



Voices on Reporting

5 January 2024

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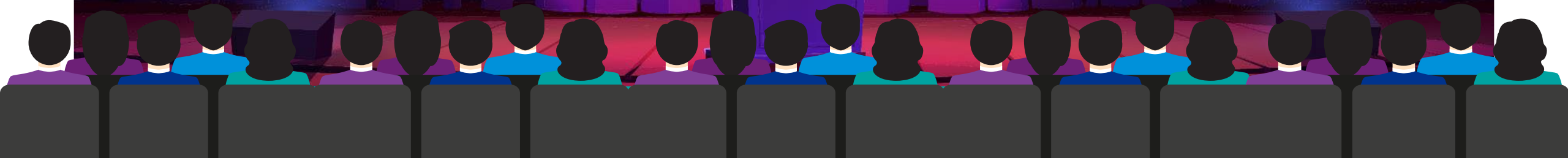


Speaker for the webinar



Ruchi Rastogi

Partner
Assurance
KPMG in India



Agenda

- 01** Updates relating to SEBI Regulations
- 02** RBI updates
- 03** Audit trail – Key considerations
- 04** Year end reminders

Updates relating to SEBI Regulations



Revised framework for Large Corporates (LCs)¹

Revised condition for raising debt

LC shall raise not less than 25 per cent of its qualified borrowings by way of issuance of debt securities in the financial years subsequent to the financial year in which it is identified as an LC.



Definitions

LCs are defined as:

All listed entities (except for scheduled commercial banks), which as on last day of the Financial Year (FY) (i.e. 31 March or 31 December) have:

1. Listed specified securities or debt securities or non-convertible redeemable preference shares
2. **Outstanding long term borrowings** of INR1,000 crore or above and
3. Credit rating¹ of AA/AA+/AAA.

Outstanding borrowing means borrowings with an original maturity of more than one year. It shall exclude the following:

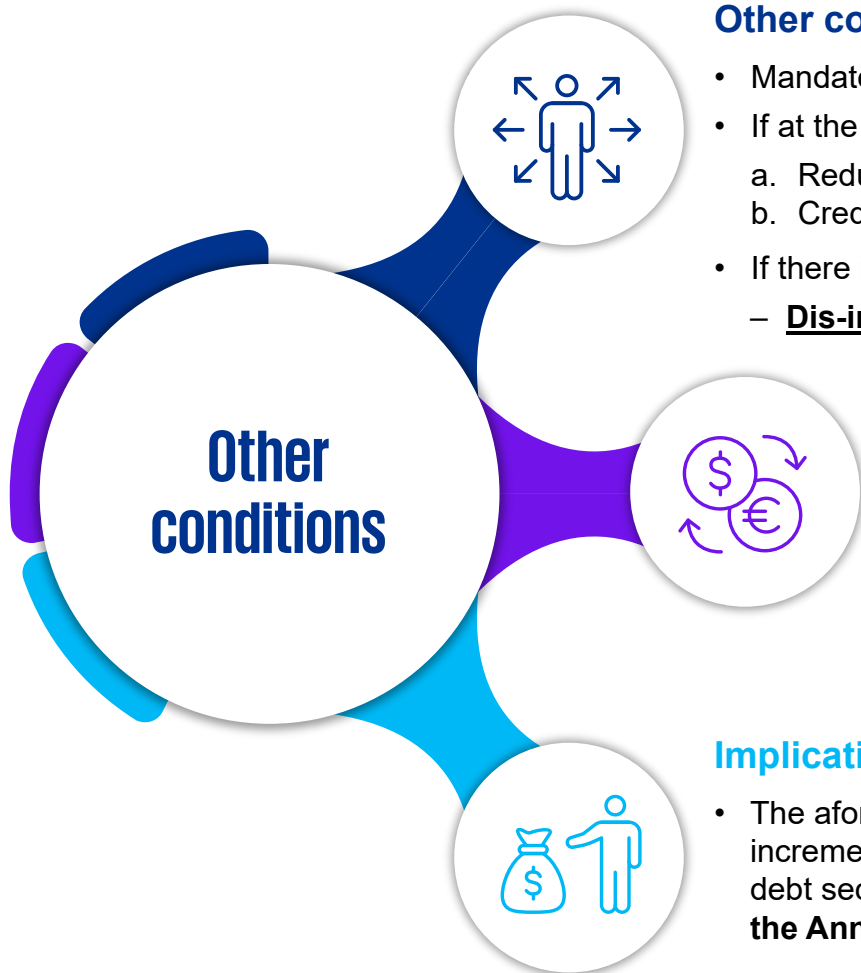
1. External commercial borrowings
2. Inter-corporate borrowings involving the holding company and/ or subsidiary and/or associate companies
3. Grants, deposits or any other funds received as per the guidelines or directions of Government of India
4. Borrowings arising on account of interest capitalisation and
5. Borrowings for the purpose of schemes of arrangement involving mergers, acquisitions and takeovers.

