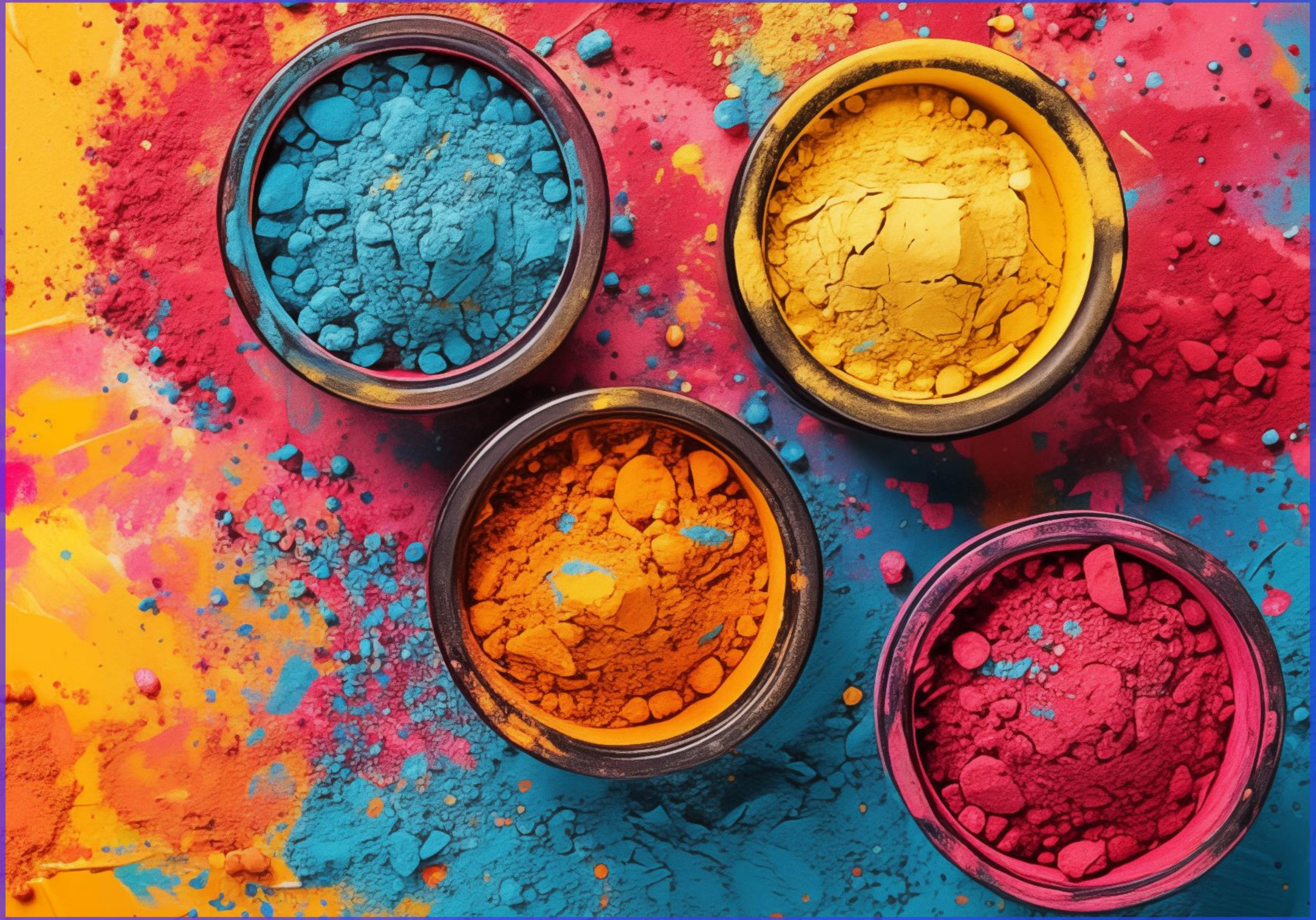
# Accounting and Auditing Update

Issue no. 92/2024



March 2024

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# Editorial

Development of accounting estimates involves the use of judgements and/or assumptions based on the latest available, reliable information. Judgements and estimates can significantly impact a company's financial statements and an estimate may have a range of possible and supportable results. Disclosures of such significant accounting judgements and sources of estimation uncertainty, facilitates a better understanding of assumptions made and the extent to which changes to those assumptions may affect a company's future financial position. Ind AS 1, *Presentation of Financial Statements*, prescribes requirements for disclosure of judgements that management has made in the process of applying an entity's accounting policies, and assumptions it makes about the future and other major sources of estimation uncertainty. This edition of Accounting and Auditing Update (AAU) discusses some of the key areas that regulators have highlighted and provided improvement points relating to judgements and estimates. The article also discusses illustrative disclosures with the help of examples.

The manufacturing and production sectors are key drivers for economic growth. The activities in these sectors are leading to issues such as environment pollution and climate change. Considering this, regulatory authorities across the globe are implementing climate and environment related regulations to protect and conserve the environment and ensure sustainable use of natural resources. The climate and environment related risks, corresponding regulatory requirements and strategic decisions undertaken by the entities may have an impact on the business model of an organisation. Therefore, it is of utmost importance to obtain an understanding of the effects of climate and environment risk on an entity's financial statements. The regulators are mandating disclosure requirements relating to climate and environment related risks and activities. In India, there are a number of climate and environment related regulations that companies would need to comply with. Additionally, the Securities Exchange Board of India (SEBI) mandated Business Responsibility and Sustainability Reporting (BRSR) which requires top 1,000 listed entities to make Environmental, Social, and Governance (ESG) disclosures. This publication carries an article on this topic which aims to provide an overview of the climate and environment-related regulatory requirements in India for the companies in the manufacturing sector.

There have been various regulatory developments in India and internationally during the month. Recently, the Securities and Exchange Board of India (SEBI) approved significant matters in its board meeting pertaining to the SEBI Regulations. Further, the Reserve Bank of India (RBI) has issued draft guidelines on the disclosure framework for Regulated Entities (REs) on climate-related financial risks. Additionally, the Institute of Chartered Accountants of India (ICAI) issued a revised Implementation Guide on Reporting under Rule 11(g) Audit Rules to provide guidance on the auditor's responsibility for reporting on the use of accounting software by a company for maintaining its books of accounts which has a feature of recording audit trail, etc. Our regulatory updates article covers 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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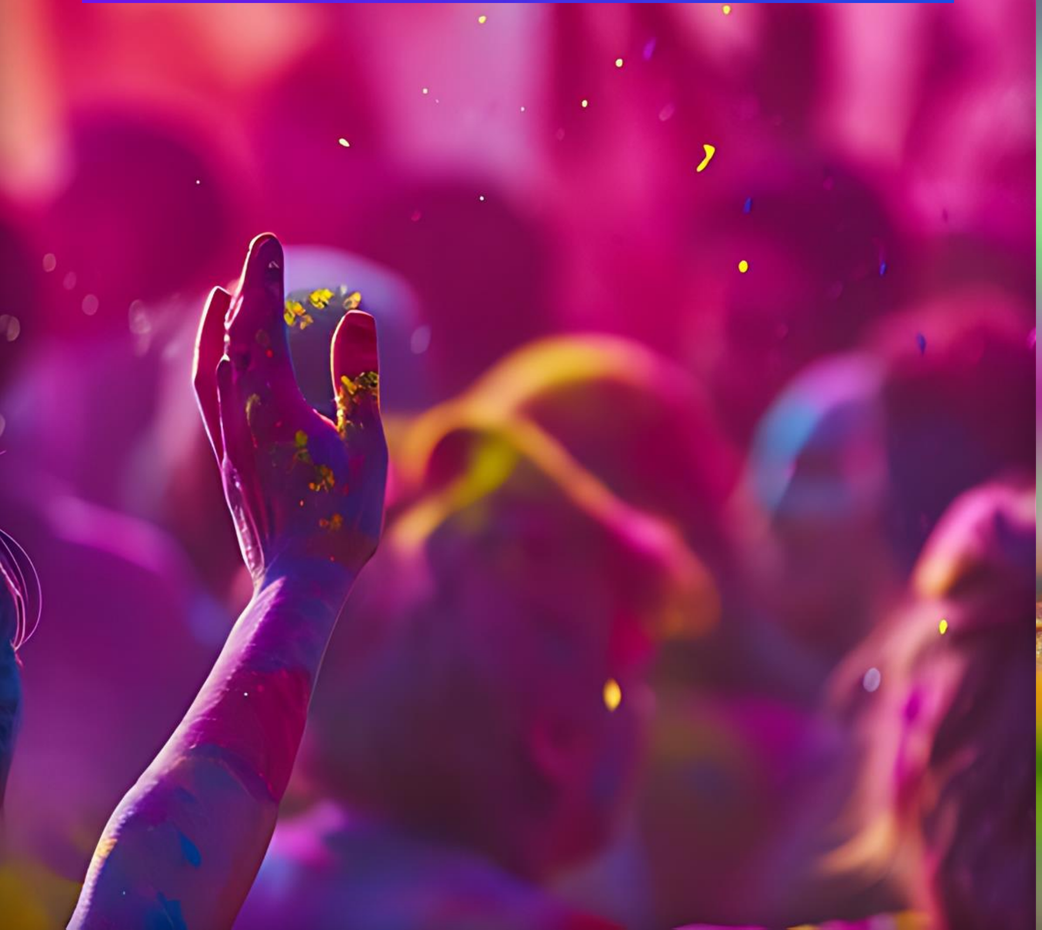
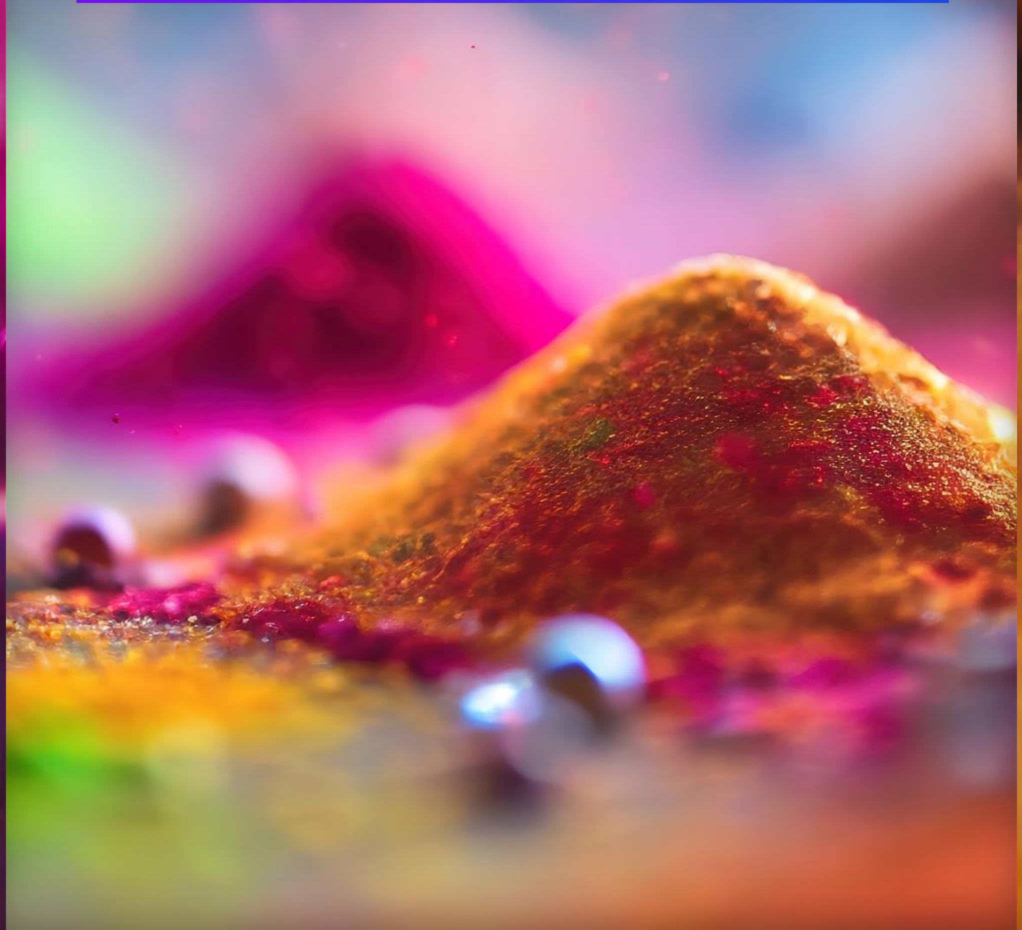
CHAPTER 1

