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Editorial

The question of when to recognise or derecognise a trade receivable or payable seems relatively simple on the surface. However, it has generated a significant amount of debate because there is diversity in practice for both the receivable and payable sides of the transaction. Considering this, the International Accounting Standards Board (IASB) amended financial instrument standards in the area of measurement setting out the guidance for measurement principles for derecognition of financial instruments. The amendments aim to clarify when a financial asset or a financial liability is recognised and derecognised and to provide an exception for certain financial liabilities settled using an electronic payment system. The amendments are effective for annual periods beginning on or after 1 January 2026, with early application permitted. This edition of Accounting and Auditing Update (AAU) discusses the guidance provided by IASB regarding recognition and derecognition for both financial asset (receivable) and financial liability (payable).

A public offer is a process that enables companies to raise funds for multiple purposes. An offer document (in whatever name it is referred) plays an eminent role in the public offer process. The offer document introduces a company, its operations, financial health, risks, opportunities and its offer of securities to a potential investor. Information in the offer document would influence potential investor's investment decision process.. Considering the importance of offer document, the Securities and Exchange Board of India (SEBI) closely reviews offer documents. The SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2018, (ICDR Regulations) prescribe the content of the offer document and require merchant bankers (lead managers) to ensure adequacy of the information. With a view to enhance the appositeness of the offer documents to the investors, SEBI has issued various circulars or directions to companies and to lead managers prescribing certain matters. The publication carries an article on this topic, which summarises some of the recent key circulars issued by SEBI with regard to the offer documents.

There have been some regulatory developments during the month. Recently, SEBI has issued the Consultation Paper (CP) proposing amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) and ICDR Regulations. Further, the Ministry of Company Affairs (MCA) amended the Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019 (Specified companies order) to require every specified company to file details of all outstanding dues to Micro or small enterprises suppliers in MSME Form 1. 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.

Sai Venkateshwaran
Partner - Assurance
KPMG in India

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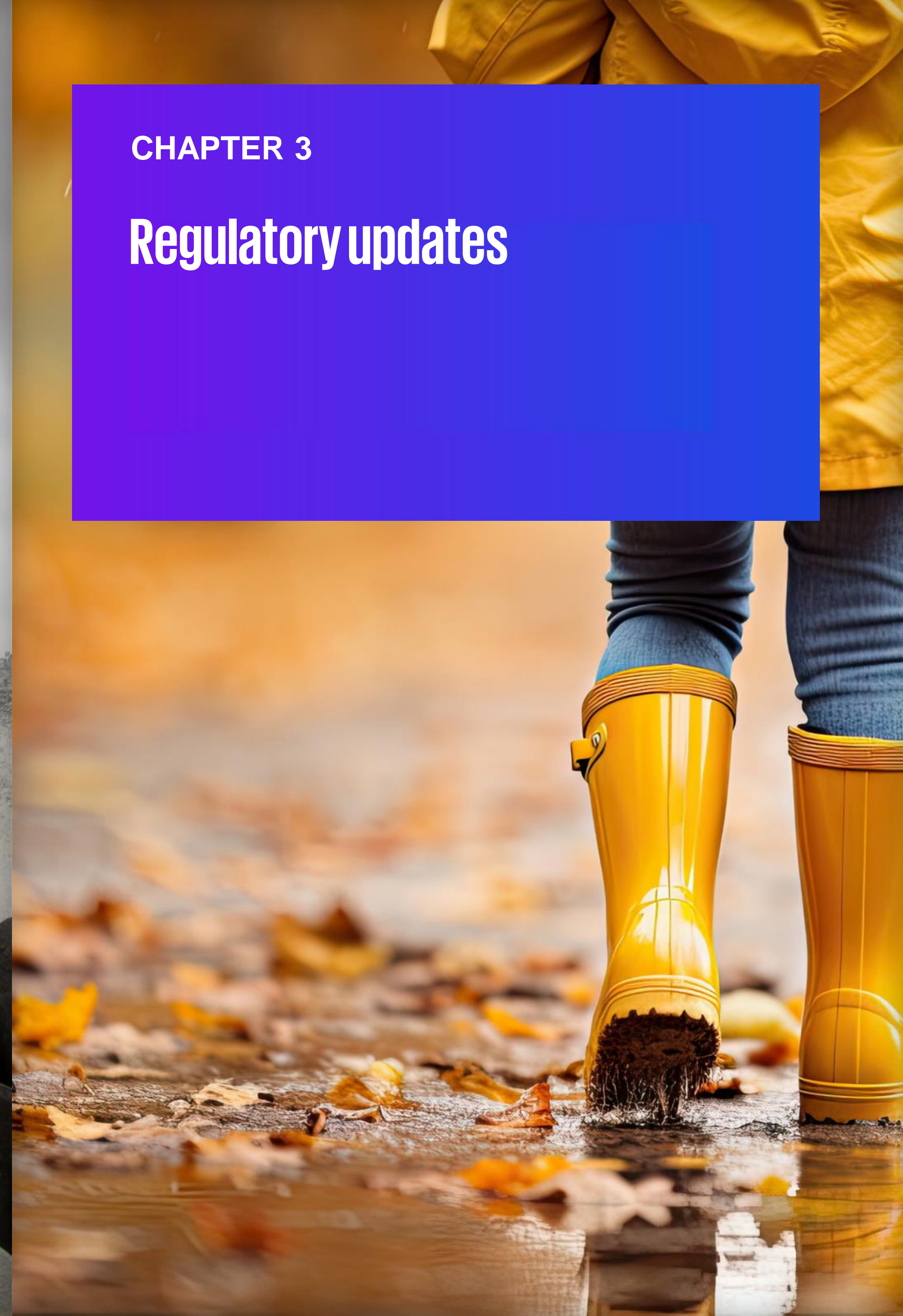
CHAPTER 1

Settlement by electronic payments

CHAPTER 2

Evolution of the offer document



CHAPTER 3

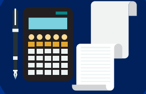
Regulatory updates

CHAPTER 1

Settlement by electronic payments

This article aims to:

Explain the new guidance with regard to recognition and derecognition for both financial asset (receivable) and financial liability (payable).



Introduction

The International Accounting Standards Board (IASB) amended financial instrument standards for derecognition of financial instruments.

These amendments are to be applied retrospectively without impacting comparative financial information.

Background

IFRS Interpretation Committee issued a tentative agenda decision on 'Cash Received via Electronic Transfer as Settlement for a Financial Asset' in September 2021. The committee concluded the following:

- An entity to derecognise a financial asset when, and only when, 'the contractual rights to the cash flows from the financial asset expire'.
- Determining the date on which the entity's contractual rights to those cash flows expire is a legal matter,
- The entity to recognise cash as a financial asset on the transfer settlement date, and not before
- If an entity's contractual rights to the cash flows from the trade receivable expire before the transfer settlement date, the entity would recognise any financial asset received as settlement for the trade receivable (for example, a right to receive cash from the customer's bank)[1].

