Accounting and Auditing Update

Issue no. 90/2024

Editorial

Ind AS 115, *Revenue from Contracts with Customers* deals with a wide range of transactions including digital and intangible goods and services, subscription services and online platforms with innovative incentives, etc. As these goods and services are complex products, there could be challenges in interpreting the requirements of the standards or providing additional disclosures which would be useful to investors for understanding the contracts. This edition of Accounting and Auditing Update (AAU) contains an article on key accounting and financial reporting issues which aims to highlight the key areas related to revenue recognition with the help of illustrative examples and case study.

Securitisation is used to monetise financial assets such as homogeneous consumer loans, credit card receivables, trade receivables or mortgage loans by selling newly created securities collateralised by these financial assets to investors. Such transactions are often executed using structured entities having limited activities. The purpose of such structured entities is to hold the interests in the securitised financial assets and to pass through cash flows earned on these financial assets to the investors. If financial assets are securitised using a structured entity, then determining whether those financial assets should be derecognised may be a complex issue and would need further assessment of the principles enunciated in Ind AS 109, *Financial Instruments*. Recently, the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) deliberated on the accounting and disclosure of the sale consideration received from the Special Purpose Vehicle (SPV) and the investment in Pass Through Certificates (PTCs) by the originator under a securitisation arrangement. The publication carries an article on this topic which aims to discuss some of the key factors discussed by the EAC in reaching its opinion.

There have been various regulatory developments in India and internationally during the month. Recently, the Securities Exchange Board of India (SEBI) issued various proposals under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulation) and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations). The key proposals relate to applicability of LODR regulations based on market capitalisation, revised framework for verification of market rumours, timeline for prior intimation of board meetings, minimum promoters' contribution Regulation etc. Further, the Reserve Bank of India (RBI) imposes restrictions for investments in Alternative Investment Funds (AIFs) by Regulated entities (REs)[1]. Also, the International Accounting Standards Board (IASB) amended the non-climate-related content in the Sustainability Accounting Standards Board (SASB) standards to enhance their international applicability. Our regulatory updates articles cover these and other important regulatory developments.

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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1. REs include all commercial banks (including small finance banks, local area banks and regional rural banks), all primary (urban) co-operative banks/state co-operative banks/central co-operative banks, all All-India Financial Institutions and all non-banking financial companies (including housing finance companies)

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CHAPTER 1

Key accounting and financial reporting issues-Revenue recognition

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CHAPTER 1

Key accounting and financial reporting issues- Revenue recognition

Background

Ind AS 115, *Revenue from Contracts with Customers*, is designed to deal with a wide range of transactions and to accommodate changes in the global economy. This includes an extraordinary expansion in digital and intangible goods and services, the rapid growth of subscription services and the creation of new online platforms with innovative incentives, etc. But changes can bring challenges in interpreting the requirements of the standards or providing additional disclosures which would be useful to investors for understanding the contracts.

With this background, in this issue we will touch upon some of the key areas that regulators have highlighted and provided improvement points in the area of **revenue recognition.** We have also provided illustrations of disclosures from thematic reviews performed by the Financial Reporting Council (FRC) and illustrative disclosures issued by KPMG IFRG Limited in 2023 and by KPMG in India in 2023.

Source

While preparing this article, we have referred to:

- The recent observations of the National Financial Reporting Authority (NFRA),
- The Report on Audit Quality Review issued by the Quality Review Board issued in October 2023,
- The Ind AS observations of the Financial Reporting Review Board (FRRB) of the Institute of Chartered Accountants of India (ICAI),
- The report- Annual Review of Corporate Reporting (2022/23) issued by the Financial Reporting Council, and
- Recent ESMA[1] enforcement directions.

1. European Securities and Markets Authority.

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Key issues and recommendations pertaining to revenue recognition

Some of the key issues and recommendations pertaining to revenue recognition is given below:

Accounting policies

Comprehensive accounting policies are essential for an appropriate understanding of the revenue recognised. In this regard, some of the key observations of the regulators were:

- **Returns, refunds and similar obligations:** Ind AS 115 requires companies to disclose information about its performance obligations in contracts with customers. It has been reiterated that such a disclosure should *inter alia* include a description of the obligations for returns, refunds and other similar obligations. Additionally, significant judgements made by companies in application of this standard, including the methods, inputs and assumptions used in measuring such obligations should be disclosed[2]. Companies are also required to disclose the significant payment terms of the contract.

An example disclosure is given below.

Accounting policy on revenue recognition (including obligations for returns, etc.)	
Nature and timing of satisfaction of performance obligations, including significant payment terms	**Revenue recognition policies**
Customers obtain control of standard paper products when the goods are delivered to and have been accepted at their premises. Some contracts permit the customer to return an item. Returned goods are exchanged only for new goods – i.e. no cash refunds are offered.	Revenue is recognised when the goods are delivered and have been accepted by the customers at their premises. For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data for specific types of paper, size, finish, etc. In these circumstances, a refund liability and a right to recover returned goods asset are recognised. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables (see Note 29) and the right to recover returned goods is included in inventory (see Note 17). The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

(Source: Illustrative disclosures: KPMG in India's analysis 2024 read with guide to annual financial statements issued by KPMG IFRG Limited, in September 2023)

2. Refer paragraphs Ind AS 115.119

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- **Policy for recognition of interest income:** Interest income on financial assets is recognised in accordance with Ind AS 109, *Financial Instruments.* Accordingly, for non-financial service companies, the policy on interest income should be disclosed separately from the policy on contracts with customers. An example disclosure is given below:

Accounting policy on recognition of interest income

Dividend income is recognised in profit or loss on the date on which the group's right to receive payment is established.

Interest income or expense is recognised using the effective interest method

The effective interest rate is a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset or
- The amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(Source: Illustrative disclosures: Illustrative Ind AS consolidated financial statements issued by KPMG in India, issued in March 2023)

Reconciliations of amounts recognised in the financial statements

Considering the adjustments required to be made by Ind AS 115 while computing revenue, contract assets and liabilities, reconciliations of these amounts are required to be made for a better understanding of the contracts with customers. Few of the observations include:

- **Reconciliation of contract liabilities:** With regard to contract liabilities, Ind AS 115 requires entities to *inter alia* disclose the opening and closing balances and an explanation of significant changes in these balances during the reporting periods (i.e. a reconciliation)[3]. It has been clarified, that while providing such reconciliation, details of both, the deferred revenue and advances from customers should be provided. Such a reconciliation could be in a tabular form or in the form of a paragraph. An example disclosure is given below:

Reconciliation of contract liabilities

The contract liabilities primarily relate to the advance consideration received from customers for construction of storage units and warehouses, for which revenue is recognised over time, and to the unredeemed customer loyalty points. The amount of unredeemed customer loyalty points is INR50 lakhs (31 March 2022: INR22 lakhs).
This will be recognised as revenue when the points are redeemed by customers which is expected to occur over the next two years.
The amount of INR166 lakhs included in contract liabilities at 31 March 2022 has been recognised as revenue during the year ended 31 March 23 (31 March 22: INR140 lakhs).

(Source: Illustrative disclosures: Illustrative Ind AS consolidated financial statements issued by KPMG in India, issued in March 2023)

3. Para 116 read with para 118 of Ind AS 115.

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- **Reconciliation of revenue recognised in the statement of profit and loss:** As per Ind AS 115, a reconciliation of the amount of revenue recognised in the statement of profit and loss with the contracted price should be provided. It has been reiterated that such a reconciliation should separately show the adjustments made to the contract price, and specify the nature and amount of such adjustments. For example, adjustments on account of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, etc. An example disclosure is given below.

