Voices on Reporting

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Speaker for the webinar

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Agenda

01 Audit trail – Key considerations

02 Other regulatory updates

03 Climate-related regulatory updates

04 Year end reminders

Audit trail – Key considerations

Audit Trail[1]

- With effect from 1 April 2023 audit trail requirements applicable to all class of companies including Section 8 companies and foreign companies.

The Companies (Accounts) Rules, 2014

For Companies (Rule3(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.

Key considerations[2]

- Identification of 'books of account' as per definition under the Companies Act, 2013
  - Identification of list of accounting software including peripheral software(s) that should have an audit trail feature.
- Whether the accounting software:
  - 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.
  - Audit trail feature should not be disabled.
- Whether the audit trail
  - Feature was operational throughout the year for all the transactions recorded in the software
  - Feature has not been tampered with
  - Has been preserved by the company as per the statutory requirements for record retention
  - Is enabled at the database level and applicability of audit trail to the peripheral software e.g. purchase/sales order, price master, etc.
  - Has been enabled in softwares used for consolidation purposes.
- Third-party software or outsourced software supported by third party service provider also covered within the scope.
- Impact on Internal Finance Control (IFC) reporting and appropriately modify reporting under Rule 11(g).

Other regulatory updates

Key takeaways from SEBI's board meeting[3] (1/2)

Market capitalisation

- Market capitalisation to be determined on the basis of average market capitalisation of six months ending 31 December (*earlier as of 31 March*).
- Introduction of sunset clause of three years for cessation of applicability of market capitalisation-based provisions.

Vacancies of Key Managerial Personnel (KMP)

In case of statutory authorities approval - Timeline for filling up vacancies of KMP extended from three months to six months.

Timeline for prior intimation of board meetings reduced to two working days (*currently varies from two working days to 11 working days*).

Gap between meetings of the Risk Management Committee (RMC) has been increased to 210 days from 180 days.

Applicability of LODR Regulations to High Value Debt Listed Entities (HVDLEs)

Timeline for mandatory applicability of Regulation 16 to 27 of SEBI LODR Regulations* and compliance has been extended till 31 March 2025 (*earlier 31 March 2024*).

*Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Key takeaways from SEBI's board meeting (2/2)

Verification of market rumours by equity listed entities

Timeline

Top 100 listed entities

Top 250 listed entities

May 2024 → **1 June 2024** → **1 December 2024** → **2025**

Specify objective and uniformly assessed criteria for rumour verification in terms of material price movement.

Promoters, directors, KMP and senior management to provide timely response to the listed entity for verifying market rumour.

Uniform approach for verification of market rumours

Upon confirmation of market rumour - Unaffected price to be considered for transactions wherever pricing norms have been prescribed under SEBI Regulations.

Unverified event or information reported in print or electronic media not to be considered as 'generally available information' under SEBI (Prohibition of Insider Trading) Regulations, 2015.

RBI notification on investments in AIFs[4] (1/2)

- To address concerns relating to possible evergreening - In December 2023, the Reserve Bank of India (RBI) issued guidelines regarding investments made in Alternative Investment Funds (AIFs) by Banks and Non-banking Financial Companies (NBFCs) (referred to as Regulated Entities (REs)).
- Recently, on 27 March 2024, RBI issued a circular to address concerns received from various stakeholders.

1 Prohibition on investment

- 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.
- 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.

Downstream investments should exclude investments in equity shares of the debtor company of the RE, but would include all other investments, including investment in hybrid instruments.

2 Liquidate the investment

- 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 already have downstream investment in their debtor companies as on 19 December 2023, the 30-day period for liquidation to be counted from date of issuance of this circular.

Provisioning would be required only to the extent of investment by the RE in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the RE in the AIF scheme

RBI notification on investments in AIFs (2/2)

3 100 per cent provision

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

4 Investment in subordinated units of any AIF scheme

- Investment by REs in the subordinated units of any AIF scheme with a ‘priority distribution model’ shall be subject to full deduction from RE’s capital funds

- This is applicable only in cases where the AIF does not have any downstream investment in a debtor company of the RE.
- Proposed deduction from capital to take place equally from both Tier-1 and Tier-2 capital.
- Investment in subordinated units of AIF Scheme includes all forms of subordinated exposures, including investment in the nature of sponsor units
- If the RE has investment in subordinated units of an AIF scheme, which also has downstream exposure to the debtor company, then the RE should comply with the requirements prescribed in Point 1 to 3.