The question of when to recognise or derecognise a trade receivable or payable seems relatively simple on the surface. However, it has generated a significant amount of debate because there is diversity in practice for both the receivable and payable sides of the transaction[2].

In September 2022, the IASB decided to explore narrow-scope standard-setting as part of its post-implementation review of IFRS 9, Financial Instruments.

1. IFRIC Update September 2021, Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments)—Agenda Paper 6
2. KPMG IFRG Limited' publication, Settlement by electronic payments, May 2024

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IFRS 9 updates on recognition and derecognition criteria

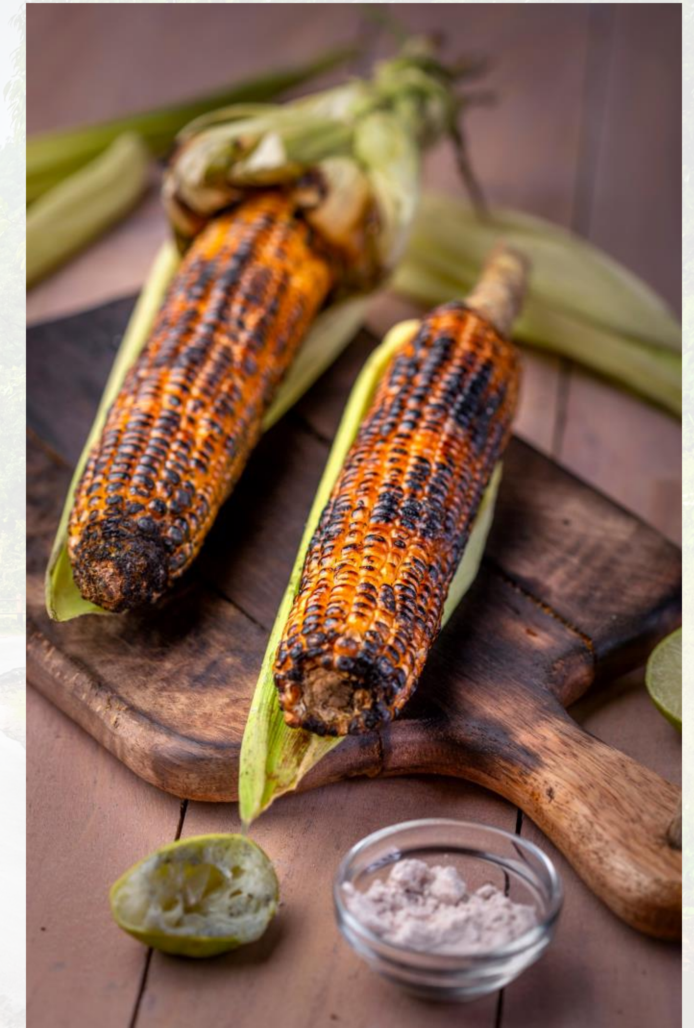
Through IFRS 9 updates, the IASB has re-emphasised the principle of derecognition of financial assets to be ‘the date on which the contractual rights to the cash flows expire or the asset is transferred’[3] and clarified the principle of derecognition of financial liabilities to be on the settlement date[4].

The IASB has now brought in exception to derecognition of financial liabilities settled by electronic payments through its application guidance i.e. entities may be permitted to derecognise financial liabilities settled by an electronic payment system earlier than their settlement date, subject to certain criteria being met.

Following example[5] explains the point of time at which an entity can derecognise financial liability being settled through electronic payment system:

New derecognition exception criteria

1. No practical ability to cancel the payment
2. No practical ability to access the ₹ 2,000
3. Settlement risk associated with this payment system is insignificant



3. Technical reference from existing IFRS 9 - paragraph 3.2.3 of IFRS 9
4. Technical reference from existing IFRS 9 - paragraph 3.3.1 of IFRS 9
5. KPMG IFRG Limited’ publication, Settlement by electronic payments, May 2024

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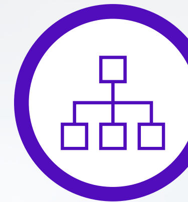
Practical issues

Companies can choose to apply the exception for electronic payments on a system-by-system basis. In the Indian context, the Reserve Bank of India (RBI) has equipped various payment systems such as NEFT, RTGS, IMPS, cards network, etc. Given the widespread use of electronic payment systems, determining whether the exception criteria would be met for each one may require significant time and effort.

Companies will have to assess the impacts on their financial statements:

- Companies that recognise or derecognise financial assets or financial liabilities on the payment initiation date could see a change to their accounting following the clarification in amendments to IFRS 9;
- Companies applying the new requirements for financial liabilities settled through electronic payments would impact financial reporting processes, such as bank reconciliations; and
- The amendment will result in incremental work to review the terms and conditions of electronic payment systems to assess whether the specific criteria for the exception will be met.



Applicability and next steps

The amendments apply for reporting periods beginning on or after 1 January 2026. Companies can choose to early-adopt the amendments for the recognition and derecognition of financial assets and financial liabilities, separately from the amendments on classification and disclosures.

These amendments are to be applied retrospectively but it should not impact comparative financial information and impact of cumulative effect to be given on the opening balance of financial assets and financial liabilities and the opening balance of retained earnings, if any.

