KPMG

Accounting and Auditing Update

Issue no. 101/2024

December 2024

kpmg.com/in

KPMG. Make the Difference.

Editorial

In recent times, a critical challenge in revenue recognition has emerged when another party is involved in providing goods or services to a customer. The key question is whether entities should recognise the gross amount of revenues and the related cost of sales, or report revenue on a net basis. This determination can have significant implications for financial reporting and decision-making.

Ind AS 115*, Revenue from Contracts with Customers,* lays down the principles for revenue recognition based on the transfer of control of promised goods or services. When another party is involved, the entity must evaluate the nature of its promise to the customer. An assessment is required to determine whether the entity's promise is to provide the specified good or service itself (acting as a principal) or to arrange for it to be provided by another party (acting as an agent). This edition of Accounting and Auditing Update (AAU) highlights the guidance in Ind AS 115 with an illustrative example to determine whether entities are acting as principals or agents for the purpose of recognising revenue on a gross or net basis.

Sustainability reporting has gained importance among investors and other stakeholders in the business and capital markets ecosystem. With an increasing focus on non-financial information, companies are making enhanced sustainability disclosures. Despite the existence of many standards and frameworks on sustainability, such as the Global Reporting Initiative (GRI), International Standards Sustainability Board (ISSB), and Corporate Sustainability Reporting Directive (CSRD), measuring and reporting sustainability topics remains challenging for companies. To ensure accuracy and reliability, there has been a growing emphasis on assurance of sustainability information.

In this regard, the International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, in November 2024. The new standard provides a comprehensive framework for sustainability assurance engagements and applies to sustainability information reported across any topic and prepared under multiple frameworks. The article on this topic summarises the key aspects of ISSA 5000 and discusses important considerations for practitioners.

As always, we have included a regular round-up of recent regulatory updates in India and internationally.

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

Sai Venkateshwaran
Partner - Assurance
KPMG in India

CHAPTER 1

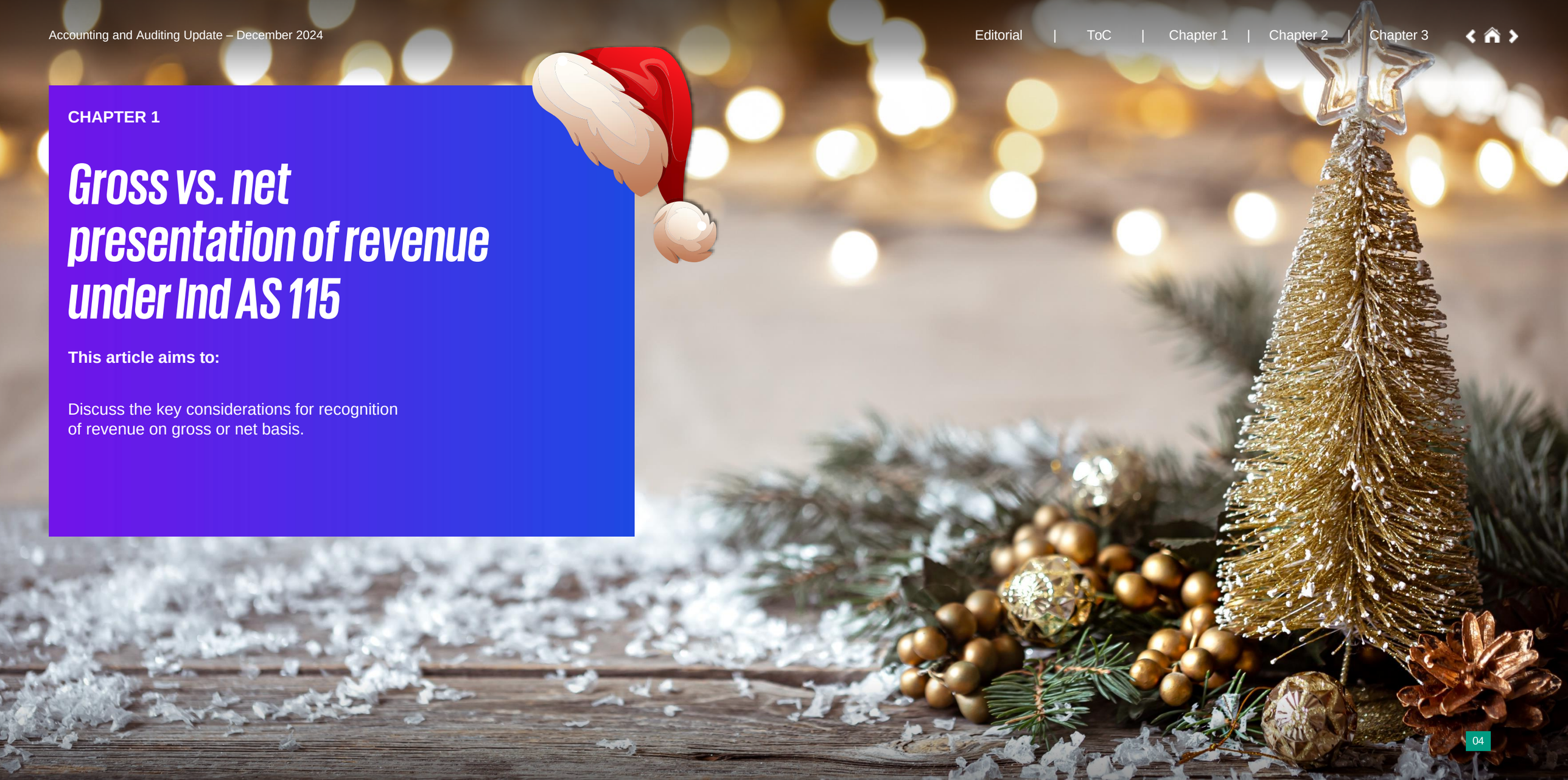
Gross vs. net presentation of revenue under Ind AS 115

CHAPTER 2

ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

CHAPTER 3

Regulatory updates



CHAPTER 1

Gross vs. net presentation of revenue under Ind AS 115

This article aims to:

Discuss the key considerations for recognition of revenue on gross or net basis.

