



Voices on Reporting

Quarterly updates publication

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In this publication, we have summarised important financial reporting, Environment, Social and Governance (ESG) and regulatory updates relevant for the quarter ended 30 September 2023 from the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Ministry of Corporate Affairs and the Institute of Chartered Accountants of India (ICAI).



BRSR updates

As per the existing provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), top 1,000 listed entities¹ in India are required to file the Business Responsibility and Sustainability Reporting (BRSR) as part of their annual report with SEBI from Financial Year (FY) 2022-23 onwards on a mandatory basis.

On 14 June 2023, SEBI amended the Listing Regulations to introduce the BRSR Core format for ESG disclosures to be made by the prescribed listed companies and their value chain. With the aim of integrating the value chain into the sustainability and ESG policies of an entity, on 12 July 2023, SEBI issued a circular prescribing the BRSR Core framework for disclosures and assurance along with BRSR Core disclosures for value chain for the top 1000 listed entities in a phased manner.

Some key takeaways are as follows:

- BRSR Core and updated BRSR:** BRSR Core consists of a set of Key Performance Indicators (KPIs)/metrics under the nine

ESG attributes. The BRSR Core specifies the data and approach for reporting on certain ESG parameters and assurance. It has been clarified by SEBI that the approach specified in BRSR Core is a base methodology. Any changes or industry specific adjustments/estimations should be disclosed.

The key considerations are as follows:

- KPIs of BRSR Core:** The new KPIs of BRSR Core are as follows:
 - Green-House Gas (GHG) footprint
 - Water footprint
 - Energy footprint
 - Embracing circularity - details related to waste management by the entity
 - Enhancing employee wellbeing and safety
 - Enabling gender diversity in business
 - Enabling inclusive development

- Fairness in engaging with customers and suppliers
 - Open-ness of business.
- Revised format of BRSR (including BRSR Core):** The revised format of BRSR incorporates the new KPIs of BRSR Core. Additionally, there are certain leadership indicators (earlier voluntary in 2022-23) which have now been made mandatory in the
 - Reasonable assurance:** The circular provides that the top 150 listed companies (by market capitalisation) are required to obtain a reasonable assurance from an independent assurance provider on the BRSR Core disclosures from FY 2023-24 and other companies to follow a glide path approach as below:

Financial Year	Applicability of BRSR Core to top listed entities (by market capitalisation)
2023 – 24	Top 150 listed entities
2024 – 25	Top 250 listed entities
2025 – 26	Top 500 listed entities
2026 – 27	Top 1000 listed entities

1. As per market capitalisation as on 31 March of every financial year.



2. BRSR Core for value chain: The circular now requires certain listed entities to provide disclosures of value chain as per BRSR Core. Top 1000 listed entities (by market capitalisation) are required to make disclosures as per the updated BRSR format (including BRSR Core) from FY 2023-2024 onwards.

Certain key considerations are as follows:

- a. Determination of value chain:** The value chain should encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75 per cent of its purchases/sales (by value) respectively. Such reporting should be segregated for upstream and downstream partners or can be reported on an aggregate basis. Further, the scope of reporting and assumptions or estimates, if any, should be clearly disclosed.
- b. Reporting format:** Disclosures for value chain should be made by the listed entity as per BRSR Core, as part of its annual report.
- c. Limited assurance:** The above-mentioned companies should obtain limited assurance on a comply or-explain basis from FY 2025-26.

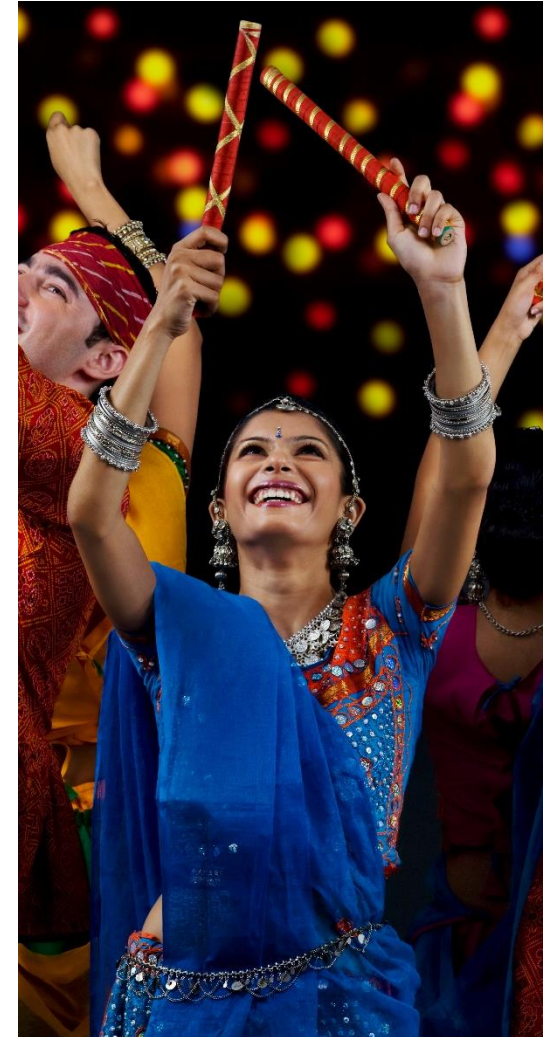
3. Assurance provider: The circular lays down certain requirements to be evaluated by a listed entity while appointing an assurance provider:

- a. Expertise:** The Board of the listed entity should ensure that the assurance provider of the BRSR Core has the necessary expertise, for undertaking reasonable assurance.
- b. Independence:** The listed entity should ensure that there is no conflict of interest with the assurance provider appointed for assuring the BRSR Core disclosures. For instance, it should be ensured that the assurance provider or any of its associates do not sell its products or provide any non-audit/non-assurance related service including consulting services, to the listed entity or its group entities.