## Key accounting and financial reporting issues- judgements and estimates



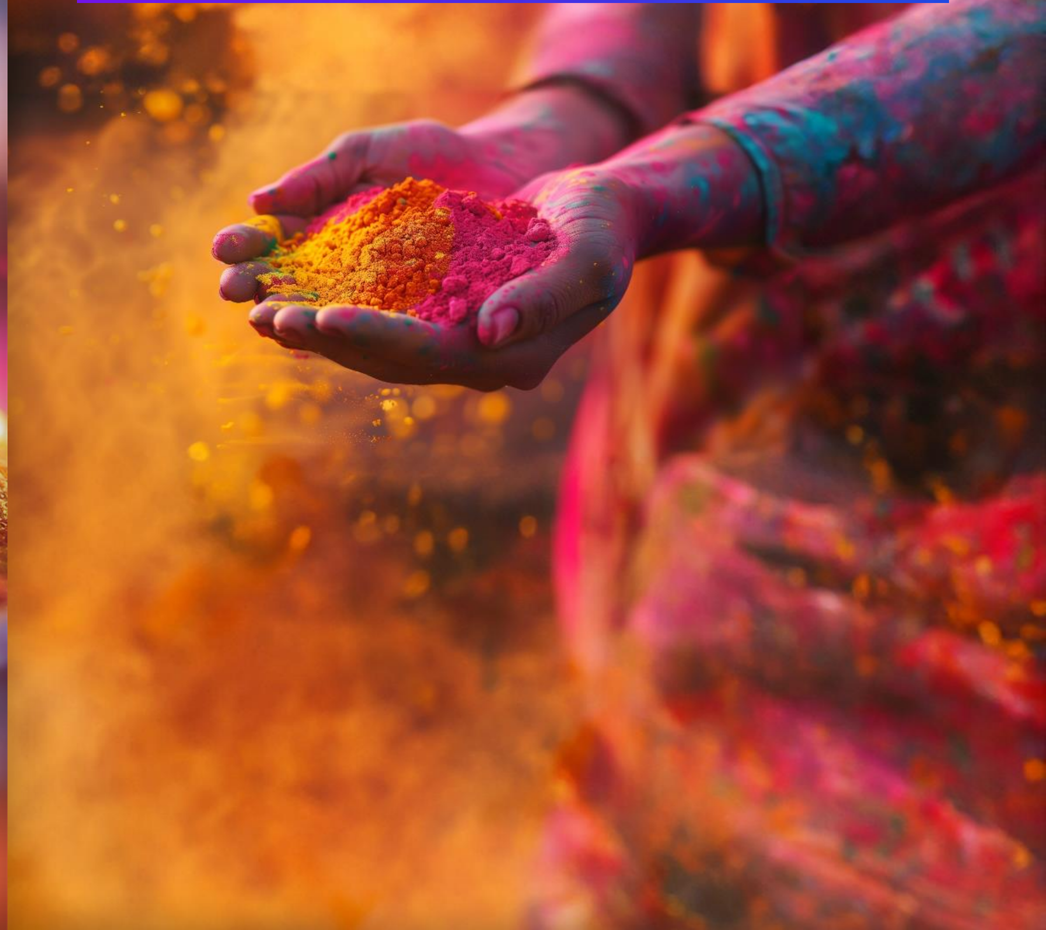
CHAPTER 2

## Climate and environment regulatory requirements for the manufacturing sector



CHAPTER 3

## Regulatory updates

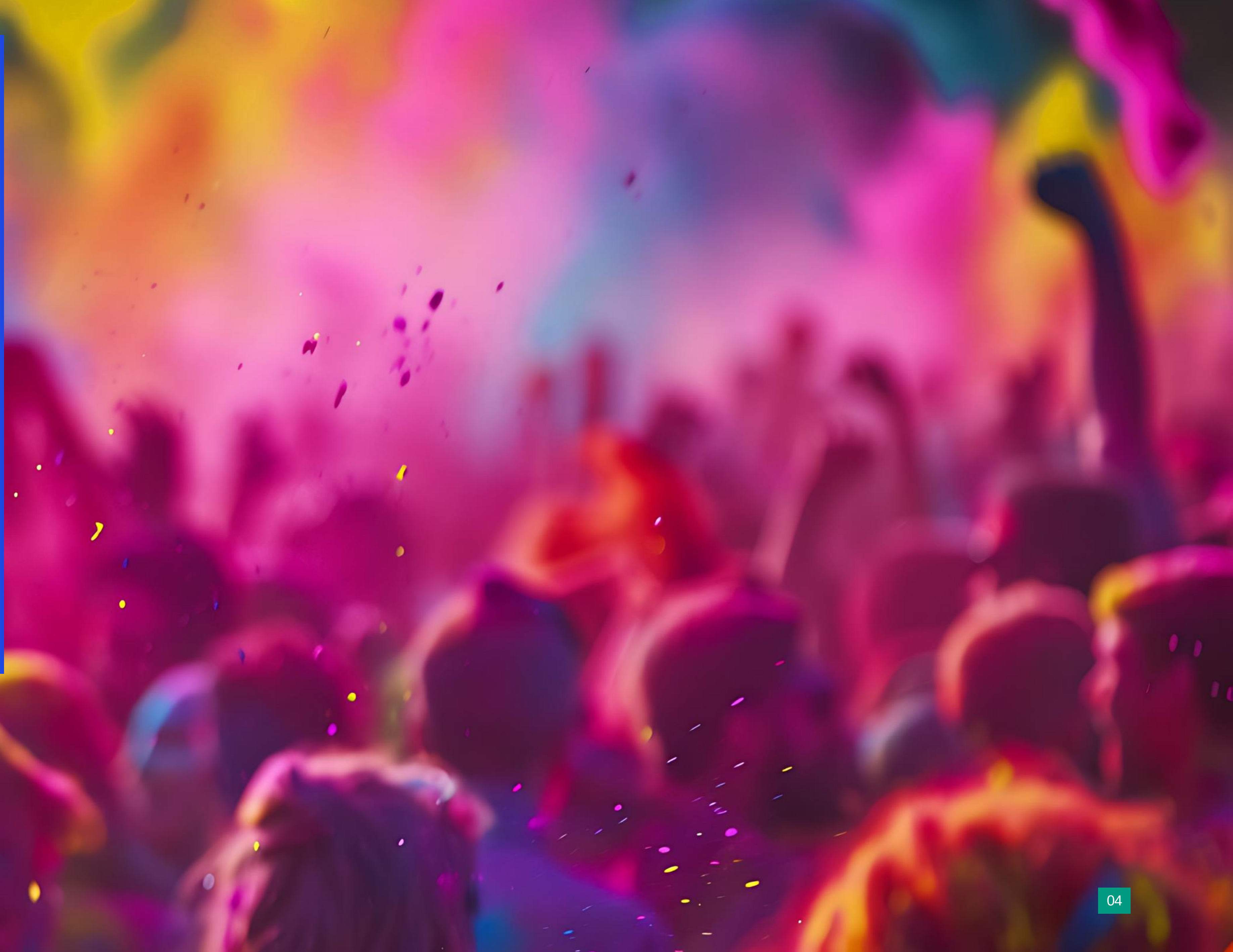


CHAPTER 1

# Key accounting and financial reporting issues- judgements and estimates

**This article aims to:**

Highlight key areas that regulators have highlighted and have provided improvement points relating to judgements and estimates with the help of illustrative examples and case study.



## Background

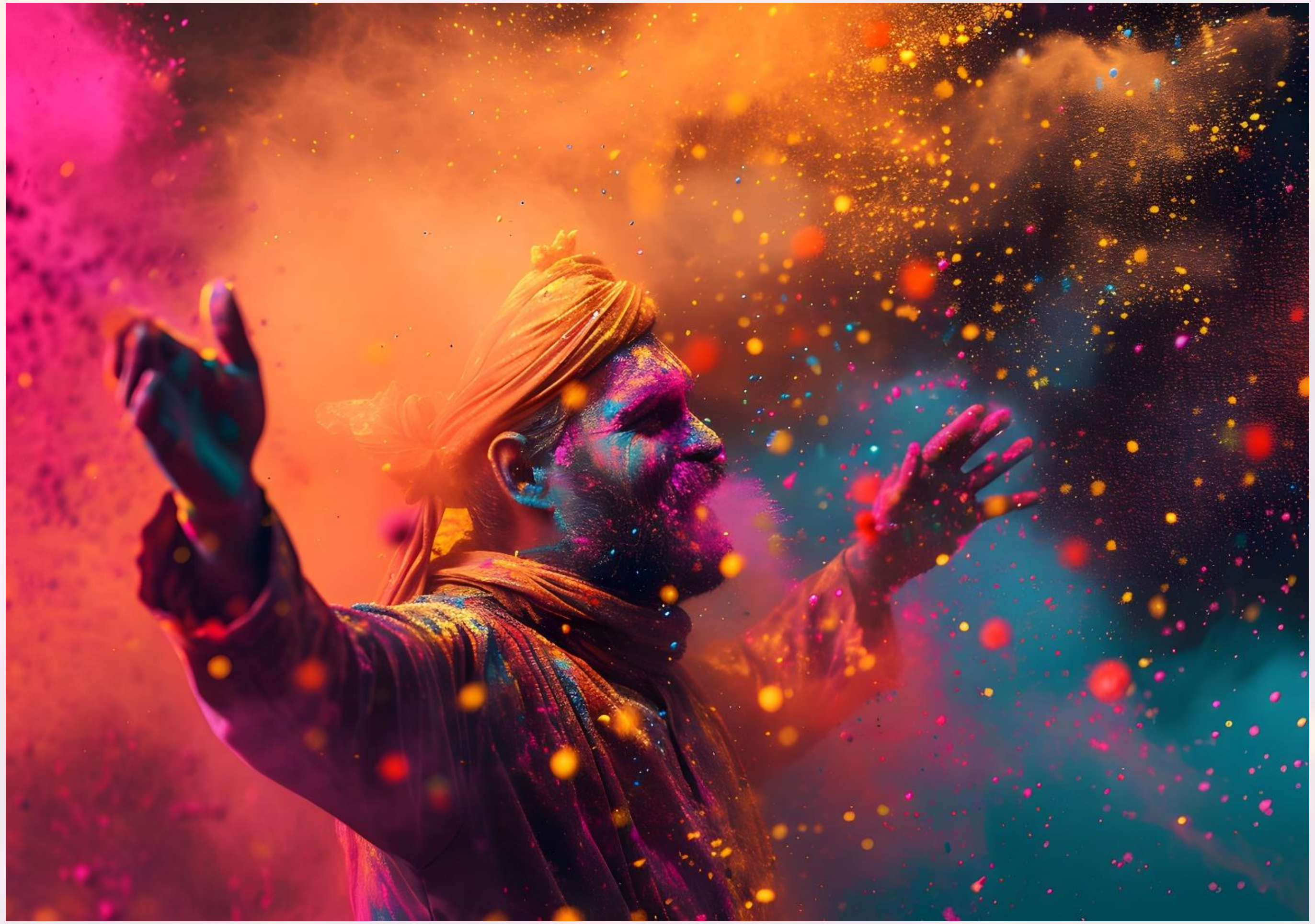
Development of accounting estimates involves use of judgements and/or assumptions based on the latest available, reliable information. Disclosures of such significant accounting judgements and sources of estimation uncertainty facilitates a better understanding of assumptions made and the extent to which changes to those assumptions may affect a company's future financial position.

Ind AS 1, *Presentation of Financial Statements*, prescribes requirements for disclosure of judgements[1] that management has made in the process of applying an entity's accounting policies and assumptions it makes about the future and other major sources of estimation uncertainty[2]. However, regulators observed that in certain cases, these disclosures did not contain sufficient information, or appeared inconsistent with information elsewhere in the report and accounts. Accordingly, in this issue of key accounting and financial reporting issues, we will touch upon some of the key areas that regulators have highlighted and provided improvement points in the area of **judgements and estimates**. We have also provided illustrations of disclosures from thematic reviews performed by the Financial Reporting Council (FRC).

## Source

While preparing this article, we have referred to:

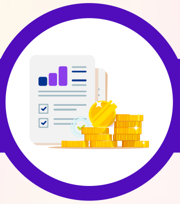
- The Report on Audit Quality Review issued by the Quality Review Board issued in October 2023,
- The report- Annual Review of Corporate Reporting (2022/23) issued by the Financial Reporting Council,
- Thematic review: Judgements and Estimates: Update- issued by FRC in July 2022, and
- Recent ESMA[3] enforcement directions.



1. Judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. This disclosure is required by paragraph 122 of Ind AS 1.
2. Other major sources of estimation uncertainty, at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
3. European Securities and Markets Authority. This disclosure is required by paragraph 125 of Ind AS 1.