Background

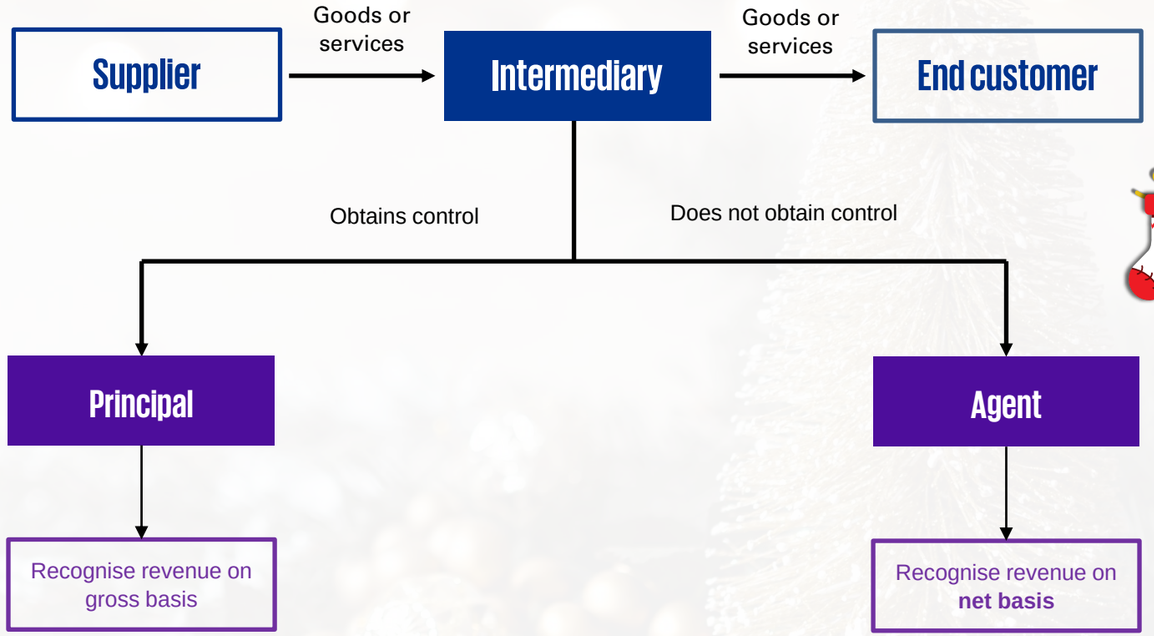
An entity recognises revenue on sale of goods and/or of services. Such transactions generally involve two parties i.e. a customer and a seller (Entity). However, a critical challenge in revenue recognition emerges when another party is involved in providing goods or services to a customer – i.e. should entities recognise the gross amount of revenues and the related cost of sales, or should they report revenue on net basis? Determination of this aspect could have significant implications on financial reporting and decision-making.

Ind AS 115, *Revenue from Contracts with Customers*, lays down the principles for recognition, measurement and disclosure of revenue from contracts with customers thereby enabling users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from such revenues. The core principle for revenue recognition is – "*an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services*". Accordingly, the standard is based on principle on 'transfer of control'. It further introduces a five-step model to support the core principle.

Therefore, when another party is involved in providing the goods or services to a customer, the entity is required to evaluate the nature of the promise to the customer. As part of the five-step model, an assessment is required to be made in determining whether the nature of the entity's promise is to provide the specified good or service itself (in which case the entity is a principal) or to arrange for it to be provided to the customer by another party(ies) (in which case the entity is an agent).

In this article, we aim to discuss the guidance laid down in Ind AS 115 to help entities determine whether they are acting as a principal or an agent for the purpose of recognising revenue on a gross or net basis.

Below is a diagrammatic representation to help determine whether the entity is a 'principal' or an 'agent':



(Source: KPMG in India's analysis read with KPMG IFRG Limited's IFRS 15 Handbook, November 2022)

Case studies[1]

Let's discuss the evaluation of principal vs agent with the help of following case studies:

Case study 1

Fact Pattern

- Entity ABC negotiates with major airlines to purchase tickets at reduced rates compared to public prices. ABC commits to buying a specific number of tickets and must pay for them regardless of resale. The reduced rate is negotiated and agreed upon in advance.
- ABC sets the prices for airline tickets it sells. It collects the payment from customers at the time of purchase.
- ABC also assists the customers in resolving complaints with the service provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

Step 1 - Identification of specified goods and/or service

A 'specified good or service' means a distinct item or a distinct bundle of items in the customer contract. If individual goods and services are not distinct, the entity evaluates whether it acts as a principal or an agent for the combined promise that includes these items. Once an entity identifies each specified good or service in the contract, it then evaluates whether it obtains control of each specified good or service from the third-party provider before the good or service is transferred to the customer.

In the given case study, ABC purchases tickets to fly on a specified flight from the airline. Therefore, the specified good or service provided to the customer is the right to a seat on that specific airline. Accordingly, any other goods or services are not promised to the customer.

