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Foreword

In January 2023, the European Union (EU) adopted the Corporate Sustainability Reporting Directive (CSRD), which requires companies operating in EU or activities in the EU to provide information regarding the impacts on sustainability matters and how sustainability matters affect a company's development, performance and position. This information would form part of the management's report. In this regard, the European Financial Reporting Advisory Group (EFRAG) developed 12 European Sustainability Reporting Standards (ESRS). The first set of draft standards were introduced in November 2022. Subsequently, on 31 July 2023 the final text of first set of 12 ESRSs was published. The first set of 12 ESRSs cover general principles for sustainability reporting (ESRS 1), overarching disclosure requirements (ESRS 2) and specific disclosure requirements under 10 topic-specific ESRS which lays down the disclosure requirements on environmental, social and governance topics. These topic specific standards establish metrics and explain how to disclose related targets for each topic. The cross-cutting standards and topical standards are sector-agnostic i.e. they apply to all companies regardless of which sector or sectors the company operates in. The ESRS would be applicable in a phased manner and would be applicable for financial years starting on or after 1 January 2024. This edition of the Accounting and Auditing Update (AAU) contains an article on this topic which aims to provide a brief overview of the key elements of the standard that companies should consider with respect to the implementation of the new sustainability reporting standards.

Ind AS 21, *The Effects of Changes in Foreign Exchange Rates,* introduced the concept of a functional currency, which is the currency of the primary economic environment in which an entity operates. Entities are required to record all transactions undertaken by them i.e. all income and expenses, and measure their assets, liabilities and equity in the functional currency. Thereafter, entities should present the financial statements in a currency, which may or may not be the functional currency (referred to as the presentation currency). The determination of the functional currency is imperative, as currencies other than the functional currency would be considered as 'foreign currencies' and recorded and disclosed as such. However, the determination of the functional currency requires the assessment of certain factors and indicators, as prescribed in Ind AS 21. Our article on this topic aims to highlight the key principles to be considered when determining the functional currency of a first-time adopter of Ind AS.

There have been various regulatory developments in India and internationally. Recently on 8 August 2023, the Securities Exchange Board of India (SEBI) issued certain Frequently Asked Questions (FAQs) to provide clarifications with respect to assurance requirements for Business Responsibility and Sustainability Reporting (BRSR) Core under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations). Additionally, SEBI issued FAQs for registration as an ESG Rating Provider (ERP). Further, the International Accounting Standards Board (IASB) issued amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates* which would require companies to provide more useful information in their financial statements when a currency cannot be exchanged into another currency. Also the International Auditing and Assurance Standards Board (IAASB) issued draft International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements,* which deals with assurance engagements on sustainability information. Our regulatory updates article covers these and other important regulatory developments during the month.

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

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CHAPTER 1

EFRAG sustainability reporting standards - ESRS

This article aims to:

- Provide a brief overview of the European Sustainability Reporting Standards (ESRS).

Introduction

Globally, ESG reporting is evolving rapidly. Stakeholders are increasingly demanding for transparency in ESG reporting and have high expectations with respect to the quality of ESG disclosures. In view of this, standard setters around the world are developing sustainability reporting frameworks.

In January 2023, the European Union (EU) published the Corporate Sustainability Reporting Directive (CSRD)[1]. This new directive modernises and strengthens the rules regarding the social and environmental information that companies have to report. Through the CSRD, investors and other stakeholders would have access to information needed to assess the impact of companies on people and the environment. As per the CSRD, certain companies are required to provide information regarding the impacts on sustainability matters and how sustainability matters affect a company's development, performance and position. This information would form part of the management report.

In this regard, the European Financial Reporting Advisory Group (EFRAG) developed ESRS reporting standards. The first set of draft standards were introduced in November 2022. Subsequently, on 31 July 2023, the EC published the final text of its first set of 12 ESRSs[2].

The ESRSs have been developed to support the EU Green Deal[3] and to align with the existing sustainability frameworks in the EU e.g. Sustainable Finance Disclosure Regulation (SFDR)[4] and EU Taxonomy. Further, the ESRSs are aligned with the reporting areas used in Task Force on Climate-Related Financial Disclosures' (TCFD) recommendation. Also, many disclosure requirements are similar to or based on the recommendations and the standards developed by Global Reporting Initiative (GRI).

1. The CSRD amends the existing Non-Financial Reporting Directive (NFRD). NFRD is the predecessor of the CSRD and has a more limited scope.
2. The EU Parliament and the EU Council have a period of potentially up to four months to object. If they raise no objections, then the first set of ESRSs will apply for the first companies for 2024 reporting period.
3. The EU has dedicated itself to sustainable development and has set a very ambitious target of making Europe the first climate-neutral continent by 2050. To achieve this ambition, the EU introduced the European Green Deal in 2019, which consists of dedicated regulations, strategies and funding mechanisms that address eight major policy area.
4. SFDR imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants.

ESRSs published

The 12 ESRSs published are bifurcated as follows:

- **Two cross-cutting standards:** These standards explain the fundamental concepts from the CSRD. They provide general reporting concepts and include overarching disclosure requirements including multiple datapoints. These standards lay down the principles of disclosure, presentation structure and establish transition options, including phasing-in. These standards are:

Standard	Brief description
ESRS 1, *General requirements*	This standard describes the architecture of ESRS standards, explains drafting conventions and fundamental concepts, and sets out general requirements for preparing and presenting sustainability-related information.
ESRS 2, *General disclosures*	This standard establishes Disclosure Requirements (DRs) on the information that a company should provide at a general level across all material sustainability matters on the reporting areas such as governance, strategy, impact, risk and opportunity management, and metrics and targets.

(Source: KPMG in India's analysis read with ESRS issued on 31 July 2023)

- **Ten topic-specific ESRS:** These standards lay down the disclosure requirements on environmental, social and governance topics. They establish metrics and explain how to disclose related targets for each topic. The standards are:

Category	Topic
Environment	ESRS E1, *Climate change* ESRS E2, *Pollution* ESRS E3, *Water and marine resources* ESRS E4, *Biodiversity and ecosystems* ESRS E5, *Resource use and circular economy*
Social	ESRS S1, *Own workforce* ESRS S2, *Workers in the value chain* ESRS S3, *Affected communities* ESRS S4, *Consumers and end-users*
Governance	ESRS G1, *Business conduct*

(Source: KPMG in India's analysis read with ESRS issued on 31 July 2023)

As per the above-mentioned 12 ESRSs, companies should provide information on their:

a. Governance and strategy to address material sustainability topics,

b. The impacts, risks and opportunities arising from those topics and

c. Quantitative metrics and targets.

The cross-cutting standards and topical standards are sector-agnostic i.e. they apply to all companies regardless of which sector or sectors the company operates in. Further, it is important to note that, EFRAG will publish additional sets of ESRS in due course of time which will include sector specific standards to address the sector specific requirements.