# Key issues and recommendations pertaining to judgements and estimates

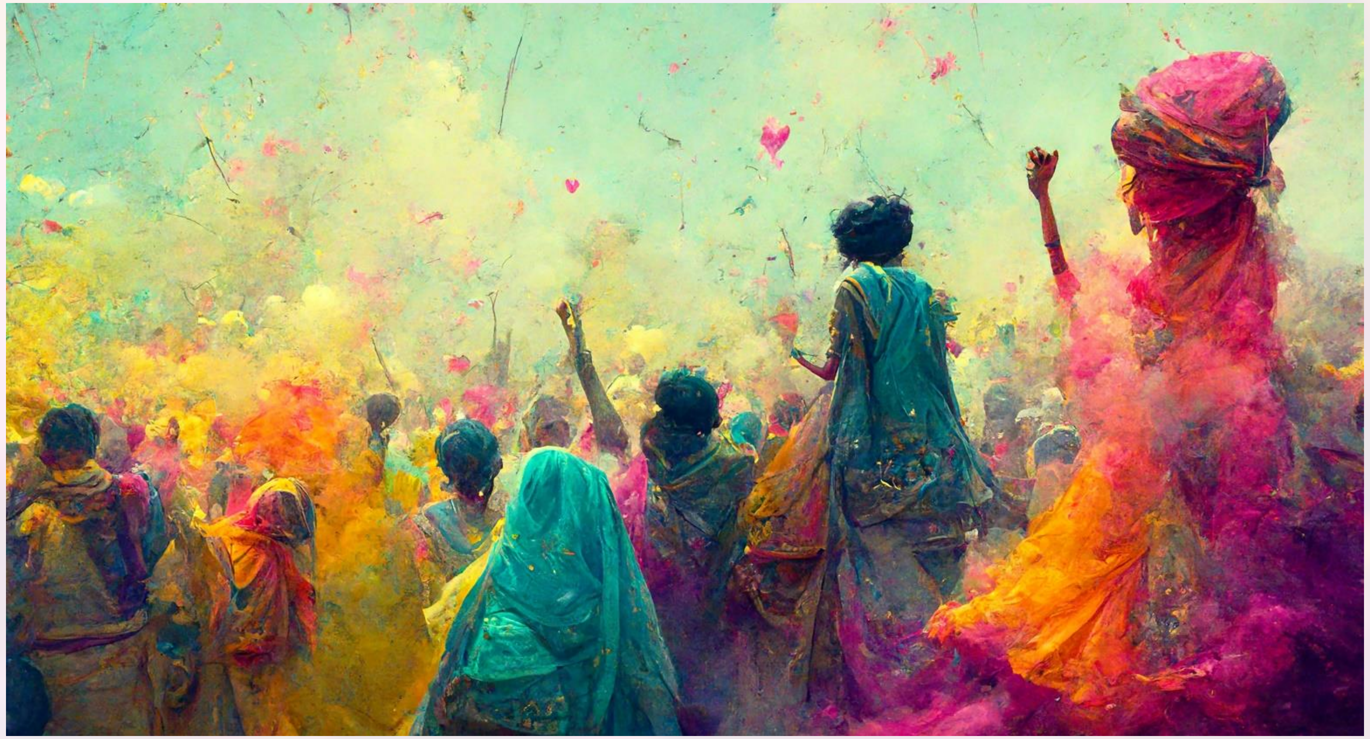
Some of the key issues and recommendations pertaining to judgements and estimates are given below:



## Disclosure of estimation uncertainties

In determining the carrying amounts of some assets and liabilities, management estimates the effects of uncertain future events on those assets and liabilities at the reporting date. As per Ind AS 1 (para 125), an entity should disclose the key assumptions it makes about the future, and other major sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Such assumptions include those that require management's most difficult, subjective or complex judgements (in this article, we will refer to these estimates as significant estimates). Some examples include discounted cash flow projections, recoverability of development costs, utilisation of tax losses, going concern assessment[4], accounting for inflationary features, including the use of discount rates, etc.

Regulators have clarified that while companies may provide disclosures of other estimates where these are relevant (i.e. estimates that do not fall within the definition of para 125 of Ind AS 1)[5], companies should clearly distinguish these from significant estimates.



4. This would be in a close call scenario- where a company concludes that a material going concern uncertainty does not exist but the conclusion required significant judgement.

5. Such estimates carry a lower risk, have a smaller impact or crystallise over a longer timeframe.

## Example disclosure

**Significant accounting estimates [1]**

The preparation of the Group's consolidated financial statements includes the use of estimates and assumptions. The significant accounting estimates with a significant risk of a material change to the carrying value of assets and liabilities within the next year in terms of IAS 1, *Presentation of Financial Statements*, are:

- Fair value of forestry assets – refer to note 14
- Actuarial valuations of retirement benefit obligations – refer to note 24

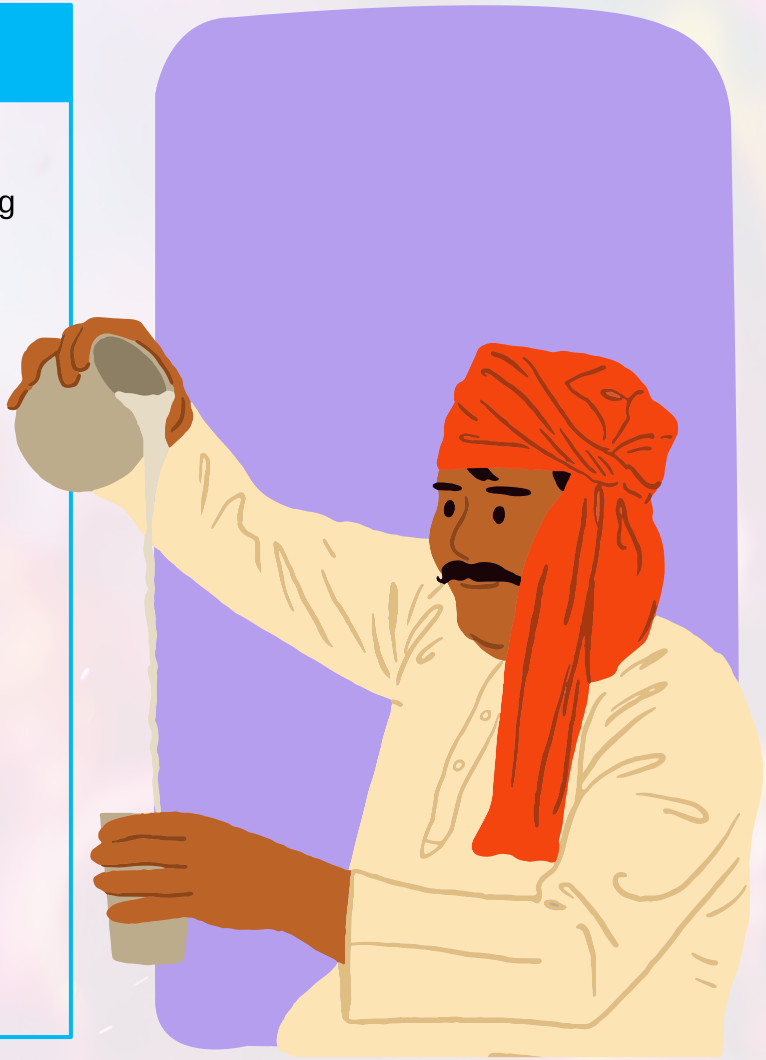
**Other areas of judgement and accounting estimates [2]**

The consolidated financial statements include other areas of judgement and accounting estimates. While these areas do not meet the definition under IAS 1 of significant accounting estimates or critical accounting judgements, the recognition and measurement of certain material assets and liabilities are based on assumptions and/or are subject to long term uncertainties. The other areas of judgements and accounting estimates are:

- Taxation – refer to notes 7 and 33
- Residual values and useful economic lives of property, plant and equipment – refer to notes 10 and 33
- Fair value of assets acquired and liabilities assumed in business combinations – refer to note 25

[1]- Significant estimates are listed separately. There is a clear statement that these estimates have a risk of material adjustment to the carrying value of assets and liabilities within the next year.

[2]- The other areas of judgement and accounting estimates section explains that the judgements/estimates relate to material assets and liabilities that are based on assumptions and/or are subject to longer term uncertainties.



(Source: Thematic review: Judgements and Estimates: Update- issued by FRC in July 2022)

## Quantification of risks of material adjustments

The regulators stated that when disclosing significant estimates, the specific amount of the asset or liability which is at a risk of material adjustment should be prescribed. Further, there should be sufficient granularity in the descriptions of assumptions and/or uncertainties to enable users to understand management's most difficult, subjective or complex judgements.

### Example disclosure

*The disclosure given below provides a detailed description of the nature of the estimation uncertainty and quantifies the specific amount at risk of material adjustment (a specific inventory provision).*

**Inventory reserve - Raw Materials and Sub-Assemblies**

Consistent with last year, the Group adopts a usage-based approach in calculating its inventory provision. COVID-19 and global commodity shortages have significantly impacted our operations, logistics and supply chains over the past year and therefore the approach to identify inventory at risk has been flexed to consider the impact from these factors. Management's focus has been on inventory that is over 365 days old.

Raw materials and sub-assemblies are reserved if the quantity on hand, that is greater than 365 days old, exceeds three year's historical usage and, following review by engineering and supply chain personnel, there is no reasonable prospect of the components being used or their shelf life not being exceeded. Three years is felt to be appropriate at this time as: recent usage has been depressed following the economic impacts from COVID-19; the majority of components have a long shelf life; product demand mix between project and MRO business has been skewed; and new products or upgrades have been delayed.

Raw material and sub-assembly inventory consists of a large number of Stock Keeping Units (SKUs) of varying value. Assessment of every at-risk SKU would be impractical, and the reserve has, therefore, been determined by assessing the nature, usability and condition for a range of at-risk SKUs that represent a significant population of the inventory at risk. The result from this assessment was then used to determine a reserve percentage that was applied to the remaining population, with the combination of these calculations determining the total reserve required.

The provision element that relates to raw material and sub-assembly items greater than 365 days old is GBP2.2m and represents 43 per cent of that specific aged category of inventory.

(Source: Thematic review: Judgements and Estimates: Update- issued by FRC in July 2022)

## Sensitivity of significant estimates

As per paragraph 129 of Ind AS 1, the disclosure that an entity makes regarding significant estimates *inter alia* includes the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity. Also, the range of reasonably possible outcomes within the next financial year in respect of carrying amounts of assets and liabilities affected should be disclosed.

The FRC has reiterated that sensitivity disclosures should be consistent with disclosures elsewhere in the annual report. Also, sensitivity disclosures should not be limited to those required by any other Ind AS[6].

With regard to the disclosure on ranges of outcomes, the regulators noted that ranges of outcomes may be more relevant where an estimate is not sensitive in a linear manner to changes in input assumptions. Instead, there may be several different possible outcomes depending on future circumstances, such as when estimating a provision for litigation.

## Example disclosure of sensitivity analysis

*Note: In this example, sensitivity is provided for forestry assets, which are disclosed as a significant estimate. It is to be noted that quantitative sensitivity analysis is not required by any other Ind AS.*

**Forestry assets**

The Group has performed sensitivity analysis of reasonably possible changes in the significant assumptions… taking into account historical experience. The sensitivity table is based on an illustrative percentage change, however the estimates may vary by greater amounts. Therefore, the Group considers the forestry assets valuation to be a key estimate. The reported value of owned forestry assets would change as follows should there be a change in these underlying assumptions on the basis that all other factors remain unchanged:

| Euro (in million) | 2021 | 2020 |
|---|---|---|
| Effect of EUR5/tonne increase in net selling price | 71 | 68 |
| Effect of 1% increase in conversion factor (hectares to tonnes) | 3 | 4 |
| Effect of 1% increase in risk premium | (5) | (6) |

(Source: Thematic review: Judgements and Estimates: Update- issued by FRC in July 2022)

6. It is to be noted that disclosure requirements under paragraphs 125 and 129 are not required for assets and liabilities measured at fair value if this is based on quoted prices in an active market for an identical asset or liability.

## The impact of climate change on significant estimates[7]

Estimation uncertainty may be impacted by climate change and any climate targets or commitments made by a company. During their review, the regulators observed that a few companies made little or no mention of climate change in the financial statements or climate change was not adequately identified as a significant estimate.

In this regard, regulators recommended the following with regard to climate related disclosures:

- Consideration of the connectivity between climate-related narrative reporting, especially any disclosure of significant climate risks or net-zero commitments, and the financial statements
- Clarification of the timing of any impact relating to climate change assumptions and/or uncertainties
- Quantification of the specific amount at risk of material adjustment
- Sufficient granularity in the descriptions of assumptions and/or uncertainties and
- Sensitivities and/or ranges of reasonably possible outcomes.

Where climate related sources of estimation uncertainty are expected to have a material impact over a longer timeframe, for example where government regulation is **expected to be introduced** in the future, regulators expect companies to consider whether disclosure of this information may be required by paragraph 112(c) of Ind AS 1.

Where climate has a more significant impact on estimates, careful placement of climate disclosures and the use of effective cross-referencing clearly highlights these issues to users.

### Example disclosure

*Note: The disclosure clearly articulates that the impact of climate change can have short and longer-term effects. The disclosure is clearly separated from Ind AS 1.125 estimates.*

**Climate change and energy transition**

In March 2021, Company X announced its commitment to being Net Zero on Scope 1 and Scope 2 emissions on a net equity basis by 2030 supporting the goal of limiting global temperature rise to well below 2 degrees Celsius as per Article 2 of the Paris Agreement.

This note describes how Company X has considered climate related impacts in some key areas of the financial statements and how this translates into the valuation of assets and measurement of liabilities as Company X makes progress in the energy transition.

Note (ag) key sources of estimation uncertainties describes those uncertainties that have the potential to have a material effect on the Group Balance Sheet in the next 12 months[8].

This note describes the key areas of climate impacts that potentially have short and long-term effects on amounts recognised in the Group Balance Sheet as at 31 December 2021. Where relevant this note contains references to other notes to the Group Financial Statements and aims to provide an overarching summary.

(Source: Thematic review: Judgements and Estimates: Update- issued by FRC in July 2022)

7. Source: Thematic review: Judgements and Estimates: Update- issued by FRC in July 2022
8. Clear disclosure that estimates with a risk of material adjustment in the next year are disclosed elsewhere. A helpful cross-reference is provided.

CHAPTER 2

# Climate and environment regulatory requirements for the manufacturing sector

**This article aims to:**

Provide an overview of the climate and environment-related regulatory requirements in India for the manufacturing sector.

# Introduction

The rapid development in industrialisation has given a boost to the manufacturing sector. It includes a diverse range of industries such as automotive, chemical, pharma, textile, electrical equipment, etc. While the manufacturing and production sectors are key drivers for economic growth, the activities in these sectors are leading to issues such as environment pollution and climate change. In this regard, regulatory authorities across the globe are implementing climate and environment related regulations to protect and conserve the environment and ensure sustainable use of natural resources. Also, the climate and environment related risks, corresponding regulatory requirements and strategic decisions undertaken by the entities could have an impact on the business model of an organisation.

