



# Accounting and Auditing Update

Issue no. 59/2021

June 2021

[home.kpmg/in](https://home.kpmg/in)

**Management  
commentary:  
New perspective  
proposed by IASB**

**CHAPTER 1**

**ESG reporting -  
Intersection with  
Financial Accounting  
Standards**

**CHAPTER 2**

**Amendments to  
Listing Regulations  
and an action plan**

**CHAPTER 3**

**Regulatory  
updates**

**CHAPTER 4**



# Foreword

Management commentary, typically referred to as Management Discussion and Analysis (MD&A) forms part of a company's annual report and provides relevant insights into a company's growth and long-term prospects including discussion around its financial performance with respect to operational performance and adequacy of a company's internal control system. The information enables a company's stakeholders in particular investors to make informed decision making. However, there have been growing concerns regarding the 'information gap' between the information provided in management commentaries and the information which investors need. To address these concerns, the International Accounting Standards Board (IASB) has proposed a major overhaul to the existing IFRS Practice Statement 1, *Management Commentary*. With the proposed statement, IASB aims to introduce a new comprehensive framework that would bring together in one place the information that investors would need to assess a company's long-term prospects including information about sustainability

matters, intangible resources and key relationships. In this edition of Accounting and Auditing Update (AAU), we aim to provide an overview of the proposals regarding management commentary by IASB.

Environmental, Social and Governance (ESG) related disclosures is gaining significant momentum across various forums. While IASB has proposed to include specific reporting on ESG matters in management commentary, on the other hand, the Financial Accounting Standards Board (FASB) has issued an educational material to provide an overview of the intersection of ESG matters with financial accounting standards. It also provides examples of how an entity may consider direct and indirect effects of material environmental matters when applying current GAAP. Our article on the topic summarises the guidance provided by FASB vis-à-vis consideration of relevant ESG matters in financial reporting by entities.

The Ministry of Corporate Affairs (MCA) has issued a slew of amendments to the Indian Accounting Standards (Ind AS) effective

for companies from 1 April 2021. The amendments mainly address the financial reporting issues pursuant to benchmark interest rate reform – phase 2 in line with the amendments in IFRS issued by IASB in August 2020. MCA has also notified accounting standards for companies (other than companies to which Ind AS are applicable) including Small and Medium sized Companies (SMCs) under the relevant provisions of the Companies Act, 2013. In view of COVID-19, various relaxations have been given to companies, including conduct of board meeting for approval of the annual financial statements, board's report, prospectus, etc. through video-conferencing or other-audio visual means. Our regulatory updates section covers these and other relevant financial reporting developments in India and internationally.

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

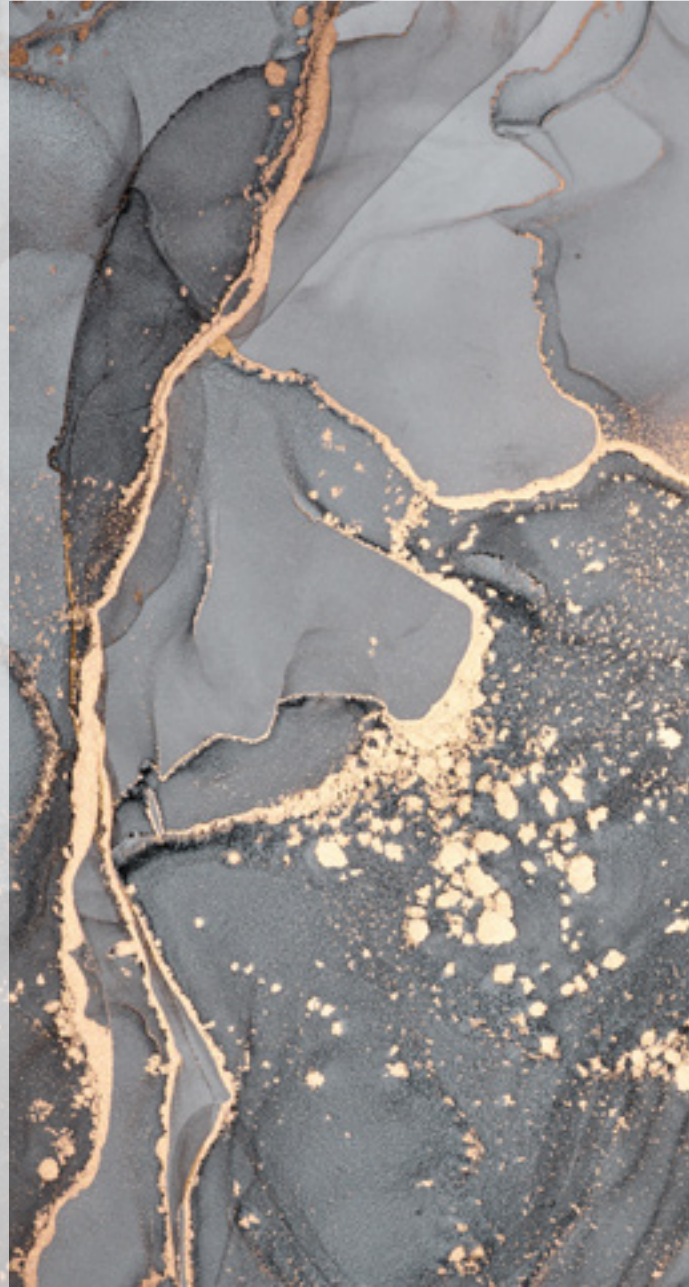


**Sai Venkateshwaran**  
Partner - Assurance  
KPMG in India



**Ruchi Rastogi**  
Partner - Assurance  
KPMG in India







## CHAPTER 1

# Management commentary: New perspective proposed by IASB

**This article aims to:**

Provide an overview of the new framework for management commentaries as proposed by IASB in its exposure draft.

**Introduction**

Management commentary, often referred to as the 'Management Discussion and Analysis' (MD&A) in India, is one of the most important means of communication by the Board of Directors of a company with its stakeholders in particular investors and creditors about the performance and various other key aspects relating to the growth of a company. Those aspects majorly cover discussions in the areas relating to an entity's financial performance, operational performance, company's expansion strategy, modernisation and diversification programmes.

In 2010, the International Accounting Standards Board (IASB) issued a practice statement - IFRS Practice Statement 1, *Management Commentary*. The aim of the statement was to assist management in presenting useful management commentary that relates to financial statements that have been prepared in accordance with the International Financial Reporting Standards (IFRS). However, IASB observed that investors were concerned about the 'information gap' between the information provided in management commentaries and the information that they need. Accordingly,

the IASB as part of its project to improve the communication value of the financial statements, has proposed a major overhaul to the existing IFRS Practice Statement 1.

It issued a proposed Practice Statement on Management Commentary on 27 May 2021. The proposed statement is a new comprehensive framework that aims to bring together in one place the information that investors would need to assess a company's long-term prospects including information about sustainability matters, intangible resources and key relationships.

This article aims to provide an overview of proposals published by IASB with regard to the management commentary.

**Overview of the proposed practice statement**

The proposed statement advocates an objectives-based approach which will provide sufficient flexibility for a company to be able to tell its unique story, focussing on what is important for the company's long-term prospects.

**Objective of management commentary**

The IASB clarifies that the objective of a management commentary is to provide insights into factors that:

- *Have affected* the entity's financial performance and position reported in the financial statements and
- *Could affect* the entity's ability to create value and generate cash flows across all time horizons, including in the long term.

Accordingly, information required by the objective should meet two factors:

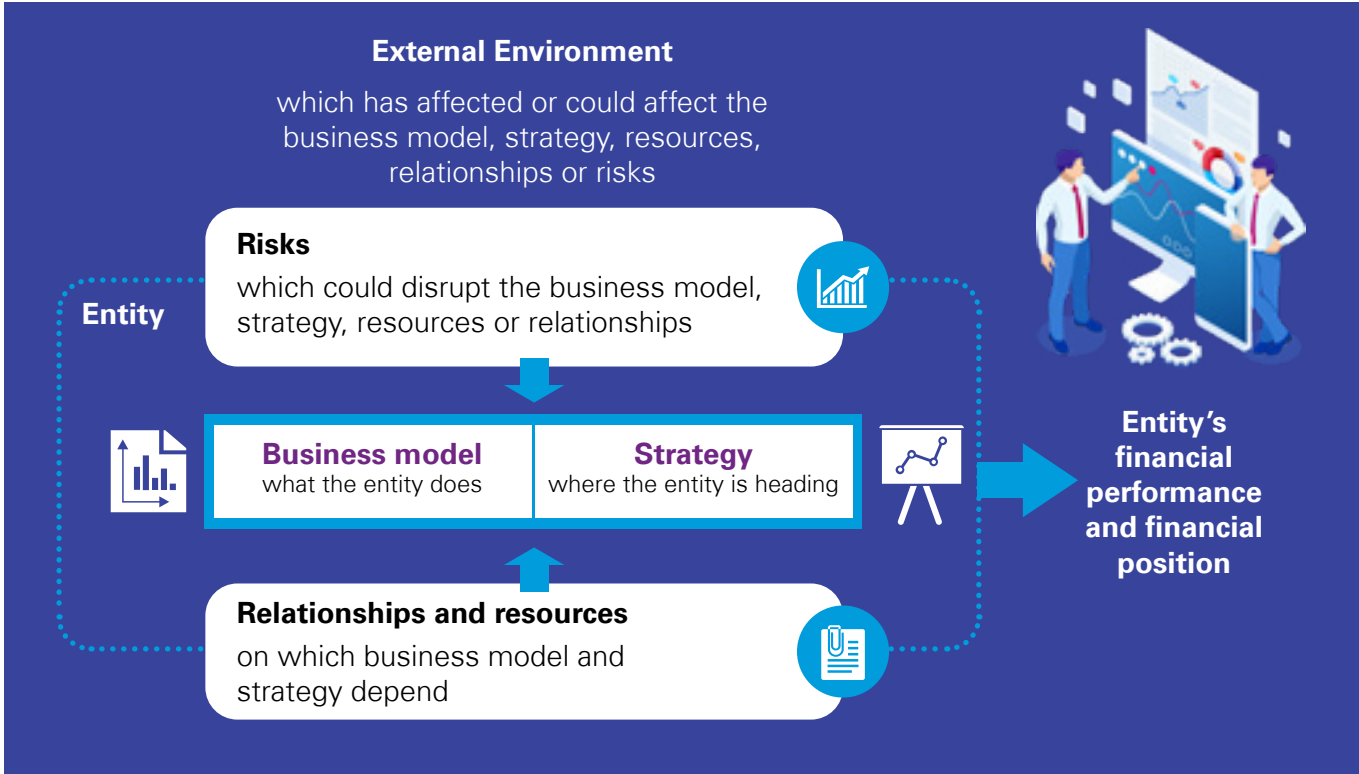
- Material information:** It is **material** to investors and creditors in making their decisions and
- Management's perspective:** It reflects **management's perspective** and is based on information used in managing the company.



Disclosure objectives for areas of content

The proposed statement has specified six inter-related areas of content that should be discussed in an entity’s management commentary with an explicit disclosure objective for each area of content. The figure below depicts the relationship between these six areas of content in management commentary.

Figure 1: Relationships between the six areas of content in management commentary



(Source: Exposure Draft on management commentary issued by IASB in May 2021)

For each of the above mentioned areas of content, the IASB has proposed disclosure objectives comprising:

- Headline objectives**: Overall information needs of investors and creditors for the area of content
- Assessment objectives**: Assessments that investors and creditors need to make in relation to the area of content
- Specific objectives**: Detailed information needs of investors and creditors

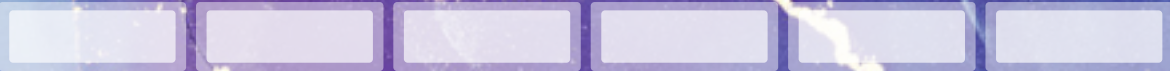
For a company to claim compliance with the proposed practice statement, its management commentary must meet its objectives and provide material information that meets the disclosure objectives for all areas of content.

Materiality and key matters

Information should be included in the management commentary if it is material<sup>1</sup> to investors and creditors. Material information would depend on the entity and its circumstances. Accordingly, management judgement would be required to identify such information.

Much of the material information will relate to key matters - **matters fundamental to an entity’s ability to create value and generate cash flows**. Considering their importance, key matters are likely to be matters that management monitors and manages. Also, such matters would be pervasive and related to more than one area of content. For instance, risks to a key feature of a business model- like a competitive advantage are likely to be key risks for a company. Therefore, identifying key matters would also require management judgement.

1. Information is material if omitting or misstating or obscuring it could reasonably be expected to influence decisions that investors and creditors make on the basis of the management commentary and of the related financial statements.



Metrics

Material information is likely to include metrics<sup>2</sup> that management uses to monitor key matters and to measure progress in managing those matters. Those metrics are specific to an entity and typically depend on the entity’s activities and the industry in which it operates. Examples of metrics that may need to be included in management commentary are described below:

Metrics for business model	<ul style="list-style-type: none"><li>• Scale of a company’s operations e.g., production capacity or volumes</li><li>• Environmental or social impacts of a company’s activities e.g., greenhouse gas emissions</li></ul>
Metrics for risks	<ul style="list-style-type: none"><li>• Exposure to a risk e.g., level of reliance on a raw material</li><li>• Effectiveness of management’s response e.g., number of safety incidents</li></ul>
Metrics for strategy	<ul style="list-style-type: none"><li>• Progress towards long-term aims e.g., brand reputation scores</li><li>• Progress towards milestones e.g., measures of product quality</li></ul>
Metrics for external environment	<ul style="list-style-type: none"><li>• Factors and trends e.g., market share statistics</li><li>• Effectiveness of management’s response e.g., proportion of revenue exposed to a trend</li></ul>
Metrics for resources and relationships	<ul style="list-style-type: none"><li>• How effectively a resource is deployed e.g., store revenue per unit of floor area</li><li>• Strength of a relationship e.g. customer retention statistics</li></ul>
Metrics for financial performance and financial position	<ul style="list-style-type: none"><li>• Amounts presented or disclosed in the financial statements</li><li>• Measures derived from the amounts presented or disclosed in the financial statements</li></ul>

(Source: Snapshot, Management Commentary, IASB, May 2021)

2. Metrics are measures that management uses to monitor a quantitative or qualitative aspect of a company’s financial or non-financial performance or position.

Attributes of information in management commentary

To be useful to investors and creditors, information in management commentary should possess certain attributes i.e. such an information should be complete, balanced, accurate and coherent. Additionally, to be more useful, other desired attributes include clarity and conciseness, comparability and verifiability. The proposed practice statement provides following guidance for each of these attributes:

Required attributes of information

Completeness

Management commentary shall provide a complete depiction of the matters it addresses. A complete depiction of a matter requires all material information that is necessary for investors and creditors to understand the matter.

Balance

Information should be balanced- not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that investors and creditors will receive it favourably or unfavourably.

Accuracy

Information in management commentary should be accurate. Information can be accurate without being perfectly precise. Degree of precision depends on the nature of information and nature of matters addressed.

Coherence

Information should be provided in a way that it can be related to other information published by the company, in particular in the company’s financial statements, and that any apparent inconsistencies are explained.

Desired attributes of information

Clarity and conciseness

Information is more useful if it is clear and concise - plain language is used as much as possible, only material information is included, duplication and boilerplate disclosures are avoided.

Comparability

Information should be comparable with both, information provided by other companies (particularly in the same industry), and information provided by the company in the past.

Verifiability

Information is verifiable if is possible to corroborate either the information itself or the inputs used to derive the information.

(Source: Snapshot, Management Commentary, IASB, May 2021)



### Prospects, intangibles and ESG matters

Investors and creditors are also interested in information about matters that could affect an entity's long-term prospects, including information about intangible resources and relationships and sustainability matters. Management determines which information is material in an entity's circumstances. For example, if one of an entity's sites has scarce water resources and is threatened with closure, investors and creditors might need information about the entity's exposure to water stress. Information about water

consumption at that site might be material to investors and creditors, but information about the entity's water consumption at other sites might not be material.

The exposure draft provides guidance that the management is likely to consider in deciding what information it needs to provide about:

- Key matters that could affect an entity's long-term prospects
- Key intangible resources and relationships and
- Key environmental and social matters.

### Interaction with other reporting frameworks

Generally, entities apply local laws or regulations as well as frameworks issued by other organisations, for example on sustainability, to help them identify material information for inclusion in management commentary.

Entities would also be permitted to include immaterial information required by those laws, regulations and frameworks as long as it does not obscure material information.

### Next steps

Comment period of the proposed practice statement is upto 23 November 2021.

The IASB aims to keep voluntary compliance with the Revised Practice Statement. Entities may choose to prepare management commentary complying with the revised Practice Statement even if they are not required to do so. Entities would not have to apply the proposed practice statement to claim compliance with IFRS standards.

It would be for local lawmakers and regulators to decide whether to require companies to prepare management commentary that complies with the revised Practice Statement.

In India, the Securities and Exchange Board

of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 requires listed companies to include a MD&A section in the annual report either as part of the Directors' report or in addition thereto. The MD&A section includes discussion on certain matters within the limits set by the listed entity's competitive position. Those matters, *inter alia*, include:

- Industry structure and development
- Opportunities available and threats to companies
- Risks and controls
- Internal control systems and their adequacy
- Discussion on financial performance with respect to operational performance.