Step 2 - Determination of control and assessment of other indicators

If the entity obtains control of goods or services before transferring those goods or services to a customer, then the entity is a principal. However, if the entity does not obtain control before it is transferred and further arranges for such goods or services to be provided by another entity then the entity is acting as an agent. To determine whether entity controls goods or services before it is transferred to the customer, the entity should consider the general guidance on transfer of control as provided under Ind AS 115 and specific indicators relating to determination of principal vs agent guidance. Some of the specific indicators enumerated in the standard are as follows:

- The entity has primary responsibility for providing the specified goods or service e.g. the entity is responsible for accepting or rejecting the orders, for developing the sales strategy, etc.
- The entity has inventory risk, for instance – the entity is liable for customer returns or is liable for any damage to the inventory in its possession before sale to the end customer
- The entity has discretion in establishing prices for the specified goods or services e.g. the amount paid to the supplier is fixed price per unit.

In the given case study, the entity has evaluated following points to determine whether it is acting as a principal or an agent in the current fact pattern:

- ABC controls the right to each ticket before it transfers that specified right to one of its customers because ABC has the ability to direct the use of that right by deciding whether to use the ticket to fulfil a contract with a customer and, if so, which contract it will fulfil. ABC also has the ability to obtain the remaining benefits from that right by either reselling the ticket and obtaining all

1. Clarifications to IFRS 15, *Revenue from Contracts with Customers* issued by International Accounting Standards Board (IASB) in 2016

of the proceeds from the sale or, alternatively, using the ticket itself. This is further evidenced by:

– ABC has inventory risk with respect to the ticket because ABC has committed itself to obtain the ticket from the airline before obtaining a contract with a customer to purchase the ticket. This is because the ABC is obliged to pay the airline for that right regardless of whether it is able to obtain a customer to resell the ticket to or whether it can obtain a favourable price for the ticket.

– ABC also establishes the price that the customer will pay for the specified ticket.

Conclusion

Based on the above facts, it is concluded that ABC is a principal and should recognise revenue on a gross basis. However, it is important to highlight that, the above-mentioned indicators and considerations are not exhaustive. They should not be evaluated in isolation as either a separate or an additional assessment from that of the control principle. Rather, the indicators should be considered in the context of the control principle, with more weight to those that best show the entity's ability to direct the use of and obtain benefits from the good or service before transfer to the customer. Therefore, assessment of control is not dependent on whether one or more of the indicators are met or on the majority evaluation of the indicators.

Let’s consider another example with slightly different fact pattern:

Case study 2

Fact Pattern

XYZ sells vouchers that entitles the customers to future meals at specified restaurants. These vouchers are non-refundable and can be purchased from XYZ’s website. Further, these vouchers provide the customer with a significant discount when compared with the normal selling prices of the meals (for example - A customer pays INR100 for a voucher to get a meal worth INR200 at a restaurant).

XYZ does not purchase or commit itself to purchase vouchers in advance of the sale of a voucher to a customer; instead, it purchases vouchers only when they are requested by the customers. Further the prices at which the vouchers are sold to customers is jointly determined by XYZ and the restaurant. On sale of the voucher, XYZ is entitled to 30 per cent of the voucher value on sale.

XYZ also assists the customers in resolving complaints about the meals and has a buyer satisfaction programme. However, the restaurant is responsible for fulfilling obligations associated with the voucher, including remedies to a customer for dissatisfaction with the service.

Step 1 - Identification of specified goods and/or service

The customer obtains a voucher for a restaurant that it selects. XYZ does not engage with the restaurants to provide meals to customers on the XYZ’s behalf. Therefore, the specified good or service to be provided to the customer is the right to a meal (in the form of a voucher) at a specified restaurant, which the customer purchases. Accordingly, no other goods or services (other than the vouchers) are promised to the customers.

Step 2 - Determination of control and assessment of other indicators

In the present case:

- The vouchers are created only at the time that they are transferred to the customers and, thus, do not exist before that transfer. Therefore, the XYZ does not at any time have the ability to direct the use of the vouchers, or obtain substantially all of the remaining benefits from the vouchers, before they are transferred to customers.
- XYZ neither purchases, nor commits itself to purchase, vouchers before they are sold to customers. Further, XYZ has no responsibility to accept any returned vouchers. Therefore, it does not have any inventory risk with respect to the vouchers.