(Source: KPMG IFRG Limited - high level overview 'Get ready for European Sustainability Reporting Standards' dated 1 August 2023)

Key elements of the standard

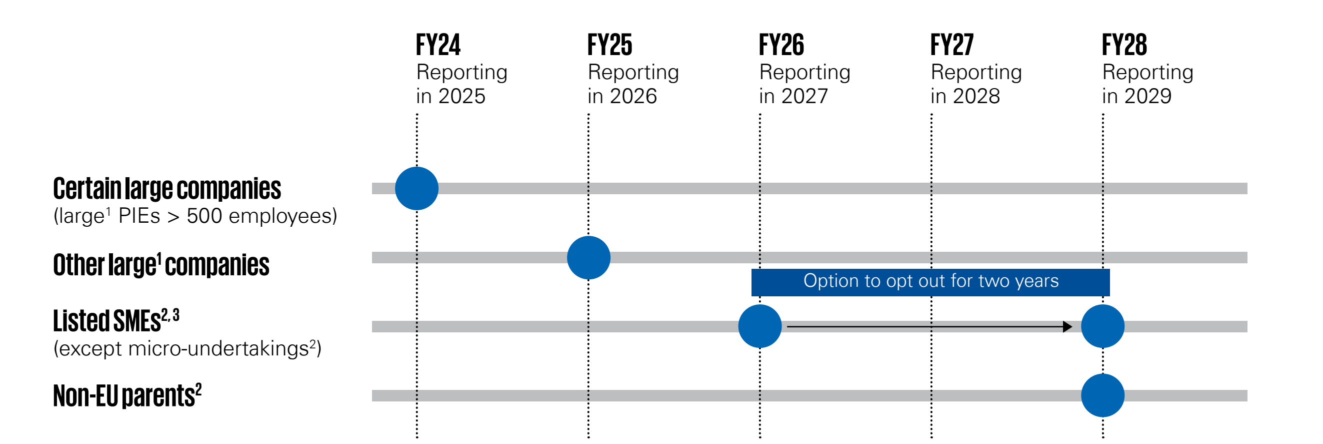
I. Effective date

The effective date for applicability of ESRS is from 1 January 2024 i.e. reporting would take place in 2025. ESRS would apply in a phased manner beginning with Public Interest Entities (PIEs) and companies with listed securities on EU-regulated markets which are large and have more than 500 employees (e.g. those that are already subject to reporting requirements under the Non-Financial Reporting Directive (NFRD)).

II. Scoping requirements

The ESRS would apply to (group exemptions may apply):

- Large EU companies which on the balance sheet date, exceed two of the following three criteria (including EU and non-EU subsidiaries):
  a. 250 employees or
  b. Net revenue of EUR 40 million or
  c. Total assets of EUR 20 million.
- Companies with listed securities on EU-regulated markets (except micro-undertakings[5]); and
- Ultimate non-EU parent companies[6] with a combined group turnover in the EU of more than EUR 150 million.



1. Large companies satisfying the stipulated criteria
2. Separate standards will be developed for SMEs and non-EU parent companies
3. Small and non-complex institutions and captive insurers are treated like listed SMEs (opt-out option until 2028 does not apply unless they also meet the definition of SME).

(Source: KPMG IFRG Limited - high level overview 'Get ready for European Sustainability Reporting Standards' dated 1 August 2023)

5. Micro-undertakings are companies that do not exceed two of the following three criteria (including EU and non-EU subsidiaries): 10 employees, net revenue of EUR 700,000 or total assets of EUR 350,000.
6. Separate standards will be developed for SMEs and non-EU parent companies.

III.Non-EU parent entities

A non-EU parent will have to report on the sustainability impacts at the group level of that non-EU company if the non-EU companies generates over EUR 150 million per year in the EU **and** that has in the EU either a branch with a turnover exceeding EUR 40 million or a subsidiary that is a large company or a listed SME.

Thus, such a non-EU parent company will have to report on the sustainability impacts at the group level from financial year 2028 i.e. first sustainability statement to be published in 2029. Separate disclosure standards would be developed for such non-EU parent companies. Further, CSRD also provides certain reporting exemptions to such Non-EU parent companies. One such exemption provided is - until 2030 EU subsidiaries of non-EU parent companies could choose to prepare consolidated sustainability report including all those subsidiaries that would be obliged to report independently of the remaining group due to size or listing status.

It is important to note that, any subsidiary that meets the scoping requirements, as stipulated in the previous section, is nonetheless in scope and the related disclosures that apply to an EU-based company would also apply to such a subsidiary.

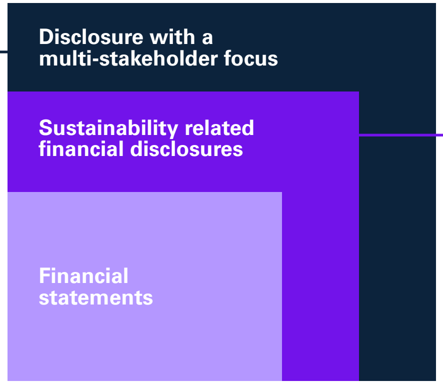
IV.Assessment of materiality

Performing a materiality assessment is necessary for the company to identify the material impacts, risks and opportunities to be reported.

- **Concept of double materiality:** The company should report sustainability matters based on the double materiality. Double materiality refers to two dimensions of materiality - 'financial' and 'impact'. As per the standard, companies are required to perform materiality assessments for both dimensions. Therefore, a sustainability matter would meet the criterion of double materiality if it is material from either of the dimension.

Impact materiality

- Under the ESRSs, impact materiality will require disclosure of sustainability-related matters that relate to a company's material actual or potential, positive or negative, impacts on people or the environment over the short, medium, or long term.
- Application requirements in ESRS 1 specify the steps that a company needs to consider to assess impact materiality.
- This assessment includes impacts in a company's upstream and downstream value chain.
- Materiality will be assessed based on severity and likelihood of the impact.



Financial materiality

- Under the ESRSs, financial materiality will require disclosure of sustainability-related matters that (may) trigger material financial effects on a company's development - e.g. cash flows, financial position or financial performance - in the short, medium or long term.
- This assessment will not be limited to matters within the company's control.
- Materiality will be assessed based on likelihood and (potential) size of the financial effect.

(Source: KPMG IFRG Limited - high level overview 'Get ready for European Sustainability Reporting Standards' dated 1 August 2023)

The standards also emphasise that the engagement with stakeholders is central to assessing materiality. Further, for a proper understanding of the material impacts, risks and opportunities, the company should consider disaggregating the reported information.

- **Exception to materiality assessment test:** It is important to note that, irrespective of the outcome of the materiality assessment, the company should always disclose the information required by ESRS 2[7]. All the other standards and the individual disclosure requirements and datapoints within them are subject to a materiality assessment, but when companies conclude that ESRS E1 (climate change) is not material, they should provide a detailed explanation of their conclusion. In case of the company concludes that a topic other than climate change is not material and omits all the disclosure requirements in the corresponding topical ESRS, it may provide a brief explanation of the conclusions of its materiality assessment for that topic.

V. Phase-in reliefs

Certain reliefs have been introduced to reduce the reporting burden on companies:

Relief year	Nature of relief
Year 1 - 2	• Comparative information is not required to be disclosed in Year 1 • All companies, regardless of size, may opt out of disclosing the expected financial impacts related to risks from environmental issues for the first year of reporting. Companies can provide qualitative disclosure only on these financial impacts for further two years. • Certain disclosures related to own workforce (social protection, people with disabilities, work-related illnesses and work-life balance) can be omitted in the first year of reporting. • Companies with less than 750 employees may also omit: a. the disclosure of Scope 3 greenhouse gas emissions (ESRS E1) and other disclosures on their own workforce (ESRS S1) in the first reporting year; and b. the disclosures on biodiversity (ESRS E4 Biodiversity and Ecosystems), workers in the value chain (ESRS S2 Workers in the Value Chain), affected communities (ESRS S3 Affected Communities) and consumers (ESRS S4 Consumers and End-users) in the first two reporting years.
Year 1-3	• Other available frameworks could be used to develop relevant disclosures on material sustainability-related matters in advance of sector-specific standards • Information on value chain is not required to be estimated and could be omitted if the information is not available. However, this relief is not applicable to datapoints relevant for other EU laws or based on internal information. It includes both upstream and downstream information. • Company-specific disclosures developed prior to initial application may continue to be used.