5 Scoping requirement

- Investments by REs in AIFs through intermediaries such as fund of funds or mutual funds are not included in the scope of the circular.

Supreme Court's ruling on political contributions[5]

- On 15 February 2024, the Supreme Court (SC) in its ruling struck down the amendment made to Section 182 of the Companies Act, 2013 through Finance Act, 2017.
- Basis the SC judgement, following needs to be considered relating to contribution to political parties:
  1. Contribution to a political party (either directly or through an Electoral Trust) in any financial year should not exceed 7.5% of the average net profits during the three immediately preceding financial years.
  2. Disclose the details of name of the political parties and the amounts contributed to such political parties.
  3. Not permitted to participate in any electoral bond scheme.
- This would impact
  1. Assessment for FY2024
  2. Disclosure required for FY2023-24 and comparative period FY2022-23.

Climate-related regulatory updates

Climate-related regulatory updates[6]

SEC's climate-related disclosure rules

- Financial statement disclosures (i.e., in scope of registrant's internal control over financial reporting).
- Disclosures required outside of the financial statements (i.e., in a separate section of the annual report/registration statement).
- Phased transition beginning FY 2025.

Recognition of climate-related commitments as per IFRIC

- The IFRS Interpretation Committee (IFRIC) agenda discusses the accounting for climate-related commitments, specifically whether a provision should be recognised for such commitments.
- IFRIC agenda highlights to assess guidance under IAS 37 for capital related commitments.

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

- Introduced thematic pillars of disclosure.
- Disclosures to be included and disclosed as a part of financial results/statements on website.
- Proposed applicability date
  - For Governance, strategy, and risk management - FY 2025-26 onwards
  - Metrics and targets - FY 2027-28 onwards.

Draft guidelines for the prevention and regulation of greenwashing

- Applicable to all advertisements regardless of form, format or medium.
- Generic terms should not be used without adequate qualifiers and substantiation.
- Ensure all environmental claims in advertisements or communications are fully disclosed.

Year end reminders

Recap of Ind AS amendments[7]

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.

Business Responsibility and Sustainability Report (BRSR) (Regulation 34(2)(f))[8]

Assurance glide path for BRSR Core

FY 2022-23
- **BRSR disclosure:** Mandatory reporting for top 1,000 companies
- **Assurance:** Not mandatory

FY 2023-24
- **BRSR disclosure*:** Mandatory reporting for top 1,000 companies
- **Reasonable assurance** mandatory for **top 150 companies**

FY 2024-25
- **BRSR disclosure*:** Mandatory reporting for top 1,000 companies
- **Reasonable assurance** mandatory for **top 250 companies**

FY 2025-26
- **BRSR disclosure*:** Mandatory reporting for top 1,000 companies
- **Reasonable assurance** mandatory for **top 500 companies**

FY 2026-27
- **BRSR disclosure*:** Mandatory reporting for top 1,000 companies
- **Reasonable assurance** mandatory for **top 1000 companies**

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**

Key LODR amendments relating to material events[9]

- Determination of materiality and related amendments
- Additions and modifications of disclosure of events
- Revised timelines for disclosure of material events
- Disclosure requirements for certain types of agreements binding listed entities
- Disclosure of cyber security incidents or breaches and loss of data/documents

Determination of materiality[9]

Revised materiality policy

Aspects to be considered while framing the materiality policy:

- ***Do not dilute*** any LODR requirements
- ***Detailed and explanatory to enable in identification and reporting*** *of any potential material event or information*

Revised materiality threshold

- Introduction of **quantitative threshold** for disclosure of specified events
- Event or information to be considered material if value or the expected impact in terms of value, exceeds the lower of the following:
  - **Two per cent of turnover**, as per the last audited consolidated financial statements
  - **Two percent of net worth**, as per the last audited consolidated financial statements (only if net worth is a positive amount) and
  - **Five percent of the average of absolute value of profit or loss after tax**, as per the last three audited consolidated financial statements.