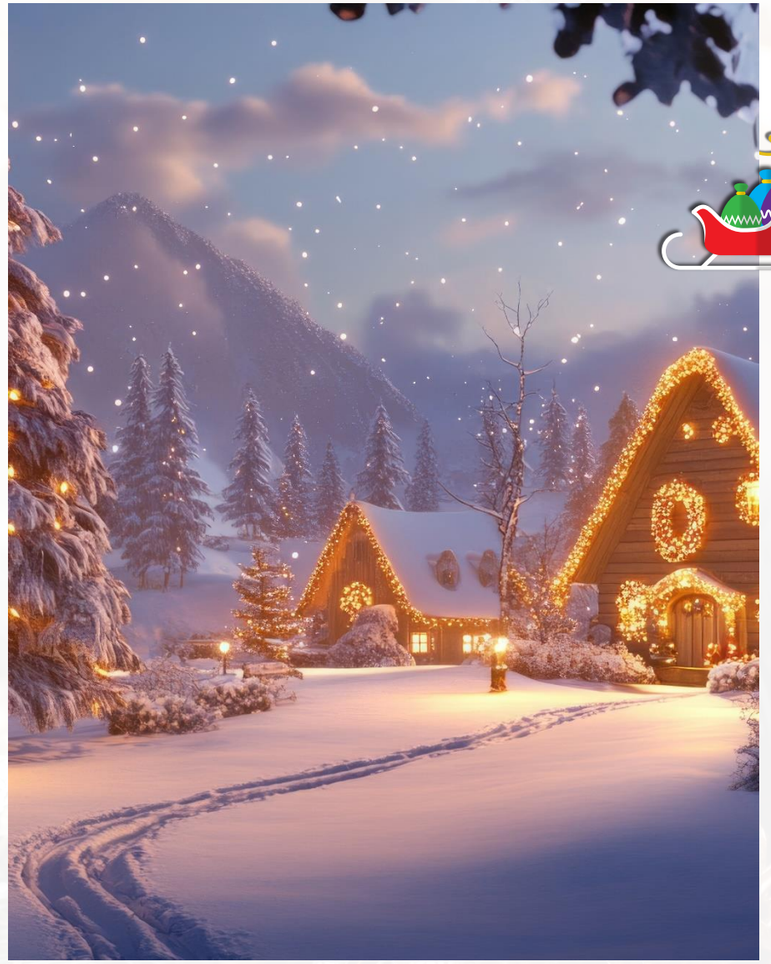
Conclusion

Based on the above assessment, it is concluded that XYZ is an agent and should recognise net amount of the consideration i.e. 30 per cent commission it is entitled to upon the sale of each voucher.

Bottom line

Determining whether an entity is a principal or an agent could have significant impact on the recognition of revenue in the financial statements and complexity of business structures and transactions pose challenges in making such assessment. This would be more prevalent in businesses such as advertising agencies, entities providing platform based services, software resellers, talent management companies, etc. In making this evaluation, a wholistic assessment needs to be done after considering all the relevant fact and circumstances for each case. Thus, significant judgement may be required to assess the role of the entity as a principal or an agent in a contractual arrangements where third parties are involved for goods or services. Where significant judgement is applied, an entity should ensure appropriate and adequate disclosures are provided in the financial statements in accordance with Ind AS 115 read with Ind AS 1, *Presentation of Financial Statements*.

With respect to entities preparing their financial statements under Accounting Standards (other than Ind AS), recognise revenue as per the principles laid down in AS 9, *Revenue Recognition*. As per AS 9, in case of an agency relationship, revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration. It is important to note that, unlike Ind AS 115, AS 9 does not provide detailed guidance to determine if an entity is acting as a principal or an agent while providing underlying goods or services. Therefore, entities should consider a holistic approach to assess their respective facts and circumstances and should also refer to various guidance issued by the Institute of Chartered Accountants of India (ICAI) such as technical guides on specific topics/industries, opinions issued by the Expert Advisory Committee (EAC) of ICAI, etc. in this regard.



CHAPTER 2

ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

This article aims to:

Provide an overview of the key requirements introduced by ISSA 5000 for sustainability assurance engagements.

Introduction

Over the years, sustainability reporting has emerged as an important topic of discussion among the investors, regulators and other stakeholders in the business and capital markets ecosystem. With an increasing focus towards non-financial information by the stakeholders, companies are making enhanced sustainability disclosures. Globally, many standards and frameworks on sustainability exist today such as the Global Reporting Initiative (GRI), International Standards Sustainability Board (ISSB) and Corporate Sustainability Reporting Directive (CSRD), etc.

However, considering that sustainability reporting is still at a nascent stage worldwide, measuring and reporting the same can be challenging for the companies. Further, with concerns around greenwashing, it is important that such information is accurate, complete, reliable and relevant. Thus, there has been a growing emphasis towards assurance on sustainability information. In this regard, the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* has witnessed widespread application across the jurisdictions for providing assurance on sustainability information. However, with a view to develop a global baseline standard on sustainability assurance, in August 2023, the International Auditing and Assurance Standards Board (IAASB) issued the exposure draft of International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements.*

Based on the feedback received from various stakeholders, in November 2024, IAASB issued the final ISSA 5000 standard. ISSA 5000 aims to serve as a comprehensive, standalone standard appropriate for all types of sustainability assurance engagements. It would apply to sustainability information reported across any sustainability topic and prepared under multiple frameworks. The standard is profession agnostic, and could be used by both professional accountants and non-accountant assurance practitioners.

In this article, we aim to summarise the key aspects of ISSA 5000 and discuss the important considerations for practitioners.

Applicability and scope

ISSA 5000 is applicable to all attestation assurance engagements on sustainability information. It would apply to all entities, irrespective of their size or complexity, and specifies principles with respect to both reasonable and limited assurance engagements.

ISSA 5000 is an **overarching standard** and thus, a practitioner is not required to apply ISAE 3000 (Revised) separately, when performing a sustainability assurance engagement under ISSA 5000.

However, an important point that has been clarified in the standard is that ISSA 5000 would not address sustainability information which is required to be included in the entity's financial statements, in accordance with the applicable financial reporting framework[1].

Effective date: ISSA 5000 would be effective for sustainability assurance engagements reported:

- For periods beginning on or after 15 December 2026 or
- As at a specific date on or after 15 December 2026[2].

(Earlier application is permitted).

1. Sustainability information may be presented as part of entity's annual report or in a separate document accompanying the annual report. In such circumstances, the audited financial statements would be considered as other information for the purpose of ISSA 5000.
2. The IAASB noted that assurance engagements on sustainability information reported in accordance with many recognised sustainability reporting frameworks would include information for both the period and an "as at" date, and therefore the appropriate effective date for such engagements would be for periods beginning on or after 15 December 2026. Further, IAAB highlighted that assurance engagements on sustainability information as at a specific date generally may be more narrow-scope engagements.