Reconciliation of revenue recognised with the contracted price

In lakhs of INR	**Year ended 31 March 2023**	Year ended 31 March 2022
Revenue as per contracted price	**103,430**	97,346
Adjuststments for:		
Contract liabilities - Loyalty programme	(48)	(42)
Refund liabilities	(988)	(883)
Total revenue from contract with customers	**102,394**	**96,421**

(Source: Illustrative disclosures: Illustrative Ind AS consolidated financial statements issued by KPMG in India, issued in March 2023)

Variable consideration

Where a contract includes a variable consideration, the amount of consideration to which an entity will be entitled needs to be estimated. However, the estimation will be constrained to the extent that it is highly probable that a significant reversal in revenue does not occur when the uncertainty is subsequently resolved. To determine the extent to which the estimation of variable consideration should be constrained, entities should consider both, the likelihood and magnitude of revenue reversal[4]. It has been observed that when material variable consideration exists, sufficient company-specific information should be provided to explain how it arises and how it is estimated and constrained. Below are two examples of computing how variable consideration is constrained.

Example 1: Constraint to variable consideration is based on a computation

Variable consideration, such as price or scope amendments, is included based on the expected value or most likely amount. **A constraint is included unless it is highly probable that the revenue will not significantly reverse in the future. This constraint is calculated based on a cautious expectation of the life of certain Risk and Revenue Sharing Partnerships and by assessing the impact of a 10 per cent reduction in expected spares sales.** Variations in contract work, claims and incentive payments are included in revenue from construction contracts based on an estimate of the expected value the Group expects to receive. Variations are included when the customer has agreed to the variation or acknowledged liability for the variation in principle.

(Source: IFRS 15 Thematic Review: Review of Disclosures in the First Year of Application issued by the Financial Reporting Council in October 2019)

4. Para 56 and 57 of Ind AS 115

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Example 2: Constraint to variable consideration is based on milestones defined

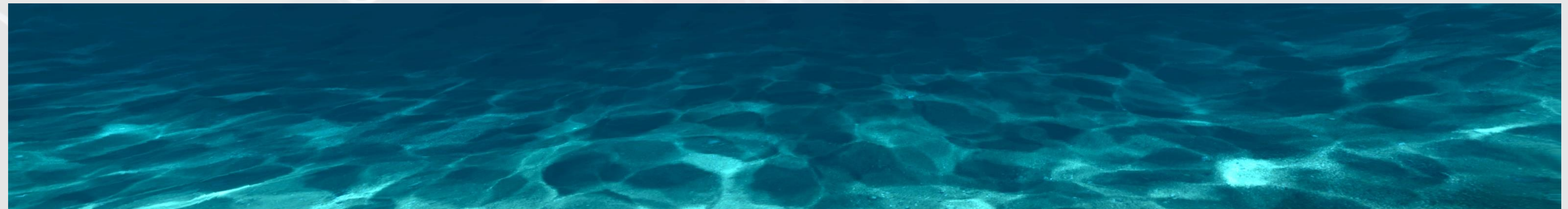
Variable consideration includes the estimate of payments in the form of contingent development-related and regulatory approval milestones. **These milestones are included in the transaction price when the most likely outcome is that they will be received. Once this is established, the entire transaction price is constrained to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. The estimate is reassessed for each reporting period.** The initial transaction price for the development of the generic ABC portfolio with XYZ has been assessed as $20.0m, which includes a second $5.0m milestone due on completion of the device development services. **The second milestone is being constrained (i.e. not recognised) until completion is considered highly probable.** If this $5.0m milestone had not been constrained, additional revenue of £3.1m (2018: £2.2m) would have been recognised in 2019.

(Source: IFRS 15 'Revenue from Contracts with Customers' A follow up thematic review issued by the Financial Reporting Council in September 2020)

Significant judgements

Significant judgements made when applying Ind AS 115 that affect the amount and timing of revenue recognition should be clearly explained and be company-specific. Any disclosures about significant judgements under Ind AS 115 are in addition to the requirements of Ind AS 1, *Presentation of Financial Statements,* and companies should note that a judgement that would not ordinarily qualify for disclosure under Ind AS 1 may still need to be disclosed under Ind AS 115. Some of the judgements made by companies, that need improvement, as per the observation of the regulators include the following:

- **Principal versus agent considerations:** When another party is involved in providing goods or services to a customer, the entity should determine whether the nature of its promise is aperformance obligation to provide the specified goods or services itself (i.e. the entity is a principal)[5] or to arrange for those goods or services to be provided by the other party (i.e. the entity is an agent) . This assessment is required to be done by the entity for each significant good or service provided, based on stipulated guidelines and requires the exercise of judgement.



5. Paragraphs B34-B38 of Ind AS 115 provide further guidance on this.

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Below is a case study issued by ESMA pertaining to the assessment of whether an entity is a principal or agent in a contract

ESMA case study on principal vs agent*

Facts of the case:

- The issuer is an IT provider offering the sale of standard software licences as an authorised sales partner of software developers.
- The issuer was granted a non-exclusive right to resell software licenses to customers.
- The issuer is required to provide pre-sale advisory services to ensure that customers received a suitable software solution and purchased a sufficient number of licences.
- After receiving a purchase commitment from the customer, the issuer submitted orders for software licences to the developer, which the latter could accept or reject. The issuer had complete discretion to negotiate prices (except for some special discounts for particular customers that must be passed through).
- The software developer granted the customer the right to use the software and assured the functionality of the software.

Assessment:

- Ind AS 115 requires entities to:
  - Identify the specified goods or services to be provided to the customer, and
  - Assess whether an entity controls each specified good or service before it is transferred.
- Pre-sales advice the issuer provides is not an implicit promise in a contract with a customer. Accordingly, the software licenses are distinct goods provided to the customer
- Software manufacturer is responsible for the software's functionality as well as issuing and activating the licenses
- The issuer had only insignificant inventory risk
- The issuer is responsible for fulfilling the promise to provide the license to the customer
- The issuer had limited discretion in establishing prices (or negotiating prices)
- The issuer did not have the ability to direct the use of or substantially obtain all of the remaining benefits of the software.

Conclusion: Based on the above factors, the issuer acted as an agent of the software manufacturer.

** A similar matter was discussed by the IFRS Interpretations Committee (IFRIC) in IFRS IFRIC Update in April 2022 [6]*

(Source: 28th Extract from the FRWG (EECS)'s Database of Enforcement issued by the European Securities and Markets Authority on 9 October 2023)

6. IFRS - Tentative Agenda Decision and comment letters: Principal versus Agent: Software Reseller IFRS 15

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Regulators have also reiterated the need to disclose the judgements made by the entity, basis which they determine whether they are acting as a principal or an agent in a contract.

- **Allocation of transaction price:** When a contract has multiple performance obligations, the transaction price should be allocated to each performance obligation in an amount that depicts the amount of consideration that an entity expects to receive in exchange for transferring the promised goods or services. Further guidance on these allocation has been prescribed in the standard[7]. The regulators remarked that these disclosures should convey significant judgements made in determining the amounts allocated such as the method used to estimate the stand-alone selling price and why this is suitable and (if relevant) why discounts have been allocated to certain performance obligations rather than proportionately across all performance obligations.
- **Timing of satisfaction of performance obligation:** The timing of satisfaction of performance obligation is a significant judgement that significantly affects the determination of the amount and timing of revenue from contracts with customers. Performance obligations could be satisfied over time or at a point in time. In both these cases, disclosures have been prescribed by the accounting standard. The regulators have indicated that though companies have made statements about a specific application of the standard, the judgements that led to the chosen accounting treatment should also be provided.