Therefore, it is of utmost importance to obtain an understanding of the effects of climate and environment risk on an entity's financial statements. In our previous editions, we have discussed the effects of climate-related matters on financial statements[1] and the accounting considerations for carbon credit[2].

In this article we aim to provide an overview of the climate and environment-related regulatory requirements in India for the companies in the manufacturing sector.

The following sections discusses key requirements relating to disclosures under Securities Exchange Board of India's (SEBI) Business Responsibility and Sustainability Reporting (BRSR) and highlights few environment/climate-related laws and regulations applicable in India. It is essential that companies adopt a comprehensive approach to ensure effective Environment, Social and Governance (ESG) compliance and reporting.

# SEBI's sustainability reporting framework

In May 2021, the Securities Exchange Board of India (SEBI) introduced BRSR which requires certain listed entities to make Environmental, Social, and Governance (ESG) disclosures. Currently, top 1,000 listed entities[3] are mandatorily required to submit BRSR along with their annual reports. The BRSR seeks disclosures from listed companies on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) issued by the Ministry of Corporate Affairs (MCA) in 2019. The reporting section of BRSR is divided into three sections,

- Section A: General disclosures
- Section B: Management and process disclosures
- Section C: Principle wise performance disclosure.

Further, the principle wise performance disclosures are divided in to (a) essential indicators (i.e. mandatory reporting) and (b) leadership indicators (i.e. to be reported on voluntary basis).

Additionally, in July 2023, SEBI issued a framework for enhancing the ESG disclosures which consisted of applicability of BRSR Core, disclosure for value chain and their assurance. The BRSR Core requires mandatory reasonable assurance from an independent assurance provider, commencing from Financial Year (FY) 2023-24 for top 150 companies over a glide path of four years.

Some of the key environment and climate related BRSR requirements that could have an impact on the manufacturing sector are enumerated in Principle 6, *Businesses should respect and make efforts to protect and restore the environment* of the BRSR.

1. AAU – Issue 84 July 2023. Click here to access the same.
2. AAU – Issue 87 October 2023. Click here to access the same.
3. As per market capitalisation as on 31 March of previous year

The key attributes from these disclosure requirements under Principle 6 are as follows:

## Greenhouse Gas (GHG) and other emissions

GHGs are considered to be one of the significant contributors of climate change. A first step towards reducing the carbon footprint of the manufacturing industry is understanding the Product Carbon Footprint (PCF), which measures the total greenhouse gas emissions generated by a product. Therefore, it is of utmost importance for entities to monitor and control GHG emissions to achieve the target for becoming a carbon neutral economy.

It covers the following gases:

| | |
|---|---|
| Carbon dioxide (CO2) | Methane (CH4) |
| Nitrous oxide (N2O) | Hydrofluorocarbons (HFCs) |
| Perfluorocarbons (PFCs) | Sulphur hexafluoride (SF6) |
| Nitrogen trifluoride (NF3) | |

BRSR provides following disclosure requirements relating to GHG:

### Essential indicators

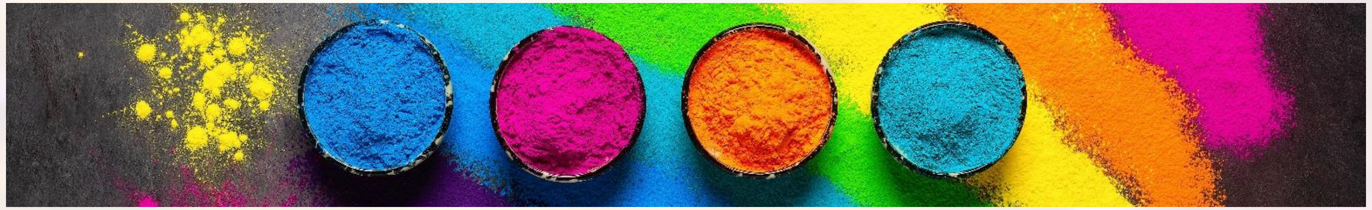
- **GHG footprints (BRSR Core):** Companies are required to disclose details regarding total Scope 1 emissions and total Scope 2 emissions. These are explained in detail in the table below

| | Scope 1 | Scope 2 |
|---|---|---|
| **Meaning** | • Direct GHG emissions from sources that are owned or controlled by the entity.<br>• These sources could be any physical unit or process that releases GHG into the atmosphere.<br>• Any emissions that are not physically controlled but result from intentional or unintentional releases of GHGs, such as equipment leakages, methane emissions (eg: from coal mines), shall also be included in the calculation of Scope 1 emissions. | Indirect emissions that result from the generation of purchased or acquired electricity, heating, cooling, and steam consumed by the entity. |
| **Unit for the disclosure** | Metric tonnes of CO2 equivalent | |
| **Disclosure requirements** | • Breakup of CO2, CH4, N2O, HFCs, PFCs, SF6, NF3, if available.<br>• Standards, methodologies, assumptions and/or calculation tools used, including sources of the global warming potential (GWP) rates and emission factors used. | |

- **GHG emission intensity (BRSR Core):** In addition to disclosure of Scope 1 and Scope 2 emissions, entities are also required emission intensity ratios in terms of per rupee of turnover adjusted for Purchasing Power Parity (PPP) and in terms of physical output.
- **Projects undertaken to reduce GHG emissions (Principle 6, Essential Indicators):** Organisations are required to disclose the various projects and initiatives that have been undertaken to reduce GHG emissions.
- **Other air emissions:** Details regarding other air emissions should be provided. These include NOx, SOx, Particulate matter (PM), Persistent organic pollutants (POP), Volatile organic compounds (VOC), Hazardous air pollutants (HAP). Also, details of any contextual information necessary to understand how the data has been compiled, such as any standards, methodologies, assumptions and/or calculation tools used should also be provided.

### Leadership indicators

**Disclosure of total Scope 3 emissions and its intensity:** Scope 3 emissions are indirect GHG emissions (not included in energy indirect (Scope 2) GHG emissions) that occur outside of the organisation and include both - upstream and downstream emissions. The BRSR mentions that organisations on a voluntary basis provide a disclosure of their Scope 3 emissions and the breakup into $CO_2$, $CH_4$, $N_2O$, HFCs, PFCs, $SF_6$, $NF_3$. While computing Scope 3 GHG emissions, the organisation should exclude any GHG trades i.e. purchase, sale or transfer of GHG emissions.



## Energy footprint

Energy can be consumed in various forms, such as fuel, electricity, heating, cooling or steam. The BRSR requires entities to disclose details regarding energy consumption. In recent times, energy consumption has become equally important as energy supply, therefore regulators are looking for indicators and data to monitor developments in energy consumption. Through these disclosures, stakeholders could assess the impact an organisation has with respect to energy and how it manages the same.

### Essential indicators

- **Total energy consumption (BRSR Core):** An organisation is required to disclose details regarding the total energy consumed from
  - Renewable and
  - Non-renewable sources[4]

  It includes the summation of non-renewable fuel consumed, renewable fuel consumed, purchased electricity including heating, cooling and steam, self-generated electricity including heating, cooling, steam.

  Organisations should also disclose any contextual information necessary to understand how the data has been compiled, such as any standards, methodologies, assumptions and/or calculation tools used.
- **Energy intensity (BRSR Core):** Entities are also required to provide disclose intensity ratios in terms of the turnover adjusted for Purchasing Power Parity (PPP) and in terms of physical output.

4. Renewable energy sources are those that can be replenished in a short time through ecological cycles or agricultural processes. These include geothermal, wind, solar, hydro, and biomass. Whereas non-renewable energy sources are those that cannot be replenished, reproduced, grown or generated in a short time period through ecological cycles or agricultural processes. These include fuel distilled from petroleum or crude oil, such as gasoline, diesel fuel, jet fuel, and heating oil; natural gas, such as compressed natural gas (CNG), and liquefied natural gas (LNG), fuels extracted from natural gas processing and petroleum refining, such as butane, propane, and liquefied petroleum gas (LPG), coal, and nuclear power.

## Water

BRSR requires companies to provide certain disclosures related to water withdrawal, discharge, consumption and water intensity. Through these disclosures stakeholders could assess the impact on the functioning of the ecosystem. Further, these disclosures would also enable the respective company to undertake measures that could prevent the pollution of water bodies by reducing the consumption, wastage, effluent let-off, etc.

The key BRSR disclosure requirements are as follows:

### Essential indicators

- **Water withdrawal (BRSR Core):** Water withdrawn for any use is required to be disclosed. Further, a break-up of water withdrawn from various sources, such as surface water, ground water, third party water, sea-water/desalinated water[5] or any other source, is to be provided.
- **Water discharged (BRSR Core):** Companies are required to report the total water discharged i.e. the total effluents, used water and unused water released to surface water, groundwater, seawater or sent to third parties or others, for which the organisation has no further use. By quantifying the volume of water discharge, organisations and stakeholders can understand the negative impacts on the receiving waterbody.

Further details regrading the level of treatment on the water discharged should also be provided. This would provide insight into the effort an organisation is making to improve the quality of its water discharged. The water discharged could be categorised into the following treatment levels:

i. Primary treatment: This refers to removal of solid substances that settle or float on the water surface.

ii. Secondary treatment: This aims to remove substances and materials that have remained in the water, or are dissolved or suspended in it.

iii. Tertiary treatment: This treatment aims to upgrade water to a higher level of quality before it is discharged. It includes processes that remove heavy metals, nitrogen, and phosphorus.

iv. Untreated water: In case the water withdrawn and discharged is of good quality that does not require treatment, an explanation for the same should be provided.

Organisations should also disclose any contextual information necessary to understand how the data has been compiled, such as any standards, methodologies, assumptions and/or calculation tools used.

5. The water withdrawal, discharge and consumption could take place from/to the following sources:
   - **Surface water-** water that occurs naturally on the earth's surface in ice sheets, ice caps, glaciers, icebergs, bogs, ponds, lakes, rivers, and streams
   - **Ground water -** water that is being held in, and that can be recovered from, an underground formation
   - **Third party water -** refers to municipal water and other private suppliers of water
   - **Sea-water/desalinated water –** refers to water in a sea or ocean
   - **Other sources -** Organisations may specify the other sources, in case the same are significant

- **Water consumption (BRSR Core):** This refers to water that is no longer available for use by the ecosystem or local community, such as water that has been withdrawn and incorporated into products or has evaporated or is polluted to the point of being unusable by other users, and is therefore not released back to surface water, groundwater, seawater, or a third party. It also includes water that has been stored during the reporting period for use or discharge in a subsequent reporting period.

  If an entity cannot directly measure its water consumption, then it could calculate it as the difference between total water withdrawn and total water discharged.
- **Water intensity (BRSR Core):** Entities are also required to disclose intensity ratios in terms of the turnover adjusted for Purchasing Power Parity (PPP) and in terms of physical output.
- **Disclosures relating to zero liquid discharge mechanism:** If an organisation has implemented a zero liquid discharge mechanism, details regarding the coverage and implementation is required to be provided. Also under this system, entities may use advanced waste-water treatment technologies to recycle, recover and then re-use the treated waste-water to ensure that there is no discharge of the waste-water to the environment.

### Leadership indicators

**Details of water withdrawn, consumed and discharged in areas of water stress:** Areas of water stress are those where there is inability to meet the human and ecological demand for water. Organisations could optionally provide details regarding the facility/plant located in areas of water stress in terms of withdrawal, consumption and discharge.

## Waste management

An organisation could generate waste from its own activities, such as, during the production of its products. BRSR requires entities to provide disclosures regarding the waste generated, recovered and recycled. Such information would enable an organisation and the stakeholders to understand waste-related impacts and how the organisation manages the same.

The key disclosures are as follows:

### Essential indicators

- **Total waste generated (BRSR Core):** Organisations are required to provide details regarding the total waste generated. This information should be provided in terms of the categories specified in various Waste Management Rules issued by the Ministry of Environment, Forests & Climate Change i.e. plastic waste, e-waste, construction and demolition waste, battery waste, radioactive waste and other hazardous and non-hazardous waste.
- **Waste recovered (BRSR Core):** For each category of waste generated, details regarding waste recovered should be provided. Waste could be recovered in the following manner:
  - **Recycling:** This refers to reprocessing of products or components of products that have become waste while making new materials.
  - **Reusing:** This means checking, cleaning, or repairing operations through which products or components of products that have become waste are prepared to be put to use for the same purpose for which they were conceived.

  In case any other recovery option is used, the organisation should provide details regarding the same.

- **Waste disposed (BRSR Core):** Details are to be provided for disposal of waste for each category of waste generated. The break-up of the disposal methods are as follows:
  - Waste that is incinerated – This refers to controlled burning of waste at high temperatures.
  - Waste that is sent to a landfill – Under this method, waste is deposited in sanitary landfills. This excludes uncontrolled waste disposal such as open burning and dumping.
  - Other disposal operations – In case any other disposal operations used, the same should be specified in case the same are significant.
- **Waste intensity (BRSR Core):** Entities are required to intensity ratios in terms of the turnover adjusted for PPP and in terms of physical output.
- **Waste management practices:** Under this section, a description should be provided of the activities that could lead to significant waste-related impact and the actions taken by the organisation to manage such an impact. Such actions could include the following:
  - Improving materials selection and product design
  - Using recycled, re-used or renewable materials
  - Substituting inputs that have hazardous characteristics with inputs that are non-hazardous.