Key requirements: An overview

Some of the key requirements specified in ISSA 5000 relating to different stages of an assurance engagement are illustrated in the infographic below:

Engagement acceptance and continuance

- Quality management
- Preconditions for an assurance engagement
- Planning and materiality

Risk assessment

- Understanding the entity and its environment
- Inquiries and discussion with appropriate parties
- Understanding the components of entity's internal control system

Responding to risks of material misstatement

- Tests of controls
- Substantive procedures

Reporting

- Forming assurance conclusion
- Documentation and assembly of audit file

(Source: KPMG in India's analysis, 2024 read with the ISSA 5000 standard issued by IAASB)

A. Engagement acceptance and continuance

Quality management

The standard prescribes that the engagement leader should be a member of a firm that applies either the International Standard on Quality Management 1 (ISQM 1)[3], or other professional or regulatory requirements which are at least as demanding as ISQM 1.

The engagement leader would have the overall responsibility for managing and achieving engagement quality in a sustainability assurance engagement.

Preconditions for an assurance engagement

In order to establish whether the preconditions for an assurance engagement are present, the practitioner should:

- Consider whether the entity has a process to identify sustainability information to be reported, and
- Evaluate the suitability of roles and responsibilities of management, those charged with governance and the engaging party.

The practitioner needs to evaluate whether the sustainability matters within the scope of the engagement are appropriate, such that they are identifiable and capable of consistent measurement or evaluation against the applicable criteria, and the resulting sustainability information can be subjected to procedures for obtaining sufficient and appropriate evidence. Further, the practitioner must assess whether there exist criteria for all the sustainability information, as well as identify the sources of the criteria, i.e., framework criteria, entity-developed criteria or a combination of both.

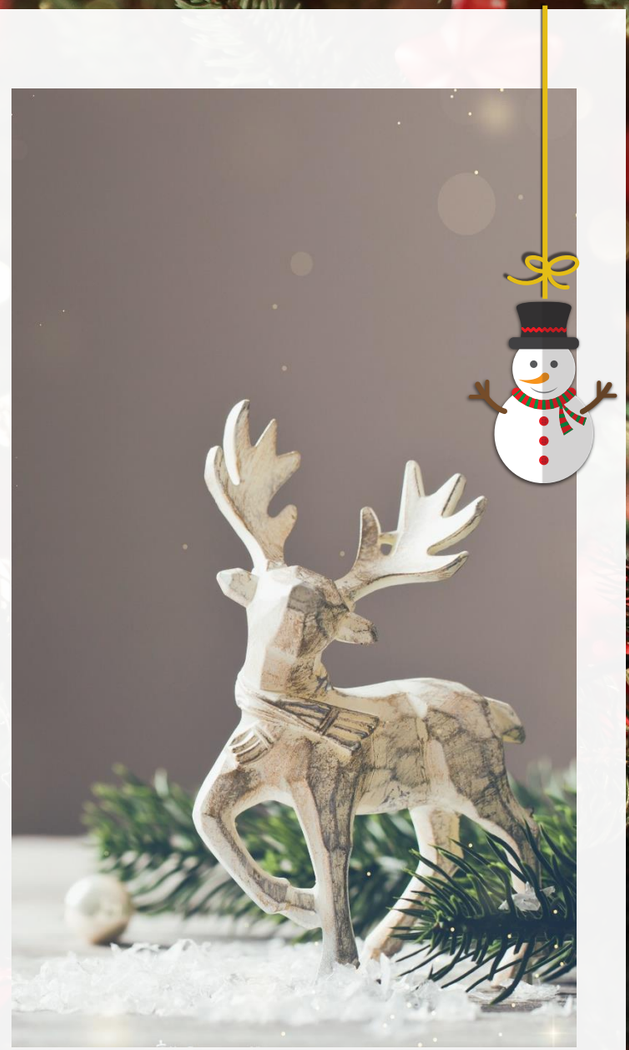
Planning and materiality

The practitioner should develop an overall strategy and engagement plan, including determining the nature, timing and extent of planned procedures. For evaluating whether the sustainability information is free from material misstatement, the practitioner should:

- Consider materiality for qualitative disclosures, and
- Determine materiality for quantitative disclosures.

Further, if double materiality is required to be applied by the reporting framework or entity-developed criteria, the practitioner must consider both **financial**[4] and **impact**[5] materiality perspectives.

Another important point clarified in the standard is that for **quantitative disclosures**, the practitioner must determine performance materiality.



3. ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements*, or *Other Assurance or Related Services Engagements* deals with the firm's responsibilities to design, implement and operate a system of quality management for assurance engagements.
4. The material impacts of environmental, social and governance matters on entity's strategy, business model and performance is referred to as 'financial materiality'.
5. The material impacts of entity's activities, products and services on the environment, society, or economy is referred to as 'impact materiality'.

B. Risk assessment

Understanding the entity and its environment

The practitioner should obtain an in-depth understanding of the entity and its environment by assessing the relevant sustainability matters and information, determining the suitability of applicable criteria along with the applicable legal and regulatory framework.

Inquiries and discussion with appropriate parties

The practitioner should make inquiries regarding instances of any fraud or suspected fraud identified or suspected non-compliance with laws and regulations affecting the sustainability information. Also, if the entity has an internal audit function, inquiries should be made to obtain understanding of its activities and main findings with regard to sustainability information.

Understanding the components of entity's internal control system

The practitioner should obtain a detailed understanding of the entity's control environment, risk assessment process, monitoring system, information system and communication as well as the relevant control activities.

The above activities would help the practitioner in identifying and assessing the risks of material misstatement and accordingly determining the nature, timing and extent of procedures required.

C. Responding to risks of material misstatement

Tests of controls

The practitioner should assess the operating effectiveness of controls by evaluating:

- How the controls were applied at relevant times during the period to which the sustainability information relates
- The consistency with which the controls were applied, and
- By whom or by what means they were applied.