Additionally, in line with recent developments of the Securities and Exchange Board of India, top 1,000 listed companies (by market capitalisation<sup>3</sup>) will be required to submit a new report on ESG parameters, the Business Responsibility and Sustainability Report (BRSR)<sup>4</sup>.

Companies in India should watch this space as regulators in India are likely to evaluate this Practice Statement and take a decision on its application.

3. Based on market capitalisation calculated as on 31 March of every financial year.

4. Currently, top 1,000 listed companies are required to furnish a Business Responsibility Report (BRR). This will be replaced with the BRSR. Entities may furnish a BRSR on a voluntary basis effective FY2021-22 and are required to furnish it on a mandatory basis effective FY2022-23.



CHAPTER 2

ESG reporting -  
Intersection with  
Financial Accounting  
Standards

This article aims to:

Discuss considerations for companies on ESG matters that may affect their financial statements under US GAAP and the developments under IFRS.

Introduction

The demand for Environmental, Social and Governance (ESG) disclosures is rapidly increasing from various stakeholders in particular from investors who seek to understand the effects of relevant ESG matters on an entity's business strategy, cash flows, financial position, and financial performance. ESG is also at the forefront of regulators' agenda around the world.

Recently, the Financial Accounting Standards Board (FASB) has issued an educational material to provide an overview of the intersection of ESG matters with financial accounting standards<sup>1</sup>. Additionally, it provides examples of how an entity may consider the effects of material ESG matters when applying current accounting standards similar to how an entity considers other changes in its business and operating environment with material direct or indirect effect on the financial statements and accompanying notes.

1. The educational paper does not change or modify current generally accepted accounting principles (GAAP).

Considerations around ESG matters and financial reporting

This section summarises the guidance provided by FASB vis-à-vis consideration of relevant ESG matters in financial reporting.

Going concern

- Management may consider the effects of environmental matters (e.g., increased compliance costs related to enacted emission regulations) and other relevant factors that may be material to an entity's ability to meet its obligations as they become due within one year after the date the financial statements are issued.
- In case of a substantial doubt about an entity's ability to continue, management should consider whether its plans alleviate the doubt.
- Disclose information about matters significant to the going concern evaluation.



Risks and uncertainties

- Management should determine the effects of environmental matters that are material and could significantly affect the amounts reported in the financial statements in the near term (i.e. period not exceeding one year from the date of the financial statements) and provide adequate disclosures.
- In case of estimates that are sensitive to change, resulting in material change to the carrying amount of assets and liabilities in the near term, an entity may also be required to disclose the nature of uncertainty along with an indication that it is reasonably possible that the estimates will change in the near term.

Entities are also encouraged to disclose the factors that cause the estimate to be sensitive to change as well as any risk reduction techniques (e.g. insurance) used by the entity.







### Inventory



Estimates of Net Realisable Value (NRV) could be materially affected by various factors. For instance:

- a. A regulatory change that renders inventories obsolete
- b. A significant weather event that causes physical damage to inventories
- c. A decrease in demand for an entity's goods resulting from changes in consumer behaviour
- d. An increase in completion costs owing to raw material sourcing constraints.

Management should consider all relevant facts and circumstances while estimating NRV for the purpose of valuation of inventory.



### Impairment of goodwill and intangible assets



- Direct or indirect effects of an environmental matter could give rise to an impairment indicator. For instance, changes in hazardous waste management regulations that could adversely affect an entity's operations.
  - Environmental matters may also affect the measurement of an impairment loss. For instance, the matter could materially affect the market participant's assumptions used to calculate the fair value of the reporting unit (goodwill) or the fair value of the indefinite lived-intangible assets.
  - Amongst other matters, an entity should disclose the facts and circumstances that led to the recognition of impairment loss and the method for determining fair value while doing impairment assessment of goodwill and indefinite-lived intangible assets.
  - The effect of an environmental matter may also be one of the factors that can affect the estimated useful life of finite-lived intangible assets (e.g. client relationships or developed technologies). For instance, an entity may develop more energy efficient product to substitute a legacy product which could result in a change in the estimated useful life of the client relationship intangible asset associated with the legacy product.
- Alternatively, an entity may acquire the rights to certain green technology that did not perform commercially as expected and thus, would be subject to an impairment charge.







## Property, Plant and Equipment (PPE)



Similar to goodwill and intangible assets, environmental matters could give rise to impairment indicators for PPE. If there are impairment indicators, then an entity should evaluate whether the long-lived asset is recoverable. Additionally, there could be an effect on the salvage value or estimated useful life of a PPE. For instance, availability of more energy-efficient equipment may result in decrease in estimated salvage value and/or decrease in the estimated useful life of less energy efficient equipment.



## Loss contingencies and related topics



### Loss contingencies

- Management judgement is required to evaluate whether a condition, situation or set of circumstances meets the definition of a contingency to be provided for. Examples of loss contingencies could include liabilities for injury or damage caused by products sold and obligations related to product warranties.

### Gain contingencies

- Gain contingencies are not recognised in the financial statements until all contingencies are resolved and the amount is realised or realisable.
- A gain contingency may result from an insurance recovery (exceeding a recognised loss) related to damage sustained to a manufacturing facility during a significant weather event.

### Environmental obligations

- An entity is required to consider relevant regulatory, legal and contractual requirements when accounting for environmental obligations. For example, regulatory requirements to remediate land contamination or fines imposed by the government for failure to meet emission targets.
- Disclose nature of the contingency and an indication that it is reasonably possible that the amount accrued could change in the near term.
- In case of unrecognised loss contingencies, disclose an estimate of the possible loss/range of losses or a statement that such an estimate cannot be made.

### Asset Retirement Obligation (ARO)

- Environmental matters may affect the recognition, measurement and disclosure of an ARO in the financial statements. For instance, those related to:
  - a. A legal obligation to remove a toxic waste storage facility at the end of its useful life
  - b. A regulatory requirement to decommission a nuclear power plant or an offshore drilling platform.





Income taxes

Environmental regulations could affect estimates of future taxable income. For example, projected increase in costs to comply with enacted environmental regulations can affect estimates of future taxable income.



Fair value measurement

Market participants' assumptions may affect fair value measurements. For example, those related to potential legislation or an asset's highest and best use.



Conclusion

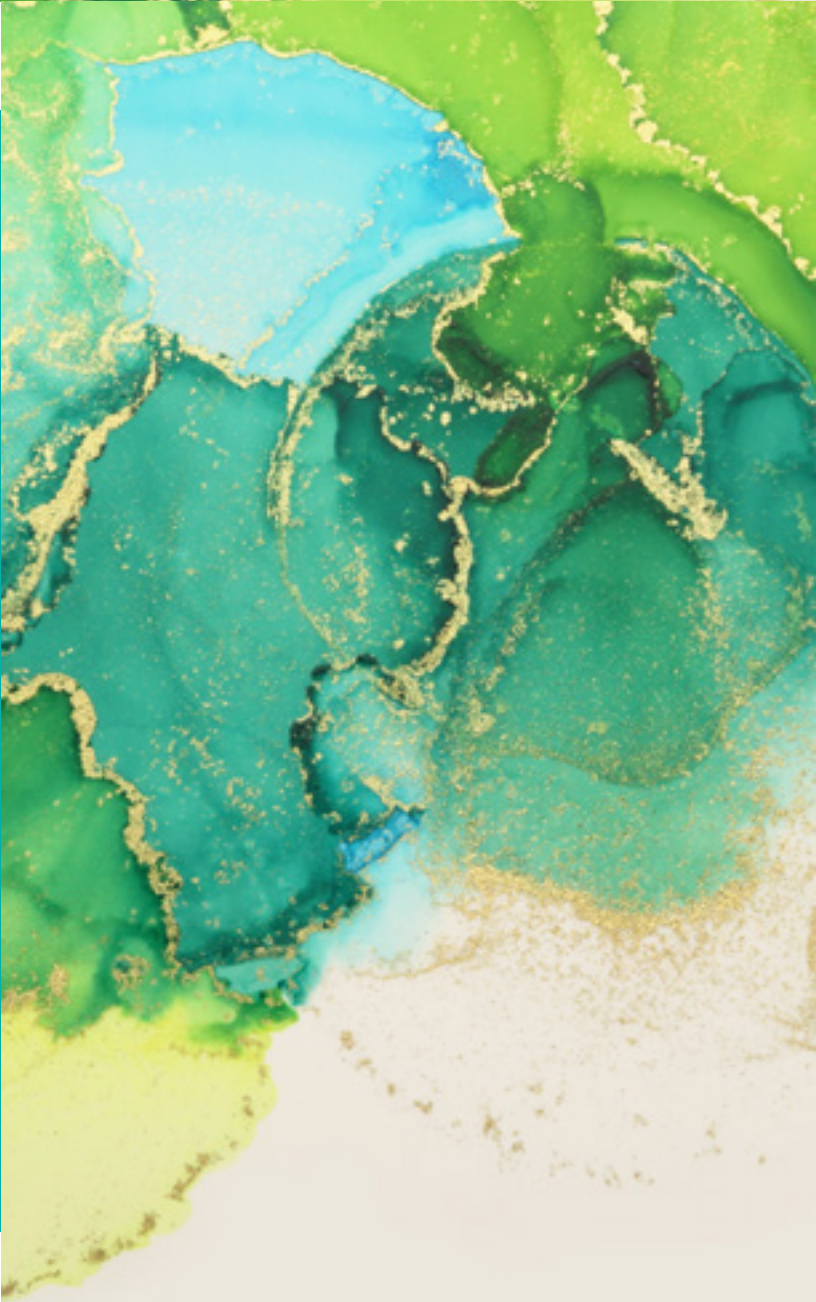
As companies present ESG disclosures, there is a growing acknowledgement that the information presented in certain cases lacks comparability and consistency. Therefore, it is imperative for entities to continuously monitor developments in the area of ESG reporting and assess ESG related risks on their financial statements.