7. All the Disclosure Requirements and data points specified in ESRS 2 should be disclosed. Also, mandatory disclosure is required for the Disclosure Requirements (including their datapoints) in topical ESRS related to the Disclosure Requirement IRO-1 Description of the process to identify and assess material impacts, risks and opportunities, as listed in ESRS 2 Appendix C Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 *General Disclosures*.

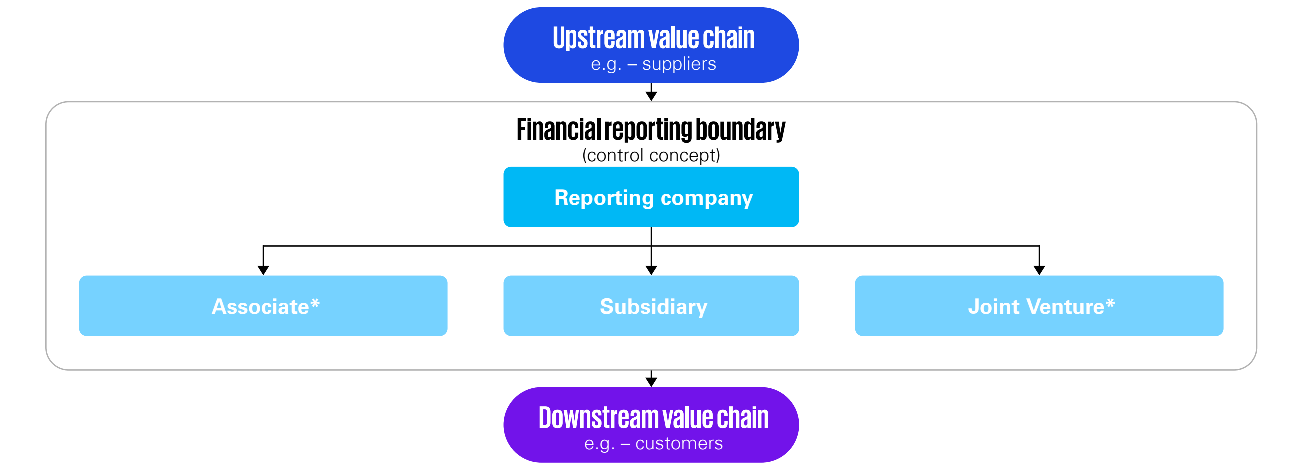
VI. Reporting boundary and value chain

The ESRS reporting boundary is based on the financial statements. In other words, the sustainability statement would be prepared for the same reporting company as the financial statements. For example, if the reporting company is a parent company which is required to prepare consolidated financial statements, then the sustainability statement will be prepared for the group.

While preparing the sustainability statement, the companies are required to identify and report on material impacts, risks and opportunities through its direct and indirect business relationships in the upstream and/or downstream value chain. The ability to obtain the necessary data would depend on various factors - e.g. the contractual arrangements in place and the level of control over the value chain.

If information from the value chain is not available, then a company will use estimated data using all reasonable and supportable information. In the first three years of application, the ESRSs will allow transitional measures if information cannot be obtained.

The below diagramatic representation provides an overview of the reporting boundry and the consideration of the value chain aspects:



*Equity investments and joint ventures may form part of the upstream and downstream value chain

(Source: KPMG IFRG Limited - high level overview 'Get ready for European Sustainability Reporting Standards' dated 1 August 2023)

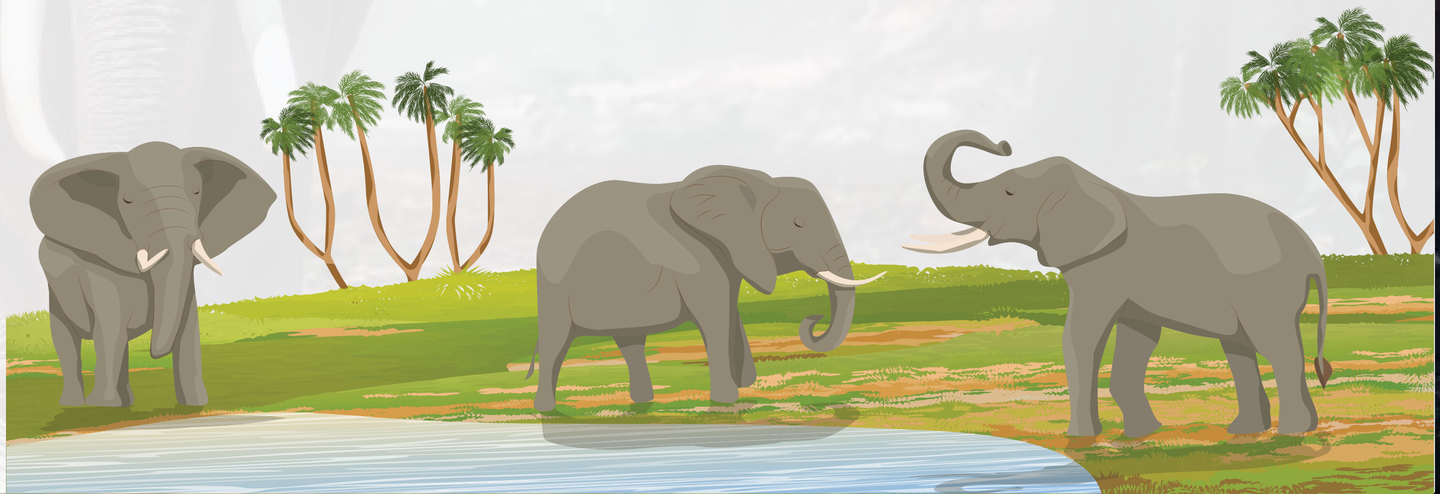
As seen in the diagram, when associates or joint ventures, are accounted under the equity method or proportionally consolidated in the financial statements, are part of the parent company's value chain then the suppliers and customers of the parent company should include information related to those associates or joint ventures in accordance with the approach adopted for other business relationships in the value chain. Thus, while determining the impact metrics, the data of the associate or joint venture would not be limited to the share of equity held, but rather the parent company should take into account the basis of the impacts that are connected with the parent company's products and services through its business relationships.

VII. Reporting timelines

Companies in scope will prepare a sustainability statement including the disclosures required by the ESRSs as part of their management report which is to be published at the same time as the financial statements.

VIII. Reporting on policies, action plans and targets

Companies should provide granular disclosures about their policies, action plans and targets across all material topics. It is important to note that the standards themselves do not require companies to put in place new targets or implement new policies but rather the standards would bring greater visibility and scrutiny of the company's plans.

