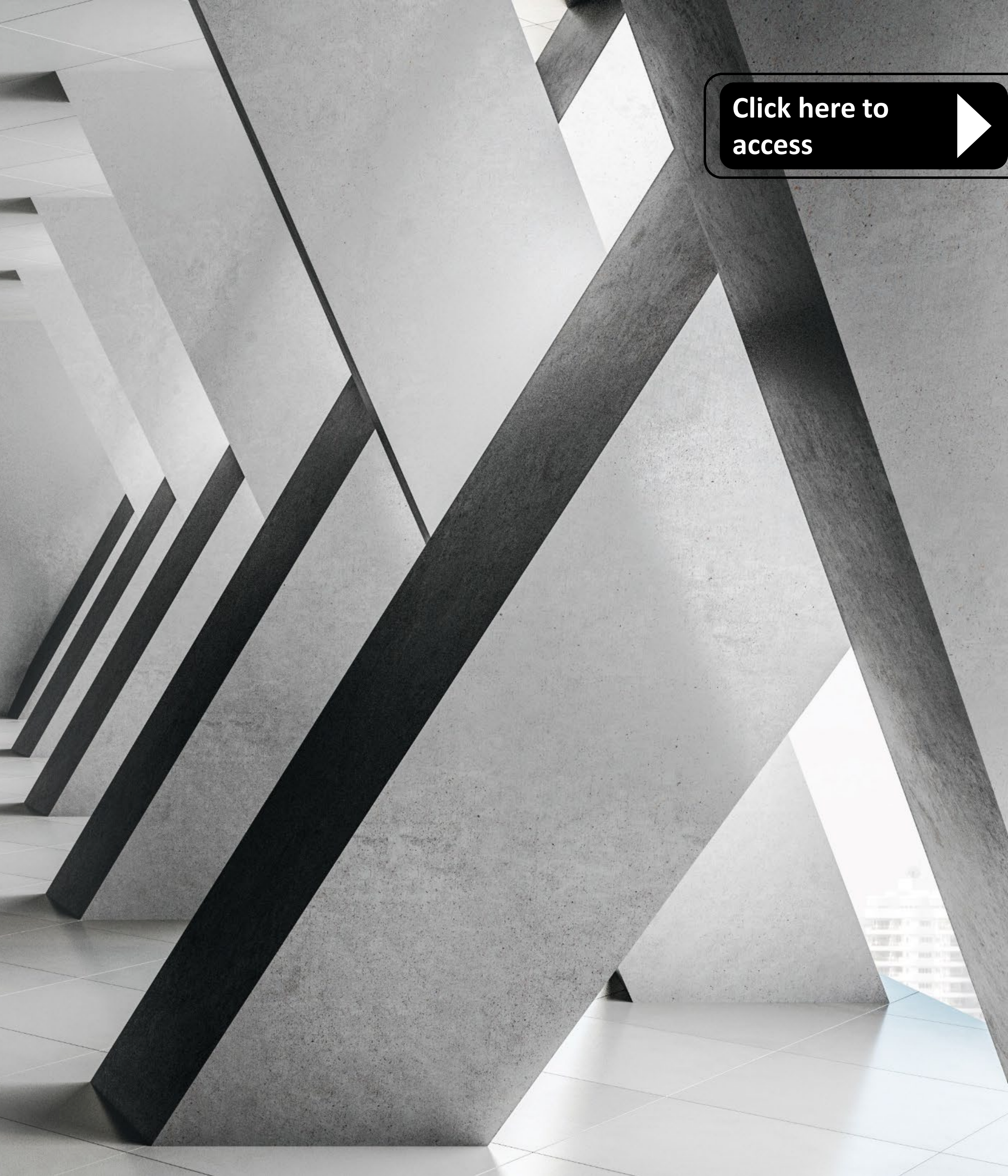
FOUNDATION FOR AUDIT QUALITY

Enhancing professional excellence

Click here to access



Regulatory updates for the month of April 2024

24 May 2024

www.faqonline.org

Introduction

The regulatory updates publication issued by the Foundation for Audit Quality (FAQ) highlights the latest developments in accounting, auditing and regulatory space in India and internationally. This month's edition covers important updates on accounting and regulatory matters and other discussion/consultation papers from regulators for the period from 1 April 2024 to 30 April 2024.

