar Form No. AOC-4 XBRL - Form for filing XBRL document in respect of financial statement and other documents with the Registrars

1. Green deposits framework

With climate change being a global challenge, the concept of green finance is progressively gaining traction in India. In order to facilitate the implementation of green deposits and encourage the growth of green finance, on 11 April 2023, the Reserve Bank of India (RBI) issued a Framework for Acceptance of Green Deposits (the framework). The aim is to allow the Regulated Entities (REs) to enhance their fundraising capabilities and focus on dedicating funds towards sustainable products and activities. The framework is effective from 1 June 2023 and is applicable to the following REs:

a) Scheduled commercial banks including small finance banks (excluding regional rural banks, local area banks and payments banks) and

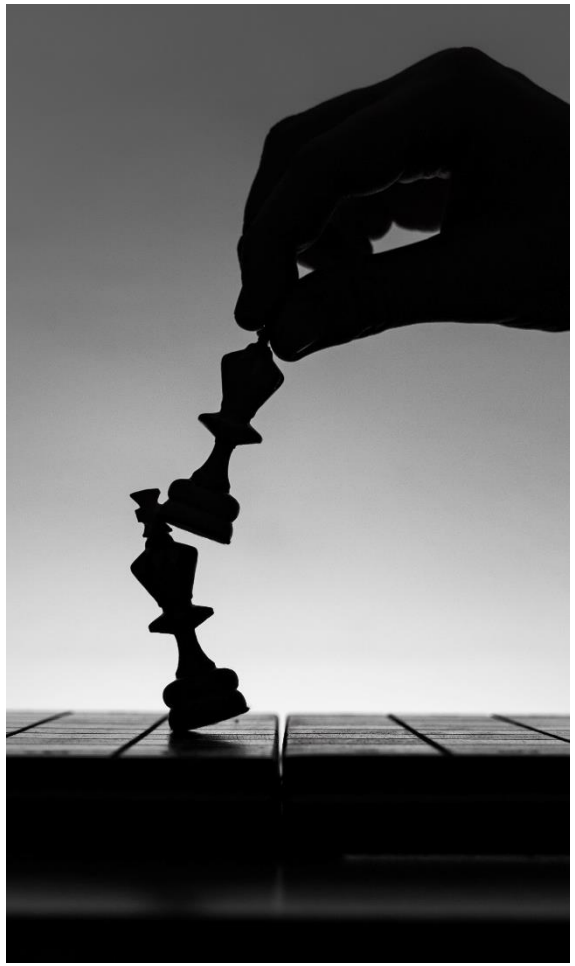
b) All deposit taking Non-Banking Financial Companies (NBFCs) registered with RBI under Section 45IA(5) of the RBI Act, 1934, including Housing Finance Companies (HFCs) registered under Section 29A of the National Housing Bank Act, 1987.

Some of the key takeaways from the framework are as follows:

- **Denomination, interest rates and tenor of green deposits:** The green deposits should be denominated only in INR. The tenor, size, interest rate and other terms and conditions should be as per the prescribed Master Directions[8].
- **Policy on green deposits:** The financial institutions raising green deposits should formulate a board approved policy containing all aspects for the issuance and allocation of green deposits. The policy should be made available on the website of the RE.
- **Financing framework for allocation of proceeds:** In order to ensure effective allocation of green deposits, the REs should put in place a board approved financing framework that covers eligibility criteria of green activities/projects, the process of project evaluation and selection along with particulars of allocation of proceeds among others.
- **Use of proceeds:** The proceeds raised from green deposits should be allocated as per the official Indian green taxonomy. As the taxonomy is yet to finalised, as an interim measure, the framework provides a list of green activities/projects adopted from the list in Table 1 of the Government of India's 'Framework for Sovereign Green Bonds' published on 9 November 2022.

  Additionally the framework provides that it is ultimately the responsibility of the REs to ensure the end use of the funds.

8. Master Directions - Reserve Bank of India (Interest Rate on Deposits) Directions, 2016 dated 3 March 2016, Master Direction - Non- Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 dated 25 August 2016 and Master Direction - Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 dated 17 February 2021.