ESG and related reporting is gaining significant momentum across various forums. The trustees of the IFRS Foundation have proposed to form a new International Sustainability Standards Board (ISSB) under the Foundation's governance structure with an objective to develop globally accepted IFRS sustainability standards. These standards would provide a global sustainability reporting baseline that would allow for greater comparability and consistency of application of the standards, while also providing flexibility for coordination on additional jurisdictional and multi-stakeholder reporting requirements. The new board would build on the well-established work of

the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), as well as work by the alliance of leading standard-setters in sustainability and integrated reporting focussed on enterprise value creation such as International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB), Climate Disclosure Standards Board (CDSB) and the World Economic Forum (WEF). The board will also coordinate with the International Organisation of Securities Commission (IOSCO) to drive international consistency on sustainability-related disclosures<sup>2</sup>.

Entities should refer to their current GAAP and consider the regulatory guidance provided in light of their specific facts and circumstances while preparing the financial statements.

2. IFRS Foundation Trustees announce working group to accelerate convergence in global sustainability reporting standards focused on enterprise value, announcement dated 22 March 2021.





CHAPTER 3

Amendments to Listing Regulations and an action plan

This article aims to:

Summarise recent amendments made by SEBI to Listing Regulations.

The Securities and Exchange Board of India (SEBI) on 2 September 2015 notified the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations). The Listing Regulations comprises of detailed regulations covering post listing obligations relating to different segments of the capital market.

On 5 May 2021, SEBI issued various amendments to Listing Regulations with an aim to strengthen corporate governance practices and disclosure requirements, ease compliance burden on listed entities and realign it with recent regulatory developments. The amendments were approved by SEBI in its board meeting dated 25 March 2021.

This article aims to provide an overview of key recommendations to the Listing Regulations.



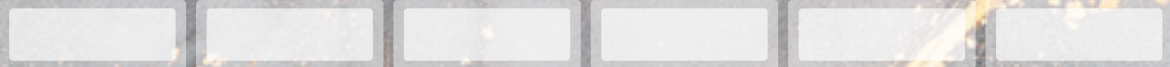
Overview of the amendments

The following sections discusses the key amendments to Listing Regulations:

A. Amendments to strengthen corporate governance practices

Regulation	Amendment
<b>Applicability (Regulation 3(2))</b>	Regulation 3 deals with applicability requirements of the Listing Regulations and it has been amended. The amendment provides that once any of the provisions of the Listing Regulations become applicable to a listed entity on the basis of market capitalisation, then they would continue to apply to such entities even if they fall below such thresholds.
<b>Corporate governance provisions applicability (Regulation 15(2))</b>	<p>Currently, every listed entity that satisfies certain conditions is required to comply with the corporate governance provisions. The conditions are to be met as on the last day of the previous financial year and they are:</p> <ul style="list-style-type: none"><li>• Paid up equity share capital INR10 crore or more and</li><li>• Net worth INR25 crore or more.</li></ul> <p>SEBI amended Regulation 15(2) relating to applicability of corporate governance provisions under Listing Regulations. The amendment provides that once corporate governance provisions become applicable to a listed entity, then these provisions would continue to remain applicable till such time the equity share capital or the net-worth of such an entity reduces and remains below the specified threshold for a period of three consecutive financial years.</p>
<b>Corporate governance requirements with respect to subsidiary of listed entity (Regulation 24(5))</b>	<p>As per the amendments, a listed entity has to pass a special resolution in its general meeting when it intends to dispose of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) to less than or <b>equal to</b> 50 per cent or cease the exercise of control over the subsidiary.</p> <p>Earlier the requirement of passing special resolution was applicable in case the shareholding falls below 50 per cent.</p>





<b>Disclosure of events or information (Regulation 30(6) and Schedule III)</b>	<p>There is an amendment to Regulation 30(6) which provides that the disclosure of discussion held in a board meeting such as disclosure relating to financial results, dividends, buy back of securities to stock exchange should be made within the timelines specified therein, rather than within 30 minutes from the conclusion of the board meeting.</p> <p>Additionally, Schedule III has been amended to provide in case of board meetings being held for more than one day, the financial results should be disclosed within 30 minutes of end of the meeting for the day on which it has been considered.</p>
<b>Business Responsibility and Sustainability Report (BRSR) (Regulation 34(2))</b>	<p>Currently, top 1,000 listed companies<sup>1</sup> in India are required to furnish a Business Responsibility Report (BRR) to the stock exchanges as a part of their annual reports. The BRR should describe the initiatives taken by the listed companies from an Environmental, Social and Governance (ESG) perspective, in the format as specified by SEBI. Other listed companies may submit the BRR voluntarily under Regulation 34 of the Listing Regulations.</p> <p>SEBI issued following amendments relating to BRR:</p> <ul style="list-style-type: none"><li>• The BRR would be applicable to the top 1,000 listed entities (by market capitalisation) until financial year 2021-22</li><li>• With effect from financial year 2022-23, top 1,000 listed entities would be required to submit Business Responsibility and Sustainability Report (BRSR) instead of BRR in the format prescribed by SEBI</li><li>• The top 1,000 listed entities (by market capitalisation), can report BRSR on a voluntary basis for financial year 2021-22.</li></ul>
<b>Dividend distribution policy (Regulation 43A)</b>	<p>There is an amendment to Regulation 43A which provides that the requirement relating to dividend distribution policy would be applicable to top 1,000 listed entities based on market capitalisation instead of current applicability to top 500 entities (by market capitalisation).</p> <p>The dividend distribution policy should list the circumstances under which the shareholders may expect dividend, the financial parameters, internal and external factors that would be considered for declaring dividend.</p>

<b>Dividend distribution policy (cont.)</b>	<p>Additionally, a listed entity is required to formulate a dividend distribution policy which should be disclosed on its website and a web-link should also be provided in its annual report. Before this amendment, the policy was provided in the annual report and on the website of the listed entity.</p> <p>The listed entities other than top 1,000 listed entities based on market capitalisation may disclose their dividend distribution policies on a voluntary basis on their websites and provide a web-link in their annual report.</p>
<b>Role of an audit committee (Schedule II - Part C)</b>	<p>In addition to their current responsibilities, the audit committee would be required to consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation, etc. on the listed entity and its shareholders.</p>



1. Based on market capitalisation calculated as on 31 March of every financial year.



## B. Amendments relating to compliance requirements

Regulation	Amendment
<b>Compliance certificate (Regulation 7(3))</b>	<p>Currently, a listed entity is required to submit a compliance certificate to the stock exchange certifying that all the activities in relation to share transfer facility are maintained either in house or by a registrar to an issue and share transfer agent registered with SEBI.</p> <p>Now, the amendments require a listed entity to submit such compliance certificate within 30 days from the end of the financial year. Before the amendment, the requirement was to submit such compliance certificate within one month of end of each half of the financial year.</p>
<b>Secretarial Audit and Secretarial Compliance Report (Regulation 24A)</b>	<p>Currently, SEBI circular (no. CIR/CFD/CMD1/27/2019) dated 8 February 2019 requires a listed entity to submit secretarial compliance report to the stock exchanges within 60 days of the end of the financial year. The circular also prescribes the format for the annual secretarial compliance report.</p> <p>Now the amendments have incorporated this requirement in Regulation 24A to provide that every listed entity shall submit a secretarial compliance report in a prescribed format to the stock exchanges, within 60 days from the end of each financial year.</p>
<b>Disclosure of beneficial ownership (Regulation 26 and 36)</b>	<p>Currently, both Regulation 26(4) and Regulation 36(3)(e) require non-executive directors to disclose their shareholding (in the listed entity) at the time of their appointment. While Regulation 26(4) additionally requires disclosure of shareholding held on a beneficial basis, there is no such requirement in Regulation 36(3)(e).</p> <p>Therefore, the amendment omitted Regulation 26(4) and amended regulation 36(3) to include the requirement of disclosure of shareholding held on a beneficial basis by non-executive directors at the time of their appointment.</p>
<b>Quarterly compliance report (Regulation 27(2))</b>	<p>The amendment requires a listed entity to submit a quarterly compliance report on corporate governance under Regulation 27(2) in the prescribed format to the recognised stock exchange(s) within 21 days from the end of each quarter. Before the amendment, there was a requirement to file this certificate within 15 days from the close of the quarter.</p>