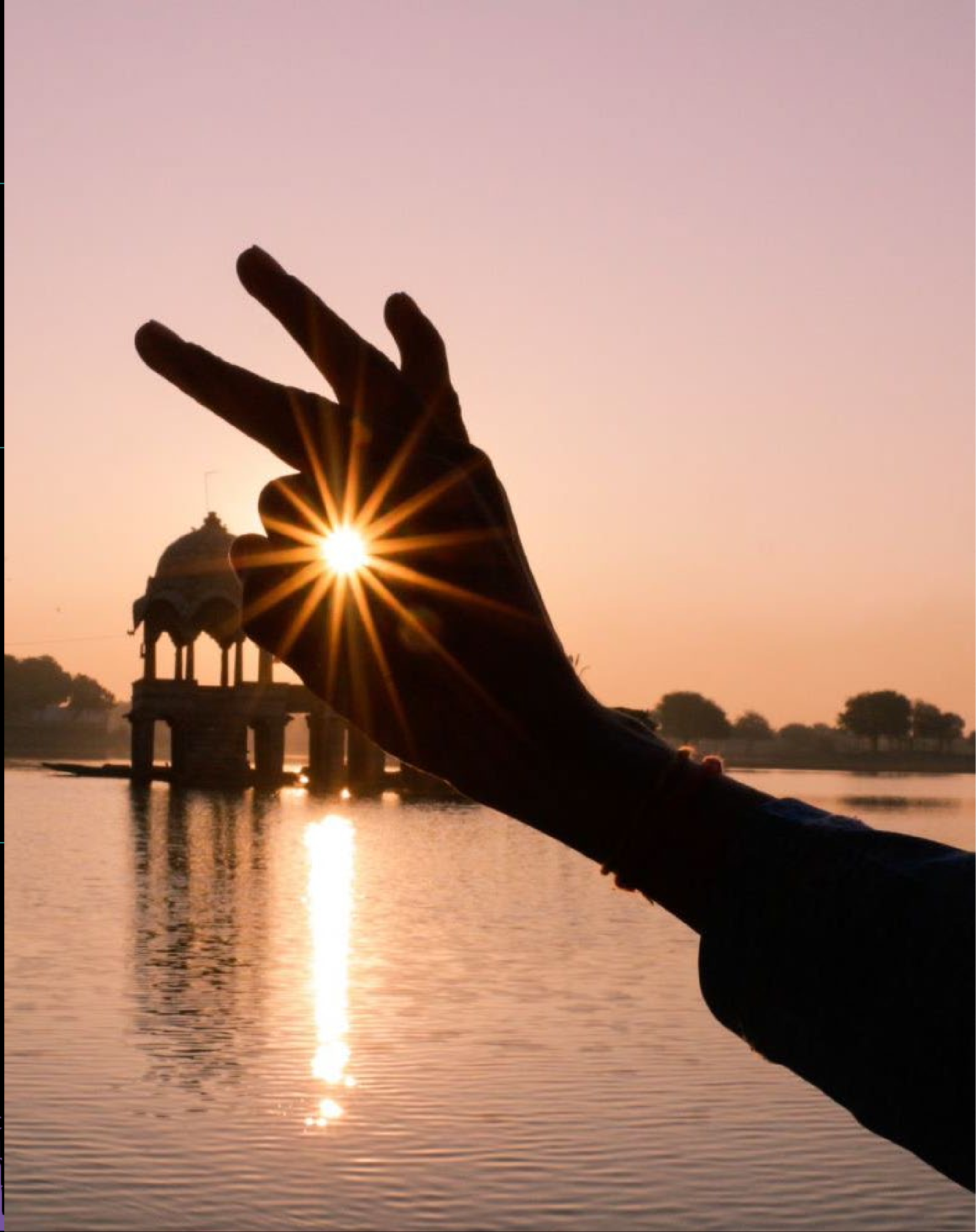
Some of the key topics covered in this edition include:

- Updates related to private placement memorandum of Alternative Investment Funds (AIFs) issued by the Securities and Exchange Board of India (SEBI)
- Fair practices code issued by the Reserve Bank of India (RBI) for lenders
- IFRS 18 *Presentation and Disclosure in Financial Statements* issued by the International Accounting Standards Board (IASB)

India updates

International updates

Discussion/Consultation papers and Publications



India updates

Regulatory updates

Updates from SEBI

During the month, SEBI has issued a series of updates applicable to Alternative Investment Funds. These are given below.

Changes with reference to the private placement memorandum of AIFs

A Private Placement Memorandum (PPM) is a primary document that entails all the necessary information about an AIF- this information is imperative for the investors in the AIF.