  In case the waste is managed by a third party, then the entity could provide a description of the processes used to determine whether the third party manages the waste in line with contractual or legislative obligations.

### Leadership indicators

**Specific initiatives to reduce emissions/effluent discharge/waste generated:** On a voluntarily basis, organisations could take up specific initiatives or innovative technology or solutions used to improve resource efficiency or reduce impact due to emissions/effluent discharge/waste generated. In such cases, details regarding the outcome of such initiatives should also be provided.

# Other environment/climate-related laws and regulations:

Entities in the manufacturing sector are required to comply with number of climate and environment related regulations. Some of the prevalent climate and environment related regulations in India are as follows:

## Environment protection

The Environment (Protection) Act, 1986 (Environment Act) and Environment (Protection) Rules, 1986 (EP Rules) is considered as a comprehensive umbrella legislation to protect and improve the quality of the environment and to prevent, control and abate environmental pollution. The EP Rules prescribe the standards for emission or discharge of environmental pollutants.

**Obligation:** The Environment Act states that persons carrying on any industry, operation, process are not allowed to emit or discharge environmental pollutants in excess of the standards prescribed in EP Rules. Further, persons engaged in handling any hazardous substance should abide by the procedures and safeguards prescribed under the EP Rules. Additionally, respective state boards may specify more stringent standards for a specific industry or locations.

**Consequences of non-compliance:** In case of failure to comply or contravention of the provisions, such person would be punishable with imprisonment for a term which may extend to five years or with fine which may extend to INR1 Lakh or with both, and in case the failure or contravention continues then an additional fine which may extend to INR5,000 for every day during which such failure or contravention continues after the conviction for the first such failure or contravention.

## Water conservation and pollution

The Water (Prevention and Control of Pollution) Act, 1974 lays down the regulatory framework for prevention and control of water pollution and for maintaining or restoring wholesomeness of water. Manufacturing industries are a huge contributor of water pollution on account of the toxic pollutants included in discharged water.

As per the provisions of this Act, respective state governments lay down effluent standards for the sewage and trade effluents and for the quality of receiving waters. Further, they also lay down standards for treatment of sewage and trade effluents to be discharged into any particular stream after taking into account the minimum fair-weather dilution available in that stream and the tolerance limits of pollution permissible in the water of the stream.

Additionally, in 2022 the Government of India has set up the Bureau of Water Use Efficiency (BWUE) for promotion, regulation and control of efficient use of water in irrigation, industrial and domestic sectors.

**Obligation:** The Act also states that, consent of the state board should be obtained to establish any industry, operation or process, or for any treatment and disposal system or any extension which is likely to discharge sewage or trade effluent into a stream or well or sewer or on land. In addition, consent should also be obtained to use any new or altered outlets for the discharge of sewage water.

**Consequences of non-compliance:** In case of failure to comply with the provisions the said Act, a person could face monetary penalty and/or imprisonment.

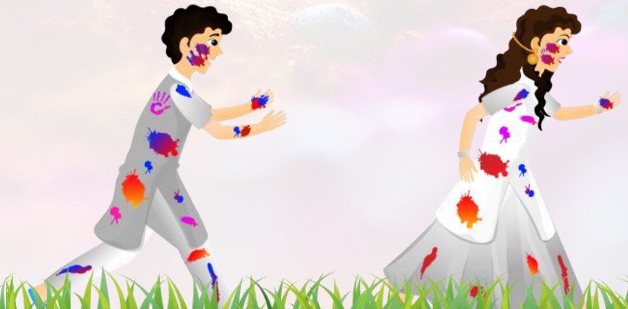
## Air pollution

The Air (Prevention & Control of Pollution) Act, 1981 lays down regulations with respect to prevention, control and abatement of air pollution. Manufacturing and production activities would result in emission of various air pollutants, including emission of GHGs.

Every state government in consultation with its respective state pollution control board has determined pollution control areas, prescribed the permissible limits of air pollutants and has laid down the approved and prohibited fuels.

**Obligation:** Any person operating an industrial plant should ensure that that emissions discharged are within the standards laid down by the state board.

**Consequences on non-compliances:** Non-compliance could lead to punishment in the form of minimum imprisonment of one and half year extending up to six years and with a fine. In case the failure continues, an additional fine extending to INR5,000 for every day during which such failure continues. The companies are required to comply with the permissible limits of air pollutants prescribed by the respective state governments.



## E-waste

The Government has issued E-Waste (Management) Rules, 2022, which defines e-waste as any electrical and electronic equipment, including solar photo-voltaic modules or panels or cells, whole or in part discarded as waste, as well as rejects from manufacturing, refurbishment and repair processes.

These rules apply to every manufacturer, producer, refurbisher, dismantler and recycler involved in generation of e-waste or electrical and electronic equipment which are listed in Schedule I of the said rules.

**Obligation:** As per these rules, the manufacturer should ensure that the e-waste generated is recycled or disposed. Further, eligible producers are required to implement and fulfil Extended Producer Responsibility (EPR) obligations i.e. the responsibility of the producer of electrical or electronic equipment to meet the recycling targets to ensure environmentally sound management of such waste. The EPR obligations are stated in Schedule-III and Schedule-IV of the said rules.

**Consequences on non-compliance:** Environment compensation would be levied as per Central Pollution Control Board (CPCB) guidelines in case of violation of any provisions of the E-Waste (Management) Rules. Further, environment compensation would also be levied in case of or use of false EPR certificate, unregistered producers, manufacturer, refurbisher and recyclers. It should be noted that, false information resulting in over generation of EPR certificates by recycler would result in revocation of registration and a repeat offence and violation of these rules for three times or more shall also result in permanent revocation of registration over and above the environmental compensation charges.

Additionally, prosecution provisions as per the Environment (Protection) Act, 1986 would also be applicable.

## Plastic waste

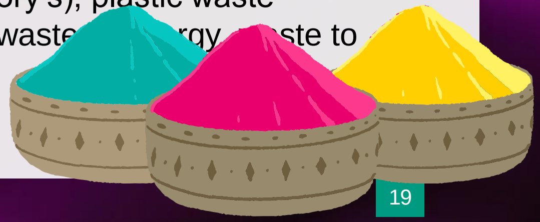
Entities in the manufacturing sector could be producers or manufacturers of plastic or plastic-related products or could be generators of plastic waste.

**Obligation:** The Plastic Waste Management Rules, 2016, mandate the generators of plastic waste to take steps to minimise generation of plastic waste, not to litter the plastic waste, ensure segregated storage of waste at source and hand over segregated waste to registered waste pickers', registered recyclers or waste collection agencies.

The rules also cast responsibilities on producers, importers, and brand owners with respect to collection of plastic waste. EPR regulations would apply to them with respect to pre-consumer and post-consumer plastic packaging waste to ensure environmentally sound management of the product until the end of its life. They should ensure they comply with the targets in accordance with Schedule II to the rules. These rules have been amended on 14 March 2024, and provide revised definition of biodegradable plastics, importer, manufacturer, producer and seller and more detailed requirements.

**Non-compliance:** Environmental compensation would be levied based upon polluter pays principle, as per CPCB guidelines, on persons who are not complying with the provisions of the Plastic Waste Management Rules.

Further. environmental compensation would also be levied in case of non-fulfilment of EPR targets by producers, importers and brand owners, for the purpose of protecting and improving the quality of the environment and preventing, controlling and abating environment pollution. This compensation would be levied by the respective State Pollution Control Board on the producers, importers and brand-owners operating in their jurisdiction (for Producers, Importers & Brand-Owners not operating in more than two states/Union Territory's), plastic waste processors which includes recyclers and other waste processors – waste to energy, waste to oil, co-processors.



## Hazardous waste

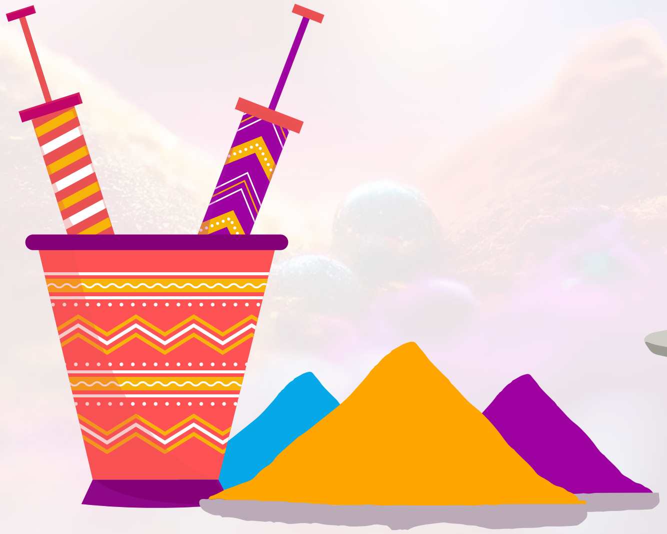
Hazardous and Other Wastes (Management and Transboundary Movement) Rules, 2016 are notified to ensure safe handling , generation, processing, treatment, package, storage, transportation, use reprocessing, collection, conversion, and offering for sale, destruction and disposal of hazardous waste. As per the rules, hazardous waste refers to any waste that has characteristics, such as physical, chemical, biological, reactive, toxic, flammable, explosive or corrosive, causes to danger or is likely to cause danger to health or environment, whether alone or in contact with other wastes or substances.

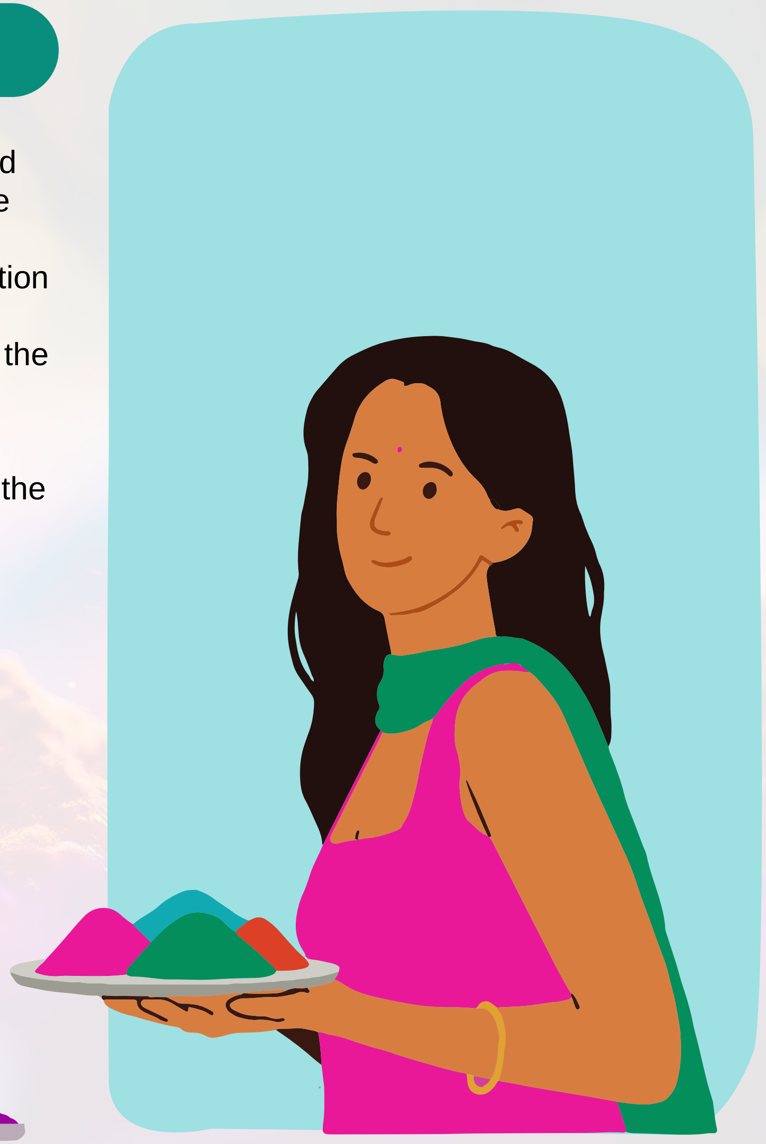
**Obligation:** The rules lay down the regulatory framework for a person in possession with hazardous waste. As per the rules, such a person should ensure prevention, minimisation, reuse, recycling, recovery, utilisation including co-processing and safe disposal of hazardous waste.

Further, the seventh amendment[6] to these rules introduced EPR regulations for waste tyres. These regulations are applicable to producers[7], recyclers and retreader of waste tyres. Such entities should ensure they fulfil the EPR obligations as per the rule.

**Non-compliance:** Environmental compensation would be levied, as per CPCB guidelines, on the producers in case of non-fulfilment of EPR obligations, use of false EPR certificate, unregistered producers and recyclers and on recyclers for issue of false EPR certificate and providing false information. Additionally, any false information resulting in over generation of EPR certificates by recycler above 5 per cent of the actual recycled waste would result in revocation of registration.

Additionally, prosecution provisions as per the Environment (Protection) Act, 1986 would also be applicable.





