



# Regulatory Roundup

Financial reporting and regulatory developments for Q1 FY 2024-25

Board Leadership Center (India)

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# IFRS updates

## Climate-related Commitments (IAS 37)– Finalisation of agenda decision<sup>1</sup>

In the month of April, 2024, IFRS Interpretations Committee (Committee) finalised its decision on 'climate related commitments'. The Committee highlighted that many companies voluntarily make 'net-zero and similar climate-related commitments and they need to understand when a liability needs to be recognised in the balance sheet. IAS 37 Provisions, Contingent Liabilities and Contingent Assets standard would be applied to understand the impact on the financial statements and disclosures, timing of recognition of constructive obligation and related liability.

### Questions for the Audit Committee

- Has the management reviewed its net-zero action plan?
- Has the management analysed the impact of its climate commitment on various financial statement captions and disclosures?
- How does the management plan to communicate its net-zero action plan to the stakeholders and likely impact on the financial statements and any liability recognition?

### Applicability – All Sectors

Click [here](#) to access the IFRS agenda decision

Click [here](#) to access KPMG Leadership Link



# Tax updates

## Section 43B(h) – Payment to MSME<sup>2</sup>

To safeguard the interests of Micro and Small Enterprises (MSMEs) and ensure their payments are made promptly, Clause (h) in Section 43B, introduced by the Finance Act 2023. This requirement stipulates that if MSMEs are not paid within the prescribed timeframe, the deduction of such amounts due to the MSMEs will only be permissible on a payment basis from the profits of the financial year in which the actual payment is made. This change is effective from 1 April 2024.

## Questions for the Audit Committee

- What is the management's process on identifying MSME vendors and managing their payments?
- What are the general terms of payment agreed with MSME vendors of the Company?
- What can be the potential implications of delays in payment to MSMEs on the entity along with quantum of any disallowance of expense?

## Applicability – All Sectors

Click [here](#) to access the Memorandum (Refer page 12)



# RBI updates

## Fair Practices Code for Lenders – Charging of Interest<sup>3</sup>

On 29 April 2024, the Reserve Bank of India (RBI) issued a circular on Fair Practices Code for Lenders – Charging of Interest (Code) to re-iterate that all 'Regulated Entities' maintain a spirit of fairness and transparency while dealing with customers and not engage in non-standard practices. Some of the areas which the Code focuses include rate at which interest is charged, the point from which interest is charged and mode of disbursement to customers.

## Questions for the Audit Committee

- What are the key implications arising from the Code in relation to existing business practices? What are the relevant controls in place to ensure compliance with the Code?
- How does the management track and analyse the customer grievances in relation to interest charged which could point towards deviation from the Code?
- Has the management evaluated a plan to switch to online transfers instead of issue of cheques for loan disbursals?

## Applicability – Banks and NBFCs

Click [here](#) to access the RBI Update



# RBI updates

## Master Direction – Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024<sup>4</sup>

On 24 April 2024, the Reserve Bank of India (RBI) issued the Master Direction – Reserve Bank of India (Asset Reconstruction companies) Directions, 2024 (the Directions) to ensure prudent and efficient functioning of ARCs and to protect the interest of investors. Key updates include increase in minimum required net owned funds, defining fit and proper criteria for directors and CEO, setting conditions for ARCs acting as Resolution Applicants under IBC, among others.

### Questions for the Audit Committee

- Has management assessed the impact of changes arising from these Master Directions and what are the planned responses?
- How does the Company ensure compliance with 'Fit and proper criteria' for directors and CEO as per the Directions?

### Applicability – Asset Reconstruction Companies

Click [here](#) to access the RBI Update



# SEBI Updates

## Consultation Paper on SEBI MF LITE Regulations for passively managed Mutual Funds Schemes<sup>5</sup>

On 01 July 2024, SEBI released consultation paper to seek comments/views from the public for introduction of a relaxed regulatory framework in the Mutual Funds(MF) segment viz, “the MF Lite Regulations” for the passively managed MF schemes. The proposed MF Lite Regulations intend to reduce the compliance requirement, foster innovation, encourage competition and promote ease of entry for the MFs interested in launching only passive schemes. This will benefit both new entrants and existing MFs managing passive schemes.

### Questions for the Audit Committee

- Has the management evaluated SEBI’s Proposal relating to passive MF schemes?
- What are the comments/views of the management on the proposal?