The Securities and Exchange Board of India (SEBI) vide the SEBI (Alternative Investment Fund) Regulations, 2012 (AIF Regulations) read with the Master Circular for AIFs[1] has prescribed certain compliances with the PPM, which *inter alia* include annual compliance audit with the PPM and communication of changes in terms of PPM. With an aim to facilitate ease of doing business, rationalizing cost and promoting uniform compliance standards, the SEBI has issued certain amendments pertaining to PPM. These changes are given below:

Changes in the terms of private placement memorandum of AIFs

As per the SEBI Master Circular for AIFs, any change to the terms of a PPM is required to be submitted to SEBI through a merchant banker along with a due diligence certificate from the merchant banker in the format specified by SEBI.

With a view to ease compliances for AIFs, SEBI issued a circular dated 29 April 2024, prescribing a list of changes to the terms of the PPM[2], which can be filed directly with SEBI without the involvement of a merchant banker.

Exemption from filing all changes through a merchant banker applicable to Large Value Fund for Accredited Investors (LVFs): LVFs are exempted from the requirement of intimating any changes in the terms of PPM through a merchant banker. LVFs can directly file **any changes** in the terms of PPM with SEBI, along with a duly signed and stamped undertaking by Chief Executive Officer (CEO) of the Manager of the AIF *(or person holding equivalent role or position depending on the legal structure of Manager)* and Compliance Officer of Manager of the AIF, in a format as specified at Annexure B of the circular.

To access the text of the circular issued, please click here

Standardisation of Private Placement Memorandum (PPM) audit report

As per the existing regulations[3], AIFs are required to ensure that they get an annual audit of compliance with the terms of the PPM done for the AIFs and submit the audit report to certain stakeholders[4] within six months from the end of the financial year.

[1] SEBI Master Circular No. SEBI/HO/AFD/PoD1/P/CIR/2023/130 dated 31 July 2023.

[2] The changes in terms of the PPM that may directly be communicated by the AIFs to SEBI are given in Annexure A to this circular.

[3] Regulation 28 of SEBI (AIF) Regulations, 2012 and Clause 2.4 of SEBI Master Circular SEBI/HO/AFD/PoD1/P/CIR/2023/130 dated 31 July 2023 (Master Circular)

[4] Stakeholders include:
- The trustee or board of directors or designated partners of the AIF,
- Board of directors or designated partners of the Manager and
- SEBI

In order to achieve uniform compliance reporting, on 18 April 2024, SEBI has issued a circular stating that a standard reporting format for PPM audit report applicable to various categories of AIFs has been prepared in consultation with the Standard Setting Forum for AIFs (SFA). The AIF Associations that form a part of the SFA would host the format of the revised PPM audit report on their websites within two working days of issuance of this circular.

The reporting requirements are applicable for PPM audit reports to be filed for the financial year ending 31 March 2024 and onwards.

To access the text of the circular issued, please click here

Action points for auditors

Members in practice that are undertaking a PPM audit for the AIFs should take note of the revised format of the audit report for audits for the periods ended 31 March 2024 and onwards.

Flexibility related to operational standards of AIF schemes

On 25 April 2024, SEBI notified the SEBI (Alternative Investment Funds) (Second Amendment) Regulations, 2024 (AIF Amendment Regulations) that aims to enhance the regulatory framework and revises the operational standards for AIFs.

Some of the key amendments are as follows:

Additional definitions – The terms ‘Dissolution Period’ and ‘Encumbrance’ have been defined in regulation 2(1) of the SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations)[5].

The definition of dissolution period and other guidance on dissolution would enable a regulated and transparent winding up process for AIFs.

Encumbrance on equity - Category I and II of AIFs are now permitted to create encumbrances on the equity of investee companies only for the purpose of borrowing by such investee company under specified conditions, providing them with greater leverage options. SEBI has issued a detailed circular[6] in this regard dated 26 April 2024, to access the text of this circular, please click here.

Unliquidated investments - AIFs are provided with more flexibility in dealing with unliquidated investments during the liquidation period, including the distribution of these investments to investors. SEBI has issued detailed circular[7] in this regard dated 26 April 2024, to access the text of this circular, please click here.

To access the text of the AIF Amendment Regulations, please click here.

[5] “dissolution period” means the period following the expiry of the liquidation period of the scheme for the purpose of liquidating the unliquidated investments of the scheme of the Alternative Investment Fund.

“encumbrance” shall have the same meaning as assigned to it under Chapter V of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

[6] SEBI circular no. SEBI/HO/AFD/PoD1/CIR/2024/027 dated 26 April 2024.

[7] SEBI circular no. SEBI/HO/AFD/PoD1/CIR/2024/026 dated 26 April 2024.