Given below is an example disclosure for the same:

Example of disclosure of why revenue is recognised over time

Revenue has been recognised over time, rather than at a point in time, following judgement made on the Group's enforceable right to payment under certain contracts with the Ministry of Defence, where there is a right for the customer to terminate without cause and prior to contract completion under various versions of the contracts. Under these contacts there is no explicitly stated right of recovery of profit, however there is an implication that this is allowed for within such contract wording. **The revenue recognition determination under these contracts has taken this implied wording into account. This judgement is based on management's understanding of the commercial reality underlying such contracts, and experience of similar contracts which do contain explicit rights to recover profit.**

(Source: IFRS 15 'Revenue from Contracts with Customers' A follow up thematic review issued by the Financial Reporting Council in September 2020)

7. Para 73 of Ind AS 115

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Disclosure tips

- Ensure completeness of disclosures about judgements - those that would not ordinarily qualify for disclosure under Ind AS 1 may still need to be disclosed under Ind AS 115.
- Ensure disclosures about significant judgements are consistent with information in other areas of the annual report such as the Audit Committee Report or the Independent Auditor's Report
- For companies in industries where readers might expect there to be significant judgements made in relation to revenue, it may be helpful to clarify when management has concluded that such judgements are not significant or are immaterial, rather than remaining silent.
- Where judgements also involve significant estimation uncertainty, ensure quantitative disclosures are also provided. Ind AS 1 provides examples of this information, such as sensitivities or ranges of potential outcomes.

(Source: IFRS 15 'Revenue from Contracts with Customers' A follow up thematic review issued by the Financial Reporting Council in September 2020)

Disaggregation of revenue

An entity should disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Additionally, the relationship between the disclosure of disaggregated revenue and revenue for each reportable segment (under Ind AS 108, Operating Segments) should be provided. Ind AS 115 provides guidance on selecting the categories for disaggregation of revenue [8]. Below is a case study issued by ESMA on disaggregation of revenue.

ESMA case study on disaggregation of revenue

Facts of the case:

- The issuer operates in the animal health sector and sells both veterinary drugs and non-medicinal products. The issuer operates in a number of geographical regions.
- The issuer has provided a disaggregation of revenue according to its geographical operating segment. This is because
  a. the issuer believes it has only one significant type of activity, which is animal health,
  b. cash flows arising from its activities are affected by the same economic factors and
  c. disaggregation of revenue by markets does not provide useful information to the investors.

8. Para 114, 115 read with B87-B89 of Ind AS 115

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Assessment: The regulator assessed that:

- The economic factors that drive revenue in each market (livestock/pet) were not identical. Since revenue from livestock primarily depend on economics of livestock and agriculture[9] and revenue from pet products primarily depend on other factors[10].
- The issuer had disclosed in the prospectus that both the markets had evolved differently during the year.
- As per Ind AS 115, when selecting the type of category (or categories) to use to disaggregate revenue, an entity should *inter alia* consider how information about the entity's revenue has been presented for other purposes, including all of the following: (a) disclosures presented outside the financial statements (for example, in earnings releases, annual reports or investor presentations).'
- In the management report, the issuer separately discloses quantitative information on revenue arising from livestock products and pet products.

Conclusion: It was concluded that the disaggregation of revenue by main type of products (pets, livestock) disclosed by the issuer in the management report should have been included in the financial statements to comply with the requirements of Ind AS 115.

(Source: 27th Extract from the EECS's Database of Enforcement issued by the European Securities and Markets Authority on 29 March 2023)

With regard to disclosure of disaggregation of revenue, it was noted that the most common categories of disaggregation used by companies were geographical region or type of good or service. However, one company thoughtfully presented in its Chief Executive's review the proportion of revenue by size of order, explaining that smaller orders (<£100,000) generated three quarters of total revenue, while the largest orders (>£1m) just 5 per cent of revenue. This was important as it demonstrated that revenue was largely dependent on customers' operational, rather than capital, budgets. Changes in revenue composition could then be linked to underlying economic conditions. Regulators commented that where such relevant analysis has been done by management, it should be cross referred to in the financial statements.

9. Such as animal pandemics or changes in consumers' eating habits
10. Such as the purchasing power of pet owners

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Inflationary features in contracts

Companies should note that considering the current volatile economic environment may include inflationary features. In such cases, inflationary features in contracts with customers and accounting for such clauses (that is, whether the feature is an embedded derivative or variable consideration) should be adequately disclosed and explained clearly.

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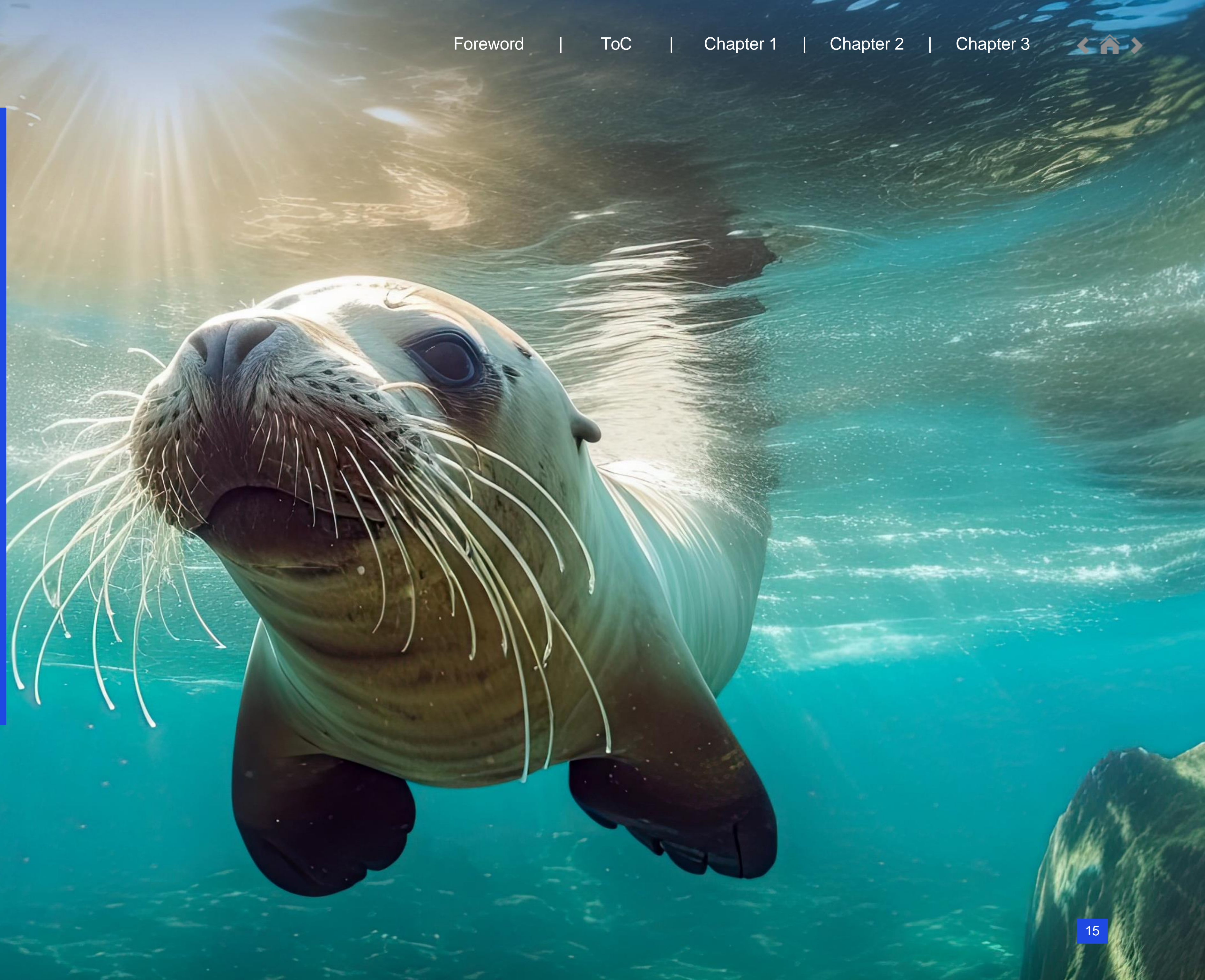
CHAPTER 2

