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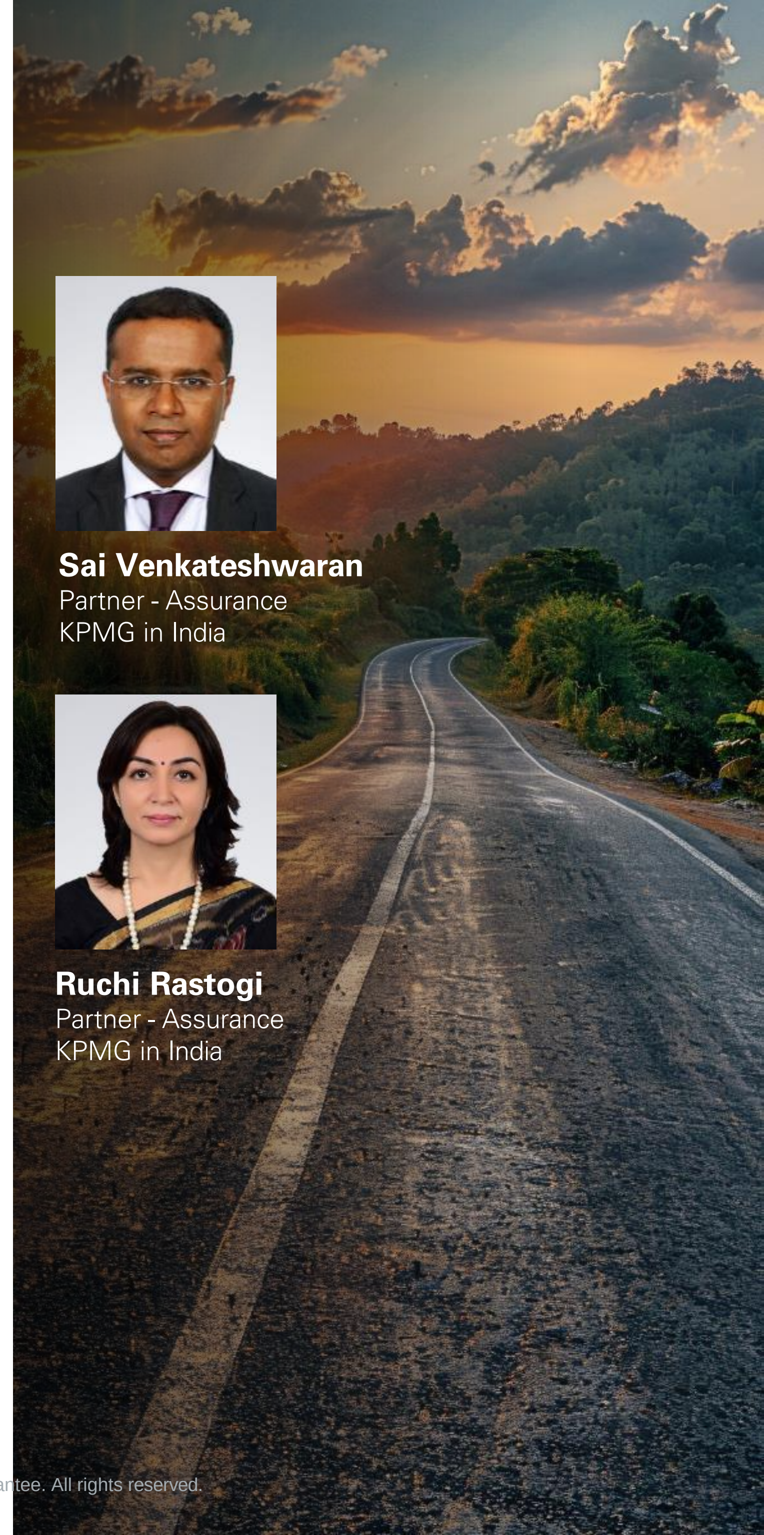
Editorial

The online gaming sector is one of the fastest growing sectors and this sector in India presented a remarkable story of growth. This surge is due to factors such as increased internet penetration, a growing smartphone user base, and a young, tech-savvy population. This growth is further supported by the comprehensive rise in digital payment user base, advancements in technology, increase in local developer base and focus on development of content with local themes, Indian languages and global standards. Due to these developments, many global online video companies have entered Indian market. These companies have contributed significantly to the Indian consumption and spend behaviour. Accordingly, it is important to understand the revenue recognition complexities in this sector, given various monetisation strategies. This edition of Accounting and Auditing Update (AAU) discusses few issues related to revenue recognition by an online gaming company.

IFRS 19, *Subsidiaries without Public Accountability: Disclosures*, is a new accounting standard issued by the International Accounting Standards Board (IASB) in May 2024. The new standard aims to improve the clarity and consistency of financial data for subsidiaries that lack public accountability and part of that group that applies IFRS Standards. The standard provides that such subsidiaries should disclose information about their financial performance, financial position, cash flows, and significant accounting policies and judgements, in line with parent's consolidated financial statements. The new standard will simplify reporting systems and processes for companies, reduce the costs of preparing eligible subsidiaries' financial statements, while maintaining the usefulness of those financial statements for their users. The article on this topic provides an overview of IFRS 19.

There have been various regulatory developments during the month. Recently, the Securities and Exchange Board of India (SEBI) issued various notifications to amend certain SEBI Regulations such as amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), SEBI Issue of Capital and Disclosure Requirements (Amendment) Regulations, 2024 (ICDR Amendments), notifications of norms relating to market capitalisation, verification of market rumour framework, etc. Additionally, SEBI issued a consultation paper to propose changes to provisions relating to requirements of Business Responsibility and Sustainability Reporting (BRSR) and BRSR Core under LODR Regulations. Further, the Reserve Bank of India (RBI) has issued draft directions for regulation of payment aggregators that facilitate offline payments and draft regulatory framework for aggregation of loan products by Lending Service Providers (LSPs). Our regulatory updates articles cover these and other important regulatory developments.

We would be delighted to receive feedback/suggestions from you on the topics we should cover in the forthcoming editions of AAU.



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CHAPTER 1

Accounting for online gaming sector

This article aims to:

Discuss practical aspects of revenue recognition by an online gaming sector.