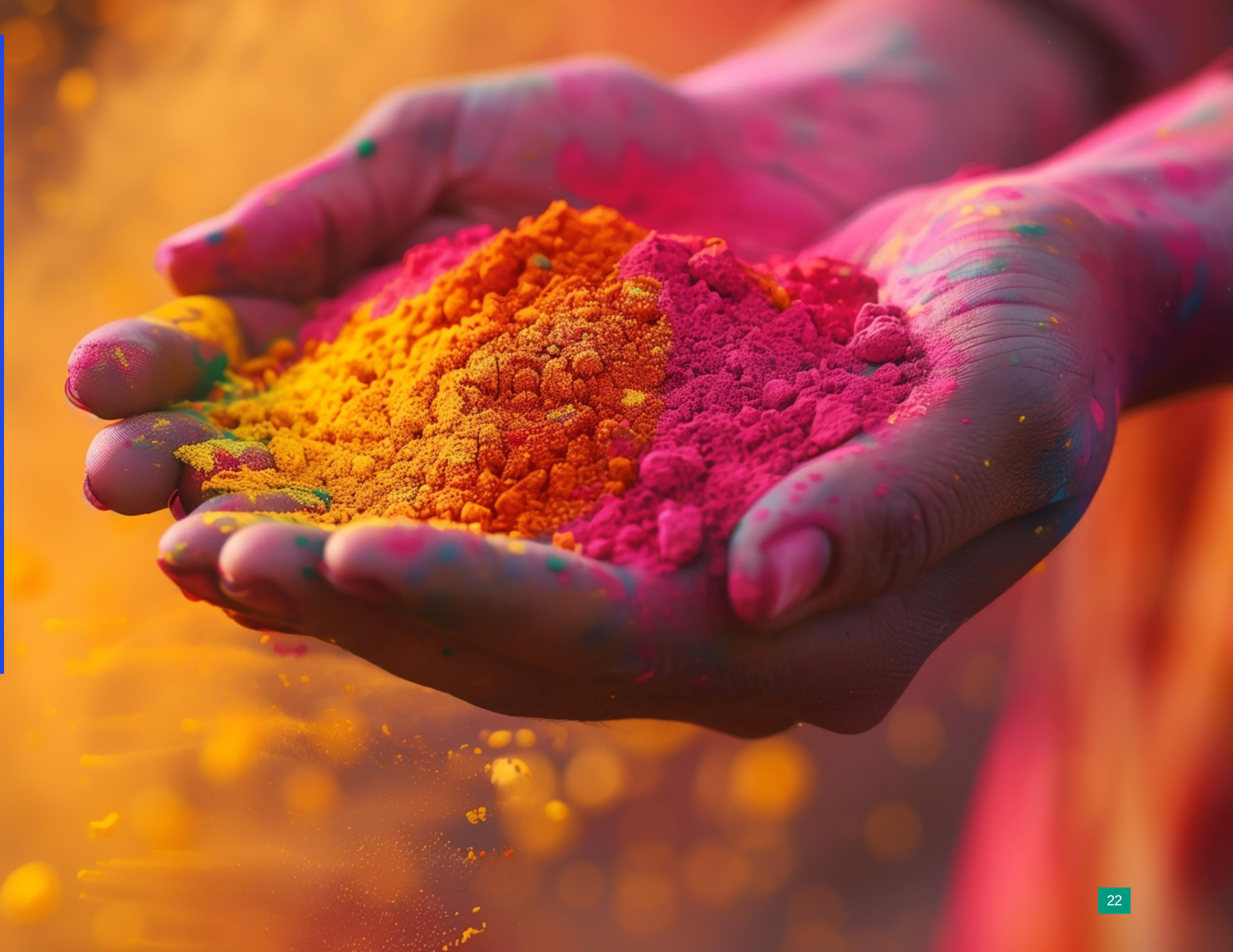
6. G.S.R. 593(E) dated 21 July 2022
7. As per Rule 1(e), 'producer' means any person or entity who, -
   i. manufactures and sells new tyre domestically; or
   ii. sells domestically under its own brand, new tyre manufactured by other manufacturers or suppliers; or
   iii. sells imported new tyre; or
   iv. imports vehicles fitted with new tyres; or
   v. automobile manufacturers importing new tyre for use in new vehicles sold domestically; or
   vi. imports waste tyre;

# The bottom line

Governments and regulators around the globe are issuing a broad variety of ESG related regulations. With increasing focus and demand for ESG related disclosures, organisations are required to comply with environmental, social and governance standards and regulations.

CHAPTER 3

# Regulatory updates



# SEBI approves certain proposals through its board meeting

On 15 March 2024, the Securities and Exchange Board of India (SEBI) issued a press release summarising the decisions approved in its board meeting with respect to certain significant matters pertaining to the SEBI Regulations. Following are the key decisions from the board meeting:

- **Facilitating ease of doing business for listed companies – on going compliance requirements:** To facilitate ease of doing business for listed entities, SEBI has approved the following amendments in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations):

    i. **Determination of market capitalisation:** Currently for determining the applicability of certain provisions, the market capitalisation for a listed entity is calculated as on 31 March i.e. it is based on a single day's market capitalisation.

    SEBI in its board meeting approved that, market capitalisation-based requirement should be determined on the basis of average market capitalisation of six months ending 31 December, instead of single day's (i.e. 31 March) market capitalisation. Further, in order to ease the compliance requirements, a sunset clause of three years for cessation of applicability of market capitalisation-based provisions would be introduced.

    ii. **Vacancies of Key Managerial Personnel (KMP):** The timeline for filling up vacancy in the office of an KMP wherein approval of statutory authorities is required, has been extended from three months to six months.

    iii. **Timeline for prior intimation of board meetings:** The timeline for prior intimation of board meetings has been reduced to two working days *(as per existing requirement, timeline for giving prior intimation varies from two working days to a maximum of 11 working days)*.

    iv. **Gap between meetings of the Risk Management Committee (RMC):** The maximum permitted time gap between two consecutive meetings of the RMC has increased from 180 days to 210 days.

- **Uniform approach to verify market rumours by equity listed entities:** Regulation 30(11) of the LODR Regulation requires certain listed companies, to confirm, deny or clarify market rumours. SEBI has approved the following proposals to facilitate a uniform approach for verification of market rumours by equity listed entities:

    i. **Criteria for verification of market rumors:** The regulation would now specify the objective and uniformly assessed criteria for rumour verification in terms of material price movement of equity shares of the listed entity.

    ii. **Consideration of unaffected price:** Unaffected price for transactions should be considered wherever pricing norms have been prescribed under SEBI Regulations, provided that the rumour pertaining to such transaction is confirmed within 24 hours from the trigger of material price movement.

    iii. **Obligation on promoters, directors, KMP and senior management:** As per the SEBI board meeting, promoters, directors, KMP and senior management should provide timely response to the listed entity for verifying market rumour.

    iv. **Unverified event or information:** For the purpose of market rumor verification, unverified event or information reported in print or electronic media should not be considered as 'generally available information' under SEBI (Prohibition of Insider Trading) Regulations, 2015.

- **Timeline for applicability of LODR Regulations to High Value Debt Listed Entities (HVDLEs):** The timeline for mandatory applicability of certain provisions of the LODR Regulations[1] and compliance thereof, by HVDLEs has been extended till 31 March 2025 *(earlier 31 March 2024)*.
- **Facilitating ease of doing business for companies coming for IPOs/fund raising:** Following amendments have been approved in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations):

  i. **Security deposit in public/rights issue:** As per the existing provision, an issuer is required to deposit, one per cent of the issue size available for subscription to the public, with the designated stock exchange. Pursuant to the board meeting, it has been decided to remove this requirement.

  ii. **Non-individual shareholders permitted to contribute towards Minimum Promoters' Contribution (MPC):** At present, for determination of MPC, 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, certain class of investors[2] are permitted to contribute equity shares to meet the shortfall subject to a maximum of 10 per cent, without being identified as a promoter.

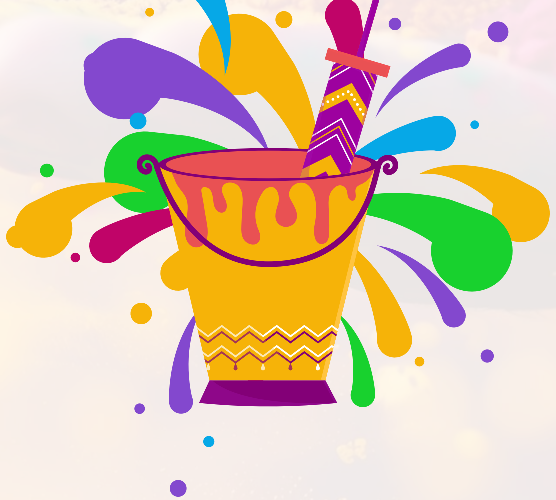
  SEBI in its board meeting has also permitted promoter group entities and non-individual shareholders holding more than five percent of the post-offer equity share capital to contribute towards MPC without being identified as a promoter.

  iii. **Compulsorily convertible securities included for computation of MPC:** With respect to determination of MPC, it has been decided to consider equity shares arising pursuant to the 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).

  iv. **Fresh filing for Offer For Sale (OFS):** With respect to increase or decrease in OFS, the requirement of fresh filing should be based on one of the criteria i.e. either issue size in INR or number of shares, as disclosed in the draft offer document

  v. **Extension of the bid/offer closing date:** Currently, in case of force majeure events, issuer companies could extend the bidding period disclosed in the offer document by a minimum period of three working days. SEBI has now decided to reduce the extension period to one working day in case of any force majeure events

(Source: SEBI Press Release No. PR No. 05/2024 dated 15 March 2024)



1. Regulation 16 to 27 of SEBI LODR Regulations
2. 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

# RBI's draft framework for disclosure of climate-related financial risks

In 2022, Reserve Bank of India (RBI), issued a 'Discussion Paper on Climate Risk and Sustainable Finance' to highlight the sources of climate risk and also its potential impact on Regulated Entities (REs). Climate-related risks is one of the emerging risks and are expected to significantly impact REs and also have implications on financial stability. Therefore, REs should implement robust climate-related financial risk management policies and processes to effectively counter the impact of climate-related financial risks.

In this regard, on 28 February 2024, RBI has issued draft guidelines on the disclosure framework for REs on climate-related financial risks. This would foster an early assessment of climate-related financial risks and opportunities and facilitate market discipline.

The key considerations from the draft guidelines are as follows:

- **Applicability:** The guidelines would apply to the following type of RE:

  a. All Scheduled Commercial Banks (SCB) (excluding local area banks, payments banks and regional rural banks)

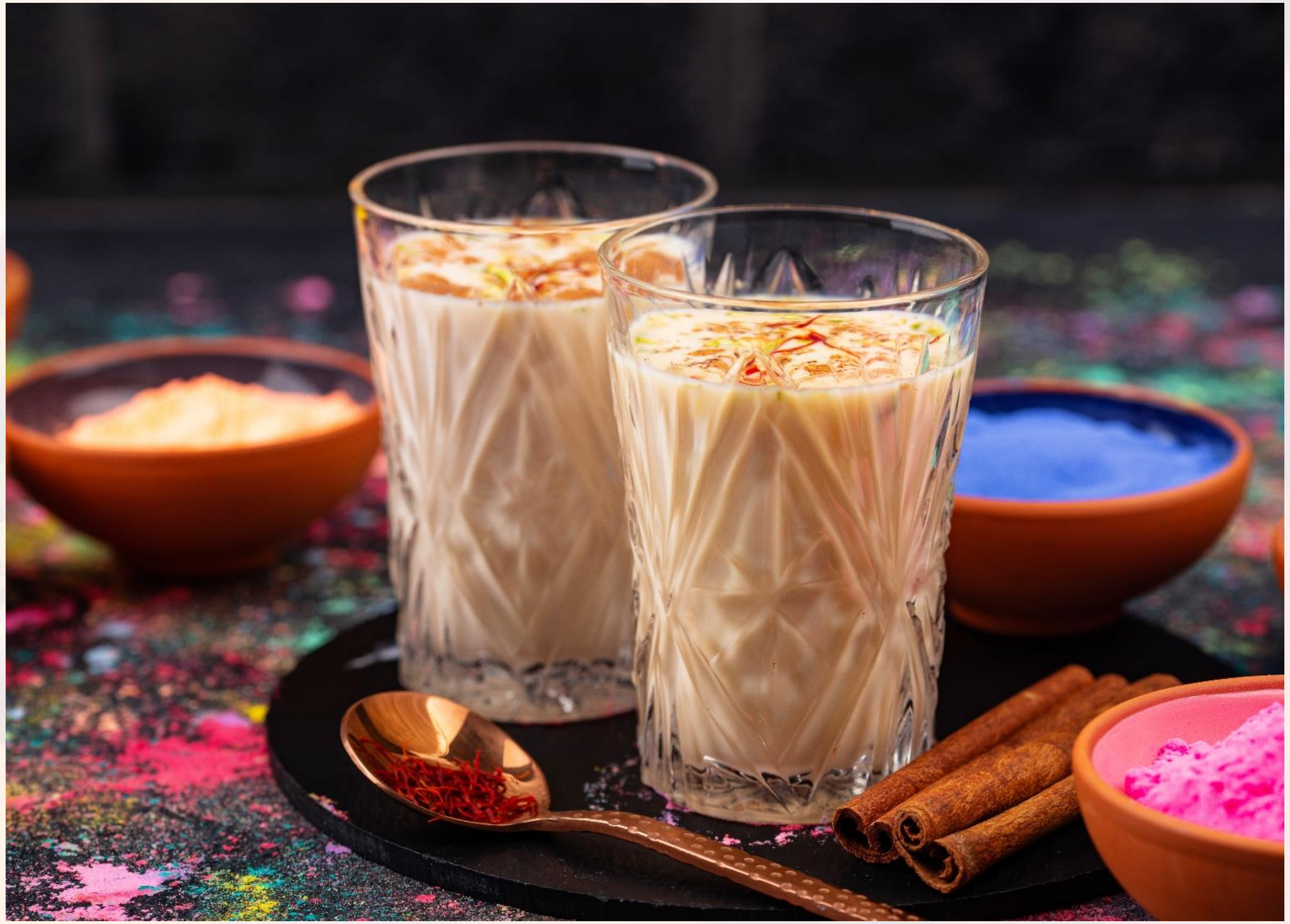
  b. All Tier-IV Primary (Urban) Co-operative Banks (UCBs)

  c. All All-India Financial Institutions (AIFI) (viz. EXIM Bank, NABARD, NaBFID, NHB and SIDBI)

  d. All top and upper layer Non-Banking Financial Companies (NBFCs).