Further, ISSA 5000 specifies that if the practitioner plans to use evidence from a previous engagement regarding the operating effectiveness of controls, he/she must assess:

- If there have not been changes which affect the continuing relevance of the evidence from previous engagement, the practitioner must test the controls **at least once in every third engagement**, and should test some controls in each engagement
- If there have been any such changes from the previous engagement, the practitioner must test the controls in the current engagement.

Substantive procedures

The standard states that irrespective of the assessed risks of material misstatement, the practitioners should consider the need to design and perform substantive procedures for disclosures (including estimates and forward-looking information) that, in their judgement, are material.

Based on the above procedures performed, the practitioner must determine whether the uncorrected misstatements are material, individually or in aggregate. In making this determination, the practitioner needs to consider the size and nature of misstatements, and the particular circumstances of their occurrence.

D. Reporting

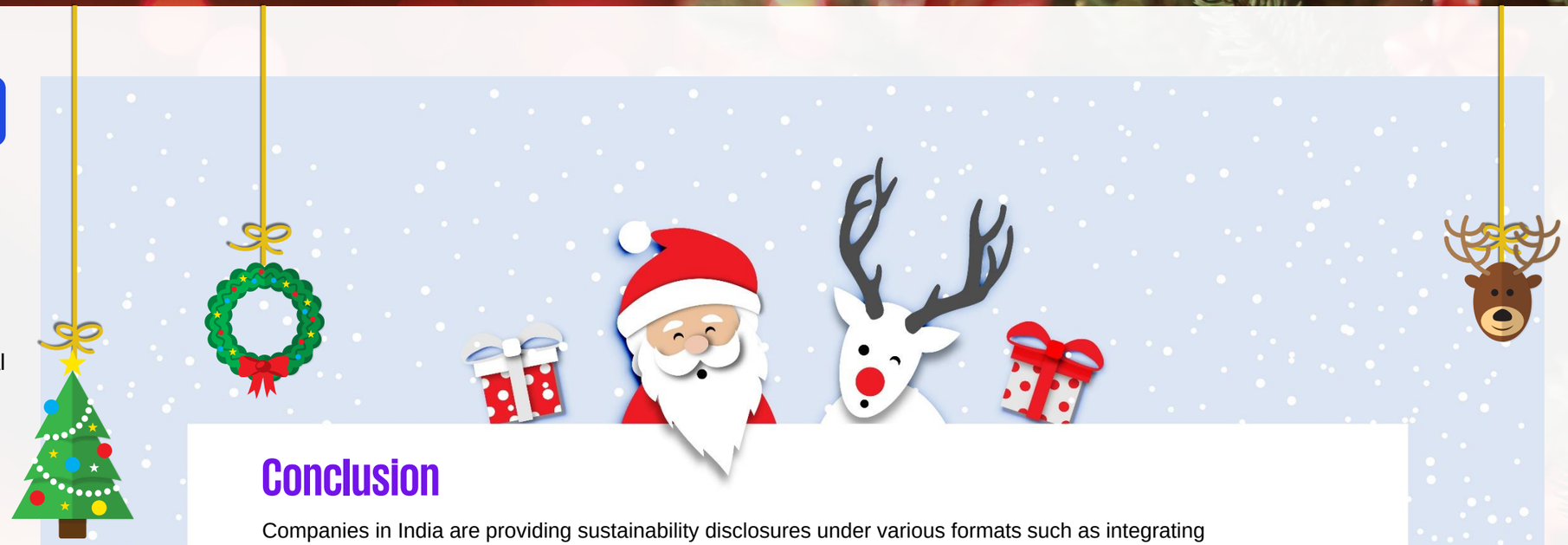
Forming assurance conclusion

The practitioner, after evaluating the sufficiency and appropriateness of the evidence obtained, including evidence from the work performed by a practitioner's external expert, another practitioner or internal audit function, should conclude regarding whether the sustainability information is free from material misstatement, and accordingly evaluate the effect on the opinion or conclusion in the assurance report.

Documentation and assembly of audit file

ISSA 5000 states that the practitioner must ensure that the assembly of the final engagement file should be completed **within not more than 60 days** after the date of assurance report. Further, it has been specified that the retention period for assurance engagements would be not less than **five years** from the date of assurance report.

.



Conclusion

Companies in India are providing sustainability disclosures under various formats such as integrating sustainability disclosures as part of the annual report, creating a separate sustainability report, etc. The Securities and Exchange Board of India (SEBI) under the SEBI LODR Regulations mandates the top 1,000 listed entities in India to prepare the Business Responsibility and Sustainability Reporting (BRSR). Further, the BRSR Core framework prescribes assurance on BRSR Core for the companies in a phased manner.

Issuance of ISSA 5000 is a step in the right direction and it will serve as the global baseline, standalone sustainability assurance standard for the companies in India as well as abroad. Further, IAASB has aligned most of the provisions of ISSA 5000 with the extant ISAE 3000, in order to ensure interoperability for the assurance providers. However, since measurement and evaluation of non-financial information entails a lot of emphasis towards qualitative factors, companies should evaluate their existing systems, processes and internal controls around sustainability performance and build the necessary resources for providing credible, reliable and accurate sustainability disclosures.

CHAPTER 3

Regulatory updates

Amendment to SEBI (PIT Regulations)

On 4 December 2024, the Securities and Exchange Board of India (SEBI) issued an amendment to the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations). The amendment has enhanced the regulatory framework related to connected person by widening the scope of definition of 'connected person' and 'relative'.

The amendment revises the definition of a connected person as some persons currently not covered in the definition of a deemed connected person may also be in a position to have access to Unpublished Price Sensitive Information (UPSI) from 'connected persons' to a company, by virtue of their close relationship with such 'connected persons'. The revised definition includes relatives of connected persons as deemed connected persons. Previously, only immediate relatives of connected persons were considered deemed connected persons.