Introduction

The online gaming sector in India indeed presents a remarkable story of growth, shaped by advancements in technology, the entertainment industry, and the entrepreneurial landscape. The factors such as the widespread adoption of smartphones, affordable data plans, and a young, tech-savvy population, have all contributed to this surge.

The rise of e-sports in India and financial reporting of this growth requires compliance with financial regulations and transparency in accounting practices. The complexities of accounting in this sector are significant, given the various monetisation strategies and the need for compliance with financial regulations.

In this article, we will delve into few of the common revenue recognition issues faced by the gaming sector. Therefore, it is essential to consider these insights and the need for a strategic approach to navigate the financial complexities.

Ecosystem of the online gaming sector

The online gaming ecosystem is indeed a complex network of various participants, each playing a crucial role in delivering an immersive gaming experience to the end-users. The ecosystem is supported by a range of devices and platforms, including smartphones, tablets, gaming PCs, and social networks, all of which are integral to the digital data consumption driven by the gaming industry. Additionally, the roles and responsibilities of these participants become increasingly complex, often overlapping as some entities take on multiple functions. This complexity requires careful management and a deep understanding of the technical and business aspects of the gaming world.

Participants in this sector can be divided into contributors and orchestrators.

Contributors within this ecosystem include

- **Game developers**, who are responsible for programming the game from concept to final product. They handle a wide array of tasks such as coding, testing gameplay, dictating virtual character behavior using AI, game upgrades, bug fixes, and collaborating with designers and artists. While many gaming companies have in-house development teams, the sector's growth has led to the emergence of specialised gaming studios focussed solely on game development.
- **Publishers** are companies that publish video games developed either internally or by external game developers. They often handle distribution, though some may partner with distribution companies or other publishers for this task. Publishers are also involved in licensing, localisation, user manual creation, and the design of graphic elements like the box design. Some large publishers with vertical structures own publishing subsidiaries, further integrating the publishing process within their operations.
- **Payment intermediaries** such as credit card agencies, pre-paid card distributors, UPI, online banking, wallet companies, etc.
- **Cloud service providers and online gaming servers.**

Orchestrators

- **Digital marketplaces** such as the App Stores serve as intermediaries between mobile gaming companies and gamers. They provide a platform for downloading mobile games, facilitate payment transactions, and share detailed transaction reports with the gaming companies.
- **Social media platforms and websites** offer alternative avenues for gamers to engage with games, either by playing online directly on the websites or by downloading games onto mobile devices, bypassing traditional digital marketplaces.

Beneficiaries

- The end-users, who are the **gamers** themselves, range from hardcore enthusiasts to regular players. They are the primary consumers of the gaming content, driving demand and influencing the development and monetisation strategies of the gaming industry.

Each participant in this ecosystem plays a vital role in the overall experience and success of the gaming industry. The developers and publishers create and distribute the content, the digital marketplaces and social platforms facilitate access and transactions, and the gamers drive the industry's growth through their engagement and purchases.

Game category segmentation

Following is an overview of the game categories:

- **Casual Gaming:** These games are designed to be easy to pick up and play on various devices. They do not involve wagering real money or earning monetary rewards. Instead, they are often played for entertainment.
- **Real Money Gaming (RMG):** This category includes games that are played online where players wager real money on the outcome. The winners receive monetary prizes.
- **Real Money Gaming – Online Fantasy Sports (OFS):** In these games, players create virtual teams. The rewards are distributed from an overall prize pool, and the amount a player wins is based on the points they accrue during the game.

Monetisation models

The monetisation model in gaming can be understood through various revenue streams:

- **Ad spends revenue:** Predominantly present in casual games, this revenue is generated by displaying ads in various forms within the games. The revenue depends on the number of impressions and click-through rates. Incentivised ads, which offer rewards like a level-up, additional coins, or new lives, have seen increased deployment recently, enhancing user engagement and allowing more ads to be pushed during each play session.
- **In-app purchases:** This stream is common in mid-core and hardcore games, and to some extent in casual games. Revenue is derived from the purchase of virtual goods, upgrades to an ad-free model, battle passes, virtual currency, power-ups, and more.
- **Subscription:** Players pay an initial fixed fee for a subscription that can range from a few months to a lifetime pass. This model provides access to multiple games or platforms throughout the subscription period.
- **Commission:** This model is typical in RMG and OFS segments. Users pay a fee to participate in a game or contest and receive monetary rewards upon winning. The platforms retain a portion of the entry fee pool as their primary source of income (in the form of commission).

Each model caters to different types of games and player engagement, offering a variety of ways for companies to generate revenue from their gaming platforms.

Accounting considerations

Revenue recognition is a judgemental and complex area of accounting. The accounting complexities in this ecosystem arise from the diverse revenue streams. Under Ind AS framework, Ind AS 115, *Revenue from Contracts with Customers* lays down the principles for revenue recognition. Let us look at few of the complex areas:

Principal vs agent revenue: From the perspective of a game publisher, it needs to be evaluated whether the revenue generated would be recognised at gross or net value. Let us take two examples.

Example 1

ABC Limited, a gaming company with a portfolio of word games, offers a crossword game where virtual coins are sold to customers. Hosted on an App Store (host), the game allows end customers to make in-app purchases of these coins. At the end of each month, the hosts provide ABC with a transaction report, deduct a 30 per cent commission, and remit the balance. For instance, if the total in-app purchases amount to INR1,000, the hosts would remit INR700 to ABC.

In this scenario, the game publisher would need to apply the principles of revenue recognition given under Ind AS 115 and evaluate whether it is acting as an agent or principal.

When assessing the role in delivering goods or services to a customer, an entity must consider the nature of its promise. If the entity takes control of the goods or services from another party before they are transferred to the customer, it is acting as a principal, fulfilling the promise to provide the goods or services itself. Conversely, if the entity does not gain control of the goods or services before they reach the customer, it is acting as an agent, responsible for arranging the provision of goods or services by another party. It is crucial for an entity to identify each specified good or service promised to the customer and determine its role as a principal or agent for each transaction. In contracts involving multiple goods or services, an entity may serve as a principal for some and as an agent for others.