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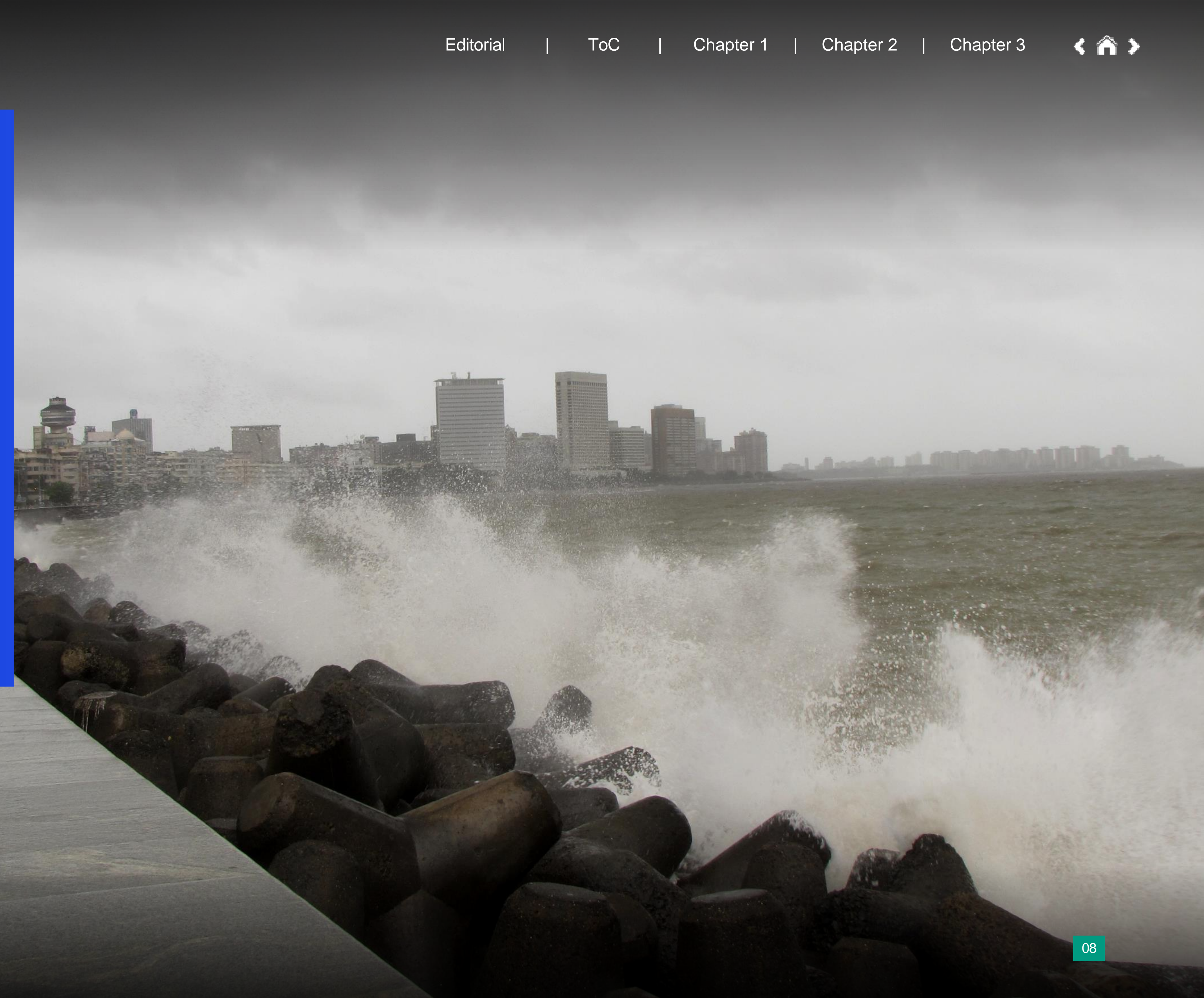

CHAPTER 2

Evolution of the offer document

This article aims to:

Provide a synopsis of the recent updates to the offer document and the offer document review process

Background

A public offer is a process that enables companies to raise funds for multiple purposes. An offer document (in whatever name it is referred) plays an eminent role in the public offer process. It introduces a company, its operations, financial health, risks, opportunities and its offer of securities to a potential investor. Information in the offer document would influence potential investor's investment decision process.

The Securities and Exchange Board of India (SEBI) closely reviews offer documents. SEBI, vide the SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2018, as amended (ICDR Regulations) prescribe the content of the offer document[1] and require merchant bankers (lead managers) to ensure adequacy of the information.

With a view to enhance the appositeness of the offer documents to the investors, SEBI has from time to time issued circulars or directions to companies and to lead managers prescribing certain matters. In this article we have summarised some of the recent key circulars issued by SEBI with regard to the offer documents.

Recent circulars and directions of SEBI pertaining to offer documents

Some of the recent key circulars and directions issued by SEBI with regard to offer documents include the following and are discussed below:

- Confidential filing of offer documents
- Return and resubmission procedure
- Disclosure requirement by lead managers
- Audio visual presentation

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

1. Content of the draft and final offer documents and letters of offer are prescribed in Schedule VI of the ICDR Regulations.

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Confidential filing of offer documents

Prior to the introduction of confidential filing of offer documents, issuers exploring the possibility of an Initial Public Offer (IPO) had to disclose sensitive information about their business in the Draft Red Herring Prospectus (DRHP), which was made available to public at a time when there was uncertainty on the execution of an IPO. Public disclosure of sensitive information could be misused by peer competitors.

To overcome this and other challenges faced by issuers of securities, on 21 November 2022, SEBI introduced an optional alternative mechanism of 'pre-filing' of offer documents[2] with SEBI in case of an IPO on the main board.

Under the pre-filing mechanism a pre-filing draft offer document (PDRHP) which includes all disclosures required by a DRHP should be filed with SEBI (along with filing fees) without making it public for an initial scrutiny period. At the time of pre-filing a public announcement of such filing needs to be made. Also, during the pre-filing period[3] the issuer of the lead manager to the issue may interact with the qualified institutional buyer for limited marketing of the intended issue[4].

SEBI reviews the PDRHP and issues its observations on the same within a stipulated period[5], the validity of these observations is 18 months. This means that the observations of SEBI need to be inculcated in the draft offer document, and an Updated DRHP (UDRHP-I) would need to be filed. A UDRHP-I can be filed with SEBI (and made public) at any time suitable to the issuer, during the validity period of SEBI's observations[6]. Apart from this confidentiality factor, the rest of the filing process is substantially similar to the regular filing procedure.

2. This mechanism was introduced by inserting Chapter IIA - *Initial public offer on main board through pre-filing of draft offer document* in the ICDR Regulations.
3. Period from the time of pre-filing of draft offer document till SEBI issues any observations on such pre-filed draft offer document.
4. This process is often referred to as Testing The Waters in the capital markets parlance.
5. Within 30 days from the receipt of satisfactory reply to the clarification sought from Lead Manager/ in-principle approval from stock exchange(s)/ intimation of closure of interaction with qualified institutional buyers whichever is later.
6. It is to be noted that the observations of SEBI are valid for 18 months, provided the UDRHP-I is filed within 16 months.

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Return and resubmission procedure

In February 2024, SEBI issued a circular, specifying the criteria for returning of Draft Offer Documents (DODs) and its resubmission[7]. The circular provides broad guidelines basis which a DOD would be scruitinised by SEBI, non-compliances of which would lead to a return of the same. Such guidelines would boost the ease of doing business as they reduce processing time and cost and enable investors to have clear and consistent disclosures for review. This circular was effective from 6 February 2024.