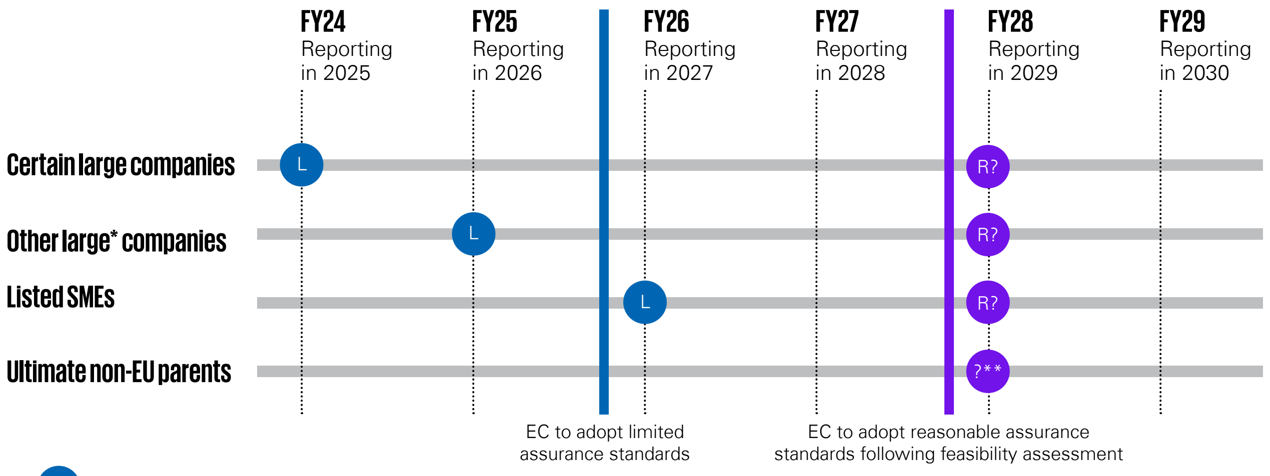


IX. Assurance

CSRD requires assurance across all topics in the following manner:

a. Limited assurance[8] would be applicable from the date of initial reporting

b. Gradually reasonable assurance[9] would be applicable from a future date.



L **Limited assurance***

R? **Reasonable assurance* subject feasibility assessment**

*The assurance requirements would have no bearing on a company's responsibility to report accurate information from the first reporting year - e.g. limited assurance does not mean limited reporting.

**Assurance would be based on jurisdictional requirements of the third country parent or that of a member state. In the absence of an assurance opinion, the company would need to issue a statement indicating this.

(Source: KPMG IFRG Limited - high level overview 'Get ready for European Sustainability Reporting Standards' dated 1 August 2023)

It must be noted that member states could choose to allow assurance over sustainability reporting to be separate from the financial statement audit - i.e. by a separate auditor or independent assurance provider.

8. Limited assurance is a level of assurance at an acceptable level that, based on professional judgement, is meaningful for the intended users. It results in a negative conclusion (i.e. 'nothing has come to our attention to indicate that the information is materially misstated').
9. Expressing reasonable assurance requires the assurance provider to obtain sufficient appropriate evidence to conclude that the sustainability-related information is prepared, in all material respects, in accordance with the applicable reporting criteria (positive conclusion).

Consider this

As the ESRSs would apply from 2024, scoped in companies should consider the following points with respect to the implementation of the new sustainability reporting standard

Understand the impact

The management of companies should conduct necessary research to understand when, where and how the CSRD scoping requirements would apply to the company and the wider group. They must also understand and assess the deviations between ESRSs and any existing sustainability reporting standard.

Determination of materiality

The scope and breadth of the company's value chain should be identified. Further, the management should undertake a double materiality assessment to determine which topics are relevant to report on and decide what information is material about those topics from an impact and financial perspective.

Maturity assessment

Maturity assessment should be conducted with respect to the processes, the control environment, data model and policies. Also, the management should understand the current distribution of roles, available knowledge and capacity.

Transform reporting

The management should design the manner of reporting which would include designing the most efficient reporting structure to meet group and individual company needs. For this purpose, companies should develop and deploy target operating model, including training as well as support for change management.

Assurance consideration

As assurance requirements would be applicable, companies should assess the control environment, data quality and availability of sufficient documentation to support assurance. Any existing issues should be rectified in advance.

Bottom line

Regulators and standard setters globally are issuing standards requiring companies to include sustainability-related disclosures in the annual reports. Recently, 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) which would 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. The US Securities Exchange Commission (SEC) has proposed climate-related disclosures. However, there is a need for consistent and comparable information. For this purpose, the EC, EFRAG and the ISSB are working towards alignment and interoperability between ESRS and the ISSB Standards.

CHAPTER 2

Determination of functional currency by a first-time adopter of Ind AS

This article aims to:

- Highlight the key principles to be considered when determining the functional currency of a first-time adopter of Ind AS

Background

Businesses in India have witnessed significant expansion and globalisation, and are operating in more than one jurisdiction, and dealing in global and domestic currencies. It is thus essential that companies record transactions in the financial statements in the main currency in which businesses are being conducted.

The Indian Accounting Standards (Ind AS), vide Ind AS 21, *The Effects of Changes in Foreign Exchange Rates,* introduced the concept of a functional currency, which is the currency of the primary economic environment in which an entity operates. Entities are required to record all transactions undertaken by them - i.e. all income and expenses, and measure their assets, liabilities and equity in the functional currency. Thereafter, entities should present the financial statements in a currency, which may or may not be the functional currency (referred to as the presentation currency)[1].

The determination of the functional currency is imperative, as currencies other than the functional currency would be considered as 'foreign currencies' and recorded and disclosed as such. However, the determination of the functional currency requires the assessment of certain factors and indicators, as prescribed in Ind AS 21, as can be read in the article ahead.

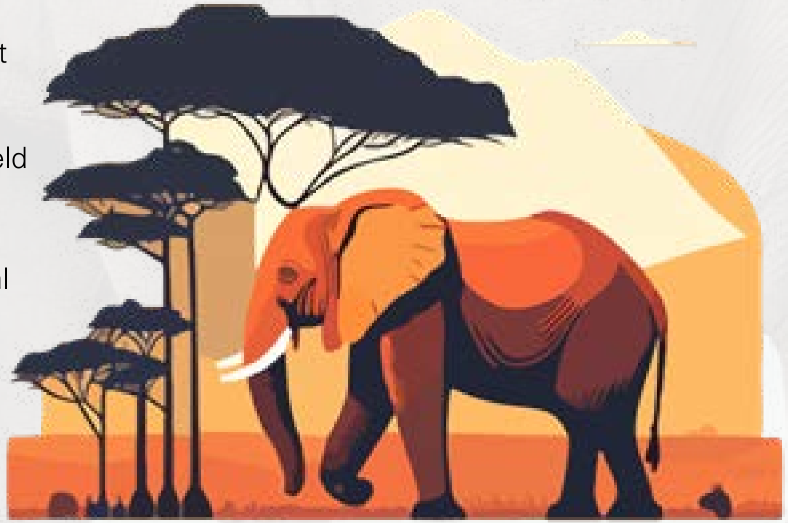
Facts of the case

X Pvt. Ltd. (the company) is a company incorporated in India, and provides stand-alone towage and marine solutions to various customers in and outside India. Till March 2023 the company was maintaining its books of accounts as per the accounting standards (Indian Generally Accepted Accounting Principles i.e. IGAAP) however, it is required to prepare its financial statements as per Ind AS for FY2024-25, with the date of transition as 1 April 2023. As part of the transition, the company needs to evaluate its functional currency.

X Pvt. Ltd. sends its tugs on hire to oil rigging companies for time or voyage charters. Contracts for these charters are fixed in USD (since freight rates for tugs are determined through a bid, where global players are involved). 70 per cent of the company's customers are Indian companies, hence invoices are raised in INR (USD equivalent amounts). Indian regulations that deal with the subsidy for Indian flagged tugs also impact the prices determined. The amounts received are held as fixed deposits with banks.

The company purchases its tugs from its parent entity based in Singapore, which has a functional currency of USD. The valuation of the tugs is in USD, and contracts are entered in USD. The company also avails borrowings in USD to fund these purchases. Borrowings constitute approximately 80 per cent of the company's capital employed. The expenses incurred by the company include - crew cost (whose contracts are based on global rates – as they can also join foreign companies, but amount is paid in INR), fuel cost- paid in USD, financing cost paid in USD.

What would be the functional currency of the entity? Is there any specific accounting treatment that the company should adopt for its balances as at the transition date?