This assessment would require ABC company to evaluate certain indicators:

- Whether it is primarily responsible for providing specified goods or services
- Whether it has the inventory risk
- Whether it has discretion in establishing prices for specified goods or services.

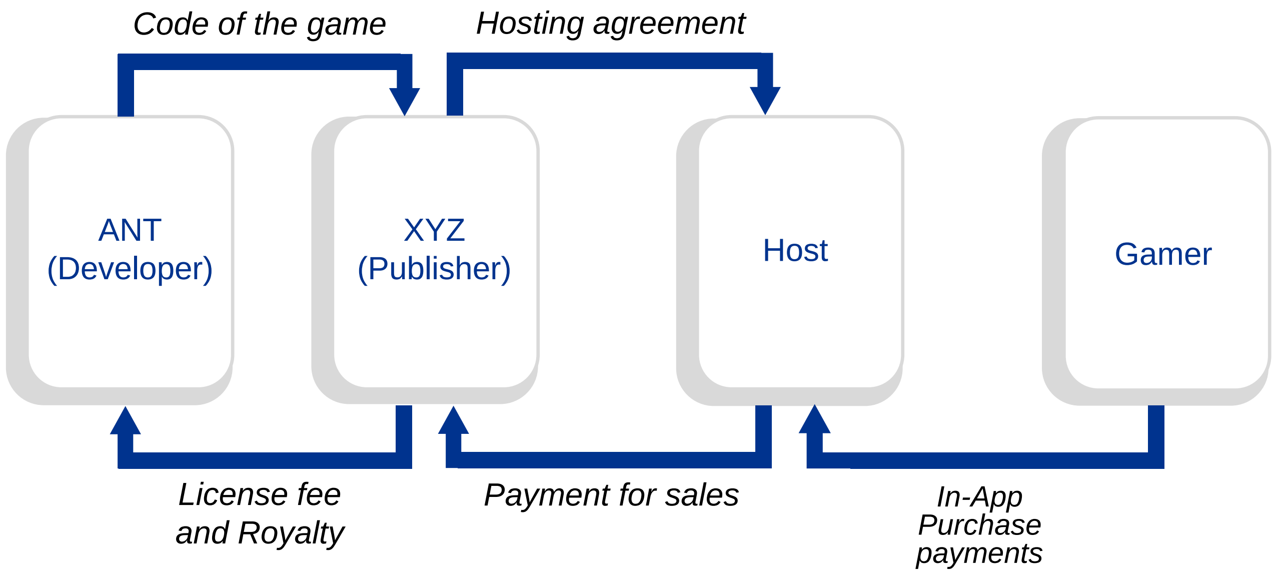
Based on the evaluation, if ABC considers itself the principal in the transaction, as it is responsible for issuing the virtual currency directly to the gamer's wallet, while the hosts merely provide a platform for collection. ABC, would record the total In-App purchases of INR1,000 as its gross revenue from operations and recognise INR300 as an expense, reflecting its role as the principal in this arrangement.

Example 2

XYZ Limited, a gaming company with an array of word games, holds an exclusive ten-year license to operate the game 'Alpha' developed by ANT Limited. As the publisher, XYZ pays an upfront license fee and a sales-based royalty to ANT.

XYZ's responsibilities include selecting hosting platforms, requesting game modifications from ANT based on market feedback or internal decisions at no extra cost, investing in IT infrastructure, setting prices for the game and in-app purchases, and providing customer service. XYZ markets itself as the game's operator and forms agreements with platforms and end-users accordingly.

The game 'Alpha' is available on few App stores (hosts), where end customers make in-app purchases. Monthly, the hosts issue a transaction report to XYZ, deduct a 30 per cent commission, and transfer the remaining balance to XYZ.



To accurately assess the relationship between the developer (ANT), and the publisher (XYZ), it's crucial to examine the agreement that outlines the service obligations of each party. Apart from the principal vs agent considerations, the arrangement may provide more factors for influencing this assessment. For example,

1. **Platform selection rights:** The publisher's authority to choose the hosting platforms is a significant factor in determining the 'right to direct'.
2. **Change request rights:** The publisher's right to direct the developer to modify the game based on business needs is also important.

If XYZ has a comprehensive role and the rights in the operation and distribution of the game, then XYZ would be considered as the principal.

Sale of virtual items – point in time or over time

Under Ind AS 115, an entity recognises revenue when (or as) it satisfies a performance obligation by transferring a good or service to a customer. An entity 'transfers' a good or service to a customer when the customer obtains control of that good or service. Control may be transferred either at a point in time or over time. The analysis of when control transfers is performed primarily from the perspective of the customer.

The recognition of revenue for virtual items is a nuanced process, distinct from the sale of tangible goods. For instance, the sale of a physical item, such as a toy, typically ends the retailer's obligation to the customer. However, the sale of a virtual toy in a game requires the game publisher or developer to maintain the digital environment necessary for the item's use.

Game publishers are generally expected to uphold the digital environment for the gameplay, which is essential for the utility of virtual items. This expectation persists despite the non-refundable nature of the gamer's payment and the publisher's legal right to discontinue the game without repercussions. This duty reflects the publisher's commitment to sustaining its online gaming business and operations. Consequently, revenue recognition for virtual items must be evaluated whether at point in time or over the period of publisher’s obligation i.e. over the 'delivery period’.

Virtual items commonly found in games include:

1. **Consumables:** These are items like in-game currency, bonus health, or power-ups, frequently seen in mobile games. Consumables are used up upon utilisation and can be repurchased. Games often provide small quantities of these items to maintain gameplay continuity. For players seeking immediate access without delays, these in-app purchases are available for a fee.
2. **Permanent/non-consumables:** In the gaming industry, non-consumable items, once purchased, grant players permanent access, unlike consumables that are used up. These permanent items, often called unlockables, range from level access to bonus characters, toys, skins, cosmetic enhancements, and virtual pets. They enhance the gaming experience by allowing full exploration and enjoyment of all game features. For instance, buying a cow in a popular farming game grants unlimited life as long as the game is active.
3. **Period-based items:** These items include subscriptions or items consumed over time. A battle pass in a war game, valid for 30 days, or a subscription that eliminates advertisements for a year.