Subsequently, on 8 August 2023, SEBI issued certain Frequently Asked Questions (FAQs) relating to the assurance requirement of BRSR Core in order to provide further clarifications.

The key takeaways from the FAQs are provided below:

- **Qualification of an 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 assurance provider:** The FAQs provides 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 an assurance provider.
- **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. In such cases, the listed entity should ensure that the prescribed activities do not pose any conflict of interest or compromise the independence of 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.

- **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:** 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:**

Associates would also include all entities in the network firm/network entity of which the assurance provider is a part of.

- c. **An individual:** 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 any of the below mentioned assurance standards 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* or
- 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* issued by the Institute of Chartered Accountants of India (ICAI).

Additionally, the assurance provider should disclose the assurance standard that has been relied upon.





SEBI updates



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Key takeaways

- ESG disclosures will help investors in better investment decision making, along with businesses to effectively engage with their stakeholders on non-financial aspects.
- Additional BRSR Core indicators prescribed by SEBI are expected to enhance ESG reporting and disclosures and will enable comparability across a broader set of parameters irrespective of the size of the company. It is important for entities to gear up to provide high quality information that is accurate and robust and is ready for assurance.
- The BRSR Core reasonable assurance requirements may pose compliance challenges for listed entities as they are still in the process of maturing in the ESG reporting space. Additionally, reporting on the value chain partners may be challenging for companies. Companies might not have visibility or influence over the value chain partners, which could pose as a barrier in data collection.



Also refer to KPMG in India's First Notes – SEBI framework on BRSR Core and value chain – disclosures and assurance by listed entities dated 15 July 2023 which provides detailed overview of BRSR Core provisions.

(Source: SEBI circular no. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 dated 12 July 2023, SEBI FAQs 'Frequently Asked Questions (FAQs) on the Business Responsibility and Sustainability Report (BRSR) Core' issued on 8 August 2023)





Extension of timeline for verification of market rumours

Regulation 30(11) of the SEBI Listing Regulation requires mandatory confirmation, denial or clarification of 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 are circulating amongst the investing public. This requirement is applicable to the top 100 listed entities by market capitalisation from 1 October 2023 and the top 250 listed entities with effect from 1 April 2024.

However, on 30 September 2023, SEBI extended the effective date of implementation of Regulation 30(11). The extended timelines are applicable as follows:

Top 100 listed entities**	From 1 February 2024 (earlier 1 October 2023)
Top 250 listed entities**	From 1 August 2024 (earlier 1 April 2024)

** As per market capitalisation as at the end of the immediately preceding financial year.

Key takeaway

Verification of market rumours marks a significant shift in the regulatory landscape. However, the corporates in India raised concerns relating to the original timelines. Considering the representation received from stakeholders, SEBI extended the timelines. The requirement to verify market rumours is in line with global regulations, and the applicability of these provisions is expected to widen in due course of time.



(Source: SEBI circular no. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/162 dated 30 September 2023)



Guidance on disclosure of material events and information

As per the provisions of Regulation 30 of the Listing Regulations, a listed entity that has listed specified securities³, is required to disclose material events or information to the stock exchange in accordance with Part A (Para A and Para B) of Schedule III of the Listing Regulations.

On 14 June 2023, SEBI issued certain amendments⁴ to the Listing Regulations that aimed to tighten the governance requirements for listed entities with respect to disclosure of material events or information. These amendments are with respect to the:

- Determination of materiality threshold and policy (Regulation 30(4)(i) and (ii))
- Revised timelines for disclosure of material events (Regulation 30(6))
- Verification of market rumors (Regulation 30(11))

- Disclosure requirements for certain types of agreements binding listed entities (Regulation 30A)
- Additions and modifications of disclosure of events specified under Para A and Para B of Part A of Schedule III.

Subsequently, on 13 July 2023, SEBI issued a circular which specifies the details required to be disclosed for the events specified under Part A of Schedule III and the timeline for disclosure of such events. It also provides guidance on when an event/information can be said to have occurred and on determination of materiality. The provisions of this circular are applicable from 15 July 2023.

Also refer to KPMG in India's First Notes – SEBI amends disclosure requirements of material events or information dated 11 August 2023 which provides detailed overview of this amendment.

Key takeaway

The disclosure of material information has a direct impact on the security prices of the listed entities. The listed entities are expected to enhance their understanding related to the concept of material events/information and meet the disclosure timelines specified by SEBI. The listed entities should also consider conducting adequate trainings regarding material events for their employees to assess and identify material events/information that should be reported in a timely manner to SEBI.



(Source: SEBI circular no. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/123 dated 13 July 2023)

3. Regulation (2)(1)(zl) of Listing Regulations defines specified securities as equity shares and convertible securities as defined under Regulation 2(1)(eee) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

4. SEBI Listing Regulations (Second Amendment) Regulations, 2023



New norms for ESG Rating Providers (ERPs)

On 3 July 2023, SEBI introduced amendments to the SEBI (Credit Rating Agencies) Regulations, 1999 (CRA Regulations) by introducing Chapter IVA on ERPs. These regulations would be applicable to an ESG rating provider which is a person engaged in, or proposes to engage in, the business of issuing ESG ratings.

These regulations provide the base for rating agencies to become an ERP. It prescribes, *inter alia*, the eligibility criteria, transparency, governance and prevention of conflict of interest, rating process and monitoring, guidelines for registration, general obligations of ERPs, manner of inspection and code of conduct applicable to ERPs. The regulations are effective from 3 July 2023.