  Further, for REs other than those disclosed above, these guidelines would apply on a voluntary basis.

- **Standalone vs consolidation reporting:** The information to be disclosed as per the framework would be on a standalone basis and not consolidated basis. Further, foreign banks should provide disclosures specific to their operations in India.



- **Thematic pillars of disclosure:** As per the guidelines, a RE should disclose details regarding four thematic pillars viz – governance, strategy, risk management and metrics and targets. Annexure 1 to the draft guidelines prescribe minimum key disclosures requirements under these thematic pillars. Following are some of the essential disclosure requirements:

| Thematic Pillar | Disclosure requirements |
|---|---|
| **Governance** | • Governance processes, controls and procedures used by the RE to identify, assess, manage, mitigate, monitor and oversee climate-related financial risks and opportunities.<br>• The board's oversight of climate-related risks and opportunities.<br>• Senior management's role in assessing and managing climate-related risks and opportunities. |
| **Strategy** | • RE's strategy for managing climate-related financial risks and opportunities.<br>• The identified climate-related risks and opportunities over short, medium and long term.<br>• The impact of climate-related risks and opportunities on the RE's businesses, strategy and financial planning.<br>• Resilience of the RE's strategy taking into consideration the different climate scenarios. |
| **Risk management** | • RE's processes to identify, assess, prioritise and monitor climate-related financial risks and opportunities, including whether and how those processes are integrated into and inform the RE's overall risk management process.<br>• Processes and related policies to identify, assess, prioritise and monitor climate related financial risks.<br>• Processes used for managing climate-related risks.<br>• Extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related financial risks and opportunities are integrated into and inform the overall risk management. |
| **Metrics and targets** | • RE's performance in relation to its climate-related financial risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by statute or regulation.<br>• Metrics used to assess the climate-related financial risks and opportunities in line with its strategy and risk management process.<br>• Scope 1, Scope 2 and Scope 3 Greenhouse Gas (GHG) emissions and the related risks.<br>• Targets used to manage climate-related risks and opportunities and performance against targets. |

- **Timelines:** The draft guidelines have prescribed the following glide path for disclosure of thematic pillars by REs:

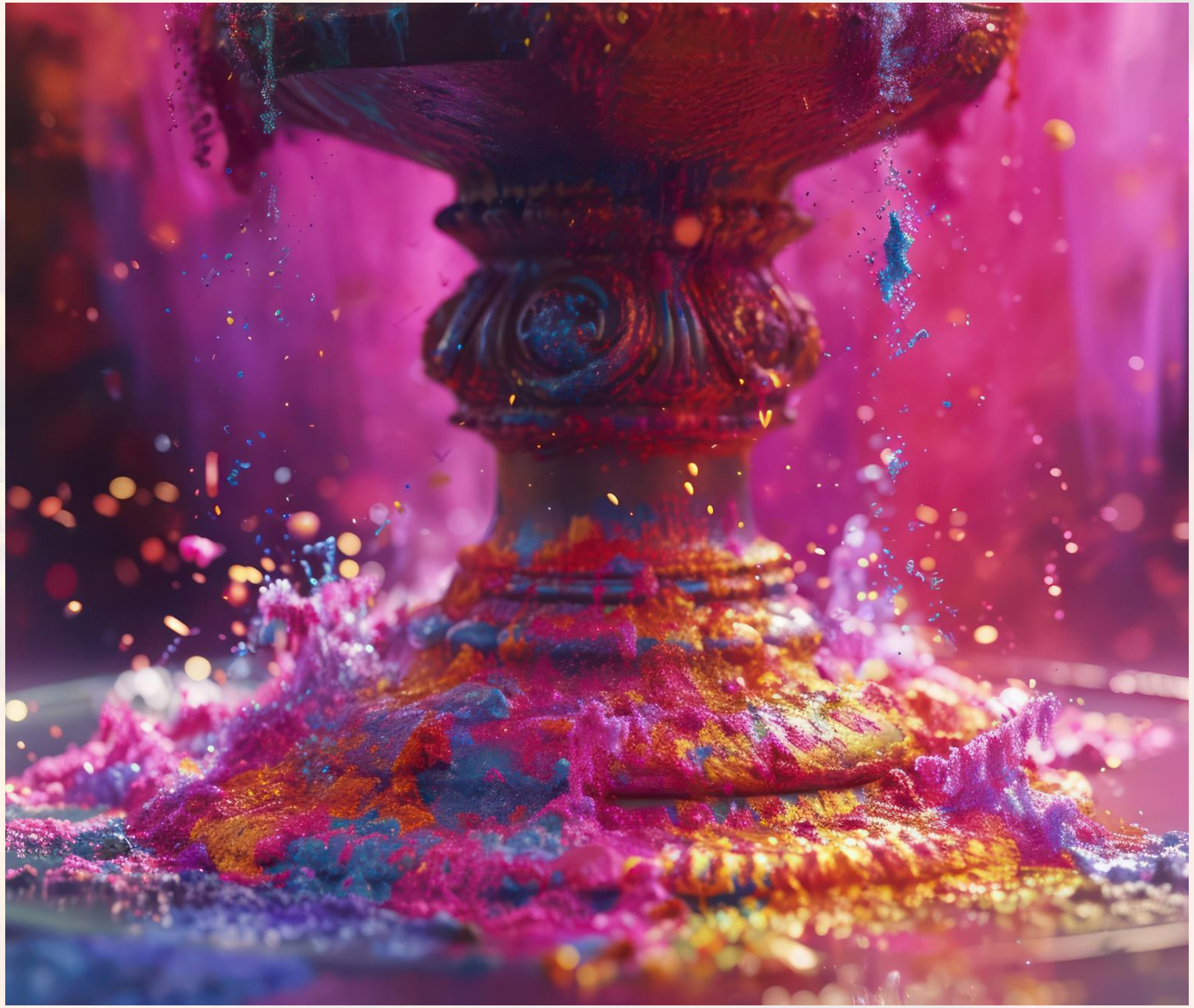
| | Governance, strategy, and risk management | Metrics and targets |
|---|---|---|
| **Scheduled Commercial Banks (SCBs), All India Financial Institutions (AIFIs), Top and Upper layer Non-Banking Financial Companies (NBFCs)** | FY 2025-26 onwards | FY 2027-28 onwards |
| **Tier IV Urban Co-operative Banks (UCBs)** | FY 2026-27 onwards | FY 2028-29 onwards |
| **Other REs** | To be announced in due course. | |

  REs should also disclose assumptions/proxies and external assurance taken, if any, for the disclosed metrics.

- **Validation/scrutiny of the disclosures:** The disclosures made by REs would be subject to appropriate internal control assessments and should be reviewed by the board of directors or a committee of the board. Further, the disclosures must be included and disclosed as a part of the RE’s financial results/statements on its website.

The comment period on the above draft guidelines ends on 30 April 2024.

(Source: RBI press release no. RBI/2023-24/DOR.SFG.REC./30.01.021/2023-24 dated 28 February 2024)



## Appointment/re-appointment of director, MD or CEO in ARCs

As per the existing provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002[3], Asset Reconstruction Companies (ARCs) are required to obtain prior approval of RBI for appointment/re-appointment of any director, Managing Director (MD) or Chief Executive Officer (CEO).

To bring uniformity in the information submitted by ARCs for obtaining such approvals, on 27 February 2024, RBI issued a form for furnishing requisite information about the candidate and an indicative list of documents required to be submitted along with the application. Such information should be submitted at least 90 days before the vacancy arises or the proposed date of appointment or re-appointment.

(Source: RBI notification no. RBI/2023-24/127 DOR.GOV.REC.79/18.10.006/2023-24 dated 27 February 2024)

3. Section 3(6) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the guidelines contained in Para 5(i) of the Annex to circular No. DoR.SIG.FIN.REC.75/26.03.001/2022-23 dated 11 October 2022 on 'Review of Regulatory Framework for Asset Reconstruction Companies (ARCs)'

## MOEFCC notified the methodology for calculation of green credit from tree planation

In October 2023, the Ministry of Environment, Forest and Climate Change (MOEFCC) notified the Green Credit Rules, 2023 with the objective to incentivise environmental positive actions through market-based mechanism and generate green credit, which would be tradable and made available for trading on a domestic market platform. Green credit would arise by undertaking specified environmental activities which includes following eight activities:

- Tree plantation
- Water management
- Sustainable agriculture
- Waste management
- Air pollution reduction
- Mangrove conservation and restoration
- Eco-mark labelling
- Sustainable building and infrastructure.

As per the rules, tree planation has been considered as one of the environmental activities that would generate green credit. On 22 February 2024, MOEFCC has notified the methodology for calculation of green credit in respect of tree planation. The key takeaways are as follows:

- **Identification of land parcels:** The forest department of every state and union territory should identify degraded land parcels, including open forest and scrub land, wasteland and catchment areas, under their administrative control and management. Further, such land parcels should be free from encumbrances and should be of five hectares or above.

- **Application to administrator:** A person or entity desirous of undertaking tree plantation for the purposes of generation of green credit should apply to the administrator and should submit a proposal for the same.
- **Demand note:** Basis the proposal received, the administrator will prepare and issue a demand note to the applicant which would include the cost of tree plantation and administrative expenses along with the timeline for payment of the same.
- **Tree plantation activity:** On the payment of the amount by the applicant, the administrator should direct the forest department to carry out tree plantation in line with the management plan or working plan. This activity should be completed within a period of two years from the date of payment.
- **Issue of green credit:** On completion of tree plantation, the forest department to submit a report to the administrator. After evaluation and verification of the tree plantation activity, the administrator may generate and issue Green Credit to the applicant based on the total number of trees planted in assigned land parcel and on the report and certification of completion of tree plantation activity.
- **Calculation of green credit:** The green credit will be calculated at the rate of one Green Credit per tree grown through the tree plantation on such land parcel, subject to minimum density of 1,100 trees per hectare, based on the local silvi-climatic and soil conditions, on the certification of completion of tree plantation provided by the forest department.
- **Exchangeability:** This Green Credit can be exchanged for meeting the compliance of the compensatory afforestation in case of diversion of forest land for non-forestry purposes under the Van (Sanrakshan Evam Samvardhan) Adhiniyam, 1980.
- **Fulfilment of other reporting obligations:** The Green Credit generated under these rules could be used for reporting under environmental, social and governance leadership indicator or under corporate social responsibility under the applicable rules.

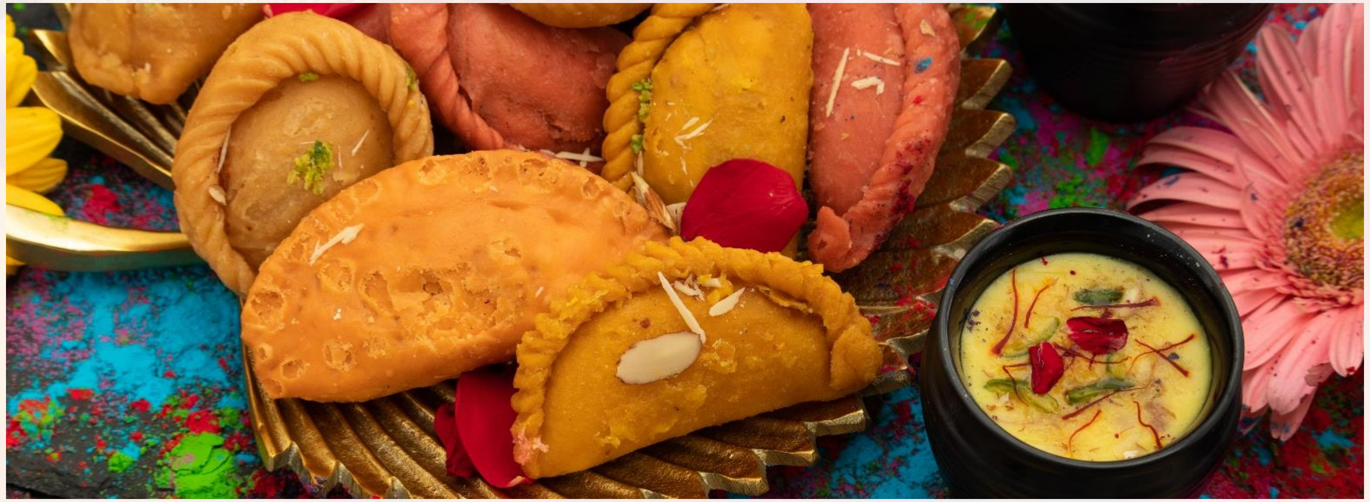
(Source: MOEFCC notification no. S.O. 884(E) dated 22 February 2024 issued on 26 February 2024)

## Amendment to Plastic Waste Management Rules

The Plastics Waste Management Rules, 2016 (Plastic Waste Management Rules) lays down the regulatory requirements, for collection, segregation, processing, treatment, disposal of the plastic waste in an environmentally sound manner, Extended Producer Responsibility (EPR), marking and labelling requirement, registration of manufacturer, producer, importer, brand owner and plastic waste processor, etc.