Qualified borrowings mean incremental borrowing **between two balance sheet dates** having original maturity of more than one year.

Explanation: Qualified borrowings for a FY shall be determined as per the audited accounts for the year filed with the stock exchanges.

¹The credit rating relates to the unsupported bank borrowing or plain vanilla bonds of an entity, which have no structuring/ support built in.

Revised framework (cont.)



Other conditions

- Mandatory **qualified borrowing** by an LC in a FY to be met over a **contiguous block of three years**.
- If at the end of three years there is a **surplus in requisite borrowing** LCs will be provided with **incentives**:
 - a. Reduction in annual listing fees
 - b. Credit in the form of reduction in contribution to the Core Settlement Guarantee Fund (SGF).
- If there is a **shortfall in requisite borrowing** at the end of three years:
 - **Dis-incentive** in the form of additional contribution of the Core Settlement Guarantee Fund (SGF) shall apply.

Responsibility of stock exchanges

- Determine the list of LCs for the financial year based on financial results submitted by LCs.
- The stock exchanges would calculate the incentive or dis-incentive.

Implications on existing LCs

- The aforesaid LCs shall endeavour to comply with the requirement of raising 25 per cent of their incremental borrowings done during FY 2022, FY 2023 and FY 2024 respectively by way of issuance of debt securities till 31 March 2024, **failing which, such LCs should provide a one-time explanation in the Annual Report for FY 2024.**

Proposed revised framework - Verification of market rumours²

Regulation 30(11): 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:

Top 100 listed entities**	From 1 February 2024
Top 250 listed entities**	From 1 August 2024

The confirmation should be made as soon as reasonably possible but not later than 24 hours from the reporting of the event or information. If the listed entity confirms the reported event/information, then it shall also provide current stage of such event/information.

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

Defined the term 'mainstream media' as - It shall include print or electronic mode of the following:

1. Newspapers registered with the Registrar of Newspapers for India.
2. News channels permitted by Ministry of Information and Broadcasting under Government of India.
3. Content published by the publisher of news and current affairs content as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 and
4. Newspapers or news channels or news and current affairs content similarly registered or permitted or regulated, as the case may be, in jurisdictions outside India.

Proposed revised framework - Verification of market rumours (cont.)

On 28 December 2023, SEBI issued a consultation paper to propose amendments to provisions relating to verification of market rumours. Following are the key proposals:

01

Material price movement as the criteria to verify market rumour instead of material event in terms of Regulation 30

- Material price movement in the securities of the listed entity may be determined based on the following parameters:
 - o Price range of the securities of the listed entity
 - o Movement in the benchmark index (Nifty50/Sensex)
- Proposed timeline for verifying market rumour to be within 24 hours of material price movement

02

Mechanism to ensure that unaffected price is considered with respect to transactions relating to the securities of a listed entity upon confirmation of market rumour

03

Obligation on promoters, directors, key managerial personnel and senior management to provide adequate, accurate and timely response to the queries raised or explanation sought in respect of market rumours by the listed entity

04

Classification of information which was not verified by listed entities as Unpublished Price Sensitive Information (UPS)



The period to provide comments ends on 18 January 2024.