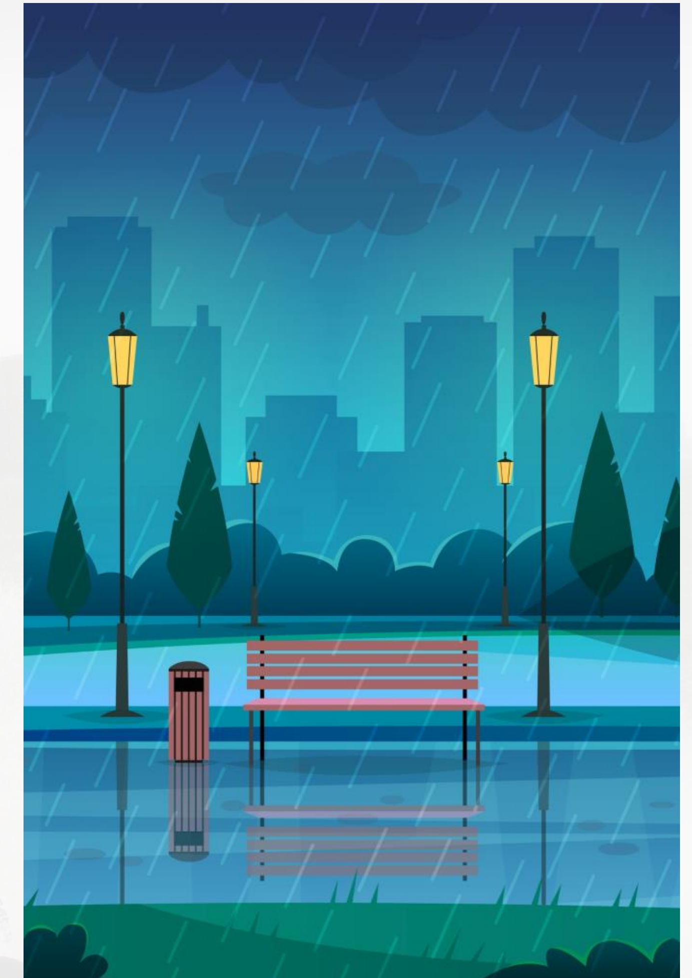
Some of the key guidelines mentioned in the circular include:

- An offer document should be drafted in simple, clear and concise language
- There should be visual representation of data, that would facilitate ease of understanding of the contents
- Risk factors should be clearly articulated so that they are not undermined
- Where any regulatory authority/enforcement agency has expressed material concern with regard to the issue/DOD, the same should be remediated prior to resubmission of the DOD
- Any pending litigation matters that impact the eligibility criteria of an issue, as provided under ICDR regulations would trigger the return of the DOD
- DODs that require substantial revisions or corrective measures would be returned.

Resubmission of DOD

On resubmission of a DOD, an issuer should consider the following:

- A **public announcement and disclosure** of such resubmission should be made within two days of such resubmission in the mode and manner prescribed by the ICDR regulations.
- The **sectoral regulator** should be intimated regarding such return and resubmission.
- While **no additional fees** would be imposed on resubmission of the DOD, **fees pertaining to essential updates** or revisions on the document will remain applicable.



7. Circular – *'Guidelines for returning of draft offer document and its resubmission'* dated 6 February 2024

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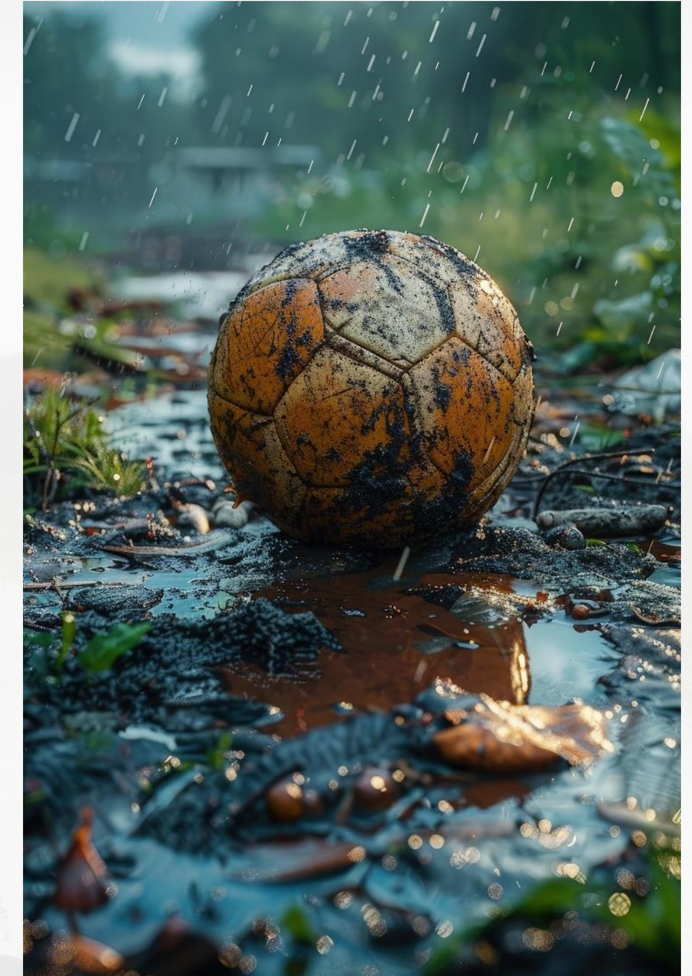
Disclosure requirement by lead managers



As per the current process, SEBI reviews the DOD and seeks clarification on matters from the lead manager. Basis these clarifications, SEBI issues an observation letter on such documents. This process could be time consuming, given the ongoing communication between SEBI and the lead managers.

With a view to enhance disclosures and for faster processing of documents, certain confirmations and disclosures are sought from lead managers in the DODs[8]. In the absence of the disclosures, the DODs could be returned to the lead managers in accordance with the February 2024 circular on return and resubmission of draft offer documents (as discussed in the section 'Return and resubmission procedure' above).

Some of the key confirmations and disclosure requirements of the lead managers include ensuring DOD is written in lucid and economical language, compliances with the Companies Act, 2013 with respect to issuance of securities and Employee Stock Option Plans (ESOPs), ensure disclosure of all material clauses of agreements and observations of regulators in DOD, delays in payment of statutory dues, material clauses of the Articles of Association (AoA) are included in the DOD and any special rights of any person or entity under the AoA are cancelled prior to filing the UDRHP.

Lead managers should ensure any conflict of interest between the supplier, third party service provider or lessor of immovable property and the company[9] should be disclosed and where the top 10 suppliers/customers account for more than 50 per cent of revenue or supplies, their names should be disclosed. With regard to Pre-IPO placement, certain disclosures are required in the DOD and confirmations are required with regard to utilisation of proceeds. Specific disclosures are prescribed in the risk factor section, including bifurcating the risk factors into internal and external factors.

The objects of the issue should not be vague or ambiguous, and should be substantiated with quantitative data. Specific disclosures have been defined whether the objects of the issue include investments in subsidiaries/associates/joint ventures or entering into a scheme of arrangement or repayment of loans or capacity expansion.

8. This was communicated to lead managers vide a communique issued in June 2024.
9. In this case, company includes the company, promoter, promoter group, key managerial personnel, directors and subsidiaries/group company and its directors.

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Audio visual presentation

To capacitate investors for easy understanding the features of public issues, SEBI issued a circular dated 24 May 2024 requiring issuers to make salient features of a DRHP, RHP and price band advertisement available in Audio Visual (AV) format. This requirement would be applicable to all DRHPs filed on or after 1 July 2024 on a voluntary basis, and from 1 October 2024 onwards on a mandatory basis.

The key requirements of the circular are:

- **Language of issue:** The AV would be in a bilingual format, i.e. English and Hindi (Devanagri script).
- **Duration of the AV:** The duration of the AV would be approximately 10 minutes and be equitably distributed to cover material disclosures made under various sections of the DRHP and RHP. This includes information about the company, risk factors, capital structure, objects of the offer, business of the issuer, promoters, management, summary of financial information, litigations, material developments and terms of the offer, etc.
- **Content of AV:** The content of the AV should be factual, non-repetitive, non-promotional, and not be misleading. It should comply with the requirements of Schedule IX of the ICDR Regulations[10] and include certain caveats.