Additions and modifications to events[9]

Mandatory disclosures (Para A)

For example, the disclosure of

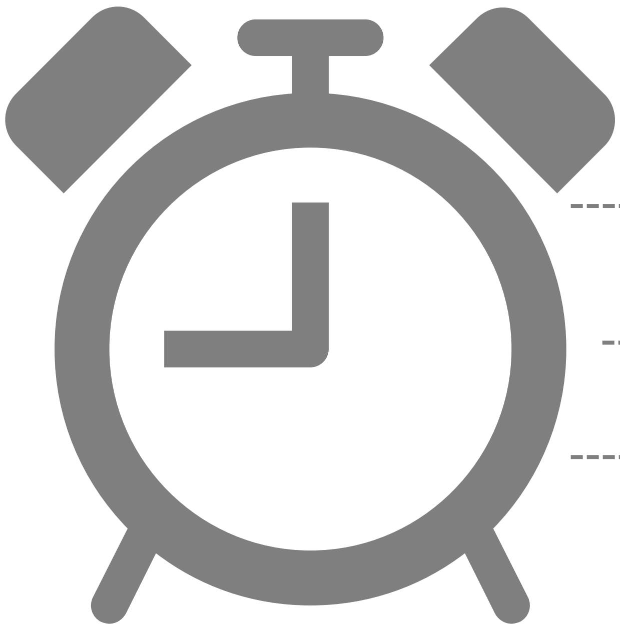
- Sale or disposal of any unit(s), division(s), whole or substantially the whole of an undertaking(s) or subsidiary of a listed entity, sale of stake in an associate company of a listed entity
- New ratings or revision in ratings
- Resignation of KMP, senior management, compliance officer or director other than an independent director

Quantitative + Qualitative Assessment (Para B)

For example,

- If the value of a pending litigation(s) or dispute(s), which has an impact on a listed entity, exceeds the materiality threshold stipulated under Regulation 30(4)(i) then the listed entity is required to disclose the same.
- Frauds or defaults by employees which has or may have an impact on a listed entity.

Timeline for disclosure of material events/information[9]



Outcome of meetings of Board of Directors

- As soon as reasonably possible and
- Not later than **30 minutes** from the closure of the meeting

Emanating from within the listed entity

- As soon as reasonably possible and
- Not later than **12 hours** from occurrence of event or information

Not emanating from within the listed entity

- As soon as reasonably possible and
- Not later than **24 hours** from occurrence of event or information

Disclosure requirements for certain types of agreements[9]

Type of agreements to be disclosed

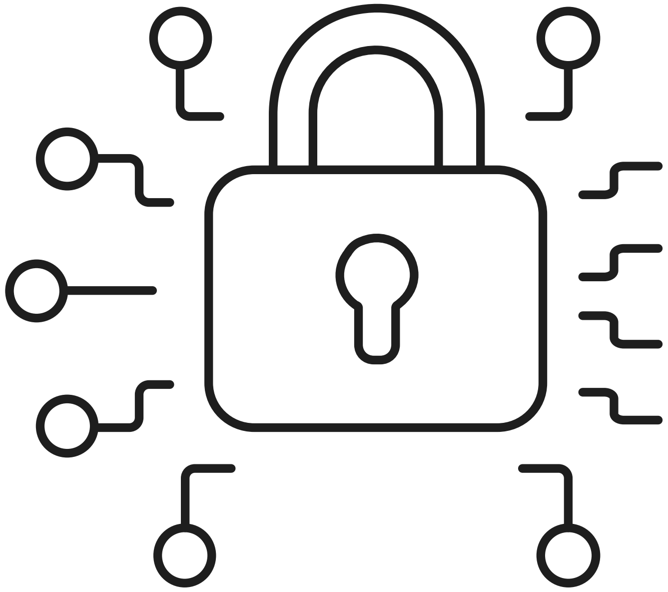
- **Directly, indirectly or potentially** impacts the management, or control of a listed entity, or
- **Imposes** any restriction, or **creates** any liability on a listed entity,
- Whether or not the listed entity is a party to such agreements.

Entered into by

- Shareholders, promoters, promoter group entities, related parties, directors, KMP and employees of a listed entity or of its holding, subsidiary and associate company.
- These parties to inform the listed entity within two working days of entering into such agreements

Particulars	Timeline
Intimation	
• Intimation to listed entity by specified parties	• Future agreements – within two working days
• Intimation by the listed entity to the stock exchange and on website	• Disclose as per timeline under Para A of Schedule III (12 hours/24 hours)
Disclosures in the Annual Report	Provide specified disclosures in the annual report for the financial year 2022-23 or 2023-24.