RBI updates

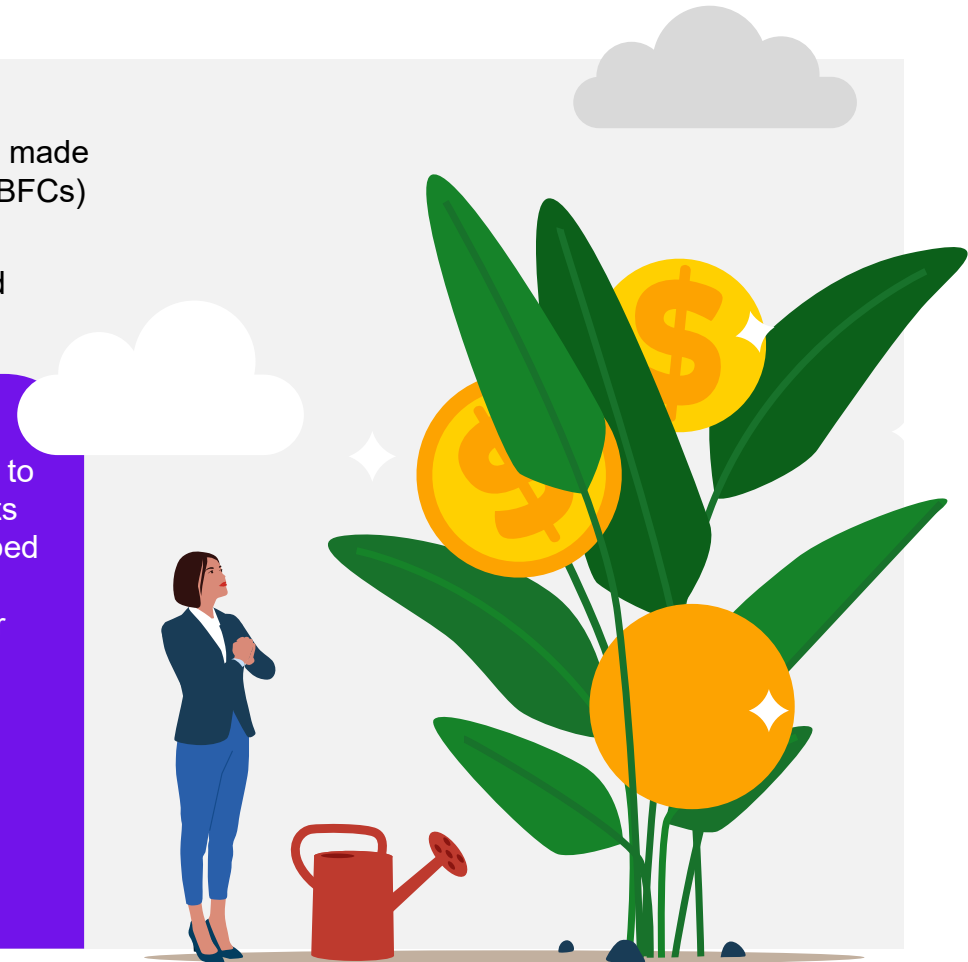
RBI notification on Investments in AIFs³

- On 19 December 2023, the Reserve Bank of India (RBI), issued guidelines regarding investments made in Alternative Investment Funds (AIFs) made by Banks and Non-banking Financial Companies (NBFCs) (referred to as Regulated Entities (REs)).
- With an aim to address concerns relating to possible evergreening through this route, RBI advised following:

REs to not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE*.

If an AIF scheme, in which RE is already an investor, makes a downstream investment in any such debtor company, then the RE should liquidate its investment in the scheme within 30 days[#] from the date of such downstream investment by the AIF.

In case REs are not able to liquidate their investments within the above-prescribed time limit, such REs are required to make 100 per cent provision on such investments.



*The debtor company of the RE, for this purpose, shall mean any company to which the RE currently has or previously had a loan or investment exposure anytime during the preceding 12 months.