The issuer and lead managers would be responsible for the content of the AV.

- **Timeline and place for upload:** The AV would be made available within five working days of filing the DRHP/RHP and in case of pre-filing of DRHP, then within five working days of filing UDRHP-I. The AV would be uploaded on the following websites:
  - Website of the issuer and their digital/social media platforms
  - Website of the Association of Investment Bankers of India (AIBI) and their digital/social media platforms
  - The AV should also be made accessible through a QR code

The web link of the AV would be made available on the websites of the stock exchanges and lead managers.

Conclusion

SEBI as a principal regulator of the securities market in India is working towards fostering investor confidence, promoting orderly growth and development. In its role, it is also pursuing to augment ease of doing business for issuers and to protect and further the interests of investors and to educate them. With the listing process being most commonly tapped by issuers for fundraising, the DOD would be closely scrutinised by regulators.

10. Schedule IX of ICDR Regulations- Public communications and publicity materials

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CHAPTER 3

Regulatory updates

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

On 26 June 2024, the Securities and Exchange Board of India (SEBI) issued a Consultation Paper (CP) proposing amendments to certain SEBI Regulations. The proposals aim to facilitate ease of doing business and harmonise the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations). The CP is divided in the following three parts:

Part A: Proposals under the Listing Regulations

Part B: Proposals under the ICDR Regulations

Part C: Proposals under the Listing and ICDR Regulations.

Some of the key proposals are as follows:

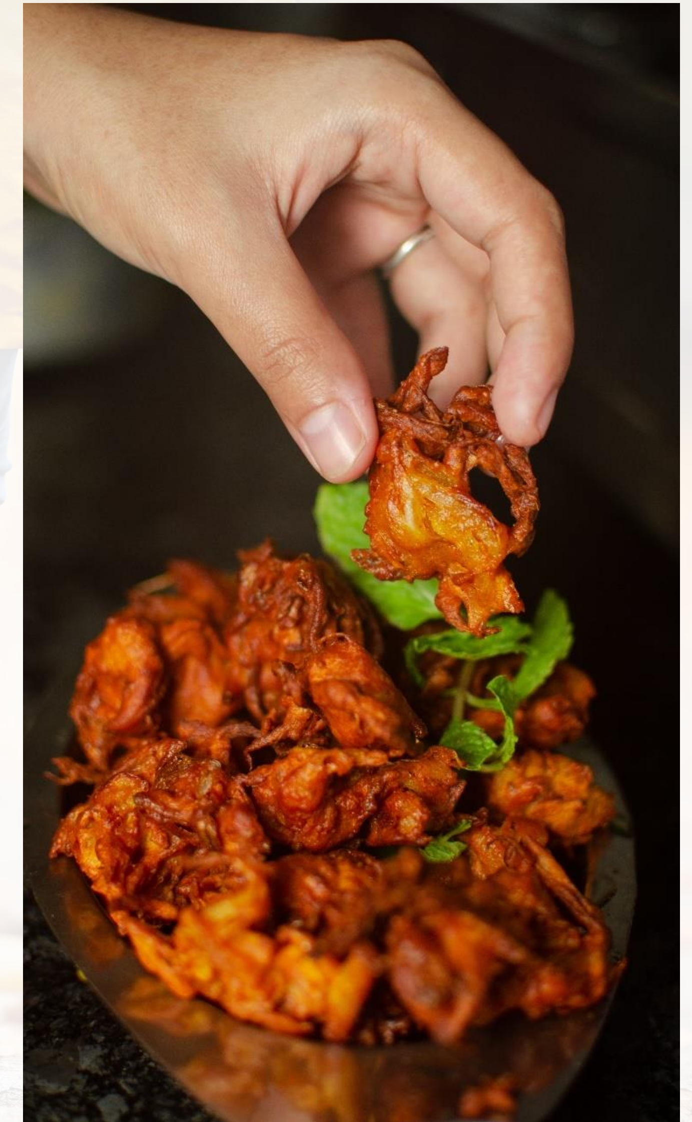
Part A: Proposals under the Listing Regulations

I. Related Party Transactions (RPTs)

Exemptions to the definition of RPT (Regulation 2(1)(zc)): Following items have been proposed to be exempt from the definition of RPTs:

- Corporate actions by the subsidiaries of a listed entity and corporate actions received by the listed entity or its subsidiaries which are uniformly applicable or offered to all shareholders in proportion to their shareholding.
- Acceptance of current account deposits or saving account deposits by banks in compliance with the directions issued by the Reserve Bank of India (RBI).
- Retail purchases from a listed entity or its subsidiary by its directors or its employees, without establishing a business relationship and at the terms which are uniformly applicable or offered to all directors and employees.

Approval of RPTs by the audit committee of the listed entity (Regulation 23(2)): As per the existing regulation, prior approval of the audit committee of the listed entity is required for all RPTs to which the listed entity is a party. It has been proposed to exclude from the purview of RPTs the remuneration to Directors and Key Managerial Personnel (KMP), except those KMPs who are a part of the promoter/promoter group, and to permit ratification of transactions which exceed the omnibus approval limit, within a specified timeline.



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II. Filings and disclosures

Single filing system (Regulation 10): Proposed to introduce a system that automatically disseminates the filing done on one stock exchange to the other stock exchanges using an Application Programming Interface (API)-based integration.

Periodic filings (Regulation 10B): To minimise the number of periodic filings by a listed entity, it is recommended to merge the periodic filings under the Listing Regulations into the following two broad categories:

- **Integrated filing (Governance)** comprising of corporate governance report and the statement on redressal on investor grievance.
- **Integrated filing (Financial)** comprising of financial results, statement of deviation in use of proceeds, related party transactions, etc.

Below are the proposed timelines for filing by listed entities:

- **Integrated filing (Governance):** Within 30 days from the end of the quarter
- **Integrated Filing (Financial):** Within 45 days (60 days for the last quarter) from the end of the quarter.

System driven disclosures of certain filings (Regulation 31 and Para A of Part A of Schedule III of the Listing Regulations): It is proposed to introduce automated process of disclosure of shareholding pattern and new or revised credit ratings. Automation for the above-mentioned disclosures would ease the compliance procedures and reduce the burden of disclosures for listed entities.

Website links (Regulation 46(2)): The information/data provided by listed entities is hosted on the website of stock exchanges. It has been proposed to provide curated links to the information/data on their own websites instead of duplicating the whole data again.

Newspaper advertisements (Regulation 47): The requirement of publishing detailed advertisements in newspapers for financial results is proposed to be made optional for listed entities. Further, it has been proposed to provide a small section with details of QR code and weblink of the page providing detailed financial results of the listed entity for the benefit of investors.