(Source: RBI notification no. RBI/2023-24/14 DOR.SFG.REC.10/30.01.021/2023-24 dated 11 April 2023)

1. Green deposits framework

- **Third-party verification/assurance and impact assessment:** The allocation of funds raised through green deposits by REs during a financial year would be subject to an independent third-party verification/assurance on an annual basis. The third-party verification/assurance report, at minimum, would cover:
  - The use of the proceeds is in accordance with the eligible green activities/projects and
  - Policies and internal controls including, project evaluation and selection, management of proceeds, and validation of the sustainability information provided by the borrower to the REs and reporting and disclosures of the same.

  Further, on an annual basis, REs would be required to assess the impact with respect to the funds lent for or invested in green finance activities/projects and report the same in an impact assessment report. The impact assessment report is to be provided on a voluntary basis for the financial year 2023-24 and mandatorily from the financial year 2024-25 onwards.
- **Reporting and disclosures:** The RE should present a review report before its board of directors within three months of the end of the financial year containing the details as specified in the Framework. Further, appropriate disclosures should be made in the RE's annual financial statements on portfolio-level information with respect to the use of the green deposit funds as per the format specified in the Framework.

2. Guidelines on guaranteed losses in digital lending

Previously, RBI issued guidelines on digital lending on 2 September 2022 that are applicable to all REs[9]. The REs are required to ensure that the Lending Service Providers (LSPs) and the Digital Lending App (DLAs) that are a part of their outsourcing agreements are in compliance with the guidelines of this circular. However, these guidelines did not stipulate the regulation for Default Loss Guarantee (DLG).

Consequently, on 8 June 2023, RBI issued guidelines on DLG related to digital lending. DLG arrangements that fall under the ambit of these guidelines should not be treated as synthetic securitisation[10] and will not attract provisions of loan participation[11].

Some of the key aspects of the DLG guidelines are as follows:

- **Existence of DLG arrangement:** There should be a contractual arrangement between the RE and a DLG provider where the latter guarantees to compensate the RE, 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:** LSP or other REs with whom an outsourcing (LSP) arrangement has been entered into are eligible to be treated as a DLG provider. 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:

  i. The eligibility criteria for DLG provider

  ii. Nature and extent of DLG cover

  iii. Process of monitoring and reviewing the DLG arrangement, and

  iv. The details of the fees, if any, payable to the DLG provider.

- **Structure of DLG arrangements:** A legally enforceable contract should be entered into by the RE and the DLG provider, containing the following details:

  i. Extent of DLG cover

  ii. Form in which DLG cover is to be maintained with the RE

  iii. Timeline for DLG invocation

  iv. Disclosure requirements as under Para 11 of these guidelines

- **Forms of DLG:** RE should accept DLG only in one or more of the following forms:

  i. Cash deposited with the RE

  ii. Fixed deposits maintained with a scheduled commercial bank with a lien marked in favour of the RE

  iii. Bank guarantee in favour of the RE

- **Cap on 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.

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9. 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)

10. 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.

11. 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.

2. Guidelines on guaranteed losses in digital lending

- **Recognition of Non-Performing Asset (NPA):** The RE is responsible to comply with the asset classification and provisioning norms while categorising a loan asset as an NPA and its consequent provisioning, irrespective of any DLG cover available at the portfolio level. The amount of DLG invoked should not be set off against the underlying individual loans. In cases where DLG has been invoked and realised, the details of recovery by the RE can be shared with the DLG provider as per the contractual arrangement.
- **Tenor and invocation of DLG -** The period for which the DLG agreement will remain in force should not be less than the longest tenor of the loan in the underlying loan portfolio. Additionally, 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.
- **Treatment of DLG for regulatory capital:** Capital computation on individual loan assets in the portfolio should continue to be governed by the extant norms.

Additionally, the circular also specifies schemes/entities that should not be covered within the definition of DLG.

(Source: RBI notification no. RBI/2023-24/41 dated 8 June 2023)

3. Comprehensive framework for compromise settlements and technical write-offs

In the past, the Reserve Bank of India (RBI) has issued various instructions to REs[12] regarding compromise settlements of stressed accounts, including the Prudential Framework for Resolution of Stressed Assets (PFRSA), dated 7 June 2019. With the aim to provide further impetus to resolution of stressed assets across all REs, on 8 June 2023, the RBI issued a comprehensive regulatory framework (the framework) governing compromise settlements[13] and technical write-offs[14].

It is important to note that the framework is independent of the PFRSA.