<b>Certificate from practicing company secretary (Regulation 40(9))</b>	<p>As per Regulation 40(9), a listed entity is required to submit a certificate from a practicing company secretary to stock exchange within one month of the end of each half of the financial year, certifying that all certificates relating to transfer, transmission or transposition of securities have been issued within 30 days of the date of lodgement for transfer, sub-division, consolidation, renewal, exchange or endorsement of calls/allotment monies.</p> <p>The amendment provides that a listed entity should submit such compliance certificate within one month from the end of the financial year instead of filing it on a half yearly basis.</p>
<b>Disclosure of voting results (Regulation 44(3))</b>	<p>The amendment requires a listed entity to submit to the stock exchange, within two working days of conclusion of its general meeting, details regarding the voting results in the prescribed format. Before the amendment, the requirement was to submit the results within 48 hours.</p>
<b>Change in name of the listed entity (Regulation 45(3))</b>	<p>The amendments omit the requirement of seeking an approval from a stock exchange relating to the change of name of an entity. Additionally, the amendment requires a listed entity to seek shareholders' approval for change in the name of the entity by submitting a certificate from a practicing chartered accountant stating compliance with the requirements of the Listing Regulations relating to change in the name of a listed entity.</p>
<b>Exemption relating to foreign subsidiary (Regulation 46(2)(s))</b>	<p>Currently Regulation 46(2)(s) requires listed entities to upload separate audited financial statements of each subsidiary of the listed entity in respect of a relevant financial year, at least 21 days prior to the date of the annual general meeting which has been called to, <i>inter alia</i>, consider accounts of that financial year.</p> <p>In relation to this provision, the amendment provides that a listed entity which has a subsidiary incorporated outside India (foreign subsidiary) would not be required to present separate financial statements where:</p> <ol style="list-style-type: none"> <li>A foreign subsidiary is statutorily required to prepare consolidated financial statement under any law of the country of its incorporation, and the consolidated financial statements of such a foreign subsidiary is placed on the website of the listed entity</li> </ol>



<b>Exemption relating to foreign subsidiary (cont.)</b>	b. A foreign subsidiary is not required to get its financial statements audited under any law of the country of its incorporation and which does not get such financial statements audited, the holding Indian listed entity may place such unaudited financial statements on its website and where such financial statements are in a language other than English, a translated copy of the financial statements in English should also be placed on the website.
<b>Additional disclosure requirements on website (Regulation 46)</b>	<p>The amendments require additional disclosures on a listed entity's website. These disclosures have to be provided in a separate section on its website. Additional disclosures are as follows:</p> <ul style="list-style-type: none"> <li>• Secretarial compliance report under Regulation 24A(2)</li> <li>• Policy for determination of materiality of events or information under Regulation 30(4)(ii)</li> <li>• Contact details of key managerial personnel who are authorised for the purpose of determining materiality of an event or information and for the purpose of making disclosures to stock exchange(s) under Regulation 30(5)</li> <li>• Disclosures under Regulation 30(8) relating to material events or information</li> <li>• Statements of deviation(s) or variation(s) under Regulation 32</li> <li>• Dividend distribution policy by listed entities based on market capitalisation under Regulation 43A</li> <li>• Annual return as prescribed under Section 92 of the Companies Act, 2013 and the rules made thereunder.</li> </ul>
<b>Advertisements in newspapers (Regulation 47(1))</b>	<p>The amendments remove the requirements relating to newspaper advertisement in following cases:</p> <ul style="list-style-type: none"> <li>• Notice of meeting of the board of directors where financial results to be discussed</li> <li>• Statements of deviation(s) or variation(s) under Regulation 32(1) on quarterly basis, after review by audit committee and its explanation in directors report in annual report.</li> </ul>

### C. Amendments relating to applicability and role of a Risk Management Committee (RMC)

SEBI issued following amendments to Regulation 21 of the Listing Regulations relating to the applicability and role of the RMC:

- **Applicability extended:** RMC should be constituted by top 1,000 listed entities (on the basis of market capitalisation as at the end of the immediate previous financial year). Before amendment, it was applicable to top 500 listed entities.
- **Membership of RMC:** The RMC should have minimum three members with majority of them being members of the board of directors, **including at least one independent director**. Additionally, in case of a listed entity with outstanding SR equity shares, at least two thirds of the RMC shall comprise independent directors.
- **Number of meetings:** The RMC to meet at least **twice** a year (before amendment, once a year).
- **Quorum of the meeting:** The quorum for a meeting of the RMC should be either two members or one-third of the members of the committee, whichever is greater, including at least one member of the board of directors in attendance (this is a new requirement).
- **Time lag between two meetings:** The meetings of RMC should be conducted in such a manner that on a continuous basis not more than 180 days shall elapse between any two consecutive meetings (this is a new requirement).
- **Enhanced role and responsibility:** A new section has been added to Part D of Schedule II that defines role of the RMC. Following are the key aspects:
  - RMC would need to formulate a detailed risk management policy which should include following:
    - A framework for identification of internal and external risk specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the committee
    - Measures for risk mitigation including systems and processes for internal control of identified risks
    - Business continuity plan
  - To ensure that appropriate methodology, processing and systems are in place to monitor and evaluate risks associated with the business of the company



- To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems
- To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity
- To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken
- The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) would be subject to review by the RMC.
- **Additional powers:** The RMC would have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

#### D. Revision of provisions relating to reclassification of promoter/promoter group entities

Currently, Regulation 31A of the Listing Regulations permits reclassification of promoters of listed entities as public shareholders in different scenarios, subject to the specified conditions. The reclassification scenarios, *inter alia*, include the following:

- When a promoter is replaced by a new promoter
- Where a company ceases to have any promoters (i.e. becomes professionally managed).

Relaxation from this requirement was given by SEBI on a case to case basis.

Difficulties were faced by the entities in cases where promoters have desired reclassification but have experienced challenges. Therefore, SEBI had issued following revisions to the existing provisions of the Listing Regulations.

- The board of directors would be required to analyse the reclassification request immediately in the next board meeting or within three months from the date of receipt of the request from its promoter(s), whichever is earlier. Before the amendment there was no definitive timeline for the board of directors to analyse such requests.

- Current time gap of a minimum of three months and maximum six months between the date of board meeting and the shareholders' meeting for considering the request of the promoter(s) seeking reclassification has been reduced to a minimum of one month and maximum three months.
- The requirement of seeking approval of shareholders would not apply in cases where the promoter seeking reclassification and persons related to the promoter(s) seeking reclassification, together holds shareholding of less than one per cent, subject to the promoter not being in control.
- The current relaxations applicable to the companies whose resolution plans have been approved under Section 31 of the Insolvency and Bankruptcy Code, 2016 would be extended to reclassification pursuant to an order of any regulator under any law subject to the condition that such promoter(s) seeking reclassification should not remain in control of the listed entity.
- Exemption from the procedure for reclassification would be granted in cases where reclassification is pursuant to an open offer or a scheme of arrangement and if the intent of the erstwhile promoter(s) to reclassify has been disclosed in the letter of offer or scheme of arrangement. Additionally,

the requirement relating to minimum public shareholding requirements would also not be applicable in case of reclassification pursuant to an open offer.

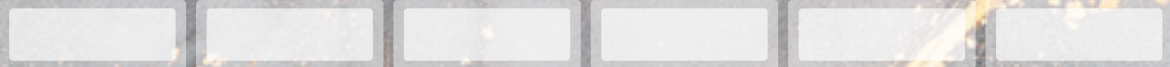
#### E. Disclosures pertaining to analyst and investor meet and conference calls

Under Listing Regulations, a listed entity is required to disclose the schedule of analyst or institutional investor meet and the presentations made to them on its website under Regulation 46 and on the website of the stock exchange under Schedule III. The SEBI has amended Regulation 46 and Schedule III to strengthen the disclosure framework with respect to analyst and institutional investors' meetings and conference calls. The amended provision explains the term 'meet' to mean the group meetings and calls, whether digitally or by physical means.

Additionally, Listing Regulations have been amended to include following requirements relating to audio or video recordings and transcripts of post earnings/quarterly calls:

- **Audio/video recordings on website:** Audio/video recordings to be uploaded on the website of a listed company and the stock exchanges immediately after the conclusion of the earnings conference call, before the commencement of the next trading day or within 24 hours from the conclusion of such calls, whichever is earlier.