III. Disclosure of material events

Additional timeline for disclosure of events in some cases:

- For the disclosure of outcome of the board meeting that concludes after close of trading hours, an increased timeline of three hours instead of 30 minutes has been proposed under Regulation 30(6) and Para A of Part A of Schedule III of the Listing Regulations.
- In case of litigations or disputes wherein claims are made against the listed entity, an increased timeline for disclosure to 72 hours has been proposed from the existing 24 hours under Para B of of Part A of Schedule III of the Listing Regulations.

Acquisitions by listed entities (Para A of Part A of Schedule III of the Listing Regulations): It is proposed that a listed entity should disclose details of acquisition made by the listed entity, whether directly or indirectly, where such a listed company holds shares or voting rights in a company, whether listed or unlisted, aggregating to 20 per cent *(currently five per cent)* or there has been any subsequent change in holding in the company exceeding five per cent *(currently two per cent)*. However, acquisition of shares or voting rights in an unlisted company, aggregating to five per cent or any subsequent change in holding exceeding two per cent, to be disclosed in the specified format on a quarterly basis as part of the Integrated Filing (Governance) as described in point II above.

Disclosure of tax litigations and disputes (Para B of Part A of Schedule III of the Listing Regulations): It is proposed that a listed entity should disclose tax litigations/disputes including tax penalties based on application of criteria for materiality. It has been proposed that a listed entity should provide:

- Disclosure of new tax litigations or disputes within 24 hours
- Quarterly updates, as part of the Integrated Filing (Governance), on existing tax litigations or dispute
- Tax litigations or disputes, the outcomes of which are likely to have a high correlation, should be cumulated for determining materiality.

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IV. Board of directors and its committees

Vacancies in board committees (Regulation 17(1E)): The existing regulations provide no specific timeline to fill up vacancies in Board Committees arising because of vacancy in the office of a director. In order to provide adequate time to listed entities, a timeline of three months has been proposed to fill up vacancies in Board Committees.

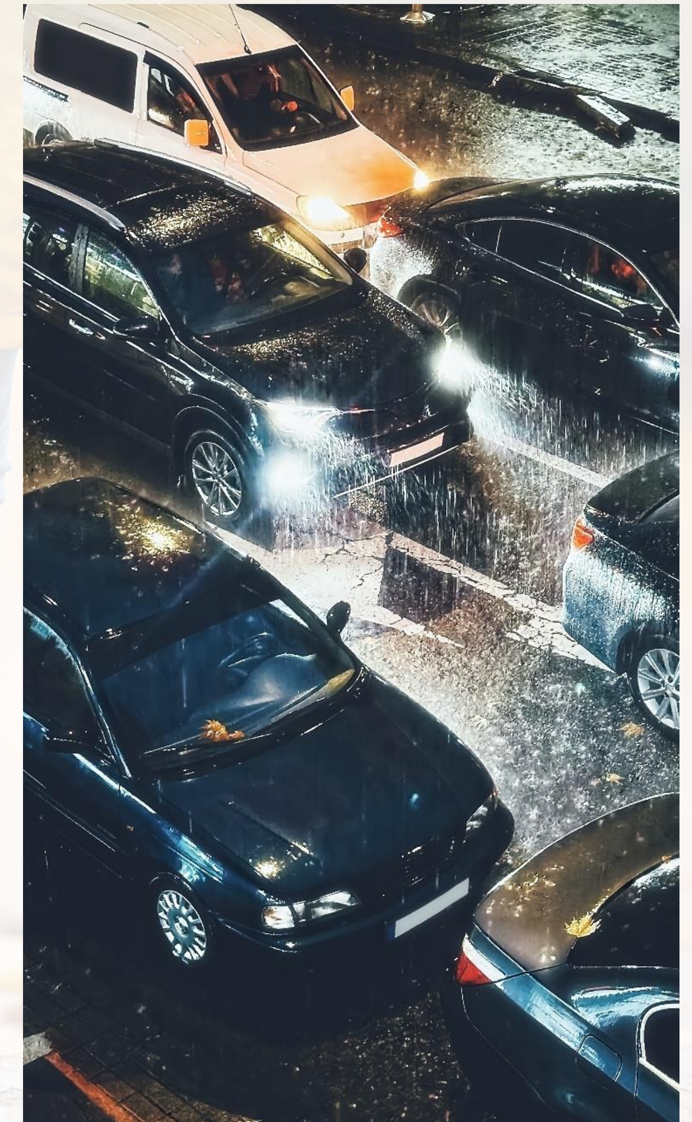
Timeline for obtaining shareholders' approval for appointment/ re-appointment of director (Regulation 17(1C)): Regulation 17(1C) of the Listing Regulations requires approval of shareholders for any person appointed on the board of a listed entity within a period of three months or the next general meeting, whichever is earlier. It has been proposed to exclude the time taken for regulatory or statutory or government approvals for appointment or reappointment of a person as a director for determining the time limit under regulation 17(1C) of the Listing Regulations.

V. Promoters and controlling shareholders

Framework for reclassification of promoter/promoter group entities (Regulation 31A): Regulation 31A of the Listing Regulations lays down the procedure to be followed for reclassification of an entity belonging to a promoter or a promoter group as a public shareholder. The consultation paper has proposed changes to the framework for reclassification of promoter or promoter group entities as public under the Listing Regulations. Some of the proposed procedural changes are as follows:

- The board of directors to consider the request for reclassification in the immediate next board meeting or within two months, whichever is earlier.
- Listed entity to make an application to the recognised stock exchanges for their no-objection within five days of obtaining the board's views on the reclassification request.
- The recognised stock exchanges would be required to provide No-Objection Certificate (NOC) within 30 days from the submission of the request. If there are changes in the facts and circumstances after receipt of NOC, the listed entity needs to seek stock exchange approval before effecting reclassification.
- After receipt of NOC from stock exchanges, the listed entity would seek shareholders' approval for reclassification within 60 days.
- Upon receipt of shareholders' approval, the listed entity is required to notify the stock exchanges within five days and effect reclassification of the entity.

Obligation for disclosure of information to the listed (Regulation 5): Under the existing regulation, there is no specific obligation on promoter(s), directors, KMP to make specified disclosures to the listed entity. The report proposes to cast obligation on the promoter, directors and KMPs to disclose all information that is relevant and necessary for the listed entity to ensure compliance with applicable laws.



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VI. Other compliance requirements

Subsidiary related compliance requirements (Regulation 24(6)): The requirement of shareholders' approval under Regulation 24(6) for sale, disposal or lease of assets of a material subsidiary has been proposed to be removed in case such sale, disposal or lease of assets occurs between two wholly owned subsidiaries of the listed entity.

Corporate governance at listed entities (Part E of Schedule II of the Listing Regulations): SEBI has proposed to extend the applicability of the following provisions to the top 2,000 listed entities:

- Appointment of one-woman independent director on the board
- Constitution of a risk management committee
- Mandating more annual meetings of independent directors.