1. The presentation currency is generally chosen by the reporting entity depending on the statutory requirements of the legislation where they are located.

Evaluating the case by referring to Ind AS 21

For most entities, the functional currency is the currency of the country in which the entity is located (the local currency). However, it cannot be assumed that the local currency will in all cases be the functional currency. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. For example, if pricing of most of the transactions of an entity are mostly influenced by the economic forces of another country that has a different currency, then its functional currency might be that other currency. Identification of functional currency depends on the facts and circumstances of an entity and requires exercise of judgement based on the analysis of its facts while keeping in mind the guidance given in Ind AS 21.

Ind AS 21 has provides primary and secondary factors for determining an entity's functional currency. Priority is given to the primary indicators, before considering the secondary indicators.

		Requirements of Ind AS 21	Evaluation in the context of X Pvt. Ltd.
Primary factors	1	**Currency that influences the sales prices** The currency that mainly influences sales prices for goods and services - this will often be the currency in which sales prices are denominated.	Charter contracts are agreed and entered into with all customers (domestic and international customers) in USD. Although, invoices are raised in INR, but this amount represents INR equivalent of the USD amount on the date of billing.
Primary factors	2	**Competitive forces and regulations** The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.	The freight rates for all charter agreements are negotiated in USD globally. As per the facts of the case, the market prices for freight are generally global prices set in USD and are determined based on global demands and supplies.
Primary factors	3	**Currency that influences expenses** The currency that mainly influences labour, material and other costs of providing goods and services - this will often be the currency in which these costs are denominated and settled.	The expenses incurred by the company largely include - crew salary, fuel, finance cost and vessel amortisation cost. All these expenses constitute more than 85 per cent of the total expense and are majorly denominated and paid in USD.
Secondary factors	4	**Funds from financing activities** The currency in which funds from financing activities are generated; this would be the currency in which the entity's debt and equity instruments are issued.	Of the total funds available with the company, 80 per cent is borrowed in the form of an external commercial borrowing in USD. Remaining 20 per cent is the equity of the company, including the reserves earned from the regular operating activities.
Secondary factors	5	**Receipts are retained** The currency in which receipts from operating activities are usually retained.	The major portion of the company collections are received in INR, and the company retains the amount in fixed deposits in INR.

(Source: KPMG in India's analysis, 2023 read with Ind AS 21)

Based on the assessment of the primary factors, it is likely that the Company's functional currency is USD as it most faithfully represents the economic effects of its activities and transactions. However, management should apply judgement and consider all relevant information before concluding its functional currency.

Presentation currency of the company

As per Ind AS 21, presentation currency is the currency in which the financial statements are presented. Although an entity measures items in its financial statements in its functional currency, it may decide to present its financial statements in a currency or currencies other than its functional currency.

Since, the company is registered in India under the Companies Act, 2013, it would need to present its financial statements in INR. Hence, the presentation currency of the company would be INR.

Since the functional currency of the company is different from its presentation currency, the company would need to translate the financial statements using the procedures that are the same as those for translating foreign operations.

Procedures for translating functional currency to presentation currency

If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency.

For an entity whose functional currency is not the currency of a hyperinflationary economy:

- Assets and liabilities for each balance sheet presented (including comparatives) should be translated at the closing rate at the date of the balance sheet
- Income and expenses for each statement of profit and loss presented (including comparatives) should be translated at exchange rates at the dates of the transactions (or for practical reasons an average rate may be used if it approximates the actual rate)
- All resulting exchange differences should be recognised in other comprehensive income

First Ind AS financial statements

In the previous GAAP, the company was preparing and presenting the financial statements in INR. For the purpose of preparing the financial statements under Ind AS, the company would be required to prepare its financial statements in its functional currency[2]. Therefore, on the date of transition it would need to translate its IGAAP financial statements (in INR) into Ind AS (in USD).

Ind AS 101, *First-time Adoption of Indian Accounting Standards* **does not** allow a first-time adopter to simply translate its opening Ind AS financial statements into the functional currency using the spot rate at the date of transition.

Therefore, a first-time adopter is required to consider the appropriate functional currency since inception because otherwise the carrying amount of non-monetary assets may be misstated in the opening Ind AS financial statement.

Considering this, a first-time adopter could consider using the deemed cost exemption for property, plant and equipment, intangible assets and investment property. If the exemption is elected, then the deemed cost is translated into the first-time adopter's functional currency at the date of its determination.

2. Thereafter, the financial statements would be required to be presented in INR.

Consider this

It is to be noted that each entity in a group has its own functional currency. There is no concept of a group-wide functional currency under the accounting standards.

If an entity presents its financial statements in a presentation currency that is not its functional currency, then there is no requirement for it to present additional financial information in its functional currency.

In situations where an entity has to prepare both standalone financial statements and financial statements for submission to its group for consolidation, the functional currency for both would be the same, as determined as per Ind AS 21. However, for the purpose of consolidation, a company may translate its financial statements from its functional currency to another currency (as per the group reporting requirements) for consolidation purposes.

CHAPTER 3

Regulatory updates

Clarifications on assurance of BRSR Core

In June 2023, the Securities Exchange Board of India (SEBI) amended the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) to introduce the BRSR Core and disclosures for a company's value chain. BRSR Core is a sub-set of the existing Business Responsibility and Sustainability Reporting (BRSR). BRSR Core is applicable from FY 2023-24 to the top 1,000 listed entities (by market capitalisation).

Subsequently, in July 2023, SEBI issued a circular to introduce the assurance requirements for BRSR Core. The circular requires the listed entity to ensure that there is no conflict of interest with the assurance providers appointed for assuring the BRSR Core. For this purpose, the circular states that potential conflict of interest could arise if an assurance provider or any of its associates sell its products or provide any non-audit/non-assurance related service including consulting services, to the listed entity or its group entities. In order to provide further clarifications with respect to the same, on 8 August 2023, SEBI issued certain Frequently Asked Questions (FAQs).

The key takeaways from the FAQs are as follows:

- **Qualification and eligibility of assurance provider:** The assurance of the BRSR Core is profession agnostic and need not necessarily be undertaken by a Chartered Accountant. However, the board of the listed entity should ensure that the assurance provider has the necessary expertise for undertaking reasonable assurance in the area of sustainability.
- **Restriction on internal auditor or statutory auditor:** The FAQs further clarify that
  - The internal auditor of the listed entity or its group entities cannot be appointed as the assurance provider
  - The statutory auditor of the listed entity would be eligible to be appointed as the assurance provider.
- **Non-permissible activities/services:** The assurance provider would be ineligible to provide assurance on BRSR Core if such an assurance provider sells its products or offers any non-audit or non-assurance services to a listed entity or its group entities, irrespective of whether the nature of the product/service is financial or non-financial.