To ascertain the appropriate timing for revenue recognition of virtual items, an entity must comprehend its contractual obligations, payment terms, other contractual conditions, and the applicable local laws and regulations. The evaluation process involves consideration of following:

- The **inherent characteristics** of the virtual item
- The **specific terms of the contract**
- Information about the **infrastructure** and **delivery mechanisms**
- And **other pertinent facts and circumstances**.

This assessment helps determine if the customer immediately consumes the assets and benefits as the performance obligation is fulfilled. The assessment approach requires judgement that ensures the entity's revenue recognition practices align with the actual delivery and consumption of virtual goods.

Customer's unexercised rights

When a virtual item is sold, the publisher may receive non-refundable upfront payment but may have an obligation to provide future services. However, if the gamer does not utilise these items (customer may not exercise their rights to use the virtual item), then it raises the question of when should the publisher recognise the revenue. This scenario is not uncommon in the industry due to the high turnover of gamers, driven by the frequent release of new games or shifting preferences over time.

As per Ind AS 115, the publisher would need to recognise the prepayment received from a customer as a contract liability and recognise revenue when the promised goods or services are delivered in the future. However, if the customer is expected to not exercise their rights, then a portion of the contract liability recognised may relate to contractual rights that the entity does not expect to be exercised - i.e. a breakage amount.

The publisher would need to determine the amount of breakage to which it is entitled as the amount for which it is considered highly probable that a significant reversal will not occur in the future. This amount is recognised as revenue in proportion to the pattern of rights exercised by the customer (proportional method) when the entity expects to be entitled to breakage. Otherwise, the entity recognises breakage when the likelihood of the customer exercising its remaining rights becomes remote.

Conclusion

The accounting complexities in this ecosystem arise from the diverse revenue streams, the need for compliance with various financial regulations, and the intricate relationships between the different participants. As the industry continues to evolve, these complexities are likely to increase, requiring even more sophisticated accounting and financial management strategies.

Organisations are recommended to ensure transparency in operations while keeping long-term objectives in mind and framing their accounting policies as per the financial reporting standards.

CHAPTER 2

IFRS 19, *Subsidiaries without Public Accountability: Disclosures*

This article aims to:

Provide an overview of the IFRS 19.

Introduction

On 9 May 2024, the International Accounting Standard Board (IASB) has issued a new IFRS Accounting Standard for subsidiaries.

IFRS 19, *Subsidiaries without Public Accountability: Disclosures* permits eligible subsidiaries to elect to apply reduced disclosure requirements as per IFRS 19 and comply with the recognition, measurement and presentation requirements set out in other IFRS Accounting Standards.

These reduced disclosure requirements are expected to balance the information needs of the users of eligible subsidiaries' financial statements with cost savings for preparers.

The standard will become effective for reporting periods beginning on or after 1 January 2027 although earlier application is permitted.

Who can apply IFRS 19?

A subsidiary is eligible if:

- it does not have public accountability; and
- it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

An entity has public accountability if:

its equity or debt instruments are traded in a public market

OR

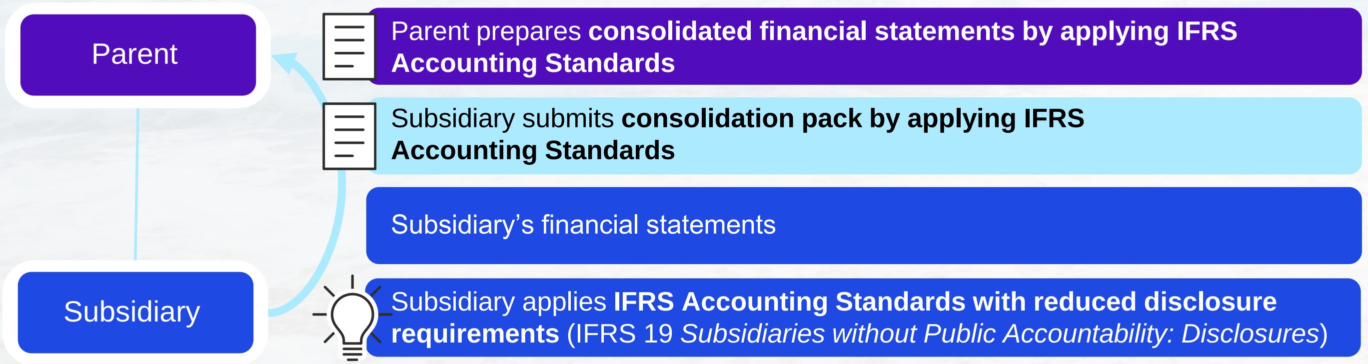
it holds assets in a fiduciary capacity (for example, banks and insurance companies)

(Source: Project Summary and Feedback Statement | Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures issued by IASB, May 2024)

Need for the standard

Based on IASB’s research, stakeholders expressed a need to permit subsidiaries without public accountability to apply IFRS Accounting Standards with reduced disclosure requirements.

The solution



(Source: Project Summary and Feedback Statement | Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures issued by IASB, May 2024)

An eligible subsidiary who applies IFRS 19 will benefit by:

- **Keeping only one set of accounting records** to meet the needs of both the parent company and the users of its financial statements; and
- **Reduced disclosure requirements** of IFRS 19 which is better suited to the needs of the users of its financial statements.

Applying the standard

IFRS 19 would work alongside other IFRS Accounting Standards. It is a disclosure-only standard and does not include:

- Recognition, measurement and presentation requirements. Those requirements in other IFRS Accounting Standards remain applicable.
- Guidance on applying disclosure requirements. The guidance in other IFRS Accounting Standards remains available.

IFRS 19 does not reduce disclosure requirements for IAS 33 *Earnings per Share*, IFRS 8 *Operating Segments* and IFRS 17 *Insurance Contracts*. Therefore, an entity which applies IFRS 19 and is required to apply IFRS 17 or elects to apply IFRS 8/IAS 33, should apply all the relevant disclosure requirements in those standards.