Some of the key aspects of the framework are as follows:

- **Meaning of compromise settlement and technical write off:**
  a. *Compromise settlement* refers to any negotiated arrangement with the borrower to fully 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:** All REs are required to put in place board approved policies for executing compromise settlements with borrowers and technical write-offs. It lays down the process to be followed for all such arrangements in addition to specific guidance on necessary conditions precedent such as minimum ageing, deterioration in collateral value, etc. The policies should put in place a graded framework for examination of staff accountability in such cases with reasonable thresholds and timelines as may be decided by the board.
- **Delegation of power:** The policy should cover the delegation of powers with respect to approval/sanction of compromise settlements and technical write-offs. This power should rest with an authority that is one level higher than the authority vested with power to sanction the credit/investment exposure. All proposals for compromise settlements in case of fraudulent debtors or wilful defaulter need to be approved by the board.
- **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. The compromise settlements and technical write-offs approved by the Managing Director (MD) and Chief Executive Officer (CEO)/Board Level Committee should be reported to the Board.

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12. The framework for compromise settlement and technical write offs are applicable to the following REs:
    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 All-India Financial Institutions
    c. Non-Banking Financial Companies (including Housing Finance Companies)
13. "Compromise settlement" refers to any negotiated arrangement with the borrower to fully 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.
14. "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

3. Comprehensive framework for compromise settlements and technical write-offs

- **Prudential treatment:** In case the time-period, for payment of agreed settlement amount in such transactions, exceeds 3 months, such arrangement should be treated as restructuring as defined in terms of 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 subject to certain conditions.
- **Board oversight:** The board should implement a suitable reporting format ensuring coverage of the following aspects:
  - The trend in number of accounts and the amounts subjected to compromise settlement and/or technical write-off
  - Separate breakup of accounts under various categories such as fraud, red-flagged, wilful default and quick mortality accounts
  - Grouping of such accounts amount-wise, sanctioning authority-wise, business segment-wise
  - Extent of recovery in technically written-off accounts.
- **Cooling period:** The framework requires a cooling period to be determined as per the board approved policies, in case of borrowers that are subject to compromise settlements. Additionally, the framework also states the provisions for cooling period pertaining to farm and non-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)

1. Auditor responsibility in relation to fraud in a company

The National Financial Reporting Authority (NFRA) on 26 June 2023, NFRA issued a circular reiterating the mandatory obligations of auditors to report fraud/suspected fraud to the Central Government and the Board/Audit Committee.

The circular provides the following:

- Statutory auditors are under a mandatory obligation to report fraud or suspected fraud if they observe suspicious activities, transactions or operating circumstances in a company that indicate reasons to believe that an offence of fraud is being or has been committed against the company by its officers or employees. In such an event, the statutory auditor shall initiate the steps prescribed under Rule 13 of Companies (Audit and Auditors) Rules 2014 which begins with reporting the matter to the Board/Audit Committee within **two** days of his/her knowledge of the fraud
- In the case of reporting of a fraud involving or expected to involve individually an amount of INR1 crore or above, the statutory auditor fails to get any reply / observations from the Board/Audit Committee within 45 days, the auditor shall forward a report in the specified form viz., ADT-4 to Secretary, Ministry of Corporate Affairs, Government of India.
- The statutory auditor is duty bound to submit Form ADT-4 to the Central Government under Section 143 (12) even in cases where the statutory auditor is not the first person to identify the fraud/suspected fraud
- Resignation does not absolve the auditor of his/her responsibility to report suspected fraud or fraud as mandated by the law
- The statutory auditor shall exercise his/her own professional skepticism while evaluating fraud, and need not be influenced by legal opinion provided by the company or its management.

(Source: NFRA circular no. NF-25013/2/2023 dated 26 June 2023)

2. IRDAI issues guidelines on remuneration of directors and Key Managerial Personnel (KMP) of insurers

On 30 June 2023, the Insurance Regulatory and Development Authority of India (IRDAI) issued remuneration guidelines for non-executive directors and KMP of insurers. These guidelines replace and supersede the guidelines issued in 2016[1].The guidelines are applicable to directors and KMPs of private insurers from Financial Year 2023-24. The guidelines requires the insurer to complete the process of framing/reviewing the remuneration policy within 3 months of the issuance of these guidelines. The guidelines also prescribe the disclosure requirements for insurers in their notes to accounts forming part of the annual financial statements.The key takeaways are as follows:

- **Directors:** The Board of Directors in consultation with the nomination remuneration committee should formulate and adopt a comprehensive remuneration policy and the same should be in compliance with the provisions of the Companies Act 2013 (2013 Act). The total for each non-executive director should not exceed INR20 lakh per annum. It is further stated that the non-executive directors would not be eligible for any equity-linked benefits. The guidelines also permit payment of sitting fees and reimbursement of expenses, subject to the compliance with the provisions of the 2013 Act. The guidelines also prescribes the age limit and tenure of non-executive directors.
- **KMPs:** The remuneration policy should be approved by the board and should cover all the KMP. Further, the policy should not encourage KMPs to take inappropriate or excessive risks for their performance based variable remuneration. The policy should cover all aspects of remuneration structure including fixed pay, allowances, perquisites, retirement benefits, variable pay including incentives, bonus, share linked instruments, joining/sign on bonus, etc. Accordingly, the guidelines provide clarity with respect to these elements of the remuneration structure, malus and clawback provisions, accounting and disclosures requirements.

(Source: IRDAI circular reference no. IRDAI/F&A/GDL/MISC/141/6/2023 dated 30 June 2023)

3. ICAI publications

The table below provides an overview of some important publications released by ICAI during the quarter:

Publications	Particulars
Technical guide	
Technical guide on disclosure and reporting of KPIs in offer documents	The Technical Guide provides comprehensive guidance on various aspects of disclosing KPIs in offer documents, including: i. KPIs that can be disclosed based on different industries; ii. The roles and responsibilities of bankers, issuer companies, and practitioners; and iii. Reporting requirements related to KPIs, including illustrative formats of KPI reports. It is applicable to both practitioners and issuer companies for disclosing KPIs in offer documents as per the requirements of the ICDR Regulations.
Others	
Checklist on standards on auditing	The publication covers checklist on all the 38 Standards on Auditing issued by ICAI and covers various audit requirements given in Standards on Auditing.

(Source: ICAI issued technical guide on disclosure and reporting of key performance indicators in offer documents dated 6 April 2023 and checklist on standards on auditing dated June 2023)

4. EAC opinions issued by ICAI during the quarter ended 30 June 2023

Topic	Month
Classification of rail corridor asset in the books of account of the company as tangible/intangible asset and its depreciation/amortisation under Ind AS	April 2023
Preparation of statement of profit and loss in a non-revenue generating organisation	May 2023
Timing of capitalisation of irrigation assets under Ind AS 16, *Property, Plant and Equipment*	June 2023

(Source: The Chartered Accountant –ICAI Journal for the month of April 2023, May 2023 and June 2023)

First Notes

SEBI framework on BRSR Core and value chain – disclosures and assurance by listed entities

Given the growing importance of ESG disclosures for investors and other stakeholders, there was a need for entities to obtain assurance on these disclosures. Considering this SEBI through a notification dated 14 June 2023 amended the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) to introduce the BRSR Core and BRSR Core for a company's value chain.

Subsequently, on 12 July 2023, SEBI issued the framework (the framework) prescribing the disclosure and assurance requirements for BRSR Core, ESG disclosures for value chain, and assurance requirements.

The key aspects enumerated in the framework are with respect to:

- BRSR Core and updated BRSR
- BRSR Core for value chain
- Assurance requirements for BRSR Core (including value chain)

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

To access the First Notes, please click here.

Accounting and Auditing Update

Issue No. 83 – June 2023

The International Sustainability Standards Board (ISSB), on 26 June 2023, issued the global sustainability disclosure standards- IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and IFRS S2, Climate-related Disclosures (IFRS S2) with an aim to put sustainability reporting on an equal footing with financial reporting and facilitate the much-needed connectivity between sustainability-related financial information and the financial statements. This edition of the Accounting and Auditing Update (AAU) contains an article on this topic which aims to provide a brief overview and the impact of the global sustainability disclosure standards.

Recently, European Securities and Markets Authority (ESMA) published its 27th extract from the European Enforcers Coordination Sessions (EECS) database of enforcements (the report). The report covers decisions relating to financial instruments, climate related matters, operating segments disaggregation of revenue and disclosures relating to leases. Our second article aims to highlight the key decisions published in the report.

As is the case each month, we have also included a regular round-up of some recent regulatory updates in India and internationally.

To access the publication, please click here

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