On 14 March 2024, through a notification, MOEFCC issued Plastic Waste Management (Amendment) Rules, 2024 (Plastic Waste Amendment Rules). The key amendments are with respect to:

- Revised the definition for biodegradable plastics, importer, manufacturer, producer and seller.
- Amendment to the conditions laid down for manufacture, import, stocking, distribution, sale and use of carry bags, etc.



- The manufacture of carry bags and commodities are permitted to be made from compostable plastics or biodegradable plastics
- Manufacturers and importers of plastic raw material are required to apply for registration with the State Pollution Control Board (SPCB).
- New category for biodegradable plastics (Category V) has been introduced, with specific labelling requirements and separate markings to be designated
- Preparation of mandatory annual report by a person engaged in recycling or processing of plastic waste
- Manufacturers/importers required to meet minimum recycling levels for plastic packaging waste as specified in the Extended Producer Responsibility (EPR) targets.
- The deadline for filing annual returns for the financial year 2022-2023 has been extended until 31 March 2024.

(Source: MOEFCC notification no. G.S.R.. 201(E) dated 14 March 2024)

## Revised implantation guide on audit trail issued by ICAI

Effective from 1 April 2023, Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 requires an auditor to express his/her views/comments as to whether the company has used an accounting software for maintaining its books of account which has a feature of recording an audit trail facility.

In March 2023, the Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) issued an Implementation Guide (the Guide) on Reporting under Rule 11(g) Audit Rules. The Guide provides a detailed guidance on the auditor's responsibility for reporting on the use of accounting software by a company for maintaining its books of accounts which has a feature of recording audit trail etc.

Recently, on 12 February 2024, ICAI issued a revised implementation guide which includes a section of Frequently Asked Questions (FAQs) that covers various scenarios relating to reporting under Rule 11(g). Some of the key issues or scenarios discussed are with respect to:

- Definition of books of account and what should be considered as 'books of account' maintained in an accounting software
- Applicability requirements i.e. audit trail requirements are applicable to all companies and no exemptions from audit trail requirements is available for the small and medium companies or for banks and Non-Banking Finance Companies (NBFCs).
- Use of specialist/expert or reliance on information system audit report by the auditor.
- Implication of audit trail feature not operational throughout the year
- Failure of General IT Controls (GITC) and whether it would impact the audit trail reporting requirements.
- No materiality concept for reporting on audit trail.
- Reporting on accounting software maintained outside India.
- Requirement of audit trail to remain accessible in India at all times.

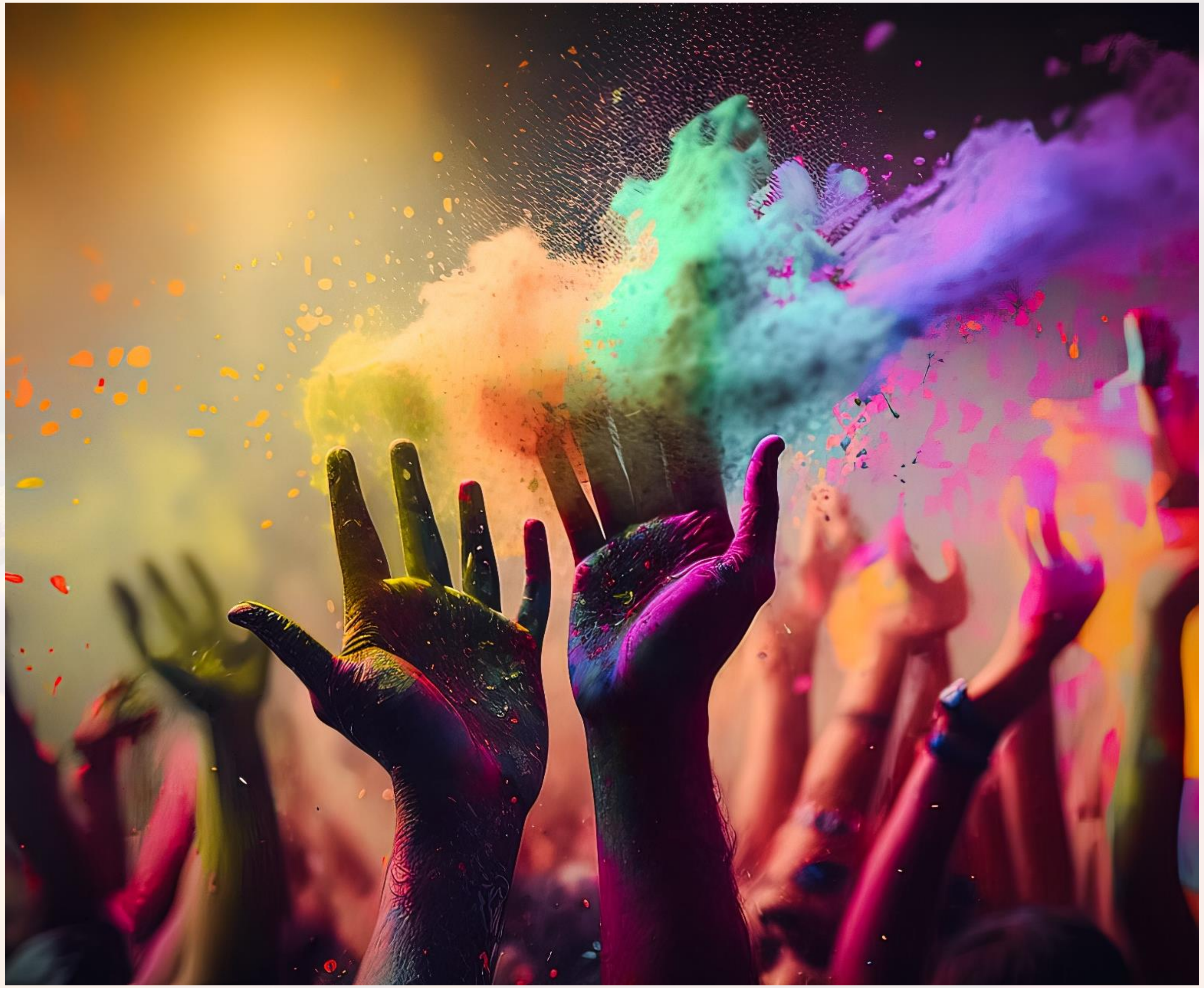
(Source: ICAI announcement dated 12 February 2024)

# SEC issues climate-related disclosure rules

On 6 March 2024, the Securities and Exchange Commission (SEC) issued 'The Enhancement and Standardisation of Climate-Related Disclosures for Investors' (climate-related rules) that will require registrants to provide certain climate-related information in their registration statements and annual reports. Some of the key takeaways from the rules are as follows:

- **Applicability:** Registrants with the Securities Exchange Act, 1934 (Exchange Act) reporting obligations pursuant to Section 13(a) or Section 15(d) of the Exchange Act, and companies filing the Securities Act, 1933 or Exchange Act registration statement; including foreign private issuers; excluding Canadian issuers reporting under the multi-jurisdictional disclosure system and asset-backed issuers.
- **Components of disclosure:** The rules prescribe the following two distinct components of disclosures:
  - **Financial statement disclosures (Reg S-X):** These disclosures will be part of the audited financial statements and therefore, in the scope of the registrant's internal control over financial reporting. They relate to severe weather events and other natural conditions, which are not defined terms and carbon offsets or Renewable Energy Credits or Certificates (RECs).
  - **Climate-related disclosures (Reg S-K):** These disclosures can be included in a separately captioned 'Climate-Related Disclosure' section of the annual report or registration statement, or incorporated by reference from another section. The disclosures can also be incorporated by reference from another filing, subject to certain conditions.

The climate risk disclosures are outside of the financial statements and are arranged under the broad categories of governance, strategy and risk management, which is consistent with the structure in the SEC's recent rule on cybersecurity reporting and disclosures. The above two sets of disclosures are connected because the Reg S-K



disclosures require quantitative and qualitative disclosure of any material expenditures incurred and material impacts on financial estimates and assumptions that directly result from certain items.

- **Phased transition:** The disclosure requirements would be applicable as follows:

| For fiscal years beginning in calendar year: | LAFs* | AFs** | NAFs***, SRCs, EGCs |
|---|---|---|---|
| Financial statement disclosures | 2025 | 2026 | 2027 |
| | | | |
| **Climate related disclosures** | | | |
| Climate risk disclosures, except those below | 2025 | 2026 | 2027 |
| Disclosures in the Specific quantitative disclosures section | 2026 | 2027 | 2028 |
| | | | |
| **GHG emissions** | | | |
| Scopes 1 and/or 2 disclosures | 2026 | 2028 | NA |
| Limited assurance | 2029 | 2031 | NA |
| Reasonable assurance | 2033 | NA | NA |
| | | | |
| Inline XBRL (i.e. electronic tagging. Submission in this format is intended to help investors and market participants more easily identify, locate, extract and analyse disclosures) | 2026 | 2026 | 2027 |

Notes:
* Large accelerated filers
** Accelerated filers (except Smaller Reporting Companies (SRCs) and Emerging Growth Companies (EGCs))
*** Non-accelerated filers

(Source: SEC press release no. 33-11275; 34-99678 dated 6 March 2024. Also read KPMG LLP's article on 'SEC mandates climate reporting and assurance' issued on 7 March 2024)

# IASB issues consultation paper to improve reporting of acquisitions

On 14 March 2024, the International Accounting Standards Board (IASB) issued an exposure draft on 'Business Combinations – Disclosures, Goodwill and Impairment'.

The key proposals are as follows:

- **Disclosures for business combinations:** The proposed disclosure requirements under IFRS 3, *Business Combinations* is as follows:

    i. **Expected synergies:** In the year of acquisition, a company is required to disclose both quantitative and qualitative information about expected synergies. This includes a breakdown of the estimated amounts of expected synergies by category – e.g. total revenue synergies or total cost synergies – as well as information on the benefits' expected start date and their duration.

    ii. **Key objectives and subsequent performance against them:** This disclosure is required only for strategic business combinations. A 'strategic' business combination is one where not meeting the specific acquisition-date key objectives would put the acquiring company at serious risk of not achieving its overall business strategy.

    To identify such business combinations, IASB has proposed using a closed list of primarily quantitative tests e.g. if the acquiree represents more than 10 per cent of the company's operating profit, revenues or assets together with qualitative tests.

    For each strategic business combination, companies would be required to disclose certain information that is monitored by Key Managerial Personnel.

    - **In the acquisition year:** The acquisition-date key objectives and related targets for the business combination.
    - **In the acquisition year and each subsequent period:** The progress towards meeting those acquisition-date objectives and targets, including actual performance and a statement on whether the objectives and targets are being met.

    Disclosures in subsequent periods would generally be required for as long as a KMP continues to review progress against the acquisition-date objectives and targets of the business combination.

    iii. **Exemptions:** The proposal also includes an exemption from some of the new disclosure requirements in specific limited circumstances. This exemption applies if disclosure could seriously affect a company's ability to meet the key objectives of the business combination.

- **Impairment test:** The proposal aims to retain the impairment only approach for goodwill rather than reintroduce amortisation. It also proposes the following key changes to the value-in-use testing requirements in IAS 36, *Impairment of Assets* to simplify and clarify the impairment test.

    i. To retain the requirement to estimate future cash flows from an asset or cash-generating unit (CGU) in its current condition, but to remove constraints on reflecting any estimated future cash flows expected to arise from:

    - Future uncommitted restructuring; and
    - Improvement or enhancement of an asset or CGU's performance.

    ii. To remove the requirement to use pre-tax cash flows and discount rates. Instead, a company would be required to disclose the discount rate(s) used and whether it (they) is (are) pre-tax or post-tax.

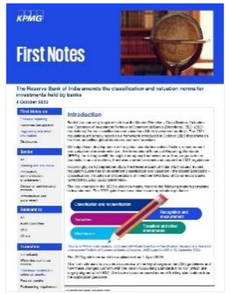
    iii. To clarify the guidance on how to allocate goodwill to CGUs or a group of CGUs for impairment testing.

- **Prospective application:** The above proposed amendments would apply prospectively

The comments period on the above proposal ends on 15 July 2024.

(Source: IASB news dated 14 March 2024. Also read KPMG IFRG Limited's article on 'Business Combinations and impairment' issued on 14 March 2024)

## 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

KPMG in India has scheduled a webinar on Friday, 5 April 2023 from 4 p.m. to 5 p.m. to discuss the key financial reporting and regulatory matters which are expected to be relevant for the stakeholders for the quarter ended 31 March 2024.

In this session of Voices on Reporting webinar, some of the key updates that will be discuss are as follows:

- Recent climate-related regulatory updates
- Key updates from Securities and Exchange Board of India's (SEBI) recent board meeting
- Year-end reminders
- Other regulatory updates

For registration details, please click here.

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