Statement of compliance

A subsidiary is required to state that it has applied IFRS 19 in its statement of compliance. However, the standard does not provide an example disclosure. The following wording may be appropriate:

- *These [consolidated/separate/individual] financial statements have been prepared in accordance with IFRS Accounting Standards and the reduced disclosure requirements of IFRS 19 Subsidiaries without Public Accountability: Disclosures.*[1]

1. Reducing disclosures for subsidiaries, KPMG IFRG Limited’s publication, 9 May 2024

Choice in application

A subsidiary can choose to revoke its election to apply IFRS 19 at any time. It may also choose to apply the standard again in subsequent periods.

An eligible subsidiary that applies IFRS 19 does so by applying the requirements in other IFRS Accounting Standards except for the disclosure requirements and instead applies the reduced disclosure requirements in IFRS 19.

The below table illustrates an example of how entities would apply IFRS 19.

Reporting items of inventory	
Recognition, measurement and presentation requirements	Apply the relevant IFRS Accounting Standard; in this instance, an eligible subsidiary applies IAS 2, *Inventories*.
Disclosure requirements	Do not apply the disclosure requirements in IAS 2. Instead, an eligible subsidiary applies the disclosure requirements in IFRS 19, under the subheading 'IAS 2, *Inventories*'

(Source: Project Summary and Feedback Statement | Disclosure Initiative - Subsidiaries without Public Accountability: Disclosures issued by IASB, May 2024)

Principles adopted for reducing disclosure requirements

Eligible subsidiaries are a subset of Small and Medium-Sized Entities ('SMEs'). Hence, the IASB considered its previous work on the disclosure requirements in the IFRS for SMEs Accounting Standard as a starting point in developing IFRS 19.

The IASB developed the following set of principles to help identify information that is important to users of the financial statements of entities without public accountability:

- **Short-term cash flows, obligations, commitments and contingencies, liquidity and solvency:** Information about the entity's ability to generate cash flows, meet its obligations and continue as a going concern
- **Measurement uncertainty:** Information about how amounts in the financial statements are measured, including inputs (for example, significant judgements and estimates) used in those calculations
- **Disaggregation of amounts:** Information about separation of amounts presented in the financial statements into component parts
- **Accounting policy choices:** Information about the accounting policy applied by the entity especially when more than one accounting policy option is allowed.

Next steps

The IASB has also proposed to make consequential amendments to IFRS 19 whenever it publishes an exposure draft of a new or amended IFRS Accounting Standard. This would ensure that IFRS 19 remains up to date and consistent with any new or amended disclosure requirements.

Expected benefits of IFRS 19

IFRS 19 will help entities to benefit from cost savings and reporting simplifications without compromising the usefulness of eligible subsidiaries' financial statements for their users. However, these cost savings can vary depending on various factors, including:

- the accounting requirements currently applied by an eligible subsidiary;
- the set-up of the reporting systems and processes within the group; and
- other factors, such as applicable laws and regulations.

Eligible subsidiaries that transition to IFRS 19 from the IFRS for SMEs Accounting Standard or local GAAP will benefit from:

- aligning accounting policies,
- eliminating dual accounting records and
- associated system simplifications.

CHAPTER 3

Regulatory updates

Updates related to verification of market rumour provisions

Regulation 30(11) of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) require listed entities to confirm, deny or clarify market rumours which are reported in the mainstream media. The rumour verification requirement is applicable to the top 100 listed entities with effect from 1 June 2024 and to top 250 listed entities with effect from 1 December 2024.

In order to facilitate a uniform approach for verification of market rumours by equity listed entities, on 17 May 2024, SEBI issued the SEBI Listing Obligations and Disclosure Requirements (Amendment) Regulations, 2024 (LODR Amendments) amending provisions related to marker rumours.

Following are the key takeaways from the amendments:

- **Criteria for verification of market rumors:** As per the existing regulation, only rumours pertaining to 'material' events or information require verification by the listed entity. However, the amended provisions provides that the market rumour should be verified if there is a material price movement in the securities of the listed entity.
- **Consideration of unaffected price:** The amended regulation provides that unaffected price should be considered for transactions on which pricing norms are specified by SEBI regulations or the stock exchanges are applicable, provided that the rumour pertaining to such transaction has been confirmed within 24 hours from the trigger of material price movement.

  Regulation 30(11) lists down the following SEBI Regulations and provisions, where pricing norms have been prescribed:

  - Chapter V or Chapter VI of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018
  - Regulation 8 or Regulation 9 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
  - Regulation 19 or Regulation 22B of the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018
  - Any other pricing norms specified by the Board or the stock exchanges.

  Further, the regulation specified that the unaffected price shall be considered by excluding the effect on the price of the equity shares of the listed entity due to the material price movement and confirmation of the rumour.
- **Obligation on promoters, directors, Key Managerial Personnel (KMP) and senior management:** The amendment requires promoters, directors, KMP and senior management to provide timely response to the listed entity for verifying a market rumour.

Consequent to amendment to LODR Regulation, SEBI on 21 May 2024, issued following notifications to provide further guidance in this regard:

I. **Industry Standards on verification of market rumour:** With an aim to facilitate uniform approach and assist listed entities in complying with their obligations in respect of requirements relating to market rumour, certain industry associations[1] have formed the Industry Standards Forum (ISF). The ISF has formulated industry standards, in consultation with SEBI, for effective implementation of the requirements. The Industry Standards Note (ISN) issued by ISF lays down standard operating procedures for compliance with the rumour verification requirement to be followed by listed entities. The ISN is divided into three parts:

- Part A – General aspects
- Part B – Aspects related to Mergers & Acquisitions transactions
- Part C - Aspects related to Non-Mergers & Acquisitions transactions.

II. **Framework for material price movement:** In order to ensure compliance with the criteria of material price movement for verification of market rumours, the NSE and the BSE along with SEBI, have formulated the framework to be complied by listed entities for rumour verification upon material price movement.

The framework lays down the parameters for material price movement, illustrations of variations that should be treated as material price movement in case of positive/negative rumour and the monitoring measures to be implemented by the stock exchanges.

III. **Framework for considering unaffected price:** Considering the above-mentioned requirements relating to unaffected price, SEBI through its circular dated 21 May 2024, issued the detailed framework for determining unaffected price by listed entities.