Securitisation arrangement involving investments in Pass Through Certificate (PTC) securities

This article aims to:

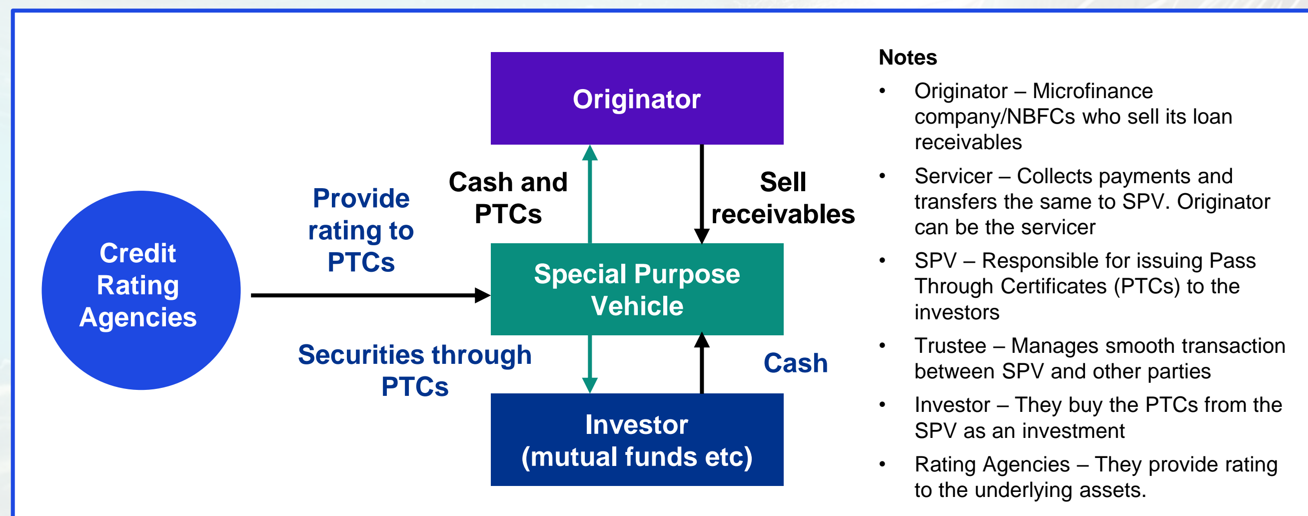
Provide guidance on the presentation and disclosure of investments in PTCs and covers a recent EAC opinion issued on the same topic.



Introduction

Entities commonly use securitisations to monetise financial assets - such as homogeneous consumer loans, credit card receivables, trade receivables or mortgage loans - by selling newly created securities collateralised by these financial assets to investors. Such securitisation transactions are often executed using structured entities that have limited activities. The purpose of the structured entities is to hold the interests in the securitised financial assets and to pass through cash flows earned on these financial assets to the investors in the securities issued by the structured entities. In a typical securitisation, the transferring entity assigns financial assets to the structured entity in return for cash proceeds. The transfer of financial assets, issue of notes to investors and payment of proceeds to the transferor usually take place simultaneously. Figure 1 below, depicts a typical securitisation arrangement.

Figure 1 – A typical securitisation arrangement



(Source: KPMG in India's analysis, 2024)

If financial assets are securitised using a structured entity, then determining whether those financial assets should be derecognised may be a complex issue and would need further assessment of the principles enunciated in Ind AS 109, *Financial Instruments.* In many securitisation transactions involving structured entities, the pass-through requirements will be difficult to achieve or will not be met. In addition, because the purpose of a securitisation is often to raise highly rated, low-cost finance, the transferor typically provides some form of credit enhancement to the structured entity. For example, the transferor may provide additional collateral to the structured entity in the form of loans or cash, or may provide a guarantee to the investors in the securities issued by the structured entity.

The Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) deliberated on the accounting and disclosure of the sale consideration received from **the SPV and the investment in PTCs by the originator under a securitisation arrangement**[1]. This article aims to discuss some of the key factors discussed by the EAC in reaching its opinion.

Facts of the case

The originator is a Non-Banking Financial Company (NBFC) primarily into retail lending (the company or the originator). In order to source funds for carrying out operations and managing liquidity, it uses the securitisation route by selling its loan receivables at par to an SPV. The SPV, created in the form of a trust, has issued PTCs to the investors for raising funds to pay the purchase consideration of the receivables. The company has provided a fixed deposit to the SPV as a credit enhancement for this arrangement.

In order to comply with the MRR, the company has also **subscribed to the PTCs representing seven per cent of the principal outstanding.** On the deal date of transferring receivables, the company transferred its subscription amount to the trust bank account and has received the full purchase consideration from the trust for securitising the receivables.

1. The Reserve Bank of India, in the Master Direction – Reserve Bank of India (Securitisation of Standard Assets) Directions, 2021 also mandates originators to procure a certain portion of the PTCs issued by the structured entities as Minimum Retention Requriement (MRR).

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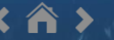

The company, in this arrangement, continues to service the receivables and is responsible for passing on the monthly collections of the underlying securitised receivables to the trust. Each PTC evidences the PTC holder's respective pro rata share and undivided beneficial interest in the underlying assets on a pari passu basis with other PTC holders.

In the financial statements of the company:

- The sale consideration received from the SPV for the loan portfolio is treated as borrowings and disclosed as a separate line item in the financial statements
- Credit enhancement provided by way of fixed deposit with banks is disclosed separately as part of bank balances other than cash and cash equivalents
- Investment in PTCs is netted off against securitisation borrowings in the financial statements with an appropriate disclosure note.

The query relates to the above-mentioned presentation and disclosure of investments in PTCs and securitisation borrowings in the financial statements of the originator.

Analysing the EAC opinion

The above mentioned case may be evaluated in the following sections:

A. Derecognition of loan by the company

As per Ind AS 109, the assessment for derecognition of financial assets is generally applied to the consolidated financial statements of an entity as it avoids the unnecessary consideration of transactions between individual entities in a group, the effect of which is eliminated on consolidation[2]. However, for the purpose of this article, we will apply these principles to the separate financial statements of the originator.

Key considerations

When derecognition is assessed at the consolidated level, the issue of whether the transferring entity (the transferor) consolidates the receiving entity transferee). This fact has a significant impact on the accounting.

A detailed assessment of whether the financial statements of the SPV and the originator will be consolidated needs to be performed.

2. If financial instruments are transferred within a group, then the consolidated financial statements will not reflect derecognition for intra-group transfers, even if those transfers qualify for derecognition in the individual financial statements of the entity that is the transferor.

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While the EAC opinion has assumed that the derecognition criteria is not met, let us assess the rationale of the conclusion reached, in figure 2 as below:

Figure 2: Assessment of the derecognition principles to the facts of the case

(Source: KPMG in India's analysis, 2024, read with Insights into IFRS- 20th edition, issued by KPMG IFRG in September 2023)

Analysis of figure 2

The company has transferred its loan portfolio to the SPV, accordingly, the rights to the cash flows from the loan portfolio have not expired. However, the company continues to service the loan- i.e. it collects the amounts from the borrowers and immediately remits it to the SPV. The manner in which it services these loans meet the criteria prescribed in para 3.2.5 of Ind AS 109[3].

The company has also provided a fixed deposit as a credit enhancement to the SPV, accordingly, in case of any cash shortfalls (or shortfalls in collection of amounts by the company), the SPV can liquidate the fixed deposit to meet its obligations to the investors of the PTCs. In most cases, evaluating the terms and conditions of the transaction should be enough to determine whether, and to what extent, an entity's exposure to variability in the amounts and timing of the net cash flows has changed as a result of the transfer. Accordingly, generally it is not necessary to use cash flow and/or similar models in performing a risks and rewards analysis. However, under certain circumstances a degree of statistical analysis might be required. For example, in transactions in which the transferor and the transferee share the exposure to the variability in cash flows arising from credit risk, it might be difficult to determine whether substantially all of the risks and rewards have been transferred.