Subsequently on 12 July 2023, SEBI issued a master circular which lays down the procedural/disclosure requirements and obligations for ERPs, requiring them to comply with the conditions laid down in this master circular. The master circular consists of guidance on the below topics:

- **Registration, approval and surrender requirements:** It provides guidance with respect to registration mechanism for ERPs, approvals for change in control of ERPs, guidelines on suspension, cancellation or surrender of certificate of registration.
- **Rating operations:** This section provides insights with respect to the types of ESG ratings/scores, business model for ERPs, rating process, guidance on monitoring and review of ratings etc.
- **Reporting and disclosures:** The master circular provides guidance with respect to periodic and continuous disclosures. It also includes the guidelines for disclosures by ERPs on its website.
- **Internal audit for ERPs:** The master circular provides guidance on the requirements related to internal audits along with other miscellaneous requirements applicable to ERPs.

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

- **Eligibility criteria:** Regulation 28E of the CRA Regulations prescribes the following eligibility criteria for an applicant desirous of registering as an ERP:
 - Should be a company incorporated under the 2013 Act
 - Should have a net worth as stated in the CRA Regulations
 - Should specify ESG rating activity as the main object in its Memorandum of Association (MOA)
 - Should not be a credit rating agency or any other intermediary registered with SEBI
 - Should have the 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.

- Should be a subsidiary of an intermediary registered with 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 the 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 an application for the grant of a 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 the '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:

- Category I or
- 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. The table in the next column represents certain 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 Financial Action Task Force (FATF) jurisdiction	Should be a subsidiary of an intermediary registered with 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.	Not applicable
Promoter requirement	<ol style="list-style-type: none"> Promoter should be a person regulated by specified financial sector regulators or a foreign ERP or body corporate with continuous net worth of minimum INR 100 crore. 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. 	Not applicable
Net worth requirement	Minimum liquid net worth of INR 5 crore at all times.	Minimum liquid net worth of INR 10 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 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 of control. This prior approval would be valid for a period of six months from the date of such approval within which the applicant should file an application for fresh registration pursuant to change in control. The master circular² 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.

Key takeaway

Before the notification on the ERP framework, ERPs were not subject to regulatory supervision. SEBI issued the framework for as there is an increase in stakeholders' interest and to standardise the procedures for registration and operations of the ERPs. With the notification of the ERP framework, ERPs would need to comply with the mandatory requirements and follow the homogenous procedures as laid down by SEBI.



(Source: SEBI notification no. SEBI/LAD-NRO/GN/2023/136 dated 3 July 2023 and circular no. SEBI/HO/DDHS/POD2/P/CIR/2023/121 dated 12 July 2023, SEBI FAQs - Registration as an ESG Rating Provider (ERP) issued on 9 August 2023)

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



ESG investment norms

In June 2023, SEBI amended the MF Regulations to specify that the funds under ESG schemes should be invested in the manner as specified by SEBI periodically. In line with this, SEBI issued a circular implementing some key measures to facilitate green financing with a thrust on enhanced disclosures and mitigation of risks of mis-selling and greenwashing. Below are the broad categories discussed in the circular related to ESG investing schemes:

- **Multiple strategies under the ESG scheme**

SEBI has introduced a separate sub-category for ESG investments under the thematic category of equity schemes, by including various strategies that the mutual funds can adopt to align their investments with ESG considerations. Additionally, SEBI has mandated that at least **80 per cent** of the total Assets Under Management (AUM) of ESG schemes should be invested in equity and equity related instruments of the chosen strategy. The remaining portion of the investment should not contradict with the

strategy of the scheme. There should be a clear distinction in terms of asset allocation, investment strategy of the mutual fund schemes launched, etc.

- **Investment criteria**

SEBI has mandated ESG schemes to invest at least **65 per cent** of its AUM in companies which are reporting on comprehensive BRSR **and** are also providing assurance on BRSR Core disclosures. The balance AUM of the scheme can be invested in companies having BRSR disclosures. This requirement will be applicable with effect from 1 October 2024.

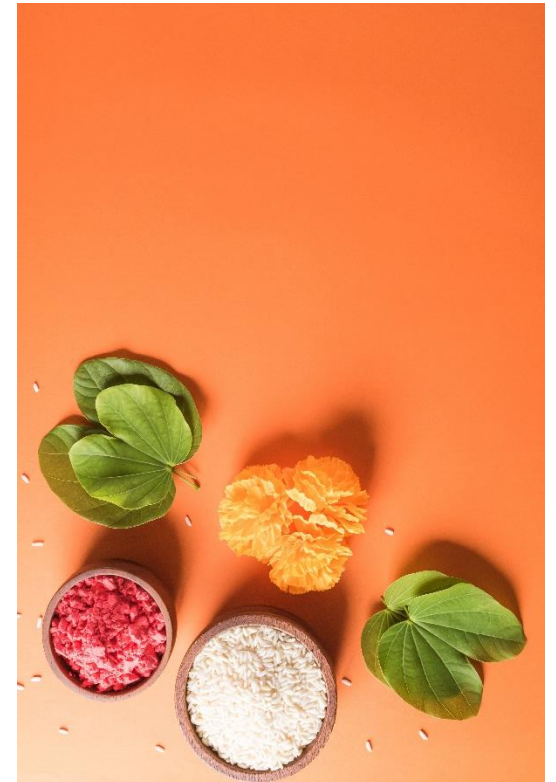
For ESG schemes which are not in compliance with the aforesaid investment criteria as on 1 October 2024, SEBI has prescribed an extension period till 30 September 2025. However, ESG schemes cannot undertake any fresh investments in companies without assurance on BRSR Core during the extended period of one year.