(Source: SEBI notification nos. SEBI/LAD-NRO/GN/2024/177 dated 17 May 2024, SEBI/HO/CFD/CFD-PoD-2/P/CIR/2024/51 and SEBI/HO/CFD/CFD-PoD-2/P/CIR/2024/52 dated 21 May 2024 and NSE circular no NSE/SURV/62122 dated 21 May 2024.)

1. The Industry Standards Forum (ISF) comprises of representatives from three industry associations, viz. ASSOCHAM, CII and FICCI, under the aegis of the stock exchanges.

Amendments to SEBI LODR Regulations

On 17 May 2024, SEBI issued certain other amendments to SEBI LODR Regulations.

The key amendments pertain to the following:

I. **Average market capitalisation criteria (Regulation 3):** Currently, the applicability of certain provisions of the LODR regulations is determined as on 31 March i.e. based on a single day's market capitalisation. The amendment introduced following related to average market capitalisation criteria:

- Market capitalisation-based requirement should be determined on the basis of average market capitalisation from 1 July to 31 December, instead of single day's (i.e 31 March) market capitalisation. Every stock exchange on 31 December of every year would prepare the ranking of listed entities basis the average market capitalisation.
- Consequently, the relevant provisions would be applicable to listed entities from 1 April or from the beginning of the immediate next financial year, whichever is later.
- With respect to reporting of Business Responsibility and Sustainability Reporting (BRSR) (or assurance under BRSR Core), a listed entity should put in place systems and processes to capture the data to be reported within a period of three months from 31 December and thereafter a glide path of one year is provided for BRSR reporting (or assurance under BRSR Core) in the annual report.
- Sunset clause of three years for cessation of applicability of market capitalisation-based provisions has been introduced.

This amendment is effective from 31 December 2024.

II. **Gap between meetings of the Risk Management Committee (RMC) (Regulation 21):** The maximum permitted time gap between two consecutive meetings of the RMC has increased from 180 days to 210 days. This amendment is effective from 17 May 2024.

III. **Timeline for applicability of LODR Regulations to High Value Debt Listed Entities (HVDLEs) (Regulation 15):** The timeline for mandatory applicability of certain provisions of the LODR Regulations[2] and compliance thereof, by HVDLEs has been extended till 31 March 2025 *(earlier 31 March 2024)*. This amendment is effective from 17 May 2024.

IV. **Vacancies of Key Managerial Personnel (KMP) (Regulation 26A):** 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.

The KMP for this regulation includes Chief Executive Officer, Managing Director, Whole Time Director or Manager and Chief Financial Officer. This amendment is effective from 17 May 2024.

V. **Timeline for prior intimation of board meetings (Regulation 29):** The timeline for prior intimation of board meetings has been reduced to two working days *(as per previous requirement, timeline for giving prior intimation varies from two working days to a maximum of 11 working days).* The amendment further states that prior intimation is not required for determination of issue price for fund raising done through qualified institutions placement as per ICDR Regulations. Additionally, it has been notified that prior intimation would be required only for fund-raising proposals that involve issue of securities. This amendment is effective from 17 May 2024.

(Source: SEBI notification no SEBI/LAD-NRO/GN/2024/177 dated 17 May 2024)

2. Regulation 16 to 27 of SEBI LODR Regulations

Amendments to SEBI ICDR Regulations

On 17 May 2024, SEBI issued the SEBI Issue of Capital and Disclosure Requirements (Amendment) Regulations, 2024 (ICDR Amendments) to amend the SEBI ICDR Regulations, 2018.

The key ICDR amendments pertain to the following:

I. **Non-individual shareholders permitted to contribute towards Minimum Promoters' Contribution (MPC) (Regulation 14):** Currently 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[3] are permitted to contribute equity shares to meet the shortfall subject to a maximum of 10 per cent, without being identified as a promoter.

The amendment permits any non-individual shareholders holding at least five per cent of the post-offer equity share capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) to contribute towards MPC without being identified as a promoter.

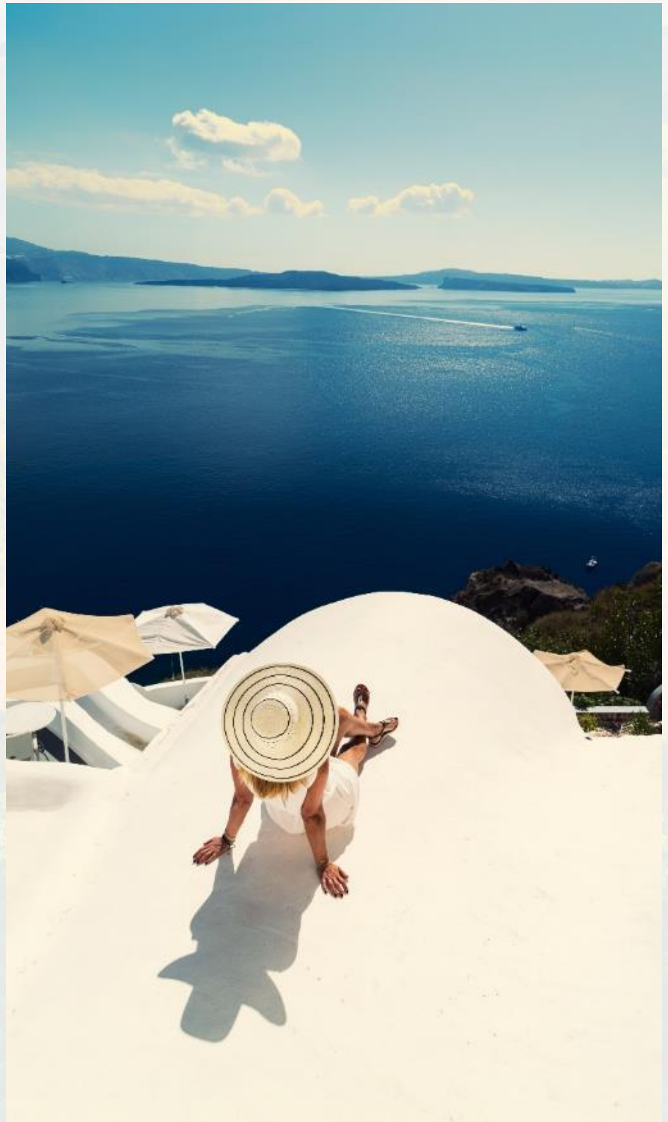
II. **Compulsorily convertible securities included for computation of MPC (Regulation 15(1)(b)):** The amendment provides that equity shares arising from the conversion of fully paid-up compulsorily convertible securities held for at least one year before filing the Draft Red Herring Prospectus (DRHP) are included for determination of MPC. It also provides that that the compulsorily convertible securities should be converted into equity shares prior to the filing of the Red Herring Prospectus (RHP).