- **Written transcript on website:** Written transcript of such calls to be uploaded on the website of the listed entity and stock exchanges within five working days of the conclusion of such calls.
- **Period to retain:** The audio/video recordings to be uploaded on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website. Further, the written transcript of such calls should be preserved permanently as per the requirements under Regulation 9(a) of the Listing Regulations.

The requirement for disclosure(s) of audio/video recordings and transcript would be applicable on a voluntary basis from 1 April 2021 and on a mandatory basis from 1 April 2022.

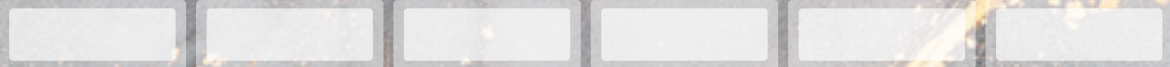
Action plan

The following table summarises important actions that listed entities need to focus on due to amendments to Listing Regulations:

Provision	Next steps
<b>Requirement to furnish BRSR in place of BRR to the stock exchanges as a part of annual reports</b>	<ul style="list-style-type: none"><li>• <b>Mandatory from FY2022-23:</b> For top 1,000 listed entities by market capitalisation (calculated as on 31 March of every FY)</li><li>• <b>Voluntary for FY2021-22:</b> For top 1,000 listed entities by market capitalisation (calculated as on 31 March of every FY)</li><li>• <b>Voluntary for other companies:</b> Listed entities (other than top 1,000) and entities which have listed their specified securities on the Small and Medium Enterprises (SME) exchange may voluntarily submit BRSR in place of BRR effective FY2021-22 onwards.</li></ul>
<b>Mandatory constitution of RMC and enhanced role of RMC</b>	Date of publication in the official gazette - 6 May 2021 Applicability - Top 1,000 listed entities (basis market capitalisation as at the end of immediate previous FY)
<b>Provisions relating to re-classification of promoter/promoter group entities:</b> <ul style="list-style-type: none"><li>• Analyse reclassification request immediately in the next board meeting or within three months from the date of receipt of the request from promoter(s), whichever is earlier</li><li>• Reduction in time gap between the date of board meeting and the shareholders’ meeting for considering the request of the promoter(s) seeking reclassification to minimum one month and maximum three months.</li></ul>	Date of publication in the official gazette - 6 May 2021







Provision	Next steps
<b>Amendments relating to certain compliances to be made by listed entities:</b> <ul style="list-style-type: none"><li>• Compliance certificate in relation to share transfer facility</li><li>• Secretarial compliance report</li><li>• Quarterly compliance report on corporate governance</li><li>• Compliance certificate from practicing Company Secretary relating to transfer/transmission/transposition of securities</li><li>• Details of voting result</li></ul>	<p>Date of publication in the official gazette - 6 May 2021</p> <p>Within 30 days of the end of FY</p> <p>Within 60 days from the end of each FY</p> <p>Within 21 days from the end of each quarter</p> <p>Within one month from the end of FY</p> <p>Within two working days of conclusion of an entity's general meeting</p>
<b>Disclosure of dividend distribution policy on the entity's website and web-link in the annual report</b>	<p>Date of publication in the official gazette - 6 May 2021</p> <p>Applicability:</p> <ul style="list-style-type: none"><li>• Mandatory for top 1,000 listed entities (basis market capitalisation calculated as on 31 March of every FY)</li><li>• Voluntary for other listed entities (other than top 1,000).</li></ul>
<b>Disclosures pertaining to analyst and investor meet and conference calls:</b> <ul style="list-style-type: none"><li>• Upload of audio/video recordings on an entity's website and the stock exchanges</li><li>• Upload of written transcript of calls on an entity's website and the stock exchanges.</li></ul>	<ul style="list-style-type: none"><li>• Voluntary from 1 April 2021</li><li>• Mandatory from 1 April 2022.</li></ul>



## CHAPTER 4

Regulatory  
updates**MCA issued amendments to Ind AS including interest rate benchmark reform (phase 2)**

On 18 June 2021, the Ministry of Corporate Affairs (MCA) has issued the Companies (Indian Accounting Standards (Ind AS)) Amendments Rules, 2021 and made amendments to various Ind AS. Some of the key amendments relate to the following standards:

Standard	Overview of the amendments
Ind AS 107, <i>Financial Instruments: Disclosures</i>	<p>Additional disclosures included relating to interest rate benchmark reform. Those, <i>inter alia</i>, include information about:</p> <ol style="list-style-type: none"> <li>Nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform and how the entity manages these risks and</li> <li>Entity's progress in completing the transition to alternative benchmark rates and how the entity is managing the transition.</li> </ol> <p><b>Effective date:</b> An entity should apply the amendments when it applies amendments to Ind AS 109, Ind AS 104 or Ind AS 116.</p>
Ind AS 109, <i>Financial Instruments</i>	<p>A new paragraph included on changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform. As per the guidance provided, the basis for determining the contractual cash flows of a financial asset or financial liability can change in the following manner:</p> <ol style="list-style-type: none"> <li>By amending the contractual terms specified at the initial recognition of the financial instrument</li> <li>In a way that was not considered by or contemplated in the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms</li> <li>Due to the activation of an existing contractual term.</li> </ol> <p><b>Effective date:</b> An entity should apply the amendments for annual reporting periods beginning on or after 1 April 2021.</p>
Ind AS 116, <i>Leases</i>	<p>Practical expedient relating to rent concessions occurring as a direct consequence of COVID-19 has been modified. Accordingly, a lessee is not required to account for rent concessions as lease modifications if the reduction in lease payments affects only payments originally due on or before 30 June 2022 (earlier 30 June 2021) and subject to compliance with other specified conditions.</p> <p><b>Effective date:</b> A lessee should apply the amendment for annual reporting periods beginning on or after 1 April 2021. In case a lessee has not yet approved the financial statements for issue before the issuance of the amendment, then the same may be applied for annual reporting periods beginning on or after the 1 April 2020.</p> <p>A lessee should apply the amendment retrospectively and recognises the cumulative effect of initially applying them in the opening retained earnings of the annual reporting period in which it is first applied.</p>

(Source: MCA notification no. G.S.R. 419(E) dated 18 June 2021)



## MCA notifies accounting standards for SMCs under the Companies Act, 2013

MCA through a notification dated 23 June 2021 has issued the Companies (Accounting Standards) Rules, 2021. The Accounting Standards (AS) notified under the Rules will be applicable to companies (other than companies to which Ind AS are applicable) including Small and Medium sized Companies (SMCs) in preparation of financial statements. The Rules prescribe revised definition of a SMC. According to it, SMC would mean a company which meets the following criteria as at the end of the relevant accounting period:

- Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India
- Which is not a bank, financial institution or an insurance company
- Whose turnover (excluding other income) does not exceed **INR250 crore** (earlier INR50 crore) in the immediately preceding accounting year
- Which does not have borrowings (including public deposits) in excess of **INR50 crore** (earlier INR10 crore) at any time during the immediately preceding accounting year and
- Which is not a holding or subsidiary company of a company which is not a SMC.

The key standards notified under the Rules includes:

- AS 9, *Revenue Recognition*
- AS 10, *Property, Plant and Equipment*
- AS 12, *Accounting for Government Grants*
- AS 14, *Accounting for Amalgamations*
- AS 15, *Employee Benefits*
- AS 16, *Borrowing Costs*
- AS 18, *Related Party Disclosures*
- AS 19, *Leases*
- AS 21, *Consolidated Financial Statements*
- AS 25, *Interim Financial Reporting*
- AS 26, *Intangible Assets*
- AS 28, *Impairment of Assets*
- AS 29, *Provisions, Contingent Liabilities and Contingent Assets*.

**Effective date:** The AS are effective for accounting periods beginning on or after 1 April 2021.

(Source: MCA notification dated 23 June 2021)

## Relaxation in matters to be dealt through VC or OAVM facility

Currently, Section 173(2) of the Companies Act, 2013 (2013 Act) provides that the directors can participate in Board of Directors' (BoD) meetings

in person, through Video Conferencing (VC) or Other Audio-Visual Means (OAVM) in the prescribed manner. However, Rule 4 of the Companies (Meetings of Board and its Powers) Rules, 2014 (Board Meeting Rules) specify certain matters which cannot be considered in a meeting through VC or OAVM facility. Those are as follows:

- Approval of the annual financial statements
- Approval of the board's report
- Approval of the prospectus
- Audit committee meetings for consideration of financial statement including consolidated financial statement if any, to be approved by the BoD under Section 134(1) of the 2013 Act and
- Approval of the matter relating to amalgamation, merger, demerger, acquisition and takeover.

### Amendment

MCA through a notification dated 15 June 2021 has issued an amendment to the Board Meeting Rules and omitted Rule 4. Accordingly, meetings to discuss the matters specified in Rule 4 of the Board Meeting Rules (i.e. approval of the annual financial statements, board's report, prospectus, etc.) can now take place through VC or OAVM facility.