- **Disclosure requirements**

The SEBI circular has prescribed the following disclosure requirements:

- *Scheme strategy:* The name of the ESG fund/scheme should clearly disclose the ESG strategy it is based on.
- *ESG scores of securities:* Disclosure of BRSR and BRSR Core scores provided by ERPs, along with name of ERPs, applicable with immediate effect.
- *Voting disclosures:* While disclosing votes cast by AMCs on resolutions of their investee companies, mutual fund should disclose whether vote has been cast in favour or against the proposal on account of any ESG reasons. (*Applicable for annual general meetings held from 1 April 2024 onwards*).
- *Annual fund manager commentary and disclosure of case studies:* The requirement of annual fund manager commentary should be applicable from FY 2023-24. The disclosure of case studies, as mentioned in the circular,

should be applicable from FY 2024-25 and the engagement details should be disclosed from FY 2025-26 onwards.





- **Assurance**

- a. **Independent assurance**

- SEBI has mandated an independent reasonable assurance on an annual basis for AMCs regarding their ESG scheme's portfolio being in compliance with the strategy and objective of the scheme stated in the Scheme Information Documents (SIDs). Such assurance is applicable on:
 - "Comply or explain basis" for all ESG schemes for FY 2022-23 by 31 December 2023.
 - Mandatory basis for FY 2023-24 and onwards. Also, disclosure of assurance should mandatorily be made in the scheme's annual report.

- The AMCs should ensure that the assurance provider for an ESG scheme has the necessary expertise for undertaking reasonable assurance and there is no conflict of interest with the assurance provider appointed.

- b. **Certification by the board of AMCs**

- Basis a comprehensive internal ESG audit, the board of directors of AMCs are required to certify compliance of ESG schemes with the regulatory requirements as a part of the annual report of the scheme.
 - The board of directors of AMCs should provide the certificate for FY 2022-23 by 31 December 2023. Thereafter, the certification should be disclosed in the annual reports of the schemes.

Key takeaways

- Introduction of a separate category of ESG investments with various themes will enable AMCs to launch multiple ESG schemes with diversified strategies and will help in boosting the ESG activities for companies.
- The investment criteria prescribed in the SEBI circular requires ESG schemes to invest 65 per cent of the AUM in companies reporting on comprehensive BRSR and obtaining assurance on BRSR Core. The glide path for mandatory assurance on BRSR Core is applicable to the top 150 companies (by market capitalisation) for FY2023-24. Companies can voluntarily obtain assurance on BRSR Core disclosures from FY2023-24 in order to attract investment funds. AMCs should focus on implementing strong internal processes in order to meet all compliances and disclosures on a timely basis.



Also refer to Chapter 2 of KPMG Accounting and Auditing Update Issue no. 86 September 2023 edition – 'ESG investing by mutual funds' which provides detailed overview on this topic.

(Source: SEBI circular SEBI/HO/IMD/IMD-I –PoD1/P/CIR/2023/125 dated 20 July 2023)



Director nomination by debenture trustees for non-company issuers

Regulation 23(6) of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations) obligates an issuer which is a company under the Companies Act, 2013 (2013 Act) to ensure that its Articles of Association (AoA) requires its Board of Directors to appoint a director which is nominated by the debenture trustee(s) in accordance with

Regulation 15(1)(e)⁵ of the SEBI (Debenture Trustees) Regulations, 1993 (DT Regulations). The above-mentioned obligation did not exist in case of an issuer which is not a company. In order to fill the gap, on 4 July 2023, SEBI issued a circular for issuers that are not companies. As per the circular, such issuers that are not companies, are

required to submit an undertaking to their debenture trustees stating that a non-executive/independent director/trustee/member of its governing body should be designated as a nominee director in consultation with the debenture trustees in case of events mentioned in Regulation 15(1)(e) of the DT Regulations.

Additionally, debenture trustees should ensure compliance with the provisions of this circular by the issuer and themselves. The provisions of this circular are applicable from 4 July 2023.

(Source: SEBI circular no. SEBI/HO/DDHS/POD1/ P/CIR/2023/112 dated 4 July 2023)



5. Regulation 15(1)(e) of DT Regulations requires the debenture trustees to appoint a nominee director on the board of the company in the event of:
- Two consecutive defaults in payment of interest to the debenture holders; or
 - Default in creation of security for debentures; or
 - Default in redemption of debentures.



Enhanced accountability of mutual fund trustees

As per the SEBI (Mutual Funds) Regulations, 1996 (MF Regulations), the trustees hold the property of the mutual fund in trust for the benefit of the unit holders and their primary role is to ensure that the Asset Management Companies (AMCs) appointed by them act in the best interests of the unitholders. Further, an AMC is responsible for managing the funds of the schemes and to ensure that the interests of the unitholders are protected.

With an aim to streamline the responsibilities of the trustees and AMCs, SEBI has issued a circular on 7 July 2023 carving out certain core responsibilities for the trustees and AMCs.

The key focus areas highlighted in the circular are as follows:

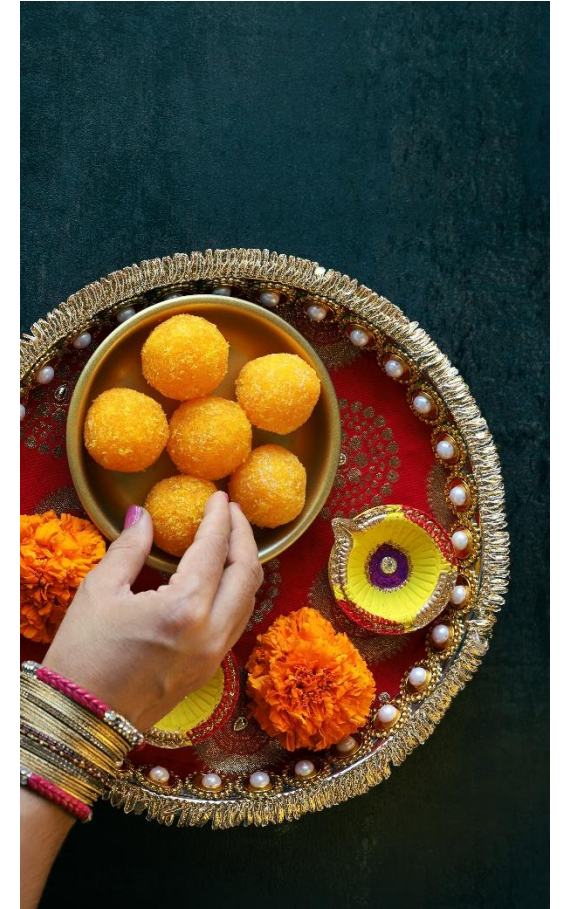
- **Core responsibilities:** The circular prescribes the core responsibilities for trustees which, *inter alia*, include:
 - a. The trustees should ensure fairness of the fees and expenses charged by the AMCs and should review their

performance in its schemes *vis-a-vis* performance of peers or the appropriate benchmark

- b. The trustees should take responsibility to address any conflict of interest between the shareholders/stakeholders/associates of the AMCs and unitholders
- c. The trustees should do independent evaluation of the compliance by AMCs in relation to the identified key areas
- d. The trustees should ensure that AMCs have system level checks in place to prevent fraudulent transactions including front running by employees, form splitting/mis-selling by distributors etc.
- e. The trustees should ensure the operations of AMCs should not be unduly influenced by the AMCs Sponsor, its associates and other stakeholders of AMCs and that undue or unfair advantage is not given by

AMCs to any of their associates/group entities.

- f. AMCs should have suitable mechanisms/systems to generate system based information/data/reports for evaluation and effective due diligence by trustees. Trustees should perform such reviews on a periodic basis.
 - g. AMCs should submit exception reports/analytical information to the trustees, that add value to the process of exercising their oversight role. The trustees shall evaluate the nature and adequacy of the alerts and the manner of dealing with such alerts by AMCs.
- **Third-party assurance:** The trustees should rely on third party fiduciaries such as audit firms, legal firms, merchant bankers, etc. for carrying out due diligence on their behalf.





- **Appointment of a trustee company and meeting between trustee company and AMCs:** As per the provisions of MF Regulations, if the trustee is a company, the chairperson of the board of directors of such a trustee company should be an independent director. In case of companies that have already been appointed as trustees of a mutual fund, an extended time period of six months provided to ensure compliance with the aforementioned requirement. Further, the board of directors of the AMCs and the board of directors of the trustee company should meet at least once a year to discuss the issues concerning the mutual fund, if any, and future course of action, wherever required.

- **Unit Holder Protection Committee (UHPC):** As per the provisions of MF Regulations, the AMC is required to constitute a UHPC. The circular prescribes the roles and responsibilities of UHPC which, *inter alia*, include review of the various compliance issues relating to protection of the interests of the unit holders and keeping the unit holders well informed and educated about mutual fund products, investor charter and compliant handling procedures. Annexure-1 to the circular provides the detailed guidelines for UHPC.

The provisions of this circular are effective from 1 January 2024.

Key takeaway

The focus has shifted from sole reliance on AMCs to the responsibility of Trustees to independently evaluate the extent of compliance by AMCs. Trustees should exercise due diligence over the systems and processes of the AMC and not merely rely on AMC submissions or external assurance.



(Source: SEBI circular no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2023/117 dated 7 July 2023)



Timeline for listing of specified securities in public issue

SEBI, through a circular issued on 9 August 2023, has revised the timeline for listing of specified securities in a public issue. As per the circular, the time taken for listing of specified securities has been reduced to three working days (**T+3 days**)⁶ as against the existing requirement of six working days (**T+6 days**). Additionally, the timelines for

various activities involved in the public issue process have also been revised and 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 would be applicable in following manner:

- 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)



6. 'T' being issue closing date



Updates relating to NCDs and NCRPs

I. Stricter norms for delisting

SEBI, through its notification dated 23 August 2023, has amended the Listing Regulations by inserting Chapter VI A on “Framework for Voluntary Delisting of Non-convertible debt securities or non-convertible redeemable preference shares and obligations of the listed entity on such delisting”.

The framework contains detailed procedures pertaining to, *inter-alia*, applicability of Chapter VI A, in-principle approval of the stock exchanges for the proposed delisting, obligations of the listed entity in case of the proposed delisting, procedure for sending a notice of delisting, approval from the holders and no objection letter from the debenture trustee, circumstances of delisting proposal that will be considered to have deemed to be failed, final application procedure for proposed listing, delisting from some stock

exchanges and compliance monitoring by the stock exchanges.

This amendment is effective from 23 August 2023.

(Sources: SEBI notification no. SEBI/LAD-NRO/GN/2023/149 dated 23 August 2023)

II. Revised format of an abridged prospectus

The SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations) defines an ‘abridged prospectus’ as a memorandum accompanying the application form for a public issue containing such salient features of a prospectus as specified by the Board. Further, in terms of Regulation 32(3) of the NCS Regulations, abridged prospectus should be in the format as specified in Part B of Schedule I of the NCS Regulations.

SEBI, through a circular issued on

4 September 2023, revised the format for disclosures in the abridged prospectus. The revised format of the abridged prospectus has been provided in Annexure I of the circular.

Key considerations from the circular are as follows:

- A copy of the abridged prospectus should be made available on the website of issuer, merchant bankers, registrar to an issuer and a link for downloading abridged prospectus should be provided in issue advertisement for the public issue.
- The issuer/merchant bankers should insert a Quick Response (QR) code on the last on the last page of the abridged prospectus that leads to the prospectus. Additionally, they should also insert a QR code on the front page of the documents leading to the prospectus or abridged prospectus as applicable.
- The issuer/merchant bankers should

ensure that the qualitative statements in the abridged prospectus should be substantiated with quantitative factors.