III. **Extension of the bid/offer closing date (Regulation 46(3)):** As per existing provisions, 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. The amendment has reduced the minimum period for extension to one working day in case of any force majeure events.

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 the number of shares, as disclosed in the draft offer document and not on both the criteria.

The above-mentioned ICDR amendments are effective from 17 May 2024.

(Source: SEBI notification no SEBI/LAD-NRO/GN/2024/178 dated 17 May 2024)



3. 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

Consultation paper on BRSR core provisions

As per Regulation 34(f) of the LODR Regulations, the top 1,000 listed entities in India are mandatorily required to file the Business Responsibility and Sustainability Reporting (BRSR) as a part of their annual report from Financial Year (FY) 2022-23 onwards. Further, in June 2023 SEBI introduced the assurance and disclosure requirement of BRSR Core for listed entities including its value chain in a phased manner beginning with top 150 listed entities from financial year 2023-24.

Considering the feedback from the stakeholders, SEBI in 2023 formed an expert committee to review the provisions of LODR Regulations and ICDR Regulations, to facilitate ease of doing business. The expert committee, *inter alia*, deliberated on the regulatory framework of BRSR as a part of reviewing the LODR Regulations.

Basis the recommendations of the committee, on 22 May 2024, SEBI issued a consultation paper to propose changes to provisions relating to requirements of BRSR and BRSR Core under LODR Regulations.

The key proposals issued are as follows:

I. Redefining value chain partners

The existing BRSR framework requires a listed entity to report the parameters as per BRSR Core for its value chain to the extent it is attributable to their business with that value chain partner. The ESG disclosures for the value chain is applicable to the top 250 listed entities (by market capitalisation), on a comply-or-explain basis from FY 2024-25. Further limited assurance requirements are applicable on a comply or-explain basis from FY 2025-26.

SEBI has proposed the following changes to the framework with respect to value chain reporting:

- Value chain should include upstream and downstream partners of a listed entity that individually account for 2 per cent or more of the listed entity's purchases or sales by value.
- As an additional alternative, SEBI has also proposed a cumulative threshold of 75 per cent of the listed entity's purchases or sales by value, in addition to the individual 2 per cent threshold for defining value chain partners.
- Listed entities would be required to disclose the percentage of total sales and purchases covered by the value chain partners for which ESG disclosures are provided.
- A 'voluntary disclosure' approach has been proposed rather than a 'comply or explain' approach for ESG disclosures for the value chain and its assurance.

II. Substitution of the term 'Assurance' with 'Assessment'

With an aim to provide flexibility to listed entities, SEBI has proposed to substitute the term 'assurance' with 'assessment' in LODR Regulations and SEBI circulars on BRSR. The applicability of this proposal is as follows:

- **Financial year 2023-24:** Listed entities can choose to either undertake an 'assessment' or 'reasonable assurance' of BRSR Core disclosures.
- **Financial year 2024-25:** Assurance requirement will be replaced with assessment of BRSR Core.

III. Inclusion of green credit in BRSR

In October 2023, the Ministry of Environment, Forest and Climate Change (MoEFCC) introduced a green credit program through Green Credit Rules, 2023, which includes eight activities for environmental preservation and protection. Subsequently, on 22 February 2024, the MoEFCC notified the methodology for calculation of green credit in respect of tree plantation under the green credit program.

Considering the requirements, SEBI has proposed to include disclosure of green credits under leadership indicator of BRSR. The disclosure should provide details of the green credits generated by the company and by its value chain partners.

(Source: SEBI issued consultation paper on the recommendations of the expert committee for facilitating ease of doing business with respect to Business Responsibility and Sustainability Report (BRSR) dated 22 May 2024)

Instances of non-compliances highlighted by QRB

The Quality Review Board (QRB) conducts quality reviews of audit services provided by audit firms to assess the quality of audit and reporting by the statutory auditors and the quality control framework adopted by the audit firms in conducting audit.

In this regard, on 9 May 2024, the Institute of Chartered Accountants of India (ICAI) has issued a guidance on non-compliances observed by QRB during such quality reviews. The publication is divided into two parts:

- Part 1: Contains the observations related to Engagement and Quality Control Standards *(classified standard wise)*
- Part 2: Contains the observations related to CARO and internal financial controls *(classified topic wise).*

(Source: ICAI announcement dated 9 May 2024)

Ind AS disclosure checklist

The ICAI has issued the Ind AS - Disclosures Checklist to provide guidance related to relevant disclosures required under Ind AS to prepare and present financial statements. The checklist acts as a ready reference of disclosure requirements under Ind AS and includes the amendments in Ind AS which are effective from 1 April 2023. The checklist contains only disclosure requirements, therefore, it should be read together with the standards, regulatory requirements and related guidance material.

(Source: ICAI announcement issued in April 2024)

Draft rules to regulate payment aggregators

Payment Aggregators (PAs) are entities that play a key role in facilitating the digital eco-system through transactions online and over point-of-sale terminals. The existing regulations[4] covering the payment landscape provide a framework for PAs executing online/e-commerce transactions. These regulations do not cover offline PAs who handle proximity/face-to-face transactions and play a significant role in the spread of digital payments.

On 16 April 2024, the Reserve Bank of India (RBI) issued draft directions for regulation of PAs that facilitate offline payments. The proposed regulation promotes transparency and integrity in the payment eco-system. Further, it is in addition to the existing regulatory framework applicable to PAs that facilitate e-commerce transactions.

The draft directions have been issued in the following two parts:

- New draft directions on regulation of PAs – Physical point of sale (PAPs)
- Amendments to the existing regulatory framework on PAs

Some of the key proposals in the draft guidelines are as follows:

- **Updated definition of PA:** The definition of payment aggregator has been revised to include both online and offline transactions, with focus on aggregation of payments through a merchant's interface.
- **Entry requirements:** The draft guidelines have proposed non-bank Physical point of Sale (PAPs) to get RBI authorisation for operating the offline payment aggregation business by 31 March 2025. Non-bank online PAs also need RBI authorisation for their offline payment aggregation activity in case they continue with the same.