In case REs already have downstream investment in their debtor companies as on date, the 30-day period for liquidation to be counted from date of issuance of this circular.

Framework for acceptance of Green Deposits – FAQs⁴



Nature of the requirement

- Not mandatory for the Regulated Entities (REs) to raise green deposits.



Applicability

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



Denomination currency

- Green deposits are required to be denominated in Indian Rupees only.



Eligibility criteria

- 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.



Liquid instruments and penalty requirements

- The liquid instruments are Level 1 high quality liquid assets as per the extant guidelines.
- The REs can temporarily park proceeds of green deposits, pending allocation towards green activities or projects, in liquid instruments with maximum maturity upto one year (to be specified under the financing framework).
- The framework does not envisage any penalty for non-allocation of proceeds towards green activities or projects. However, it would be subject to supervisory review.

Audit trail – Key considerations



Regulatory requirement⁵

The Companies (Accounts) Rules, 2014



For Companies (Rule 3(1)): Every company which uses an accounting software for maintaining its books of account, should use only such an accounting software which has the following features:

- Which records an audit trail of each and every transaction
- Creates an edit log of each change made in the books of account along with the date when such changes were made
- Companies would need to ensure that the audit trail is not disabled.

The Companies (Audit and Auditors) Rules, 2014



For Auditors (Rule 11(g)): An auditor is required to provide his/her comments in the auditor's report that the company has used such an accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility. Further, an auditor should also comment on whether:

- The audit trail feature has been in operation throughout the year for all the transactions recorded in the software
- The audit trail feature has not been tampered with
- The audit trail has been preserved by the company as per the statutory requirements for record retention.

Applicability:

- All class of companies including Section 8 companies and foreign companies
- Auditor's reporting on audit trail required in case of standalone financial statements and consolidated financial statements.

Key considerations⁶

Accounting software



Accounting software that is relevant for maintaining books of account and includes:

- Computer programme or system that enables recording, maintenance and reporting of books of account and relevant ecosystem applicable to business requirements
- Multiple softwares and peripheral softwares.

Audit trail



- Chronological record of the changes that have been made to the data.
- Includes any change to data including creating new data, updating or deleting data that must be recorded
- Records maintained as audit trail would include following:
 - when changes were made i.e., date and time (timestamp)
 - who made the change i.e., User ID
 - what data was changed i.e., data/transaction reference.
- To be enabled at accounting software/database level, where applicable.

- Applicable from 1 April 2023
- Consider involvement of Information Technology (IT) specialists or experts to assist in evaluation of management controls and configurations in the accounting software with regard to audit trail
- **Effective controls:**
 - Over maintenance and monitoring of audit trail in respect of books of account
 - Operating effectively throughout the period of reporting
 - Periodic backups of the audit trails are taken and archived as per the statutory period specified
 - Extended audit procedures to be performed by an auditor including involvement of specialists such as IT auditors.

Points to consider



Has the company identified what should be construed as 'books of account' as per the definition stipulated in the Companies Act, 2013?



Has the company identified a list of accounting software including peripheral and ensured such software(s) have the audit trail feature?



Whether necessary processes and controls are in place with respect to access of audit trail, avoidance of data tampering and to ensure audit trail feature is not disabled at any point in time?



In case of a third party software or outsourced software, whether the company obtained independent auditor's report of service organisation i.e. Service and Organisation Control (SOC) report for evaluating the compliance with the regulatory requirements of daily backup and audit trail?



Consider the impact on Internal Finance Control (IFC) reporting and appropriately modify reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014.



Year end reminders

Business Responsibility and Sustainability Report (BRSR) (Regulation 34(2)(f))⁷

Assurance glide path for BRSR Core



*BRSR disclosure (including BRSR Core)

BRSR Core indicator
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

F.Y. 2024-25

- Disclosures as per BRSR Core, for value chain of top 250 companies on comply or explain basis
- Assurance **not mandatory**

F.Y. 2025-26

- Disclosures as per BRSR core, for value chain of top 250 companies on a comply or explain basis
- Assurance **on comply or explain basis**

Recap of Ind AS amendments⁸

Following are few key amendments **effective from 1 April 2023**

Ind AS 1, *Presentation of Financial Statements*

- Companies should now disclose **material accounting policies** rather than their significant accounting policies
- Accounting policy information, together with other information, is material when it can reasonably be expected to influence decisions of primary users of general purpose financial statements.