Also, the amendment provides for inclusion of the definition of a 'relative' in the PIT Regulation wherein 'relative' would mean the following:

i. Spouse of the person
ii. Parent of the person and parent of its spouse
iii. Sibling of the person and sibling of its spouse
iv. Child of the person and child of its spouse
v. Spouse of the person listed at sub-clause (iii); and
vi. Spouse of the person listed at sub-clause (iv)

The amendment also provides that where a connected person is a partner in a firm, then the firm, its partners and employees of the firm would be considered as deemed connected person. If a connected person is residing with a person or sharing a household with a person all those would be considered as deemed connected person.

(Source: SEBI Notification No. SEBI/LAD-NRO/GN/2024/215 SEBI (Prohibition of Insider Trading) (Third amendment) Regulations, 2024, dated 4 December 2024).

Proposed enhancements to SME IPO framework and corporate governance

On 19 November 2024, SEBI issued a consultation paper to review Small and Medium Enterprise (SME) segment framework under SEBI (ICDR) Regulations, 2018, and the applicability of corporate governance provisions under the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (LODR Regulations) aims to strengthen pre-listing and post-listing provisions for SMEs. The SEBI has dedicated exchanges (SME exchange) for SME segment to encourage the listing and trading of securities issued by SMEs. The current framework under ICDR includes eligibility criteria for SME IPOs, such as post-issue paid-up capital limits and simplified filing requirements. Further, post-listing obligations and disclosure requirements for companies are specified under LODR Regulations. Most corporate governance requirements under the LODR Regulations are as of now not applicable to entities listed on SME exchanges. Considering the surge in SME IPOs in recent years and to further strengthen pre-listing and post-listing provisions for SMEs, SEBI issue a consultation paper for the review of the SME framework.

The major proposed changes to the SME segment framework include further increasing the minimum IPO application size to protect smaller investors and attract those with a higher risk appetite, aligning SME IPO allocation with main board IPOs, and increasing the minimum number of allottees to ensure liquidity. Additionally, the changes propose restricting the offer for sale to 20 per cent of the issue size, lowering the threshold for appointing a monitoring agency, and increasing the lock-in period for promoters' contributions to five years. They also suggest limiting general corporate purposes[1] to 10 per cent of the issue size and extending LODR provisions to SME listed entities to enhance corporate governance and disclosure requirements.

1. General corporate purposes (GCP) refers to the use of funds raised through an IPO for a variety of general business activities that are not specifically earmarked for particular projects or expenses. This can include things like working capital, operational expenses, or other general business needs that support the overall functioning and growth of the company. The proposed changes aim to limit the amount of IPO proceeds that can be allocated to GCP to ensure that a larger portion of the funds is directed towards specific, growth-oriented objectives

These changes aim to improve transparency, governance, and investor protection in the SME segment, fostering a more robust and credible market environment. The period to provide comments ended on 4 December 2024.

(SEBI, "Consultation paper on Review of SME segment framework under SEBI (ICDR) Regulations, 2018, and applicability of corporate governance provisions under SEBI (LODR) Regulations, 2015 on SME companies to strengthen pre-listing and post-listing SME provisions, dated 19 November 2024)

Amendments to SEBI Buy-back Regulations

The SEBI issued amendments to the SEBI (Buy-Back of Securities) (Second Amendment) Regulations, 2024 (the amendments). The amendments introduce several significant changes to the existing provisions under SEBI (Buy-Back of Securities) Regulations, 2018 (Buy-back Regulation). Following are the key changes:

1. **Promoter participation:** The amendment provides that if any promoter or member of the promoter group opts out of the buy-back, their shares to be excluded from the entitlement ratio calculation.
2. **Public announcement date:** The term 'record date' is now replaced with 'date of public announcement,' changing the timeline for opening the buy-back offer. Post the amendment the buy-back offer would be opened not later than four days from the date of public announcement.
3. **Subsisting obligations:** Currently, Buy-back Regulations restrict the company from issuing any shares or securities till date of expiry of buy back period. However, the amendment provides that the companies can discharge existing obligations through the conversion of warrants, stock options, sweat equity, or preference shares into equity shares. The amendment also requires that such aforesaid obligations and their potential impact must be disclosed in the public announcement.
4. **Disclosure requirements:** The amendments introduced additional disclosure requirements under subsisting obligations.

The amendments are effective from 20 November 2024.

(SEBI Notification No. SEBI/LAD-NRO/GN/2024/210, Securities and Exchange Board of India (Buy-Back of Securities)(Second Amendment) Regulations, 2024, dated 20 November 2024)

ISSB's new guide for aligning sustainability reporting with IFRS standard S1

With an aim to support the global implementation of IFRS S1 and IFRS S2 standards[2] issued by the International Sustainability Standards Board (ISSB), the IFRS foundation has introduced a new guide to help companies identify and disclose material sustainability-related risks and opportunities that affect their financial future. This initiative underscores the growing importance of sustainability information in investor decision-making and capital market operations. The guide aims to enhance the quality and consistency of sustainability reporting worldwide.

Key features of the guide are as follows:

- Key focus of the guide is to explain the sustainability-related risks and opportunities as per IFRS S1 focussing on a company's dependencies and impacts.
- It highlights the interconnectedness of a company's operations with stakeholders, society, the economy, and the environment.
- Provides a step-by-step process for making materiality judgements, in line with the International Accounting Standards Board's IFRS Practice Statement 2.
- Offers insights on aligning sustainability-related financial disclosures with broader financial reporting and other frameworks like European Sustainability Reporting Standards (ESRS) or Global Reporting Initiative (GRI) Standards.