In the current case, the company has pledged its fixed deposits with the SPV for the payments pertaining to the loan portfolio. As per the company's analysis, the credit enhancement provided is higher than the expected credit loss for the loan portfolio. Accordingly, the company has concluded that it has retained substantially all risks and rewards pertaining to the portfolio of loans. Thus, this loan portfolio would not qualify for derecognition.

3. As per para 3.2.5 of Ind AS 109, when an entity retains the contractual rights to receive the cash flows of a financial asset, but assumes a contractual obligation to pay those cash flows to one or more entities, the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:
   - The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset.
   - The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset
   - The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

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Derecognition analysis for securities with different rights

In the current case analysed by the EAC, the securities issued by the SPV carry equal rights and are pari pasu. However, in many cases, in a securitisation arrangement, SPVs issue securities with differential rights- i.e. superior securities or subordinate securities.

A. Superior securities

Superior securities are securities that have superior rights as compared to other securities. So for example, where the SPV allocates superior securities to the originator, then the originator would have the right to the initial payment of the amounts collected by the SPV from the loan portfolio. In such a case, the originator would not be liable to bear a loss, and thus generally, it could be concluded that the risks and rewards in the transactions have been transferred, and generally the loan portfolio transferred to the SPV would qualify for derecognition.

B. Subordinate securities

Subordinate securities are securities that are subordinate to or are junior most as compared to other securities. So for example, where the SPV allocates subordinate securities to the originator, then the SPV would make the initial payments of the amounts collected from the loan portfolio to holders of the superior securities, and latter payments to the holders of subordinate securities. Where amounts have not been collected from the loan portfolio, then the holders of subordinate securities would have to bear the loss. In such cases, generally, it could be concluded that the risks and rewards in the transactions have **not been transferred,** and generally the loan portfolio transferred to the SPV would **not qualify for derecognition.**

However, further analysis would be required to additional facts and circumstances involved in each of the these cases to conclude on the derecognition requirements.

B. Accounting for investments in PTCs

I. Accounting for sale consideration received from SPV

As per Ind AS 109, if a transfer does not qualify for derecognition, then the financial asset, or the retained portion of the financial asset, remains in the statement of financial position and a corresponding financial liability is recognised for any consideration received.

Since the company has not derecognised the financial assets in its books of accounts, it has correctly accounted for the consideration received for the transfer of the loan portfolio to the SPV as a liability under 'Borrowings' in its financial statements.

II. Accounting for investment in PTCs

Ind AS 109 further specifies that in case a transfer of asset does not qualify for derecognition, the transferor's contractual rights or obligations related to the transfer are not accounted for separately as derivatives if recognising both the derivative and either the transferred asset or the liability arising from such transfer would result in recognising the same rights or obligations twice.

The EAC has drawn an analogy from the above in case of non-derivative financial instruments, to conclude that Ind AS 109 prohibits separate recognition of a transferor's contractual rights related to the transfer of a financial asset to the extent the same does not qualify for derecognition, as it results in recognising the same rights twice.

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In the current case, since the underlying receivables are not derecognised by the company, separate recognition of its investments in PTCs (which represent, in substance, the same cash flows as the underlying receivables) would result in recognising the same underlying rights twice.

Based on an evaluation of the facts of the case, the EAC opined that an entity cannot recognise a financial asset where it is itself the obliged counterparty. Therefore the investments in PTCs and the equivalent securitisation borrowing should not be recognised as separate financial instruments.

The balance securitisation borrowing (other than those represented by the PTCs held by the originator) should continue to be recognised separately.

C. Disclosure of the arrangement in the financial statements

The EAC reiterated that given the continued interest of the originator in the transferred financial asset (receivables) and its investment in the PTCs as per the MRR stipulated by the RBI, the originator should comply with the disclosure/additional disclosure requirements of Ind AS 107, *Financial Instruments: Disclosures* [4] and Ind *AS* 1, *Presentation of Financial Statements* [5] respectively.

Conclusion

Entities should provide detailed and appropriate disclosures explaining the nature and impact of these arrangements in the financial statements.

4. Para 42A to para 42H of Ind AS 107 prescribe the disclosure requirements pertaining to transfer of financial assets.
5. Para 15 of Ind AS 1 prescribes that financial statements should present a true and fair view of the financial position, financial performance and cash flows of an entity. Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting under Indian Accounting Standards issued by ICAI. The application of Ind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

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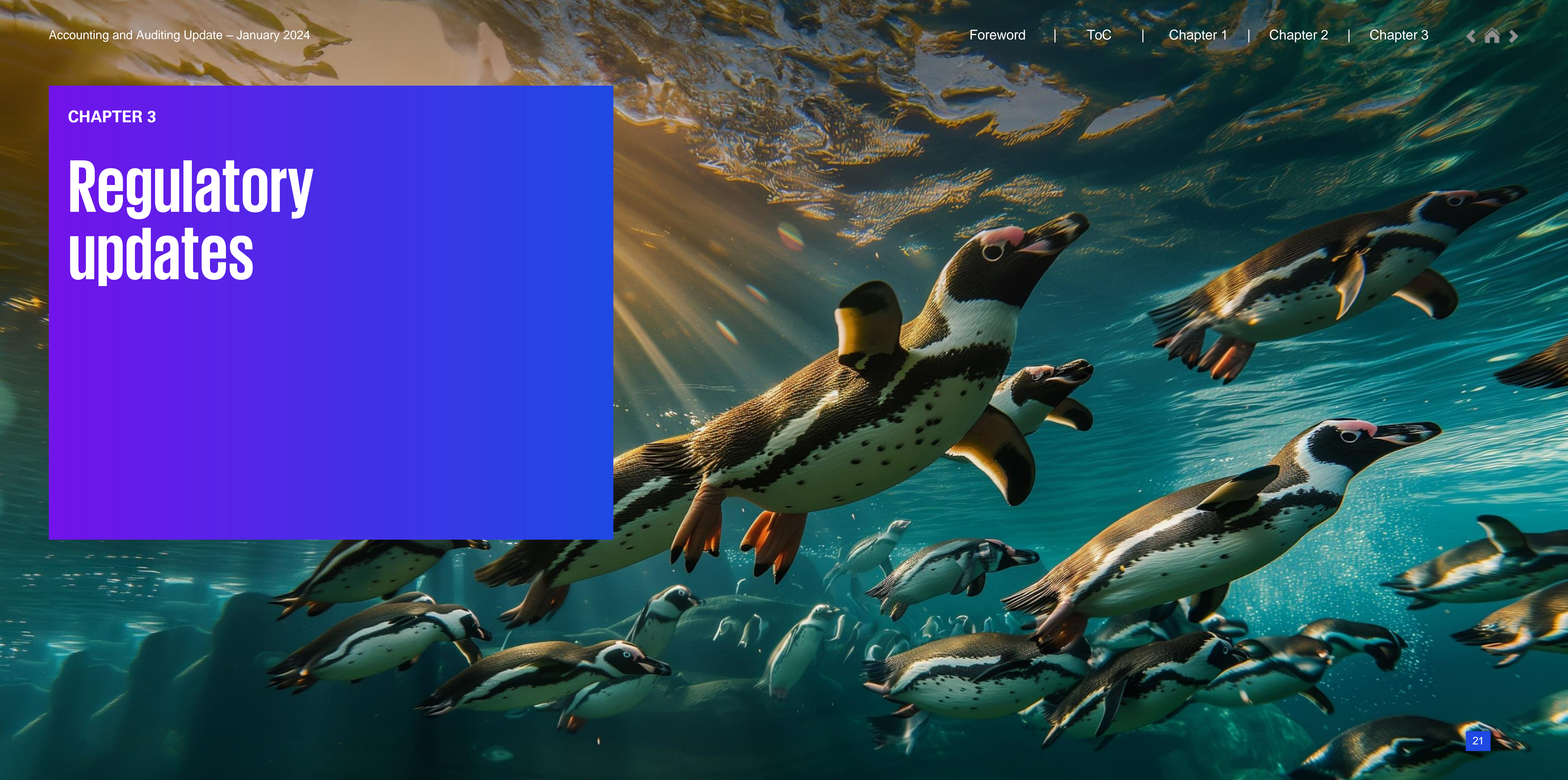

CHAPTER 3

Regulatory updates

Proposals to regulate verification of market rumors

In June 2023, the Securities and Exchange Board of India (SEBI) amended Regulation 30 (11) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulation) which required certain listed companies, to confirm, deny or clarify market rumours. The requirements are applicable to top 100 listed entities by market capitalisation[1] from 1 February 2024 and the top 250 listed entities with effect from
1 August 2024.