**Applicability** – Asset Management Company (AMC) and Mutual fund companies

Click [here](#) to access the SEBI consultation paper



# IRDAI updates

## Master Circular on General Insurance Business<sup>6</sup>

On 11 June 2024, the Insurance Regulatory and Development Authority of India (IRDAI) issued Master circular on IRDAI (Insurance Products) Regulations, 2024 to guide all insurance companies to develop simplified and easy-to-understand insurance products tailored to meet individual needs of the customers, providing them with ample choices and enhancing their insurance experience. This Circular shall replace circulars issued in the past relating to filing of general insurance products. Some of the updates pertain to ease in claim process and policy cancellation, more product options and emphasis on technology, among others.

## Questions for the Audit Committee

- What are the steps taken by management to streamline the claim settlement process in compliance with the master circular?
- What additional steps can be taken by the Company to ensure that the policyholders' interest are safeguarded?
- What are the steps management is taking to further digitise end to end process from onboarding to settlement of claims?

## Applicability – General Insurance Companies

Click [here](#) to access the IRDAI circular



# IRDAI updates

## IRDAI (Corporate Governance for Insurers) Regulations, 2024<sup>7</sup>

On 20 March 2024, the Insurance Regulatory and Development Authority of India (IRDAI) issued the regulations i.e., Insurance Regulatory and Development Authority of India (Corporate Governance for Insurers) Regulations, 2024. The Authority has outlined in general terms, governance responsibilities of the Board in the management of insurers under the Regulations. Major considerations include prior approval of the Competent Authority for appointment of Chairperson of the Board, fit and proper criteria for directors and updates in eligibility, qualifications and appointment requirements of the statutory auditors.

### Questions for the Audit Committee

- What due diligence is carried out to ensure that the KMPs proposed to be appointed are 'fit and proper' before recommending his/ her name for necessary approvals ?
- How does the management ensure there are no conflicts of interest while appointing key management persons?
- How does management plans to meet the requirement of rotation of the statutory auditor as per the new regulations?

### Applicability – Insurance Sector

Click [here](#) to access the Regulation



# IRDAI updates

## Master Circular on Expenses of Management, including Commission, of Insurers, 2024<sup>8</sup>

On 15 May 2024, Master Circular on Expenses of Management, including Commission, of Insurers, 2024 which provides guidance for every Insurer how they shall formulate a policy approved by the board for payment of commission. Overall, the focus of the circular is on designing the commission structure of intermediaries in a manner to promote fair and transparent practices that protect policyholders' interests and encourage insurance penetration along with increased oversight by the Board by way of regular review of the Policy.

### Questions for the Audit Committee

- Whether the key elements as per the Circular are incorporated in the policy on payment of commission to intermediaries and approved by the Board?
- How has the management ensured that the commission structure of intermediaries has been designed to promote fair and transparent practices to protect policyholders' interest and it encourages insurance penetration?

### Applicability – Insurance Sector

Click [here](#) to access the IRDAI paper



# Sources

1. Staff Paper (Agenda reference 12A) prepared by IFRS Interpretations Committee (Committee) for discussion at public meeting of the International Accounting Standards Board (IASB) held in April 2024.
2. Memorandum explaining the provisions in the Finance Bill, 2023
3. Reserve Bank of India (RBI) circular on Fair Practices Code for Lenders – Charging of Interest (RBI/2024-25/30 DoS.CO.PPG.SEC.1/11.01.005/2024-25) dated 29 April 2024.
4. Reserve Bank of India (Asset Reconstruction companies) Directions, 2024 (RBI/DOR/2024-25/116 DoR.FIN.REC.16/26.03.001/2024-25) dated 24 April 2024.
5. Consultation Paper for introduction of Mutual Funds Lite Regulations (MF LITE) for passively managed Mutual Funds Schemes issued by SEBI dated 1 July 2024.
6. Master Circular on IRDAI (Insurance Products) Regulations, 2024 (IRDAI/NL/MSTCIR/MISC/90/06/2024) issued by Insurance Regulatory and Development Authority of India (IRDAI) on 11 June 2024
7. Insurance Regulatory and Development Authority of India (Corporate Governance for Insurers) Regulations, 2024 (F. No. IRDAI/Reg/7/201/2024) issued by IRDAI on 20 March 2024
8. Master Circular on Expenses of Management, including Commission, of Insurers, 2024 (IRDAI/F&I/CIR/79/5/2024) issued by IRDAI on 15 May 2024.



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