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currently not covered in the definition of a deemed connected person may also be in a position to have access to Unpublished Price Sensitive Information (UPSI) from 'connected persons' to a company, by virtue of their close relationship with such 'connected persons'.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.

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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)