  Further, the following activities cannot be undertaken by the assurance provider for the BRSR Core for the listed entity or its group entities:

  a. Risk management
  b. Project management
  c. Management and consulting services
  d. Investment advisory services
  e. Investment banking services
  f. Design and implementation of information systems
  g. Rendering of outsourced financial services
  h. Actuarial services
  i. Accounting and book-keeping services

  The above list is an indicative and not an exhaustive list.
- **Permissible activities/services:** Activities that are in the nature of audit/assurance such as providing third-party certifications, tax audit, system audit and tax filing, etc. could be undertaken by an assurance provider for the BRSR Core for the listed entity or its group entities. However, the listed entity should ensure that such activities do not pose any conflict of interest or compromise the independence of the assurance provider.
- **Meaning of the term 'group':** The term 'group' means the holding company, subsidiaries, associates and joint ventures of the listed entity
- **Meaning of the term 'associate' of an assurance provider:** If the assurance provider is:
  a. **A firm or a corporate entity**: Its associate would include any of its partners, its parent, subsidiaries, associates, and any entity in which the assurance provider, its parent or partner has significant influence or control.
  b. **A Chartered Accountant firm**: Its associates would also include all entities in the network firm/network entity of which the assurance provider is a part of.
  c. **An individual:** Its associate would include any immediate relative (as defined in the Companies Act, 2013 (2013 Act)) of the person, and any entity in which such individual/s has significant influence or control.
- **Assurance standards:** As the circular does not mandate or recommend any specific assurance standard, the assurance provider could use a globally accepted assurance standard on sustainability/non-financial reporting such as International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The Institute of Chartered Accountants of India (ICAI) has also issued assurance standards - Standard on Sustainability Assurance Engagements (SSAE) 3000, *Assurance Engagements on Sustainability Information* or Standard on Assurance Engagements (SAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*. It is important to note that the assurance provider should disclose the assurance standard that is used.

(Source: SEBI FAQs 'Frequently Asked Questions (FAQs) on the Business Responsibility and Sustainability Report (BRSR) Core' issued on 8 August 2023)

SEBI has issued FAQs for registration as an ESG Rating Provider (ERP)

In July 2023, SEBI amended the SEBI (Credit Rating Agencies) Regulations, 1999 (CRA Regulations), thereby introducing Chapter VIA on ERPs. These regulations would be applicable to a person which is engaged in, or proposes to engage in, the business of issuing ESG ratings.

On 9 August 2023, SEBI issued FAQs on registration of an ERP. Some of the important points are as follows: .

- **Eligibility criteria**: As per Regulation 28E of the CRA Regulations prescribes the eligibility criteria. As per the regulation, the applicant should:
  - be a company incorporated under the 2013 Act
  - have a net worth as stated in the CRA Regulations
  - specify ESG rating activity as the main object in its Memorandum of Association (MOA)
  - not be a credit rating agency or any other intermediary registered with SEBI
  - have necessary infrastructure including adequate office space, technology, equipment and manpower, to enable it to provide ESG rating services. Further, the applicant and its promoter(s) should be fit and proper person(s) as per Schedule II of the SEBI (Intermediaries) Regulations, 2008.
  - be a subsidiary of an intermediary registered with the SEBI or of an ERP incorporated in a Financial Action Task Force (FATF) member jurisdiction and recognised under their respective law having a minimum experience of five years in ESG rating of securities or companies. It should be noted that this requirement is not applicable for a Category II ESG rating provider applicant.
- **SEBI registration:** Any person intending to undertake business as an ERP should make an application to SEBI for grant of a certificate. This provision is also applicable for a person acting as an ERP on date of the regulations coming into force. The Fourth Schedule to the CRA Regulations lays down the criteria for applicability of the CRA Regulations for an ERP functioning in India.
- **Application requirements for registration:** Regulation 28D of the CRA Regulations lays down the provisions for making application for grant of registration certificate. The application should be made to SEBI in the format along with the documents as prescribed in the Fifth Schedule of the CRA Regulations. This should be accompanied with the non–refundable fees to be paid as stipulated in the Sixth Schedule of the CRA Regulations. The hardcopy of the application should be addressed to 'Chief General Manager, Department of Debt and Hybrid Securities, SEBI' and the soft copy should be sent via email to erp@sebi.gov.in.
- **Categories of ERPs seeking registration:** An application for the grant of a certificate to act as an ERP could be made in any one of the following categories, namely:
  a. Category I; or
  b. Category II.

- **Difference between Category I and Category II:** The regulatory requirements and certain eligibility criteria specified in the CRA Regulations are different for an ERP under Category I and Category II are different. The following are a few key differentiating factors:

Particulars	Category I ERP	Category II ERP
Nature of activity	Can undertake certification of green debt securities	Cannot undertake certification of green debt securities.
Office infrastructure	Mandatory to have necessary infrastructure including adequate office space, technology, equipment and manpower.	This requirement is not mandatory provided it conducts its operations remotely subject to a declaration by it to this effect
SEBI registration or from FATF jurisdiction	Should be a subsidiary of an intermediary registered with the SEBI or of an ERP incorporated in a FATF member jurisdiction and recognised under their respective law having a minimum experience of five years in ESG rating of securities or companies	-
Promoter requirement	a. Promoter should be a person regulated by specified financial sector regulators or a foreign ERP or body corporate with continuous net worth of minimum INR100 crore. b. Promoter should maintain a minimum shareholding of 26 per cent in the ERP for a minimum period of five years from the date of grant of registration	-
Net worth requirement	Minimum liquid net worth of INR5 crore at all times	Minimum liquid net worth of INR10 lakh at all times.
Experience	The applicant should have at least four employees specialised across the specified areas, at all times	The applicant should have at least two employees specialised across the specified areas, at all times

- **Failure to meet the meet the targets specified in the business plan or failure to meet any of the registration conditions:** Regulation 28H of the CRA Regulations prescribes the conditions of grant of a certificate of registration. Further, ERPs should meet the targets declared at the time of its application to the SEBI within the specified time. In case of any contravention, the ERP would be liable for one or more actions specified in the SEBI Act, 1992 or Regulations including the action stipulated under Chapter V of the SEBI (Intermediaries) Regulations, 2008.
- **Change in control of ERPs:** In case any change in control of the ERP is proposed, prior approval of SEBI should be obtained for continuing to act as such after the change. This prior approval would be valid for a period of six months from the date of such approval within which the applicant should file application for fresh registration pursuant to change in control. The master circular[1] issued on 12 July 2023 prescribes the requirements for making the application for obtaining a prior approval. The said circular also lays down the requirements for seeking approval for a proposed change in control of an ERP wherein there is a scheme(s) of arrangement which needs to be sanctioned by the National Company Law Tribunal (NCLT) in terms of the provisions of the 2013 Act.

(Source: SEBI FAQs' FAQs - Registration as an ESG Rating Provider (ERP)' issued on 9 August 2023)

1. Master circular no. SEBI/HO/DDHS/POD2/P/CIR/2023/121 dated 12 July 2023

Updates relating to Corporate Debt Market Development Fund (CDMDF)

In June 2023, SEBI amended the SEBI (Alternative Investment Funds) Regulations, 2012 in order to constitute the CDMDF. CDMDF is a new category of Alternate Investment Funds (AIFs).

The CDMDF would act as a backstop facility for purchase of investment grade corporate debt securities with an aim to promote confidence amongst the participants in the corporate debt market during times of stress. It would also enhance secondary market liquidity by creating a permanent institutional framework for activation in times of market stress. CDMDF would be launched as a close ended scheme with an initial tenure of 15 years (extendable) from the date of its initial closing (i.e. date on which contribution from all AMCs and specified schemes is received by CDMDF).

Subsequently, through a notification on 26 July 2023, the Ministry of Finance issued Guarantee Scheme for Corporate Debt (GSCD). The GSCD would provide guarantee cover against the debt raised/to be raised by CDMDF. This notification provides the objective and requirements of GSDC and the framework for CDMDF. Accordingly, CDMDF should comply with the GSCD.

In addition to this, on 27 July 2023, SEBI issued the framework for CDMDF and also prescribed the criteria for investment by Mutual Fund (MF) Schemes and Asset Management Companies (AMCs) in units of CDMDF.