On 28 December 2023, SEBI issued a consultation paper to propose framework related to regulations for verification of market rumors. Considering the proposed amendments, SEBI through its notification dated 25 January 2024 extended the effective date of implementation of Regulation 30(11). Thus, the revised timelines are as follows:

Top 100 listed entities	From 1 June 2024 (*earlier 1 February 2024*)
Top 250 listed entities	From 1 December 2024 *(earlier 1 August 2024)*

The key proposals in the consultation paper are as follows:

I. **Criteria for verification of market rumors:** As per the existing regulation, only rumours pertaining to 'material' events or information require verification by the listed entity. The events specified under Para A of Part A of Schedule III of LODR Regulations are considered as deemed material events. For events specified under Para B of Part A of Schedule III of LODR Regulations, the materiality should be determined as per the criteria specified in Regulation 30(4) of LODR Regulations. SEBI has proposed to amend this requirement. As per the proposal, market rumor should be verified if there is a **material price movement** in the securities of the listed entity. The material price movement could be determined based on the following parameters:

- **Price range of the securities of the listed entity:** For determining material price movement, a lower percentage variation should be considered for securities falling under high price range and a higher percentage variation should be considered for securities falling under low price range.

- **Movement in the benchmark index (Nifty50/Sensex):** To determine material price movement, the price variation in the securities of the listed entity could be indexed to movement in Nifty50/Sensex (benchmark index). Annexure-B to the consultation paper includes the proposed framework for material price movement.

Further, with respect to the timeline for verification of market rumor, it is proposed that the rumour should be verified and confirmed, denied or clarified **within 24 hours from material price movement** *(as per existing requirement, within 24 hours of reporting in the mainstream media).*

II. **Consideration of unaffected price:** The market price of the shares of the listed entity are affected upon confirmation of market rumours. In this regard, to determine the transaction price of the securities, it is proposed to consider the unaffected price when the listed entity confirms the market rumour due to material price movement.
For this purpose, the unaffected price would be for 60 days (or 180 days in case of a competitive bidding process for a potential Mergers and Acquisition (M&A) deal) from the date of confirmation of the market rumour till the 'relevant date'.

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

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III. **Obligation on promoters, directors, KMP and senior management:** In instances where the rumour pertains to promoters/directors/Key Managerial Personnel (KMP)/senior management, it is proposed to mandate such persons to provide adequate, accurate and timely response to queries raised or explanation sought by the listed entity in order to ensure timely disclosure to the investors and compliance with the requirements under Regulation 30(11) of LODR Regulations.

IV. **Classification of information not verified as UPSI:** There could be instances where the listed entity classifies certain information as Unpublished Price Sensitive Information (UPSI) but the market rumour pertaining to that information is not verified by the listed entity. In such a scenario, SEBI has proposed that, an insider should not use such information as a defence that it was 'generally available'. In other words, such information should be continued to be treated as UPSI and not 'generally available' information.

The last date to provide comments on the above consultation paper ended on 18 January 2024.

(Source: SEBI, Reports for Public Comments, dated 28 December 2023 and SEBI circular no. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2024/7 dated 25 January 2024)

Consultation paper to facilitate ease of doing business and harmonise ICDR and LODR Regulations

With an aim to facilitate ease of doing business and harmonise the provisions of LODR Regulations and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations), the Expert Committee (EC) of SEBI issued a consultation paper on 11 January 2024. The key proposals are as follows:

LODR Regulations

- **Applicability of the regulations based on market capitalisation (Regulation 3(2)):** As per exiting regulation, the provisions that become applicable to a listed entity on the basis of market capitalisation criteria (ranking) should continue to apply even if the market capitalisation falls and remains below the applicability threshold SEBI has proposed the following measures with respect to this:

a. **Average market capitalisation:** At present, to determine the applicability of certain provisions, the market capitisation for a listed entity is calculated as on 31 March i.e. it is based on a single day's market capitalisation. It is proposed that ranking should be based on average market capitalisation figures from 1 July to 31 December and therefore, 31 December should be considered as the cut-off date to determine the rank. Accordingly, a time period of three months from 31 December would be provided to a listed entity to ensure compliance with relevant provisions.
Further, with respect to reporting of BRSR (or assurance under BRSR Core), a listed entity should put in place systems and processes to capture the data to be reported within a period of three months from 31 December and thereafter a glide path of one year would be provided for BRSR reporting (or assurance under BRSR Core) in the annual report.

b. **Highest ranking across stock exchanges:** If a listed entity a specified securities listed on more than one recognised stock exchanges, then the highest ranking in any one of the recognised stock exchange(s) would be considered for the purpose of determining the applicability of market capitalisation based provisions.

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c. **Sunset clause:** If the market capitialisation of a listed entity is below the applicability range for three consecutive years, then such a listed entity need not comply with the provisions of the regulations that would not apply to it due to its current ranking. However, such provisions would become applicable in future if listed entity's ranking or market capitalisation changes resulting in the entity entering into the list of top 100/250/1000/2000, as the case may be, prepared by the stock exchanges on 31 December of any subsequent calendar year.

- **Limit of membership and chairmanship of committees for a director (Regulation 26(1)):** As per existing regulation, a director can be a member in maximum 10 committees or act as chairperson for maximum five committees across all listed entities. Further, for the purpose of determination of limit, chairpersonship and membership of audit committee and the stakeholders' relationship committee should be considered across all public limited companies, including unlisted public companies.

  The EC has issued the following recommendations with respect to this provision:

  a. For the purpose of calculation, only equity listed entities should be considered. Therefore, the positions at unlisted public companies should be excluded.
  b. As the existing provisions of Regulation 17A, a director can be a member of maximum seven audit committees in listed entities and therefore, it is proposed to remove the requirement of maximum 10 committees in Regulation 26(1), to align the requirements.
  c. For determining the limit, only the membership and chairmanship of audit committee should be considered. Therefore, stakeholders' relationship committee could be excluded from the regulation.

- **Filling up of vacancies of Key Managerial Personnel (KMP) Regulation 26A(1) and (2):** The regulation states that, vacancy in the office of KMP should be filled up at the earliest but within three months from the date of such vacancy.
  However, it is observed that, obtaining necessary regulatory/government/statutory approvals for such appointments could be beyond the control of the listed entity to ensure timely compliance with the provision. Therefore, SEBI has proposed that in case the listed entity is required to obtain approval of regulatory, government or statutory authorities to fill up vacancy in the office of KMP, then such vacancies should be filled up within six months from the date of the vacancy.

- **Timeline for prior intimation of board meetings (Regulation 29):** The regulation requires a listed entity to give prior intimation to stock exchanges about its board meetings in which certain types of proposals are to be considered e,g. financial results, buyback of securities, fund raising, alteration of nature of securities, date of payment of interest or redemption etc
  The following modifications are proposed:

  a. Prior intimation to be provided **at least two working days** in advance, excluding the date of the intimation and date of the meeting *(as per existing requirement, timeline for giving prior intimation varies from two working days to a maximum of 11 working days).*
  b. Prior intimation not required for determination of issue price for fund raising done through qualified institutions placement as per ICDR Regulations.
  c. Clarification that prior intimation would be required only for fund-raising proposals that involve issue of securities and for determination of issue price excluding borrowings/short-term borrowings which do not involve issuance of any securities.