Ind AS 8, *Accounting policies, Change in Accounting Estimates and Errors*

- Definition of '**change in accounting estimate**' has been **replaced with** definition of '**accounting estimate**'.
- As per the definition, accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty.
- A company develops an accounting estimate to achieve the objective set out by an accounting policy.
- Accounting estimates include:
 - a. Selection of a measurement technique (estimation or valuation technique)
 - b. Selecting the inputs to be used when applying the chosen measurement technique.

Ind AS 12, *Income Taxes*

- Narrowed the scope of the Initial Recognition Exemption (IRE) (with regard to leases and decommissioning obligations).
- Now **IRE does not apply to transactions that give rise to equal and offsetting temporary differences**.
- Accordingly, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on transactions such as initial recognition of a lease and a decommissioning provision.

Disclosure of material events and information – Recap⁹

Regulation 30 of LODR Regulations requires listed entities of specified securities¹ to provide disclosures of certain events and information. Disclosures are to be provided as per Part A of Schedule III, consisting of:

- Para A – Deemed to be material events
- Para B – Disclosure based on the materiality policy of the listed entity.

The amendments are effective from 15 July 2023.

Determination of materiality

- i. Materiality threshold (Regulation 30(4)(i))
- ii. Materiality Policy (Regulation 30(4)(ii))

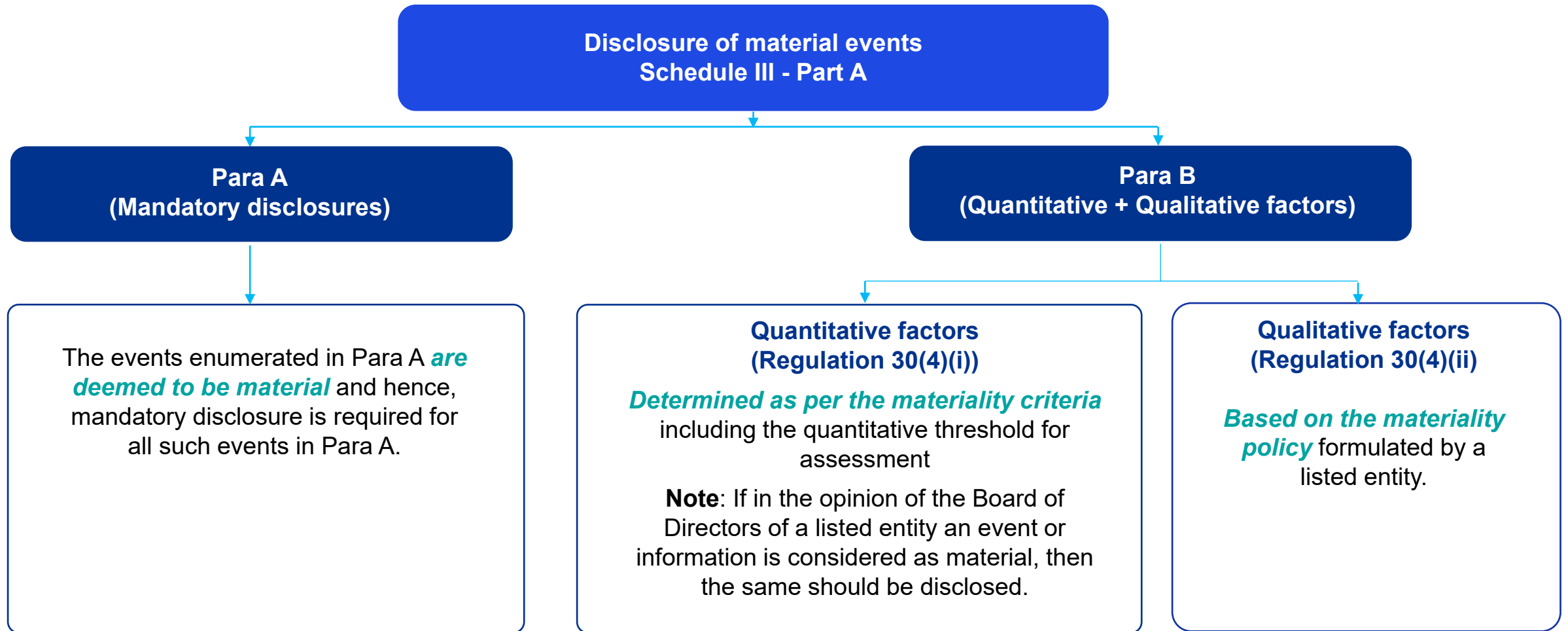
Additions and modifications of disclosure of events under Para A and Para B of Part A of Schedule III