Some of the important points to consider for SEBI's circular are as follows:

I. Framework for CDMDF

- **Type of securities:** CDMDF should deal only in following securities during normal times:
  a. Low duration Government Securities (G-sec)
  b. Treasury bills
  c. Tri-party repo on G-sec
  d. Guaranteed corporate bond repo with maturity not exceeding seven days
- **Money market instruments:** The corporate debt securities bought during market dislocation should include money market instruments. The long-term rating of issuers would be considered for money market instruments. If long-term rating is not available, then CDMDF should consider the credit rating mapping of Credit Rating Agencies (CRAs) between short-term and long-term ratings.
- **Fair pricing document:** CDMDF should follow the fair pricing document while purchasing corporate debt securities during market dislocation. The fair pricing document is included in Annexure A to the circular.
- **Loss waterfall accounting:** CDMDF should follow the loss waterfall accounting, prescribed in Annexure B to the circular, for reflection of waterfall in the Net Asset Value (NAV) of units of CDMDF.
- **Time period for disclosure of NAV:** CDMDF is required to disclose NAV of the fund by 9:30 pm on all business days on website of its investment manager and Association of Mutual Funds in India (AMFI) and by 11:00 pm when there is exposure to corporate debt.

II. Investment criteria for MF Schemes and AMCs in units of CDMDF

- **Subscription of units of CDMDF:** AMCs of MFs and 'specified debt-oriented MF Schemes' are eligible to subscribe to the units of CDMDF. For this purpose 'specified debt-oriented MF Schemes' means open ended debt oriented MF Schemes excluding overnight funds and gilt funds and including conservative hybrid funds.

  These contributions, including any appreciations on the same, would be locked-in till the winding up of the CDMDF.
- **Contribution by MFs:** Specified debt-oriented MF Schemes, including new schemes from existing MFs under the specified categories or such schemes of new MFs, should invest 25 bps of their Assets Under Management (AUM). Specified MF schemes should provide additional incremental contribution as their AUM increases. They must ensure that every six months, 25 bps of scheme AUM is invested in units of CDMDF. In case the AUM decreases, there would not be any return or redemption from CDMDF.
- **Contribution by AMCs:** AMCs, including AMCs of new Mutual Funds, should make a one-time contribution equivalent to 2 bps of the AUM of specified debt-oriented MF Schemes managed by them.
- **Basis of AUM for initial contribution:** The initial contribution should be based on AUM of the specified MF schemes as on 31 December 2022.
- **Time limit for initial contribution:** The initial contribution is to be made within 10 working days of request from CDMDF. The half-yearly contributions would start from December 2023 onwards. In case of any delay, the respective AMCs would be liable to pay interest at 15 per cent per annum for the period of delay.

- **Market dislocation:** In case of market dislocation, CDMDF should purchase listed corporate debt securities from the specified debt-oriented MF schemes. For this purpose, corporate debt securities include listed money market instruments.

  The securities purchased by CDMDF during market dislocation should be from secondary market which would have an investment grade credit rating and residual maturity of not exceeding five years on the date of purchase. This purchase should be made at a fair price (adjusted for liquidity risk, interest rate risk and credit risk) and not at distress price. Further, CDMDF should not buy any unlisted or below investment grade or defaulted debt securities or securities in respect of which there is a material possibility of default or adverse credit news or views.
- **Payment to sellers of debt securities:** The sellers of debt securities should be paid 90 per cent of the consideration in cash and 10 per cent in terms of units of CDMDF which would bear the risk of first loss, if any to CDMDF. Such units can be redeemed during the tenure of scheme subject to certain conditions.
- **Other key considerations for MF Schemes**: Some of the additional considerations for MF Schemes are as follows:
  - The corporate debt securities sold by MF schemes to CDMDF during market dislocation should be treated as trade executed on Request for Quote (RFQ) platform.
  - The CDMDF should not be considered as an 'associate' of any MF
  - The calculations of Potential Risk Class (PRC) Matrix, risk-o-meter, stress testing and duration for various purposes should be done after excluding investments in units of CDMDF.

(Source: Ministry of Finance, Department of Economic Affairs, notification no. G.S.R. 559(E) issued on 26 July 2023 and SEBI circular no. SEBI/HO/IMD/PoD2/P/CIR/2023/128 and circular no. SEBI/HO/IMD/PoD2/P/CIR/2023/129 dated 27 July 2023)

Reduction of timeline for listing of shares in public issue

SEBI has reduced the timelines for listing of specified securities in a public issue through a circular issued on 9 August 2023. As per the circular, the specified securities should be listed after the closure of public issue within three working days (T+3 days) *(earlier it was within six working days (T+6 days))*[2] . Accordingly, the timelines for various activities involved in the public issue process have also been revised. The same has been stipulated in the annexure to the circular.

The timelines for submission of application, allotment of securities, unblocking of application monies and listing should be prominent in the pre-issue, issue opening and issue closing advertisements issued by the issuer for public issues in terms of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations).

The provisions of this circular should be applicable as follows:

- On voluntary basis for public issues opening on or after 1 September 2023 and
- Mandatory for public issues opening on or after 1 December 2023

(Sources: SEBI circular no. SEBI/HO/CFD/TPD1/CIR/P/2023/140 dated 9 August 2023)

2. 'T' is issue closing date.

Consultation paper on review of framework for borrowings by Large Corporates (LCs)

As per the SEBI (Issue and Listing of Non-convertible Securities) Regulations, 2021 (NCS Regulations), LCs are required to raise at least 25 per cent of their incremental borrowings during a Financial Year (FY) by issuing debt securities which has to be met over a contiguous block of three years from Financial Year (FY) 2021-22 onwards. However, SEBI received representations from many stakeholders with respect to the implementation of the provisions for LCs. Thus, a consultation paper was issued on 10 August 2023.

The key proposals are as follows:

- **Increase in the threshold of outstanding long-term borrowings**: As per the existing provisions, for the purpose of identifying an entity as LC, the threshold for the criteria of outstanding long term borrowings is INR100 crore or above. It has been proposed to increase this limit to INR500 crore or above which is also in accordance with the threshold for high value debt listed entity. This would also lead to uniformity in the Regulations.
- **Expansion in definition of outstanding long-term borrowings and incremental borrowings:** As per the current regulatory provision, the term 'outstanding long-term borrowings' and 'incremental borrowings' excludes external commercial borrowings and inter-corporate borrowings between a parent and subsidiaries.

  In addition to these exclusions, the following are also proposed to be excluded:

  a. Inter-corporate borrowings between its holding company and/or subsidiary and/or associate companies;

  b. Grants, deposits or any other funds received as per the guidelines or directions of Government of India; and

  c. Borrowings arising on account of interest capitalisation

- **Removal of requirement of credit rating:** As per existing provisions, for identifying an entity as a LC, such an entity should have a credit rating of AA and above. It has been proposed to remove this criterion.
- **Removal of provision for penalty in the event of non-compliance:** The current provisions state that in case of a shortfall in the requisite borrowing, a monetary penalty/fine of 0.2 per cent of the shortfall in the borrowed amount is levied and payable. It has been proposed to remove this provision. Further, it has been proposed that in case of a shortfall or surplus, additional or lower contribution should be made respectively to the core Settlement Guarantee Fund[3] (SGF) of the Limited Purpose Clearing Corporation (LPCC).

  Accordingly, the consultation paper has proposed incentives for achieving surplus in the actual borrowings when compared to specified level of borrowings and disincentive in the form of additional contribution to the core SGF in case of shortfall in the actual borrowings when compared to specified level of borrowings.
- **Removal of block of three years:** The extant regulatory provisions state that from FY2022 onwards, the requirement of mandatory borrowing in a FY has to be met over a contiguous block of three years. In order to ease and simplify the process of computing specified level of borrowing of 25 percent, it has been proposed that the requirement of specified level of borrowing should be made applicable on an annual basis.