**Effective date:** The amendment is effective from the date of its publication in the official gazette i.e. 15 June 2021.

(Source: MCA notification no. G.S.R 409(E) dated 15 June 2021)

## MCA relaxation for conduct of EGMs through VC

MCA through a circular dated 23 June 2021 has extended the timeline for conduct of Extraordinary General Meetings (EGMs) by companies through VC/OAVM or transact items through postal ballot upto 31 December 2021. This will be in accordance with the framework provided in the circulars dated 8 April 2020, 13 April 2020, 15 June 2020, 28 September 2020 and 31 December 2020.

(Source: MCA general circular no. 10/2021 dated 23 June 2021)

## Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Amendment Rules, 2021

MCA through a notification dated 9 June 2021 issued certain amendments to the Investor Education and Protection Fund (IEPF) Authority (Accounting, Audit, Transfer and Refund) Amendment Rules, 2016.

As per the amendments, IEPF will include all shares held by the IEPF Authority in accordance with provisions of Section 90(9) of the 2013 Act (shares held by significant beneficial owners of the company) and all the resultant benefits arising out of such shares, without any restrictions<sup>1</sup>.

1. Shares are transferred to the IEPF Authority if no application has been made by the beneficial owners of the company aggrieved by the order of the Tribunal directing restrictions on shares pursuant to an application made by the company in case of non-furnishing of information or unsatisfactory information by beneficial owner of shares.



The transfer of shares by a company to the IEPF shall be deemed to be transmission of shares and companies will be required to follow specified procedure for transmission of shares. The company should make such transfers through corporate action and should also preserve copies for its records.

While effecting the transfer, the company should send a statement to the IEPF Authority in Form No. IEPF-4 within 30 days of the corporate action taken containing details of the transfer. The company should also attach the copy of the order of the Tribunal along with a declaration that no application under Section 90(9) of the 2013 Act has been made or is pending before the Tribunal.

**Effective date:** The amendments are effective from the date of their publication in the official gazette i.e. 9 June 2021.

(Source: MCA notification no G.S.R 396(E) dated 9 June 2021)

## SEBI issues a new format of compliance report on corporate governance for listed entities

### Background

Regulation 27(2) of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR) requires every entity with listed securities<sup>2</sup> to submit a quarterly compliance report

on corporate governance to the recognised stock exchanges. The report should be submitted within 15 days from close of the quarter in the format specified by SEBI. SEBI through its notifications dated 24 September 2015 and 16 July 2019 prescribed the formats of the compliance report to be submitted:

- On a quarterly basis
- At the end of Financial Year (FY)
- At the end of six months from the close of FY.

### New development

With a view to strengthen the disclosures around loans/guarantees/comfort letters/security provided by the listed entity, directly or indirectly to a promoter/promoter group entities or any other entity controlled by them, SEBI through its circular dated 31 May 2021 has decided to mandate disclosures around loans, guarantees, comfort letters, etc. provided by the listed entity in the compliance report on corporate governance on a half-yearly basis. Accordingly, in addition to the current disclosures, SEBI has issued a new format of specified disclosures to be made on a half-yearly basis as part of the compliance report on corporate governance. The format is effective from first half-year of FY2021-22.

(Source: SEBI circular no. SEBI/HO/CFD/CMD-2/P/ CIR/2021/567 dated 31 May 2021)

## SEBI (Delisting of Equity Shares) Regulations, 2021

SEBI through a notification dated 10 June 2021 has issued new regulations namely, SEBI (Delisting of Equity Shares) Regulations, 2021 (Delisting Regulations). These regulations shall apply to delisting of equity shares of a company including equity shares with superior voting rights from all or any of the recognised stock exchanges where such shares are listed. The regulations lay down two methods of delisting – voluntary method and compulsory method.

- **Voluntary delisting:** It means delisting of equity shares of a company voluntarily on an application made by the company in accordance with the provisions of Chapter III of the Delisting Regulations.
- **Compulsory delisting:** A recognised stock exchange may by a reasoned order delist equity shares of a company on any ground prescribed in the rules made under the Securities Contracts (Regulation) Act, 1956.

As per the regulations, delisting of equity shares will not be permitted in the following cases:

- A period of three years has not elapsed since the listing of that class of equity shares on any recognised stock exchange
- If any instrument issued by the company, which is convertible into the same class of equity

share(s) that is sought to be delisted, is outstanding

- Delisting pursuant to a buyback of equity shares by the company, including a buyback pursuant to consolidation or division of all or part of the equity share capital of the company, unless a period of six months has elapsed from the date of completion of such buyback
- Delisting pursuant to a preferential allotment made by the company unless a period of six months has elapsed from the date of such allotment.

**Effective date:** The regulations are effective from the date of their publication in the official gazette i.e. 10 June 2021.

(Source: SEBI notification no. SEBI/LAD-NRO/GN/2021-25 dated 10 June 2021)

## System driven disclosures to include listed debt securities

### Background

Currently, Regulation 7(2) of the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) requires a promoter, an employee and a director of a listed company to disclose about the transaction relating to the acquisition or disposal of securities to the company within two trading days. This disclosure is required if the value of such a

2. Equity shares and convertible securities as defined under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.



transaction exceeds INR10 lakh over any calendar quarter. Also, a listed company is required to notify the particulars of such trading to the stock exchange within two trading days of receipt of the disclosure of such information.

SEBI through a circular dated 9 September 2020 had decided to implement system driven disclosures for member(s) of promoter group and designated person(s) in addition to the promoter(s) and director(s) of a company (referred to as 'entities') under Regulation 7(2) of the PIT Regulations.

As per the circular, system driven disclosures under PIT Regulations would pertain to trading in equity shares and equity derivative instruments i.e. futures and options of the listed company (wherever applicable) by the entities. The process for implementation of the system has been specified in the circular.

As per the process, listed entities should provide the information including Permanent Account Number (PAN) of their promoters, designated person(s) and director(s) to the designated depository in a format and manner prescribed by the depositories within 10 days from the date of the circular. Any subsequent update in the details of entities need to be updated by the listed entity on the same day.

### New development

SEBI through a circular dated 16 June 2021 has decided to include the listed debt securities of equity listed companies under the purview of the said system driven disclosures. The procedure for implementation of the system as specified in circular dated 9 September 2020 would also be applicable for the listed debt securities.

The depositories and stock exchanges are required to make necessary arrangements such that the disclosures pertaining to listed debt securities along with equity shares and equity derivative instruments are disseminated on the websites of respective stock exchanges with effect from 1 July 2021.

(Source: SEBI circular no. SEBI/HO/ISD/ISD/CIR/P/2021/578 dated 16 June 2021)

### Relaxation under SEBI (Share Based Employee Benefit) Regulations, 2014

Currently, Regulation 18(1) and 24(1) of the SEBI (Share Based Employee Benefit) Regulations, 2014 (Share based Regulations) provide that there shall be a minimum vesting period of one year in case of employee stock options (options) and Stock Appreciation Rights (SAR).

Further, Regulation 9(4) of the Share based Regulations states that in the event of death of an employee while in employment, all the options,

SAR or any other benefit granted to him/her under a scheme till such date shall vest in the legal heirs or nominees of the deceased employee.

#### Relaxation

SEBI has decided to provide following relief to the families of the deceased employees of listed companies in view of the COVID-19 situation:

- The provisions under Share based Regulations relating to minimum vesting period of one year shall not apply in case of death (for any reason) of an employee.
- In such instances, all the options, SAR or any other benefit granted to such employee(s) shall vest with his/her legal heir or nominee on the date of death of the employee.

The relaxation will be available to all employees who have deceased on or after 1 April 2020.

(Source: SEBI circular no. SEBI/HO/CFD/DCR2/CIR/P/2021/576 dated 15 June 2021)

### Relaxation in compliance with requirements pertaining to AIFs and VCFs

SEBI through a circular dated 31 May 2021 has decided to extend the due dates for regulatory filings by Alternative Investment Funds (AIFs) and Venture Capital Funds (VCFs) that fell due during the period ending March 2021 to July 2021 as

prescribed under SEBI (AIF) Regulations, 2012 and circulars issued thereunder. Accordingly, AIFs and VCFs may submit regulatory filings for the said period on or before 30 September 2021.

(Source: SEBI circular no SEBI/HO/IMD/IMD-I/DOF6/CIR/2021/568 dated 31 May 2021)

### Mandatory risk based internal audit for HFCs

The Reserve Bank of India (RBI) through a notification dated 3 February 2021 has mandated Risk-Based Internal Audit (RBIA) framework for specified class of Non-Banking Financial Companies (NBFCs) and Primary (Urban) Co-operative Banks (UCBs).

RBI through a circular dated 11 June 2021, has further extended the applicability of the RBIA framework to the following class of Housing Finance Companies (HFCs):

- All deposit taking HFCs, irrespective of their size
- Non-deposit taking HFCs with asset size of INR5,000 crore and above.