Effective date - The provisions of this circular will be applicable to all public issues opening on or after 1 October 2023.

(Sources: SEBI circular no. SEBI/HO/DDHS/PoD1/CIR/P/2023/150 dated 4 September 2023)





Framework for CDMDF

In June 2023, SEBI amended the SEBI (Alternative Investment Funds) Regulations, 2012 in order to constitute a new category of Alternate Investment Funds (AIFs) called the Corporate Debt Market Development Fund (CDMDF).

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).

Considering the above-mentioned developments, on 26 July 2023, the Ministry of Finance issued Guarantee Scheme for Corporate Debt (GSCD). This announcement provides the objective and requirements of GSCD and the framework for CDMDF.

The GSCD would provide guarantee cover against the debt raised/to be raised by 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.

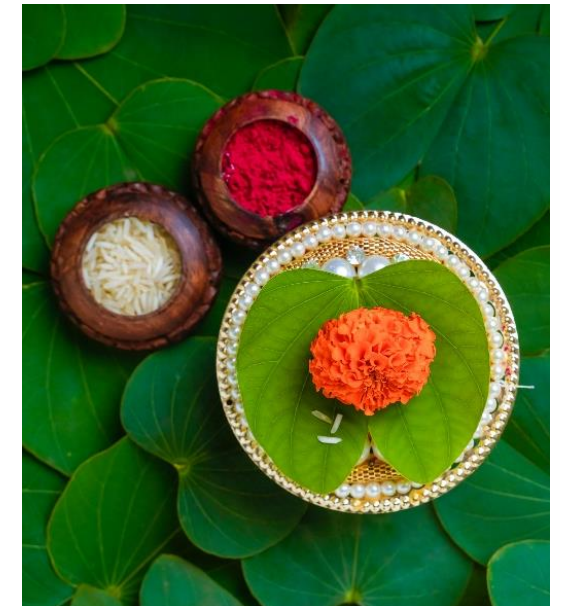
Some of the important points to consider for SEBI's circular are as follows:

I. Framework for CDMDF

- **Type of securities:** CDMDF should deal only in the 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 there 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 11pm 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

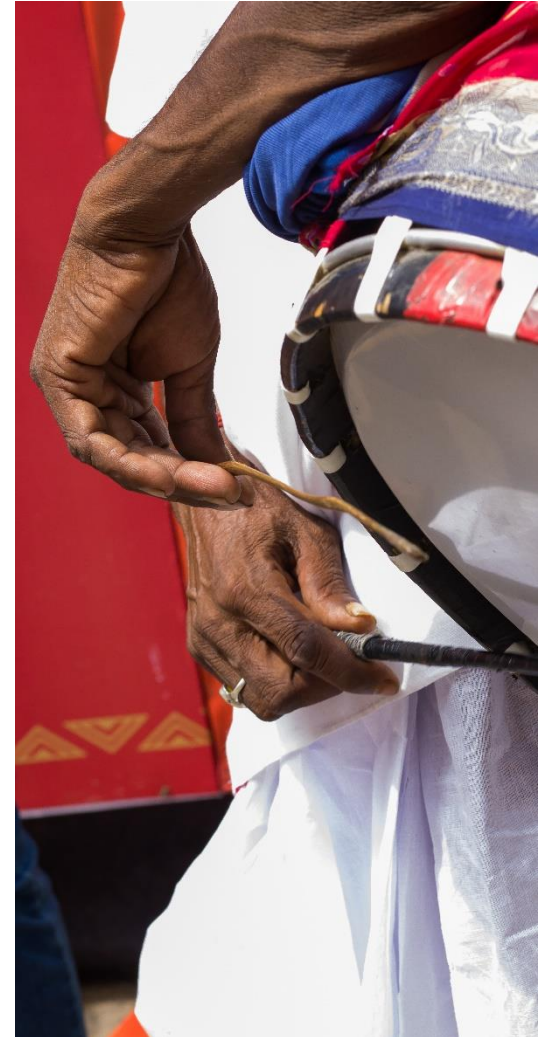
be any return or redemption from CDMDF.

- **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 percent 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 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.





SEBI updates



RBI updates



Other updates

- **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.

Further, on 6 September 2023, SEBI issued a circular clarifying that for calculation of asset allocation limits of mutual fund schemes in terms of Part IV of Chapter 2 on 'Categorization and Rationalization of Mutual Fund Schemes' of Master Circular for Mutual Funds dated 19 May 2023, investment in units of CDMDf should be excluded from base of net assets, with immediate effect.

(Source: Ministry of Finance, Department of Economic Affairs, notification no. G.S.R. 559(E) issued on 26 July 2023, 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 and SEBI circular no. SEBI/HO/IMD/PoD2/P/CIR/2023/152 dated 6 September 2023)





Revised norms for classification and valuation of investments by banks

The existing regulatory framework on classification and valuation of investment portfolio for commercial banks is based on a framework introduced in October 2000. However, considering the significant development in global financial reporting standards, the linkages with the capital adequacy framework as well as progress in the domestic financial markets, the Reserve Bank of India (RBI) issued a discussion paper in 2021 to revise the regulatory framework for the investment portfolio.

Subsequently, on 12 September 2023, RBI has issued the RBI (Classification, Valuation and Operation of Investment Portfolio of Commercial Banks) Directions, 2023 that lay down a regulatory framework for the investment portfolio of commercial banks given the significant development in global financial reporting standards, the linkages with the capital adequacy framework as well as progress in the domestic financial markets.