Other amendments

- i. Disclosure of communication from regulatory, statutory, enforcement or judicial authority (Regulation 30(13))
- ii. Revised timeline for disclosure of material events (Regulation 30(6))
- iii. Disclosure requirements for certain types of agreements binding listed entities (Regulation 30A)
- iv. Verification of market rumours (Regulation 30(11)) – *This requirement is applicable from 1 February 2024.*

On 13 July 2023, SEBI issued a Circular (the circular) which specifies the details which a listed entity needs to disclose for the events specified under Para A and Para B of Part A of Schedule III, the timeline for disclosure of such events and guidance on when an event/information can be said to have occurred and for determination of materiality.

Additions and modifications to events in Para A and Para B of Part A of Schedule III⁹



Other LODR amendments⁹

Disclosure of cyber security incidents or breaches (Regulation 27)

Details to be provided of cyber security incidents or breaches or loss of data or documents in the quarterly corporate governance report which is required to be submitted to the recognised stock exchange(s) within 21 days from the end of each quarter, in the format as prescribed by SEBI.

Board permanency at listed entities Regulation 17(1D)]

From 1 April 2024, the continuation of a director serving on the board of an entity must be subject to the shareholders' approval in a general meeting at least once in **every five years** from the date of their appointment or reappointment

Further, director serving on the board of directors as on 31 March 2024, without seeking any shareholder approval for the last five years or more, are subject to the shareholder approval in the first general meeting to be held after 31 March 2024.

The above provisions are not applicable to certain nominee directors.

Sources

1. SEBI's circular 'Ease of doing business and development of corporate bond markets – revision in the framework for fund raising by issuance of debt securities by large corporates (LCs)' (circular no. SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/172 dated 19 October 2023.
2. Consultation Paper on Amendments to SEBI Regulations with respect to Verification of Market Rumours issued by SEBI dated 28 December 2023
3. RBI's notification Investments in Alternative Investment Funds (AIFs) (RBI/2023-24/90 DOR.STR.REC.58/21.04.048/2023-24) dated 19 December 2023
4. FAQs on Framework for acceptance of Green Deposits issued by RBI
5. Companies (Accounts) Amendment Rules, 2021 and Companies (Audit and Auditors) Amendment Rules, 2021 dated 24 March 2021 and MCA notification no. G.S.R. 235(E) dated 31 March 2022
6. ICAI issued the 'Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014', March 2023.
7. SEBI's circular BRSR Core - Framework for assurance and ESG disclosures for value chain (SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122) dated 12 July 2023
8. Companies (Indian Accounting Standards) Amendment Rules, 2023 dated 31 March 2023.
9. SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023 dated 14 June 2023 (LODR Regulations).

Q&A

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KPMG in India contacts:

Ruchi Rastogi

Partner

Assurance

E:ruchirastogi@kpmg.com

Feedback/queries can be sent to: aaupdate@kpmg.com

kpmg.com/in/en/home/social



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KPMG Assurance & Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000

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