  Additionally, all non-bank PAs are required to register with the Financial Intelligence Unit – India (FIU-IND) and provide the relevant information.
- **Minimum net-worth requirement:** All PAPs are required to maintain a minimum net-worth of INR15 crore at the time of submission of the application for authorisation to the RBI and INR25 crore by 31 March 2028 and always maintain such net-worth thereafter.
- **Usage of escrow account:** An escrow account is a third-party account that holds funds till both buyer and seller fulfil the contractual terms. The draft guidelines propose non-bank PAs to route their online and offline activities through escrow accounts in order to streamline the collection and settlement process.
- **KYC for merchants:** The draft directions bifurcate the payment aggregator merchants under the category of small[5] and medium[6] merchants.
  - In case of small merchants, the PAs need to conduct due diligence by verifying the physical premises operated by them. Additionally, verification of the bank account used for settlement of funds is required.
  - In case of medium merchants, the PAs need to obtain a valid document of the beneficial owner/proprietor and business in addition to the physical verification of the premise operated by the merchant.
- **Storage of card details:** The draft directions have proposed to extend the restrictions of storage of card details to offline transactions as well. Additionally, the PAPs are required to remove the previously stored card details. These conditions are proposed to be effective from 1 August 2025.

The comment period on the draft regulations ended on 31 May 2024.

(Source: RBI notification no. RBI/2024-25/30 dated 29 April 2024)

4. RBI circular RBI/2022-23/94 dated 28 July 2022
5. Small merchants have a business turnover of less than INR 5,00,000 per annum and are not registered under the GST regime
6. Medium merchants have a business turnover of more than INR 5,00,000 but less than INR 40,00,000 per annum and are not registered under the GST regime.

Draft regulatory framework for consumer centric practices in digital lending

In order to help borrowers make an informed decision based on complete information during the credit process, RBI issued a draft regulatory framework for aggregation of loan products by Lending Service Providers (LSPs) on 26 April 2024. It has been observed that the identity of the potential lender is not known to the borrower in cases where a LSP has arrangements with multiple lenders.

In this regard, the draft guidelines propose the following:

- LSPs to provide a digital view of all the loan offers available to the borrower from all the willing lenders available with the LSPs.
- The LSP may adopt any mechanism to ascertain the willingness of the lenders to offer a loan, however, a consistent approach to be followed which should be disclosed on its website.
- The details hosted digitally should include the name of the bank or the NBFC extending the loan, the amount and tenor of loan, the annual percentage rate and other key terms and conditions in a way that enables the borrower to make a fair comparison between various offers.
- The content displayed by the LSPs should be unbiased and not be designed in a way that misleads borrowers into choosing a particular loan product.

The comment period on the draft guidelines ended on 31 May 2024.

(Source: RBI notification no. RBI/2024-25/DOR.STR.REC./21.07.001/2024-25 issued on 26 April 2024)

New guidelines related to fair lending practices

During recent reviews of Regulated Entities[7] (REs), RBI identified cases of unfair lending practices. In this regard, on 29 April 2024, RBI issued a directive which requires REs to review and update their internal systems and practices around loan disbursal, application of interest and other charges in order to have a fair and transparent dealings with customers.

The key observations and respective directions are listed below:

Observations	Regulatory directions
REs were charging interest from the date of sanction of loan or date of execution of loan agreement.	Interest should be charged only from the date of disbursement.
Customers were charged interest for the entire month, in cases where cheques were handed over to a customer during the course of the month.	Interest should be charged from the date when the cheque is handed over to the borrower.
It was noted that one or more instalments were collected in advance, but interest was charged on full loan amount.	Interest should be charged on the balance loan amount after deducting the advance received.

The RBI advised banks to refund such excess interest and other charges to customers. REs are also being encouraged to use online account transfers in lieu of cheques being issued in a few cases for loan disbursal.

(Source: RBI notification no. RBI/2024-25/30 dated 29 April 2024)

7. Regulated entities include the following:
   - All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks
   - All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks
   - All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

Flexibility related to operational standards of AIF schemes

On 25 April 2024, SEBI notified the SEBI (Alternative Investment Funds) (Second Amendment) Regulations, 2024 to amend the SEBI (Alternative Investment Funds) Regulations, 2012. The amendments aims to enhance the regulatory framework and revise the operational standards for AIFs.

Some of the key features of the amendments are as follows:

- **New definitions added:** The terms ‘Dissolution Period’ and ‘Encumbrance’ have been defined in Regulation 2(1) of the AIF Regulations.
- **Encumbrance on equity:** Category I and II AIFs are now permitted to create encumbrances on the equity of investee companies only for the purpose of borrowing by such investee company under specified conditions, providing them with greater leverage options. SEBI has issued a detailed circular[8] in this regard dated 26 April 2024.
- **Unliquidated investments:** AIFs are provided with more flexibility in dealing with unliquidated investments during the liquidation period, including the distribution of these investments to investors or entering into a dissolution period with significant investor approval. SEBI has issued detailed requirements through a circular[9] dated 26 April 2024.

(Source: SEBI notification no. SEBI/HO/AFD/SEC-1/P/CIR/2024/22 dated 18 April 2024)

8. SEBI circular no. SEBI/HO/AFD/PoD1/CIR/2024/027 dated 26 April 2024.
9. SEBI circular no. SEBI/HO/AFD/PoD1/CIR/2024/026 dated 26 April 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 – Annual updates publication

KPMG in India's Voices on Reporting – Annual updates publication (for the year ended 31 March 2024) provides a summary of key financial reporting, Environment, Social and Governance (ESG) and regulatory updates from the Securities and Exchange Board of India (SEBI), the Ministry of Corporate Affairs (MCA), the Reserve Bank of India (RBI), the Institute of Chartered Accountants of India (ICAI), the National Financial Reporting Authority (NFRA) and the Insurance Regulatory and Development Authority of India (IRDAI).

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