- **Gap between meetings of the Risk Management Committee (RMC) (Regulation 21(3C)):** The EC has proposed to amend the gap between the meetings of RMC. As per the proposal the RMC should meet twice a year and the gap between two consecutive meetings should not more than **210 days** (*existing requirement, 180 days*).

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ICDR Regulations

- **Compulsorily convertible securities included for computation of minimum promoters' contribution (Regulation 15):** For the purpose of determination of minimum promoters' contribution, it is proposed to include equity shares arising from conversion of fully paid-up compulsorily convertible securities that have been held for a period of at least one year prior to the filing of the Draft Red Herring Prospectus (DRHP). It is further proposed that the compulsorily convertible securities should be converted into equity shares prior to the filing of the Red Herring Prospectus (RHP).
- **Non-individual shareholders permitted to contribute towards minimum promoters' contribution (Regulation 14):** As per the existing provision, for determination of minimum promoters' contribution, promoters of a company should hold at least 20 per cent of the post-offer paid-up equity share capital on a fully-diluted basis. In case of any shortfall, alternative investment funds, foreign venture capital investors, scheduled commercial banks, public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India (IRDAI) are permitted to contribute equity shares to meet the shortfall subject to a maximum of 10 per cent, without being identified as a promoter.
SEBI has proposed that any non-individual shareholder holding five per cent or more of the post-offer equity share capital would also be permitted to contribute towards the shortfall in minimum promoters' contribution, subject to the existing maximum of 10 per cent, without being identified as a promoter.
- **Events triggering re-filing of draft offer documents:** As per Schedule XVI of the ICDR Regulations, the following changes require fresh filing of a draft offer document:
  1. **Fresh issue:** any increase or decrease in the estimated issue size by more than 20 per cent of the estimated issue size
  2. **Offer for sale:** any increase or decrease in either the number of shares offered for sale or the estimated issue size, by more than 50 per cent.

The consultation paper, clarifies that the size of the issue will be measured in INR terms. Further, it is also proposed to amend the requirement for offer for sale. As per the proposal, offer for sale size can be based on either the estimated issue size (in INR value) or the number of shares, as disclosed in the DRHP, and not on both criteria.

- **Extension of the bid/offer closing date:** As per the existing regulations issuer companies are permitted to extend the bidding period disclosed in the offer document for a minimum period of three working days in case of any force majeure events, banking strike or similar circumstances. It is proposed to reduce the minimum period to one working day.

The last date to provide comments on the above consultation paper ends on 1 February 2024.

(Source: SEBI, Reports for Public Comments, dated 11 January 2024)

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Framework for Social Stock Exchange (SSE) for NPOs

SEBI issued a regulatory framework for Social Stock Exchange (SSE) in 2022 and corresponding amendments were made in the respective SEBI Regulations. As per the framework, a Not for Profit Organisation (NPO) is required to be registered with an SSE to raise funds.

In August 2023, SEBI issued a consultation paper proposing certain amendments to ICDR and LODR Regulations due to certain challenges encountered by NPOs. Subsequently, on 21 December 2023, SEBI issued amendments to the ICDR and LODR Regulations and thereafter issued a circular on 28 December 2023.

The key takeaways are as follows:

- **Registration requirements:** To be eligible for registration as an NPO with an SSE, entities should have a registration certificate under Section 12A/12AA/12AB/10(23C)/10(46) under the Income-tax Act, 1961 (IT Act). The registration certificate should be valid for valid for at least next 12 months. While making the application, details should be provided regarding pending notices or scrutiny cases from all regulatory and statutory authorities and of fines and penalties paid or appealed within seven days.

  Further entities registered under Section 12A/12AA/12AB of the IT Act should have a valid 80G registration under the IT Act.
- **Disclosure of past social impact:** NPOs to provide details of past social impact as per the existing practice. The past social impact should highlight trends in key metrics/parameters relevant to the NPOs, number of beneficiary, cost per beneficiary and administrative overheads.
- **Conditions for issuance of Zero Coupon Zero Principal Instruments (ZCZP):** The circular has also laid down the following key conditions for issuance of ZCZP instruments:

  a. ZCZP instruments should only be issued in dematerialised form.
  b. They should not be transferable from the original subscriber/holder till the expiry of the tenure of the instrument.
  c. The minimum issue size should be INR50 Lakh (*earlier INR1 crore*) and minimum application size should be INR10,000 (*earlier INR2 lakh*).
  d. Minimum subscription required is 75 per cent of the funds proposed to be raised issuance of ZCZP instruments.
  e. In case of any under subscription, following details should be provided in the fund raising document:
     – Under subscription between 75 per cent and 100 per cent, manner of raising balance capital should be provided
     – If under subscription is not arranged, then details regarding the possible impact on achieving the social objective(s).

  It is further stated that, if the subscription is less than 75 per cent of the issue size then the funds should be refunded.
- **Social Impact Assessor:** The term ‘Social Auditor’ is substituted with ‘Social Impact Assessor’ in the ICDR and LODR Regulations.
- **Other considerations:** The circular also lays down the procedure for public issuance of ZCZP instruments and contents required in the fund raising document.

(Source: SEBI notification no. No. SEBI/LAD-NRO/GN/2023/161 and SEBI/LAD-NRO/GN/2023/162 dated 21 December 2023 and circular no. SEBI/HO/CFD/PoD-1/P/CIR/2023/196 dated 28 December 2023)

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RBI's restrictions for investments in Alternative Investment Funds (AIFs)

Regulated entities (REs)[2] make investments in units of AIFs as part of their regular investment operations. However, the Reserve Bank of India (RBI) observed regulatory concerns in certain transactions wherein direct loan exposure of REs to borrowers was substituted by indirect exposure through investments in units of AIFs by the REs. In order address this concern of possible evergreening, RBI issued a circular on 19 December 2023.

The key considerations are as follows:

i. **Prohibition on investment:** REs should not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE.
For this purpose, a debtor company means any company to which the RE currently has or previously had a loan or investment exposure anytime during the preceding 12 months.

ii. **Liquidate the investment:** If an RE is already an investor in an AIF scheme and such an AIF scheme makes a downstream investment in the debtor company, then the RE should liquidate its investment within 30 days from the date of such downstream investment by the AIF. In case of existing investments on the date of the circular, the REs should liquidate their investment within 30 days from date of issuance of this circular.

iii. **100 per cent provision:** If REs are not able to liquidate their investments within the above-prescribed time limit, then they should make 100 per cent provision on such investments.

iv. **Investment in subordinated units of any AIF scheme:** Investments made by REs in the subordinated units of any AIF scheme with a 'priority distribution model'[3] would be subject to full deduction from RE's capital fund.

The above requirements are effective from 19 December 2023.

(Source: RBI circular no. RBI/2023-24/90 DOR.STR.REC.58/21.04.048/2023-24 dated 19 December 2023)

2. REs include all commercial banks (including small finance banks, local area banks and regional rural banks), all primary (urban) co-operative banks/state co-operative banks/central co-operative banks, all All-India Financial Institutions and all non-banking financial companies (including housing finance companies)
3. 'Priority distribution model' shall have the same meaning as specified in the SEBI circular SEBI/HO/AFD-1/PoD/P/CIR/2022/157 dated 23 November 2022
REs include Scheduled commercial banks including small finance banks (excluding regional rural banks, local area banks and payments banks) and all deposit taking Non-Banking Financial Companies (NBFCs) registered with RBI .