The revised directions include principle-based classification of investment portfolio, tightening of regulations around transfers to/from Held To Maturity (HTM) category and sales out of HTM, inclusion of non-SLR (Statutory Liquidity Ratio) securities in HTM subject to fulfilment of certain conditions and

symmetric recognition of gains and losses. Some of the key points of the revised directions are as follows:

Categorisation of investments: The revised directions require banks to classify their investment portfolios into three main categories:

- **Held to Maturity (HTM):** Investments under this category are acquired with the intention and objective of holding it to maturity and these securities should provide regular principal and interest payments.
- **Available for Sale (AFS):** Investments under this category are acquired with an objective of collecting contractual cash flows and having the option of selling securities.
- **Fair Value through Profit and Loss (FVTPL):** This is a new category introduced by RBI and includes securities that do not qualify for HTM or AFS. Securities in this category are valued at fair market value, and any gains or losses are directly reflected in the bank's profit and loss account.

Initial recognition: All investments should be measured at fair value on initial recognition. As per the revised directions, it should be

presumed that the acquisition cost is the fair value, unless facts and circumstances suggest that the fair value is materially different from the acquisition cost.

Subsequent measurement: The subsequent treatment of securities varies depending on their categorisation, such as the following:

- **Held to Maturity (HTM):** Securities under this category should be carried at cost and will not be marked to market after initial recognition. Any discounts or premiums on securities under HTM category should be amortised over the remaining life of the instrument.
- **Available for Sale (AFS):** The AFS securities should be fair valued at least quarterly. Amortisation of discounts or premiums on debt securities under this category should be applied over the remaining life of the instrument.
- **Fair Value through Profit and Loss (FVTPL):** Securities in the FVTPL category should be fair-valued, and any gains or losses arising on such valuation should be directly credited or debited to the profit and loss account.

Impairment evaluation: Banks are required to assess the impairment of investments in subsidiaries, associates, and joint ventures at

least every quarter. Various indicators, such as defaults in debt repayments, credit rating downgrades, delisting of outstanding securities, significant declines in fair value etc. will trigger the need for impairment evaluation. In such cases, banks must obtain an independent valuation and make provisions for impairment if required.

Effective date: The revised regulatory framework is applicable from 1 April 2024 to all commercial banks excluding regional rural banks.

Also refer to KPMG in India's First Notes 'The Reserve Bank of India amends the classification and valuation norms for investments held by banks' dated 4 October 2023.

Key takeaway

The revised directions are largely aligned with the principles of Ind AS regarding the classification, reclassification, initial recognition and disclosure requirements of investments.

(Sources: RBI Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023 dated 12 September 2023)



Extension for conducting AGMs and EGMs through video conference

On 25 September 2023, the Ministry of Corporate Affairs (MCA) notified that the companies whose Annual General Meetings (AGMs) are due in 2023 or 2024, can conduct its AGM through Video Conference (VC) or Other Audio Visual Means (OAVM) on or before **30 September 2024**. Additionally, companies are required to comply with all the requirements laid down in General Circulars⁷ previously issued by MCA, such as relaxation from dispatching of physical copies of the financial statements (including Board's report, Auditor's report or other documents required to be attached therewith) etc.

However, the circular clarifies that this would not imply conferring any extension of the time for holding the AGMs by the companies and accordingly, the companies which do not adhere to the relevant

statutory timelines, would be liable to legal consequences under the relevant provisions of the 2013 Act.

The extension would also apply in case of Extraordinary General Meetings (EGMs).

Considering the relaxation provided by MCA, SEBI issued two circulars dated 6 October 2023 and 7 October 2023 to extend the applicability of certain provisions of the Listing Regulations⁸ pertaining to dispatch of physical copies of the financial statements (including Board's report, Auditor's report or other documents required to be attached therewith) and holding virtual meetings till 30 September 2024 (*earlier 30 September 2023*).

(Source: MCA general circular no. 09/2023 dated 25 September 2023, SEBI circular no. SEBI/HO/DDHS/P/CIR/2023/0164 dated 6 October 2023 and SEBI/HO/CFD/CFD-PoD-2/P/CIR/2023/167 dated 7 October 2023)



7. General Circular No. 20/2020 dated 5 May 2020
General Circular No. 14/2020 dated 8 April 2020
General Circular No. 03/2022 dated 5 May 2022
General Circular No. 11/2022 dated 28 Dec 2022

8. Regulation 36(1)(b) of the Listing Regulation applicable to listed entities that have issued specified securities and Regulation 58(1)(b) of the Listing Regulation applicable to issuers of listed Non-Convertible Securities



Clarification related to documents issued by ICAI

The ICAI has issued various Guidance Notes on various accounting and auditing matters. Members have raised request to seek clarification regarding the level of authority attached to the various documents issued by the ICAI and the degree of compliance required in respect thereof.

Consequently, on 19 August 2023, ICAI issued a clarification stating that the accounting and auditing standards issued by ICAI have to be **mandatorily** complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards and that auditors carry out their audits in accordance with the generally accepted auditing practices.

However, the guidance notes issued by ICAI are recommendatory in nature and are issued to assist professional accountants in implementing the Engagement Standards and the Standards on Quality Control issued under the authority of the Council. A professional accountant who does not consider and apply the guidance included in a relevant Guidance Note should perform alternate procedures. Additionally, the professional accountant is required to document the rationale in performing the alternate procedures. Similarly, auditors need to consider providing a disclosure in the audit report in cases where the guidance note has not been followed.