(Source: IFRS foundation News page, dated 19 November 2024)

FASB issues ASU to clarify induced conversion guidance for convertible debt

The Financial Accounting Standards Board (FASB) has recently released an Accounting Standards Update (ASU) to enhance the relevance and consistency of the guidance on induced conversions in Subtopic 470-20, Debt—*Debt with Conversion and Other Options*.

Existing GAAP provides guidelines to determine if the transaction should be treated as an induced conversion or a debt extinguishment. Originally, these guidelines were created for equity share-settled convertible debt before cash convertible instruments became common. With the introduction of ASU No. 2020-06[3], which addresses convertible debt with cash conversion features, stakeholders have raised questions about how to account for the settlement of convertible debt, especially cash convertible instruments, when the terms differ from the original conversion terms. This has led to uncertainty about whether such transactions should follow induced conversion or extinguishment guidance.

This ASU clarifies how to determine if certain settlements of convertible debt instruments, including those with cash conversion features or those not currently convertible, should be accounted for as induced conversions. The amendments in this update also permit an entity to apply the new guidance on either a prospective or a retrospective basis.

The amendments in the ASU are effective for annual reporting periods beginning after 15 December 2025, with early adoption permitted.

(Source: FASB.org, News and meetings, "FASB issued standard that improves accounting guidance for induced conversion of convertible debit instruments", dated 26 November 2024)

2. General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2).
3. Accounting Standards Update No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity.

Proposals from FASB

New guidance on accounting for government grants

FASB proposed ASU to provide authoritative guidance on accounting for government grants received by business entities. Currently, U.S. GAAP lacks specific guidance on this topic, leading many businesses to use International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance* by analogy. The proposed ASU aims to reduce diversity in practice by leveraging IAS 20 with targeted improvements, covering the recognition, measurement, and presentation of grants related to assets and income. It also includes disclosure requirements about the nature of the grants, accounting policies, and significant terms and conditions.

The proposal is open for comments till 31 March 2025.

(Source: FASB, news & meetings page, FASB seeks public comment on proposal to add guidance on accounting for government grants by businesses, dated 19 November 2024)

New credit loss estimation rules for private companies

The FASB proposed to amend Accounting Standard Codification (ASC) 326, *Financial Instruments- Credit losses*. This will allow private companies and certain not-for-profit entities to use a practical expedient and accounting policy provided in this ASU, for estimating expected credit losses on current accounts receivable and contract assets under ASC 606, *Revenue From Contracts With Customers*.

This proposal, developed with the Private Company Council (PCC), addresses stakeholder's concerns about the complexity and cost of these estimations. Currently, ASC 326-20 requires entities to consider relevant information, including historical losses, current economic conditions, and forecasts, when estimating expected credit losses. Adjustments may be needed if historical conditions differ from current or forecasted conditions. Collections received after the balance sheet date are also not considered in these estimates. The proposed amendment would provide private companies and certain not-for-profit entities with the following practical expedient and an accounting policy election when estimating expected credit losses:

- **Practical expedient:** Entities can assume current conditions as of the balance sheet date persist throughout the forecast period.
- **Accounting policy election:** Entities using the practical expedient above can also make an accounting policy election to consider post-balance sheet date collections when estimating expected credit losses.

The proposed ASU also includes examples of how to apply these provisions. Further entities must disclose whether they have elected to use the practical expedient and the accounting policy election. This guidance would be applied prospectively, with the effective date determined after stakeholder's feedback. Early adoption is permitted.

The proposal is open for comments until 17 January 2025.

(Source: FASB, News & meeting page, FASB Seeks Public Comment on Proposal on Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities, dated 3 December 2024)

First Notes

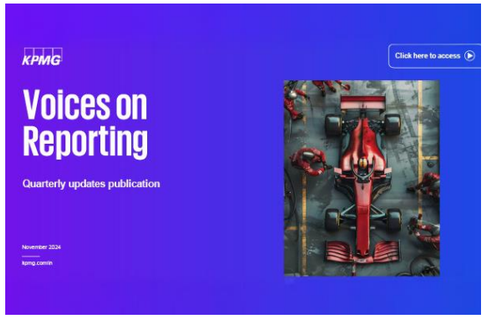
Guidelines to regulate greenwashing and misleading environmental claims

Growing awareness of environmental concerns and its impact on products and services is playing an instrumental role in influencing consumer choices and promoting environment consciousness. To promote their products and services, certain entities could be resorting to greenwashing practices. Hence, regulators worldwide are concerned regarding the greenwashing practices. In India, on 15 October 2024, the Central Consumer Protection Authority (CCPA) issued the Guidelines for Prevention and Regulation of Greenwashing or Misleading Environmental Claims, 2024 ('the Guidelines').

These Guidelines would complement the existing Guidelines for Prevention of Misleading Advertisements and Endorsements for Misleading Advertisements, 2022. The Guidelines seek to promote transparency in the environmental claims made by the entities and incorporate several illustrations and practical examples to ensure compliance with the new requirements introduced.

This issue of First Notes provides an overview of the key aspects discussed in the Guidelines issued by CCPA.

To access the First Notes, please click here



Voices on Reporting –Quarter updates publication (for the quarter ended 30 September 2024) provides a summary of key updates. These updates relate to financial reporting and regulatory updates from the Ministry of Corporate Affairs (MCA), Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), National Financial Reporting Authority (NFRA) and the Institute of Chartered Accountants of India (ICAI).

To access the publication, please click here

Follow us on:
kpmg.com/in/socialmedia

Previous editions are available to download from:
kpmg.com/in

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

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

This document is for e-communication only. (020_NEWS_1224_SP)

Introducing

'Askaquestion'

write to us at
aaupdate@kpmg.com