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FAQs on framework for acceptance of green deposits

In April 2023, RBI issued a framework for acceptance of green deposits with an aim to encourage Regulated Entities (REs)[4] to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and assist in increasing the flow of credit to green activities/projects.

Recently on 29 December 2023, RBI issued Frequently Asked Questions (FAQs) on this framework. The key takeaways from FAQs are as follows:

- **Nature of compliance**: It is not mandatory for REs to raise green deposits. However, if REs intend to raise green deposits then they should comply with requirements of the framework.

- **Applicability:** The framework is applicable for green deposits raised by REs on or after 1 June 2023. Accordingly, REs cannot finance green activities/projects first and raise green deposits thereafter.

- **Denomination currency:** Green deposits should be denominated in INR only.

- **Eligibility criteria for external review:** REs can engage with any appropriate and reputed domestic/international agency for external review of the financing framework, third-party verification or assurance and impact assessment of the green activities/projects.

- **Allocation of proceeds in liquid instruments:** As per the framework, proceeds of green deposits that are pending allocation towards green activities/projects, can be temporarily parked in liquid instruments with maximum maturity upto one year**.** Liquid instruments are Level 1 High Quality liquid assets as per the extant guidelines.
It is important to note that, there is no penalty for non-allocation of proceeds towards green activities/projects however, this process would be subject to supervisory review.

- **Interest on green deposits:** As per extant guidelines[5], REs are not permitted to offer differential rate of interest on green deposits. REs are required to pay interest as per the agreed terms and conditions and directions stipulated in the extant guidelines, irrespective of allocation/utilisation of proceeds. Further, there is no restriction on premature withdrawal of green deposits and the same would not have any bearing on the activities/projects undertaken using the proceeds of green deposits.

- **Overdraft facility against green deposits:** Banks are allowed to offer overdraft facility to customers against green deposits subject to certain prescribed instructions[6].

- **Single global policy by foreign banks:** Foreign banks could have a common global policy on green deposits subject to the provisions of the framework for green deposits issued by RBI .

(Source: RBI FAQs dated 29 December 2023)

4. REs include Scheduled commercial banks including small finance banks (excluding regional rural banks, local area banks and payments banks) and all deposit taking Non-Banking Financial Companies (NBFCs) registered with RBI .
5. Master Direction - Reserve Bank of India (Interest Rate on Deposits) Directions, 2016 dated March 03, 2016;
Master Direction - Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 dated August 25, 2016; and
Master Direction - Non-Banking Financial Company - Housing Finance Company (Reserve Bank) Directions, 2021 dated February 17, 2021.
6. Instructions contained in the Consolidated Circular on Opening of Current Accounts and CC/OD Accounts by Banks issued on 19 April 2022, as amended from time to time

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ISSB issues amendments to SASB standards

Sustainability Accounting Standards Board (SASB) standards are designed to identify and standardise disclosure for the sustainability issues that are most relevant for investor decision-making. The SASB standards are considered as important guidance to fulfil the requirements of IFRS Sustainability Disclosure Standards. In June 2023, the climate-related content in the SASB Standards were amended to align with the industry-based guidance accompanying IFRS S2, *Climate-related Disclosures*.

In December 2023, the International Sustainability Standards Board (ISSB) amended the non-climate-related content in the SASB Standards to enhance their international applicability. These amendments would help preparers apply the SASB standards regardless of the jurisdiction in which they operate or the type of Generally Accepted Accounting Principles (GAAP) they use without substantially altering the SASB Standards' structure or intent. The SASB Standards facilitate the implementation and application of IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* .

The key amendments are with respect to:

- Replacing jurisdiction-specific terms of reference with internationally applicable references for standards, definitions or calculation method
- Providing general descriptions for standards, definitions or calculation methods to replace jurisdiction specific terms of reference
- Permitting the use of applicable jurisdictional laws or regulations to replace jurisdiction-specific terms of reference and aligning with the preparer's legal and regulatory compliance requirements
- Removing certain jurisdiction-specific metrics that were unsuitable for international application i.e. those that had no identified international equivalents or were not adaptable to general descriptions

(Source: IFRS news 'ISSB publishes targeted amendments to enhance the international applicability of the SASB Standards' dated 20 December 2023)

FASB enhances income tax disclosure

On 14 December 2023, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) to address investor requests to enhance annual income tax disclosures to provide more information about the tax risks and opportunities present in an entity's worldwide operations.

The key enhancements are as follows:

- **Reconciliation of the expected tax to the reported tax:** Public business entities should provide a tabular reconciliation using both percentages and amounts, broken out into specific categories with certain reconciling items at or above 5 per cent of the expected tax further broken out by nature and/or jurisdiction. Whereas, other entities should qualitatively disclose the nature and effect of significant reconciling items by specific categories and individual jurisdictions.

- **Income taxes paid:** Entities should disclose income taxes paid (net of refunds received), broken out between federal (national), state/local and foreign. Further, disclose the income taxes paid (net of refunds received) to an individual jurisdiction when 5 per cent or more of the total income taxes paid (net of refunds received).

The applicability of above ASU is as follows:

– Public business entities - Annual periods beginning after 15 December 2024
– Other entities - Annual periods beginning after 15 December 2025.

(Source: FASB media advisory dated 14 December 2023 and KPMG LLP's article on 'FASB issues ASU to disaggregate income tax disclosures' dated 15 December 2023)

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FASB issues update on crypto asset accounting

Currently, crypto-assets are accounted for as indefinite-lived intangible asset wherein such crypto intangible assets are not amortised, instead they are written down (impaired) to fair value whenever their fair value falls below their carrying amount. These impairments are never reversed, even if the fair value of the asset recovers during the same reporting period. Stakeholders provided feedback that the current accounting model does not provide decision-useful information to investors nor appropriately reflects the economics of a holder's investment in crypto assets like bitcoin or ether.

In response to the above feedback, on 13 December 2023, FASB issued an ASU which is intended to improve the accounting for and disclosure of certain crypto assets. This ASU applies to all entities (i.e. public, private, not-for-profit and across all industries), even though some of its requirements do not apply to entities that apply certain industry-specific US GAAP (e.g. Topic 946 on investment companies or Topic 958 on not-for-profit entities).

Assets meeting the following criteria would be scoped-in for applicability of the ASU:

a. Meet the US GAAP definition of intangible assets
b. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
c. Are created or reside on a distributed ledger based on blockchain or similar technology
d. Are secured through cryptography
e. Are fungible
f. Are not created or issued by the reporting entity or its related parties.

The main provisions of the ASU are as follows:

- **Subsequent measurement:** In-scope crypto assets should be subsequently measured at fair value under Topic 820, *Fair Value Measurement*, with fair value changes recorded in net income. It is important to note that, this ASU does not address initial measurement (including accounting for transaction costs), recognition or derecognition of crypto assets and therefore, reporting entities are required to comply with other Generally Accepted Accounting Principles (GAAP) for the same.
- **Presentation:** In-scope crypto assets are presented separately from other intangible assets on the face of the balance sheet. Similarly, gains and losses from remeasurement of in-scope crypto assets are presented separately from impairments or other changes in carrying amount (e.g. amortisation) of other intangible assets.
- **Disclosure:** Enhanced disclosures about in-scope crypto asset holdings and activity are required.

The amendments in the ASU are effective for fiscal years beginning after 15 December 2024.

(Source: FASB media advisory dated 13 December 2023 and KPMG LLP's article on 'FASB issues final ASU on crypto asset accounting' dated 13 December 2023)

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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.

Voices on Reporting – Quarterly updates publication

On 24 January 2024, KPMG in India issued its Voices on Reporting – Quarterly updates publication (for the quarter ended 31 December 2024) which provides a summary of key financial reporting, Environment, Social and Governance (ESG) and regulatory updates from the Securities and Exchange Board of India (SEBI), the Ministry of Corporate Affairs (MCA), the Reserve Bank of India (RBI) and the Institute of Chartered Accountants of India (ICAI).

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