[\(Source: Clarification issued by ICAI on 19 August 2023\)](#)





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 audit of NBFCs (2023 version)	<p>The Technical Guide deals with various aspects of audit of NBFCs such as introduction of NBFCs, points for consideration in audit of NBFCs, financial reporting framework, auditing framework, areas of audit concern, operations of NBFCs, governance etc.</p> <p>It contains illustrative templates of audit report / certificate, illustrative audit checklist, illustrative list of master directions, circulars, RBI notifications, illustrative disclosure norms for NBFCs, illustrative list of returns to be submitted by NBFCs etc.</p>
Guidance note	
Guidance note on tax audit (revised in 2023)	<p>The Guidance Note has been specifically revised keeping in view the amendments made to the Finance Act, 2023 and tax audit forms applicable as on date (Form No. 3CA/3CB/3CD).</p>
Guidance note on financial statements of LLPs and non-corporate entities	<p>The guidance note on financial statements of Limited Liability Partnerships (LLPs) and non-corporate entities aims to provide guidance for enhancing the quality, comparability and comprehensiveness of financial reporting by such entities and also includes the relevant authoritative guidance.</p> <p>Further, ICAI has also upgraded the technical guides issued earlier in June 2022, into the mentioned guidance note.</p>
Others	
Audit working paper templates	<p>Audit work papers are a crucial component of the statutory audit. SA 230, Audit Documentation emphasises the importance of audit documentation as evidence that the audit was planned and performed in accordance with Standards on Auditing (SAs) and applicable legal and regulatory requirements.</p> <p>The publication issued with an aim to help the auditors in preparing their audit working papers in a consistent and an effective manner. It consists of templates of various audit working papers which are required to be prepared by auditors during the course of their audit assignment. These templates are prepared in accordance with the requirements of SAs, Schedule III of the 2013 Act, CARO 2020 etc.</p>



SEBI updates



RBI updates



Other updates

Others (cont.)

Compendium of Forensic Accounting and Investigation Standards

ICAI issued Forensic Accounting and Investigation Standards (FAIS) which are effective from 1 July 2023. Considering this, ICAI issued a revised compendium of FAIS (the compendium). The compendium encompasses the latest best practices, methodologies and guidance to ensure that the practitioners are equipped with the latest tools and knowledge in the domain of forensic accounting.

Case studies on excellency in financial reporting

The case studies would aid in providing the stakeholders with cases of contextual issues, events and conditions, citing several practices and theories and enhance the overall understanding and knowledge of implementing Ind AS.

Indian Accounting Standards (Ind AS): An overview (Revised 2023)

The publication contains an overview of the various aspects related to Ind AS, including:

- Summary of all the Ind AS
- Carve-outs from IFRS/IAS
- Changes in financial reporting under Ind AS, compared to financial reporting under Accounting Standards (AS), etc.

The publication incorporates all the amendments made to Ind AS till June 2023.

Frequently Asked Questions (FAQs) on Unique Document Identification Number (UDIN)

The concept of UDIN was introduced to counter misrepresentation of Chartered Accountants (CAs) and forgeries of signatures of CAs that mislead the authorities and stakeholders relying upon such documents and certificates.

The updated version of FAQs on UDIN consider the recent developments at the e-filing portal for UDIN updation. Additionally, new and a few commonly asked queries have been included in this edition of the FAQs for guiding the members.

(Source: Technical guide on audit of NBFCs (2023 version), Guidance note on tax audit (revised in 2023) issued by ICAI, Audit working paper templates issued on 3 July 2023, Case studies on excellency in financial reporting July 2023 edition, Compendium of Forensic Accounting and Investigation Standards July 2023 edition, Guidance note on financial statements of LLPs and Non-Corporate entities August 2023 edition, Ind AS (Revised 2023) July 2023 edition, FAQ on UDIN September 2023 edition)



SEBI updates



RBI updates



Other updates

EAC opinions issued by ICAI during the quarter ended 30 September 2023

Topic	Month
Accounting treatment of export incentives	August 2023
Recognition of interest on mobilization advance against project contracts under Ind AS Framework	September 2023

(Source: The Chartered Accountant – ICAI Journal for the month of August 2023 and September 2023)





SEBI updates



RBI updates



Other updates



First Notes

The Reserve Bank of India amends the classification and valuation norms for investments held by banks

Banks are currently required to follow the Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021 (2021 regulations) for the classification and valuation of their investment portfolio. With significant developments in the global standards on classification, measurement and valuation of investments (i.e. IFRS), the linkages with the capital adequacy framework as well as progress in the domestic financial markets, there was a need to review and update the 2021 regulations.

Accordingly, on 12 September 2023, the Reserve Bank of India (RBI) issued revised regulatory guidelines on investment classification and valuation - the Master Directions – Classification, Valuation and Operations of Investment Portfolio of Commercial Banks (Directions), 2023 (2023 guidelines).

This issue of the First Notes provides an overview of the of the key changes in the 2023 guidelines and how these changes conform with Ind AS (which are largely aligned with IFRS).

To access the First Notes, please [click here](#).



Accounting and Auditing Update

Issue No. 86 – September 2023

The concept of going concern is a fundamental principle for preparation of financial statements. Recently, the International Auditing and Assurance Standards Board (IAASB) issued an exposure draft of ISA 570 (Revised 202X) (ED-570) which aims to enhance the transparency with respect to the auditor’s responsibilities and work related to going concern. This edition of Accounting and Auditing Update (AAU) contains an article on this topic which highlights the proposed revisions to the auditing standard on going concern.

Considering that investors and asset managers are key pillars in the sustainable finance structure, the Securities and Exchange Board of India (SEBI) in June 2023 amended the SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) to include provisions relating to ESG schemes and investing. Subsequently in July 2023, SEBI prescribed certain key measures to facilitate green financing with a thrust on enhanced disclosures and mitigation of green washing risk (circular on ESG investing). Our second article aims to provide an overview of the recent developments relating to ESG investing.

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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