The comment period on the above consultation paper is open until 31 August 2023.

(Source: SEBI consultation paper on 'Consultation paper on review of framework for borrowings by Large Corporates' under Reports for Public Comments section issued on 10 August 2023)

3. SEBI circular 'Contribution by eligible Issuers of debt securities to the Settlement Guarantee Fund of the Limited Purpose Clearing Corporation for repo transactions in debt securities' dated 13 April 2023

Exposure drafts issued by ICAI

I. Exposure draft for International Tax Reform—Pillar Two Model Rules

In May 2023, the International Accounting Standards Board (IASB) issued amendments to IAS 12, *Income Taxes* in order address the uncertainty over the accounting for deferred taxes arising from the implementation of the Global Anti Base Erosion Rules (GloBE) i.e. Pillar Two model rules.

In this regard, the Institute of Chartered Accountants of India (ICAI) had issued exposure drafts to amend Ind AS 12, *Income Taxes* and AS 22, *Accounting for Taxes* on Income with respect to the International Tax Reform—Pillar Two Model Rules.

The key amendments proposed are as follows:

- **Extension of scope:** The scope of applicability of the standards has been extended to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules.

  Further, as an exception to the requirements in the respective standards, an entity should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. However, the entity would be required to disclose the fact that it has applied this exception. The proposed exception would be effective immediately upon issuance of the amendments and retrospectively in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

- **Disclosure requirements:** The exposure draft specifies certain disclosure requirements with respect to top-up taxes. The entity would be required to separately disclose its current tax expense (income) related to Pillar Two income taxes.

  In case the Pillar Two legislation is enacted or substantively enacted but not yet in effect, the entity would need to disclose the known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes. In such scenarios, disclosure of qualitative and quantitative information should be made at the end of the reporting period.

  These would be effective for the annual reporting periods beginning on or after 1 April 2023. However, an entity is not required to disclose the abovementioned information for interim periods ending on or before 31 March 2024.

II. Exposure draft of supplier finance arrangements

With an aim to enhance the transparency of supplier finance arrangements, in May 2023, IASB issued amendments to IAS 7, *Statement of Cash Flows* and IFRS 7, *Financial Instruments: Disclosures*.

In this regard, the ICAI has issued an exposure draft to amend Ind AS 7, *Statement of Cash Flows* and Ind AS 107, *Financial Instruments: Disclosures* for supplier finance arrangements.

The key amendments proposed are as follows:

- **What are supplier finance arrangements:** In supplier finance arrangements, one or more finance providers offer to pay amounts which an entity owes to its suppliers. Further the entity agrees to pay the same according to the terms and conditions of the arrangements at the same date as or at a date later than the date on which suppliers are paid. Such arrangements provide extended payment terms to the entity or the entity's suppliers are paid early before the invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

- **Disclosure requirements:** Disclosure of supplier finance arrangements should be made to enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. For this purpose the following should be disclosed:
  a. The terms and conditions of the arrangement
  b. At the beginning and end of the reporting period, disclosure should be made of:
     i. 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;
     ii. 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.
  c. 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 Ind AS 107 wherein the entity has accessed or has access to, facilities under supplier finance arrangements that provide the entity with extended payment terms or the entity's suppliers with early payment terms.

- **Effective date:** The amendments proposed to be applicable from annual reporting periods beginning on or after 1 April 2024.

The comment period for the above-mentioned exposure drafts ended on 25 August 2023.

(Source: ICAI announcement dated 25 July 2023)

IASB issued amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates*

As per IAS 21, a company uses a spot exchange rate to report foreign currency transactions or a foreign operation's results and financial position in its financial statements. A spot exchange rate is the exchange rate for immediate delivery. As per the present principles of IAS 21, it specifies the exchange rate to be used in reporting foreign currency transactions when exchangeability between two currencies is temporarily lacking. However, the standard does not provide guidance when the lack of exchangeability is not temporary.

In this regard, on 15 August 2023, the International Accounting Standards Board (IASB) issued amendments to IAS 21 which would require companies to provide more useful information in their financial statements when a currency cannot be exchanged into another currency.

The key takeaways from the amendment are as follows:

- **Two-step approach**: The amendment stipulates a two-step approach to assessing whether a currency is exchangeable and estimating the spot exchange rate when it is not exchangeable:
  a. **Assessing the exchangeability between two currencies:** A currency is exchangeable into another currency when a company is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. A company assesses whether a currency is exchangeable into another currency at a measurement date and for a specified purpose. Accordingly, if a company is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency for that purpose.
  b. **Estimating the spot exchange rate when the currency is not exchangeable:** The objective to estimate the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic circumstances. For this purpose, a company could use:
     – an observable exchange rate without adjustment if that rate meets the estimation objective or
     – another estimation technique wherein the

company uses an observable rate and adjusts that rate as necessary to meet the estimation objective.

- **Disclosure requirements:** The amendment requires a company to provide the disclosure objective i.e. to disclose information that enables users of financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, a company's financial performance, financial position and cash flows. The company would also disclose the information specified in the requirements and any additional information necessary to meet the disclosure objective. It is important to note that a company need not duplicate information that it has provided elsewhere in its financial statements
- **Effective date:** The amendment is effective for annual reporting periods beginning on or after 1 January 2025.

(Source: IASB news article 'IASB sets out accounting requirements for when a currency is not exchangeable' dated 15 August 2023)

IAASB has issued exposure draft on global sustainability assurance standard ISSA5000

The International Auditing and Assurance Standards Board (IAASB) issued proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. This standard deals with assurance engagements on sustainability information.

ISSA5000 is profession agnostic i.e. it could be used by both professional accountant and non-accountant assurance practitioners when performing high quality sustainability assurance engagements. Further, this standard deals with both, reasonable and limited assurance engagements across any sustainability topic. The practitioner should express a conclusion on the sustainability information through a written report and describe the basis for the conclusion.

As this standard includes requirements and application material of all elements of a sustainability assurance engagement, the practitioner is not required to apply ISAE 3000 (Revised)[4] when performing the engagement. ISSA5000 applies to all assurance engagements on sustainability information, except when the practitioner is providing a separate conclusion on a greenhouse gas (GHG) statement, in which case ISAE 3410[5] applies.

The last date to provide comments on the exposure draft is 1 December 2023.

(Source: IAASB news 'IAASB launches public consultation on landmark proposed global sustainability assurance standard' dated 2 August 2023)

4. International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*
5. ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

First Notes

Mandatory reporting of fraud by an auditor

The management of a company has the primary responsibility to establish adequate internal control systems to prevent and detect frauds and errors in a company. Auditors have a reporting obligation in relation to a fraud and/or suspected fraud in a company. This obligation is laid down under the Companies Act, 2013, its Rules and the Standard on Auditing.

On 26 June 2023, the National Financial Reporting Authority (NFRA) issued a circular (the Circular) to clarify the responsibility of statutory auditors in relation to reporting of fraud in a company. Some important clarifications from the circular are as follows:

- Mandatory obligation to report fraud by an auditor
- Procedure to report fraud by an auditor
- Auditor not being the first person to identify the fraud
- Resignation by an auditor
- Professional skepticism.

This issue of First Notes provides an overview of the above-mentioned clarifications provided by NFRA.

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

Voices on Reporting - Quarterly updates publication

On 28 July 2023, KPMG in India released its VOR – Quarterly updates publication which provides a summary of the of key updates from the Securities and Exchange Board of India (SEBI), the Ministry of Corporate Affairs (MCA), the Reserve Bank of India (RBI), the National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI) and the Insurance Regulatory and Development Authority of India (IRDAI).

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