Currently, the above-mentioned provisions are applicable to the top 1,000 listed entities.

Virtual and hybrid shareholders' meetings (Regulation 44(4)): It is proposed to allow virtual and hybrid general meetings, with the notice period for such meetings reduced from 21 days to seven days. Further, it has been proposed to remove the requirement of proxy forms for general meetings.

Annual reports (Regulation 36(2)): The requirement of sending physical copies of annual reports to shareholders whose email IDs are not available has been proposed to be removed. Such shareholders should be sent a letter with a link from which the annual report can be downloaded. Annual reports need to be submitted to the stock exchange on or before commencement of its dispatch to the shareholders.

Part B: Proposals under the ICDR Regulations

I. Eligibility conditions of an Initial Public Offer (IPO) (Regulation 5): The consultation paper provides flexibility under eligibility conditions for an IPO by allowing issuers with outstanding Stock Appreciation Rights (SARs) to file Draft Offer Document (DRHP) where such SARs are granted to employees only and are fully exercised for equity shares prior to the filing of the Red Herring Prospectus (RHP).

II. Public announcement after filing of draft offer document (Regulation 26): It has been proposed to change the requirement of issuing advertisement post filing of DRHP from two days to 'two working days'. Further the 21 days comment period should be calculated from the date of advertisement and not the date of filing.

III. Pre-IPO transactions (Regulation 54): It has been recommended to disclose details of pre-IPO transactions after filing of DRHP to the stock exchanges.

Part C: Proposals under the Listing and ICDR Regulations

I. Definition of material subsidiary thresholds: The financial line items for identification of a material subsidiary under the ICDR and the Listing Regulations are different. It is proposed that the terminology for identification of a material subsidiary under both the regulations should be aligned and both regulations should refer to consolidated 'turnover' instead of 'income'.

II. Disclosure of material agreements in offer documents: The requirement of disclosure of material agreements in offer documents that are entered into by shareholders, promoters, directors, etc. should be aligned under both the regulations in order to ensure parity in disclosures of material agreements.

(Source: SEBI issued consultation papers on the recommendation of the expert committee for facilitating ease of doing business with respect to provisions of Listing and ICDR regulations dated 26 June 2024)

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Trading plan by the insiders of a listed entity

The SEBI (Prohibition of Insider Trading) Regulations (PIT Regulations) provides the regulatory framework related to insider trading. Regulation 2(1)(g) of PIT Regulations states that, an 'insider' means any person who is a connected person or in possession of or has access to Unpublished Price-Sensitive Information (UPSI).

Further, Regulation 5 of the PIT regulations, *inter alia*, permits an insider to be entitled to formulate a trading plan and present it to the compliance officer for approval and public disclosure. Trades can be executed on behalf of the insider in accordance with such trading plan.

On 25 June 2024, SEBI issued amendments to Regulation 5 of the PIT Regulations. Some of the key amendments are as follows:

I. **Shorter cooling-off period:** Under Regulation 5(2), a cool-off period of 120 days is specified for an insider to get the benefit of the trading plan[1]. Before the amendment, the Regulation specified the cool off period of six months. The SEBI considered the specified time long for UPSI that an insider is in possession of when formulating the trading plan, to become generally available. Therefore, the amendment has reduced the time period for commencing trading post presentation of a trading plan by a senior executive having UPSI for approval to the compliance officer from six months to 120 days.

II. **Removal of mandatory black out period:** The amendments have omitted clause (ii) of Regulation 5(2) of the PIT regulations, which specified the period during which insiders could trade[2].

III. **Omission of minimum period of trading plan:** The PIT regulations currently require a trading plan to cover the trading for a minimum period of 12 months. However, this requirement has been removed.

IV. **Trading within limited duration:** The amendments require an insider to set certain parameters such as, *inter alia*, a specific date or duration not exceeding five consecutive trading days during which their trades should be executed. This is because the outer limit on the duration of the time period would allow the insiders to split their trades across different dates, however the duration should not be so long that it is prone to misuse.

V. **Deviations from trading plan:** Regulation 5(4) of PIT regulations currently state that once a trading plan is approved, insiders should implement it without any deviation. The amendment has added exceptions to this regulation allowing insiders to strictly follow their trading plans, except in cases of permanent incapacity, bankruptcy or operation of law.

VI. **Price limits for trade:** The amendment provides an insider with an option to set an upper price limit for a buy trade and a lower price limit for a sell trade. The range for a buy trade can be up to 20 per cent higher than the closing price and for a sell trade can be up to 20 per cent lower than the closing price. This is to protect the insider from unexpected price movements.

VII. **Time period for approval of trading plan:** Currently, Regulation 5 of the PIT regulations does not prescribe a minimum time period within which the trading plan needs to be approved by the compliance officer. The amendment now requires the compliance officer to approve the trading plan within two trading days of receipt of the trading plan and notify the plan to the stock exchanges on the date of approval.

VIII. **Removal of contra trade restriction:** The amendment has removed the contra trade[3] restrictions to trades pursuant to a trading plan submitted by an insider.

The regulations would become applicable on the ninetieth day from the date of publication in the Official Gazette i.e. 25 June 2024.

(Source: SEBI circular no. No. SEBI/LAD-NRO/GN/2024/184 dated 25 June 2024)

1. This means that trading cannot commence earlier than 120 days from the public disclosure of the plan.
2. Regulation 5(2)(ii) prohibited trading by the insider between the twentieth trading day prior to the last day of any financial period for which results are required to be announced by the issuer of the securities and the second trading day after the disclosure of such financial results.
3. Contra trade means a buy cannot be executed if a sell trade has been executed in the last six months.

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Sustainable practices mandated in the process of battery production

On 20 June 2024, the Ministry of Environment, Forest and Climate Change issued the Battery Waste Management (Second Amendment) Rules, 2024 (the amendment) thereby amending the Battery Waste Management Rules, 2022.

Producers of batteries are obligated under the existing regulations to use domestically recycled material in the production process. In order to achieve eco-friendly practices across the industry, the amendment lays down the below specified glide path for targets to be achieved for the minimum use of recycled materials in the process of battery production, across the following categories of batteries:

Serial number	Type of battery	Minimum use of the recycled materials out of total dry weight of a Battery (in percentage) in respect of financial year			
		Year 2027-28	Year 2028-29	Year 2029-30	Year 2030-31 and onwards
1	Portable	5	10	15	20
2	Electric vehicle	5	10	15	20
3	Automotive	35	35	40	40
4	Industrial	35	35	40	40

(Source: MOEFCC notification no. S.O. 2374 (E) dated 20 June 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 5 July 2024, the Institute of Chartered Accountants of India (ICAI) issued volume 2 of guidance on non-compliances observed by QRB during such quality reviews. Additionally, it contains guidance by the Auditing and Assurance Standards Board of ICAI for the members on these common non-compliances that cover Standards on Quality Control, Standards on Auditing, audit reports, Companies (Auditor's Report) Order, 2020 (CARO) and internal financial controls.