Accordingly, these HFCs are required to put in place a RBIA framework by 30 June 2022, in accordance with the provisions of the circular dated 3 February 2021.

(Source: RBI circular no. RBI/2021-22/53 dated 11 June 2021)



## RBI issued clarifications on guidelines for appointment of statutory central auditors/statutory auditors of commercial banks, UCBs and NBFCs

RBI through its notification dated 27 April 2021 has prescribed guidelines for appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SA) of commercial banks (excluding Regional Rural Banks (RRBs)), Urban Co-operative Banks (UCBs) and Non-Banking Finance Companies (NBFCs) (including HFCs) for FY2021-22 and onwards. The guidelines aim to streamline the procedure of appointment of statutory auditors and to improve the quality and standards of audit in RBI regulated entities.

Recently, RBI has issued certain clarifications in the form of Frequently Asked Questions (FAQs) to ease the implementation of the guidelines. Some of the key clarifications are as follows:

- **Applicability of time gap in non-audit work:**

As per the guidelines, the time gap between any non-audit work (specified in Section 144 of the Companies Act, 2013, special/internal assignments, etc.) by the SCAs/SAs for the entities or any audit/non-audit work for its group entities should be at least one year, before or after its appointment as SCAs/SAs.

### Clarification

The group entities refer to the RBI regulated

entities in the group, which fulfil the definition of group entity, as provided in the circular. If an audit firm engaged with audit/non-audit works for the group entities (which are not regulated by RBI) is being considered by any of the RBI regulated entities in the group for appointment as SCAs/SAs, then it would be the responsibility of the board/Audit Committee Board/Local Management Committee (LMC) of the concerned RBI regulated entity to ensure that there is no conflict of interest and independence of auditors is ensured. This should be suitably recorded in the minutes of the meetings of board/ACB/LMC.

- **Eligibility criteria for audit firms:** In accordance with the guidelines, if any partner of a Chartered Accountant (CA) firm is a director in any entity, then the said entity would not be considered as SCA/SA of any of the group entities of that entity.

### Clarification

RBI clarified that group entities in the guidelines refer to RBI regulated entities in the group. Therefore, if any partner of a CA firm is a director in an RBI regulated entity in the group, then the said firm shall not be appointed as SCA/SA of any of the RBI regulated entities in the group. However, if an audit firm is being considered by any of the RBI regulated entities in the group for appointment as SCAs/SAs, whose partner is a director in any of the group entities (which are

not regulated by RBI), the said audit firm should make appropriate disclosures to the ACB as well as board/LMC.

- **Continued appointment of existing SCA/SAs:** The existing SCAs/SAs of the entity can continue (including as joint auditors) only if they fulfil the eligibility criteria and have not completed the stipulated tenure of three years as SCAs/SAs of the entity. Till the appointment of SCAs/SAs for FY2021-22, the SCAs/SAs for FY2020-21 can continue for the limited review for quarter 1, quarter 2, etc.

(Source: FAQs on 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs)' hosted on RBI's website)

## Guidelines for declaration of dividends by NBFCs

RBI through a notification dated 24 June 2021 has issued guidelines on distribution of dividend by NBFCs. Some of the key requirements prescribed by the guidelines are as follows:

- Board oversight:** The board of directors would need to consider the following aspects while considering the proposals for dividend:
  - Supervisory findings of the Reserve Bank (National Housing Bank (NHB) for HFCs) on divergence in classification and provisioning for Non-Performing Assets (NPAs)

- Qualifications in the auditors' report to the financial statements and
- Long term growth plans of the NBFC.

B. **Eligibility criteria:** NBFCs should comply with the prescribed minimum prudential requirements to be eligible to declare dividend. Those, *inter alia*, include:

- The net NPA ratio shall be less than six per cent in each of the last three years, including as at the close of the financial year for which dividend is proposed to be declared.
- NBFCs (other than standalone primary dealers) should have met the applicable regulatory capital requirement (given in Annexure I of the circular) for each of the last three financial years including the financial year for which the dividend is proposed.
- NBFCs should be compliant with the prevailing regulations/guidelines issued by RBI. RBI or the NHB (for HFCs) should not have placed any explicit restrictions on declaration of dividend.



C. **Quantum of dividend payable:** The ceilings on dividend payout ratios for NBFCs eligible to declare dividend are as under:

Type of NBFC	Maximum dividend payout ratio (percentage)
NBFCs that do not accept public funds and do not have any customer interface	No ceiling specified
Core Investment Company (CIC)	60
Standalone primary dealers	60
Other NBFCs	50

**Effective date:** The guidelines will be effective for declaration of dividend from the profits of the financial year ending 31 March 2022 and onwards.

(Source: RBI notification no. RBI/2021-22/59 dated 24 June 2021)

### Revision in threshold for aggregate exposure of resolution framework for COVID-19 related stress of individuals, small businesses and MSMEs

#### Background

RBI through its notifications dated 5 May 2021 has announced the framework for resolution of COVID-19 related stress of individuals, small

businesses and Micro, Small and Medium Enterprises (MSMEs) respectively. The framework prescribes the eligibility of the borrowers which may be considered for resolution under the framework. Those, *inter alia*, include:

#### Individuals and small business

- Individuals who have availed loans and advances for business purposes and to whom the lending institutions have aggregate exposure of not more than **INR25 crore** as on 31 March 2021.
- Small businesses, including those engaged in retail and wholesale trade, other than those classified as MSMEs as on 31 March 2021, and to whom the lending institutions have aggregate exposure of not more than **INR25 crore** as on 31 March 2021.

#### MSMEs

- The aggregate exposure, including non-fund based facilities, of all lending institutions to the borrower does not exceed **INR25 crore** as on 31 March 2021.

#### New development

RBI through its notifications dated 4 June 2021 has increased the threshold of INR25 crore in the above-mentioned eligibility criteria to INR50 crore.

(Source: RBI notification no. RBI/2021-22/46 and RBI/2021-22/47 dated 4 June 2021)

### FASB proposed improvements to discount rate guidance for lessees that are not public business entities

Currently, Topic 842, *Lease Accounting* provides lessees that are not public business entities with a practical expedient that allows them to make an accounting policy election to use a risk-free rate as the discount rate for all leases. The practical expedient aims to provide relief to those lessees from having to calculate an incremental borrowing rate, which could create unnecessary cost and complexity.

On 16 June 2021, the Financial Accounting Standards Board (FASB) has issued a proposed Accounting Standards Update (ASU) that would improve discount rate guidance for lessees that are not public business entities - including private companies, not-for-profit organisations, and employee benefit plans.

The amendments in the proposed ASU would allow lessees that are not public business entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. It would also require that, when the rate implicit in the lease is readily determinable for any individual lease, a lessee would use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election.

Comments on the proposed ASU have been invited up to 16 July 2021.

(Source: Proposed ASU on Topic 842 issued by FASB on 16 June 2021)





## KPMG in India's IFRS institute

Visit KPMG in India's IFRS institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.

## First Notes



## Mandatory BRSR reporting for top 1,000 listed companies from FY2022-23

8 June 2021

SEBI through a notification dated 5 May 2021 has made amendments to certain provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR).

Among various amendments, one relates to discontinuance of the requirement of submitting BRR by listed companies after FY2021-22. As per the notification, top 1,000 listed companies (by market capitalisation) would be required to submit a new report on ESG parameters, namely Business Responsibility and Sustainability Report (BRSR) from FY2022-23.

Additionally, SEBI through a notification dated 10 May 2021 has prescribed the format of new report, BRSR along with the guidance note to enable companies to interpret the scope of disclosures required to be made in the report.

This issue of First Notes aims to summarise the key features of the new report along with highlighting the differences between BRSR and BRR.



## Voices on Reporting (VOR) – Annual updates publication

On 20 April 2021, KPMG in India released the VOR - Annual updates publication. The publication provides a summary of key updates from the Securities and Exchange Board of India (SEBI), the Ministry of Corporate Affairs (MCA), the Institute of Chartered Accountants of India (ICAI) and the Reserve Bank of India (RBI) that are expected to be relevant for stakeholders for the year ended 31 March 2021.

To access the publication, please click [here](#).



Follow us on:

[home.kpmg/in/socialmedia](https://home.kpmg/in/socialmedia)



Previous editions are available to download from:

[home.kpmg/in](https://home.kpmg/in)

Feedback/queries can be sent to

[aaupdate@kpmg.com](mailto:aaupdate@kpmg.com)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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.

© 2021 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG (Registered) (a partnership firm with Registration No. BA- 62445) converted into KPMG Assurance and Consulting Services LLP (a Limited Liability partnership firm) with LLP Registration No. AAT-0367 with effect from July 23, 2020.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is for e-communication only. (002\_NEWS0621)

## Introducing



# 'Ask a question'

write to us at

[aaupdate@kpmg.com](mailto:aaupdate@kpmg.com)