Cyber security incidents or breaches[9]



Disclose details of:

- Cyber security incidents or
- Breaches or
- Loss of data or
- Documents.

Where: in the quarterly corporate governance report within 21 days from the end of each quarter.

Revised framework for Large Corporates (LCs)[10]

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 rating of AA/AA+/AAA.

Other conditions

1. Stock exchanges to provide the list of LCs for the financial year based on financial results
2. 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.
3. Mandatory qualified borrowing by an LC in a FY to be met over a contiguous block of three years.

Fixed remuneration to Non-Executive Directors (NEDs) of banks[11]

- Remuneration ceiling for NEDs (other than Chair of the board) - increased from INR20 lakh to INR30 lakh per annum
- Required to disclose remuneration paid to the directors on an annual basis at a minimum, in annual financial statements
- Applicable to all the private sector banks including Small Finance Banks (SFBs) and Payment Banks (PBs) as also the wholly owned subsidiaries of Foreign Banks from 9 February 2024.

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Revised guidelines on investment classification and measurement for banks[12]

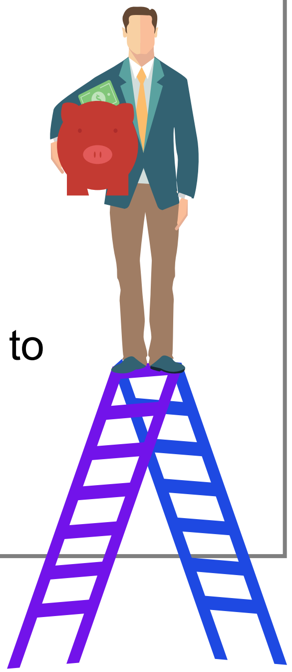
Key changes introduced in the 2023 guidelines – Applicable from1 April 2024

Classification, reclassification and recognition and measurement of investments

- Investment to be classified under three categories - HTM, AFS and FVTPL*.
- No limit on investments under HTM.
- No maximum period of holding investments
- Introduced the concept of 'day 1 gain or loss' on initial recognition.
- Subsequent measurement at cost or fair value.
- Fair value hierarchy for investments measured at fair value.
- Investment Reserve Account (IRA) not required to be maintained.

Transition and Disclosure requirements

- New disclosure requirements prescribed beginning year ending 31 March 2025.
- One-time option to re-classify their investments (held as on 31 March 2024) and adjust the gains/losses arising on such reclassification.
- Relevant disclosures of transitional adjustments to be made in the notes to financial statements for the year ending 31 March 2025.



* HFT would be a separate sub-category within FVTPL

Sources

1. 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
2. ICAI issued the 'Implementation Guide on Reporting under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014' (Revised 2024 Edition), February 2024.
3. SEBI Board Meeting held on 15 March 2024 (Press Release No. PR No. 05/2024 dated 15 March 2024)
4. 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 and notification no. RBI/2023-24/140 DOR.STR.REC.85/21.04.048/2023-24 dated 27 March 2024)
5. Supreme Court's ruling on political contributions (Miscellaneous Application No 486 of 2024 In Writ Petition (Civil) No 880 of 2017)
6. Climate related regulations:
   - SEC press release no. 33-11275; 34-99678 dated 6 March 2024
   - IFRIC Agenda Paper on 'Climate-related Commitments (IAS 37)', March 2024
   - RBI press release no. RBI/2023-24/DOR.SFG.REC./30.01.021/2023-24 dated 28 February 2024
   - Consultation paper issued by Central Consumer Protection Authority, reference no - F. No.-CCPA/28/2023-CCPA – (Reg). dated 20 February 2024
7. Companies (Indian Accounting Standards) Amendment Rules, 2023 dated 31 March 2023.
8. 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
9. SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023 dated 14 June 2023 (LODR Regulations).
10. 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.
11. RBI notification on 'Review of Fixed Remuneration granted to Non-Executive Directors (NEDs)', reference no RBI/2023-24/121 DoR.HGG.GOV.REC.75/29.67.001/2023-24 dated 9 February 2024
12. RBI's Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2023, notification no. RBI/DOR/2023-24/104 DOR.MRG.36/21.04.141/2023-24 dated 12 September 2023.

Q&A

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