This publication has been issued in the following 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 2 July 2024)

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Restriction on investments of mutual fund schemes

On 2 July 2024, the SEBI notified the SEBI (Mutual Funds) (Amendment) Regulations, 2024 (Amendment Regulations) to amend Regulation 9(c) of the Seventh Schedule of the SEBI (Mutual Funds) Regulations, 1996. The amendment pertains to restriction on the investments made by mutual fund schemes.

Regulation 9(c) restricted mutual fund schemes from investing in the listed securities of group companies of the sponsor which is in excess of 25 per cent of the net assets. The amendment regulations have allowed investments by equity oriented exchange traded funds and index funds, subject to such conditions as specified by SEBI, as an exception to the above mentioned restriction.

(Source: SEBI notification no. SEBI/LAD-NRO/GN/2024/188 dated 2 July 2024)

Draft framework for passively managed mutual fund schemes

The SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) and the current regulatory framework for MFs *inter-alia* provide for regulation of MFs and the schemes managed thereunder. A passively managed mutual fund seeks to mirror the performance of an index such as ETFs and index funds where portfolios of index funds can be easily tracked. Even though both active and passive MF schemes are covered under the purview of the extant MF Regulations, the provisions thereunder have been envisaged, primarily keeping in mind the actively managed schemes and the risks and complexities associated therewith. It does not differentiate regarding applicability of provisions relating to entry barriers and other compliance requirements for entities who may be desirous of launching only passive funds.

In this regard, SEBI has proposed a relaxed framework (MF Lite Regulations) for passive MF schemes. The proposed framework consists of the following sections:

- Ease of entry and relaxed provisions for MFs intending to launch only passive schemes under MF Lite registration. **(Section I)**
- Ease of compliance, relaxed disclosures and other regulatory requirements for passive schemes under existing MFs as well as schemes that may be launched under the MF Lite registration. **(Section II)**

The comment period for this proposal ended on 22 July 2024.

(Source: SEBI consultation paper for introduction of Mutual Funds Lite Regulations (MF Lite) for passively managed mutual fund schemes.)

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Return of outstanding payments to MSMEs

On 15 July 2024, the Ministry of Company Affairs (MCA) amended the Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019 (Specified companies order) by issuing the Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Amendment Order, 2024 (Amendment order).

The specified companies order requires every specified company to file details of all outstanding dues to Micro or small enterprises suppliers in MSME Form 1. The amendment order states that only those specified companies which are having payments pending to any micro or small enterprises for more than 45 days from the date of acceptance or the date of deemed acceptance of the goods or services under Section 9 of the Micro, Small and Medium Enterprises Development Act, 2006 should furnish the information in MSME Form-1.

The amendment order has further provided a revised format of MSME Form-1 which contains details to be filed by specified companies relating to delay in payments to MSME. As per the existing requirements, buyers need to disclose information relating to **amount due, date from which the amount is due** along with the **reason for delay**. The revised information requirements as specified in the Amendment Order 2024 are more comprehensive and require disclosure of the **ageing of dues** as well. The amendments are effective from 15 July 2024.

(Source: MCA notification no. S.O. 2751(E) dated 15 July 2024)

ICAI has issued implementation guide on revision in form 3CD

In March 2024, the Central Bureau of Direct Taxes (CBDT) had notified changes to the Form 3CD and 3CEB Income-tax Act, 1961. Some of the key changes introduced in Form 3CD (tax audit) are as follows:

- To report expenditure incurred to compound an offence and expenditure incurred to provide any benefit or perquisite which is in violation of any law or rule or regulation or guideline under Slause 21(a) of Form 3CD.
- To report sums payable to micro or small enterprises which are not paid within the time allowed under Section 15 of MSMED Act, 2006, under clause 26 of Form 3CD.
- Minor changes to include all the applicable sections introduced through the Finance Act 2023, in reporting under respective clauses of Form 3CD.

In this regard, the ICAI has issued an implementation guide on revision in Forms 3CD and 3CEB. These amendments in the guide pertain to various clauses[4] of Form 3CD, as well as Part C (Specified domestic transactions) in the Annexure to Form No. 3CEB. The guidance in the implementation guide relating to Form No.3CD has to be read along with the Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961 (Revised 2023). Similarly, guidance relating to Form No.3CEB has to be read along with the Guidance Note on Report under Section 92E of the Income-tax Act, 1961 (Revised 2022).

(Source: ICAI issued implementation guide on revision in form 3CD and 3CEB issued by ICAI – June 2024 edition)

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FASB published a new chapter under the conceptual framework related to measurement of items in financial statements

On 12 July 2024, the Financial Accounting Standards Board (FASB) issued a new chapter of its conceptual framework related to choosing a measurement system for an asset or a liability recognised in general-purpose financial statements. It describes:

- Two relevant and representationally faithful measurement systems: the entry price system and the exit price system; and
- Considerations when selecting a measurement system.

The chapter provides a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing and potential investors, lenders, donors, and other resource providers of a reporting entity.

(Source: FASB media advisory dated 12 July 2024)

4. Clauses 8A, 12, 18(ca), 19, 21(a), 22, and 32(a) of Form 3CD

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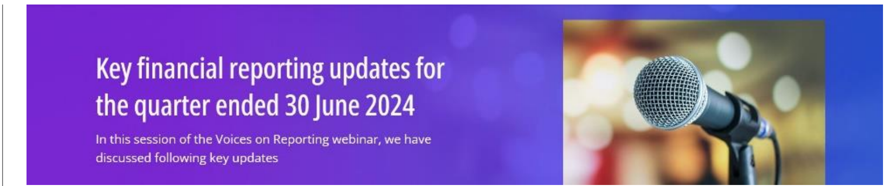
First Notes

RBI releases revised fraud risk management directions for regulated entities

With an aim to strengthen the role of the board of directors in the overall governance and oversight of fraud risk management in Regulated Entities (REs), on 15 July 2024, the Reserve Bank of India (RBI) issued revised Master Directions on Fraud Risk Management in the REs such as banks, co-operative banks and non-banking finance companies (including housing finance companies). The revised MD provide a framework for prevention, early detection and timely reporting of incidents of fraud to Law Enforcement Agencies (LEAs), RBI, National Housing Board (NHB) and National Bank for Agriculture and Rural Development (NABARD), wherever applicable.

This issue of First Notes aims to provide an overview of the revised MD-Banks and revised MD-NBFCs and their key changes as compared with the older master directions which they have superseded.

To access the First Notes, please click here



Voices on Reporting - Webinar

On 8 July 2024, KPMG in India held the Voices on Reporting webinar to discuss the key financial reporting and regulatory matters which are expected to be relevant for the stakeholders for the quarter ended 30 June 2024.

In the session, some of the key updates discussed are as follows:

- Framework for verification of market rumours under the Listing Regulations
- Consultation papers issued by SEBI proposing amendments to Listing and ICDR regulations
- IASB and IFRS updates
- Other regulatory updates

To access the webinar, please click here

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