Regulatory updates

Updates from RBI

Directions related to fair lending practices

During an onsite inspection of Regulated Entities[8] (REs) for the period ended 31 March 2023, RBI came across cases of unfair lending practices. The key observations are listed below:

- **Point of charging interest** – REs were charging interest from the date of sanction of loan or date of execution of loan agreement instead from the date of actual disbursement of the funds to the customer. Further, in other cases, interest was charged from the date of the cheque whereas the cheque was handed over to the customer at a later date.
- **Duration of interest charged** – Customers were charged interest for the entire month, in cases where disbursal or repayment of loans took place during the course of the month.
- **Advance instalments** – In some cases it was noted that one or more instalments were collected in advance but interest was charged on full loan amount.

In this regard, on 29 April 2024, RBI issued a directive that required all REs to review and make the required changes to their internal systems and practices around loan disbursal, application of interest and other charges in order to have fair and transparent dealings with customers.

To access the text of the directive issued, please click here.

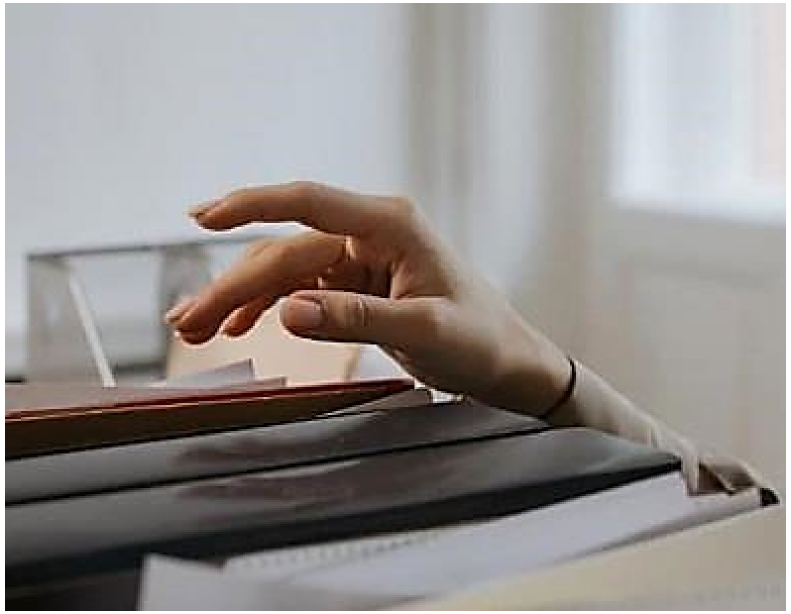
Action points for auditors

In the notification issued by RBI, it has directed all REs to review their practices regarding mode of disbursal of loans, application of interest and other charges and take corrective action, including system level changes, as may be necessary, to address the issues highlighted above. Accordingly, auditors may consider reviewing the systems of the bank in this regard when testing the operating effectiveness of controls around computing and recording of interest income, including the IT controls.

Standardised Key Facts Statement (KFS) for loans and advances

A key fact statement is a document given by the lender to the borrower, providing details of a loan agreement including rate of interest and Annual Percentage Rate (APR). It enables borrowers to compare loan details offered from all lenders and finalise the best offer.

Currently, the requirement to provide a KFS and disclose APR is covered under various extant guidelines[9], however, there is no consistency in the format of a KFS or reporting requirements.



[8] Regulated entities include the following:

- All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks
- All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks
- All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies)

[9] Paragraph 2 of Circular on 'Display of information by banks' dated 22 January 2015; paragraph 6 of Master Direction on 'Regulatory Framework for Microfinance Loans' dated 14 March 2022; and paragraph 5 of 'Guidelines on Digital Lending' dated 2 September 2022.

Regulatory updates

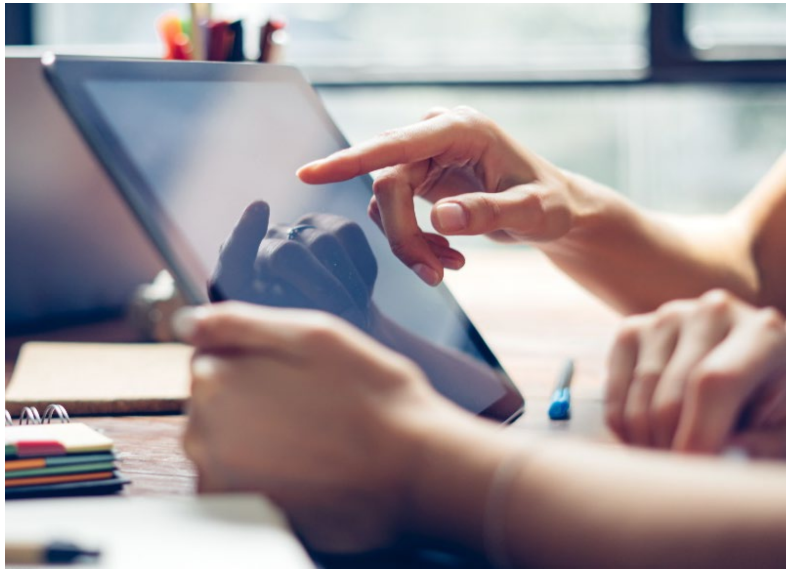
In order to reduce information asymmetry on financial products being offered by different REs and enhance transparency, on 15 April 2024, RBI issued a notification, providing harmonized instructions pertaining to the issuance of KFS for **all retail and MSME term loans** extended by **all REs**:

- All prospective borrowers should be provided a KFS in the standard format provided in Annexure A of the notification. The KFS should be explained to the borrower and an acknowledgement should be obtained that he/she has understood the same.
- The KFS should be valid[10] for at least three working days for loans having tenor of seven days or more and one working day for loans having tenor of less than seven days[11].
- The RE would be bound by the terms of the loan indicated in the KFS, if agreed to by the borrower during the validity period.
- The KFS should include a computation sheet of Annual Percentage Rate (APR) and amortization schedule of the loan over the loan tenor[12].
- Any fees, charges, etc. which are not mentioned in the KFS, cannot be charged by the REs to the borrower at any stage during the term of the loan, without explicit consent of the borrower.
- Charges that are recovered from the borrowers by the REs on behalf of third-party service providers on actual basis, such as insurance charges, legal charges etc., should also form part of the APR and be disclosed separately.

It is to be noted that credit card receivables are exempted from the provisions contained under this notification.

Applicability and commencement: REs should put in place the necessary systems and processes to implement the above guidelines at the earliest. In any case, all new retail and MSME term loans sanctioned **on or after 1 October 2024**, including fresh loans to existing customers, should comply with the above guidelines in letter and spirit without any exception. During the interregnum, the relevant provisions on 'KFS/Factsheet'[9] under the extant guidelines shall continue to remain applicable,

To access the text of the directive issued, please click here.



[10] Validity period refers to the period available to the borrower, after being provided the KFS by the RE, to agree to the terms of the loan.

[11] In view of the stipulation relating to the validity period of the KFS, the provision at paragraph 8 of the 'Guidelines on Digital Lending' relating to mandatory minimum number of days for post-sanction cooling-off period, shall stand partially modified as under:
"A borrower shall be given an explicit option to exit digital loan by paying the principal and the proportionate APR without any penalty during this period. The cooling off period shall be determined by the Board of the RE, subject to the period so determined not being less than one day. For borrowers continuing with the loan even after look-up period, pre-payment shall continue to be allowed as per extant RBI guidelines."

[12] Illustrative examples of calculation of APR and disclosure of repayment schedule for a hypothetical loan are given in Annex B and C of the notification respectively.

Regulatory updates

Updates from IRDAI

Enhanced regulatory framework for insurers

With an aim to establish a robust governance framework for insurers, on 20 March 2024, IRDAI notified the IRDAI (Corporate Governance for Insurers) Regulations, 2024 (Corporate Governance Regulations) which replace the extant guidelines relating to corporate governance practices[13] issued in 2016. With greater focus on ethics, accountability and transparency it aims to ensure implementation of sound governance practices and enhance confidence among stakeholders.

As compared to the extant guidelines, some of the additional points covered in the Corporate Governance Regulations pertain to the following:

Environment, Social and Governance (ESG)

- Insurers are required to put in place a board approved ESG framework which should be annually reviewed by the board.
- The board is required to establish a comprehensive climate risk management framework based on the size, nature and complexity of operations.

Tenure of Key Management Persons (KMPs)

- The minimum fixed tenure of the Chief Compliance Officer (CCO) should not be less than three years.

Further, in line with the extant guidelines, the Corporate Governance Regulations lay down detailed requirements on the below mentioned aspects:

- Guidelines related to the board of insurers
- Appointment and remuneration of KMPs
- Appointment of statutory auditors
- Disclosure and reporting requirements

To access the text of the directive issued, please click here.

[13] Circular titled Guidelines for Corporate Governance for Insurers in India dated 18 May 2016.

International updates

Accounting update

Accounting update

Update from IFRS

IASB issued accounting standard for presentation and disclosure in financial statements

Currently, financial statement presentation under IFRS accounting is based on IAS 1, *Presentation of Financial Statements*. Considering that IAS 1 does not prescribe a specified structure for the income statement, the financial statements (majorly, the statement of profit and loss) of companies are not comparable.

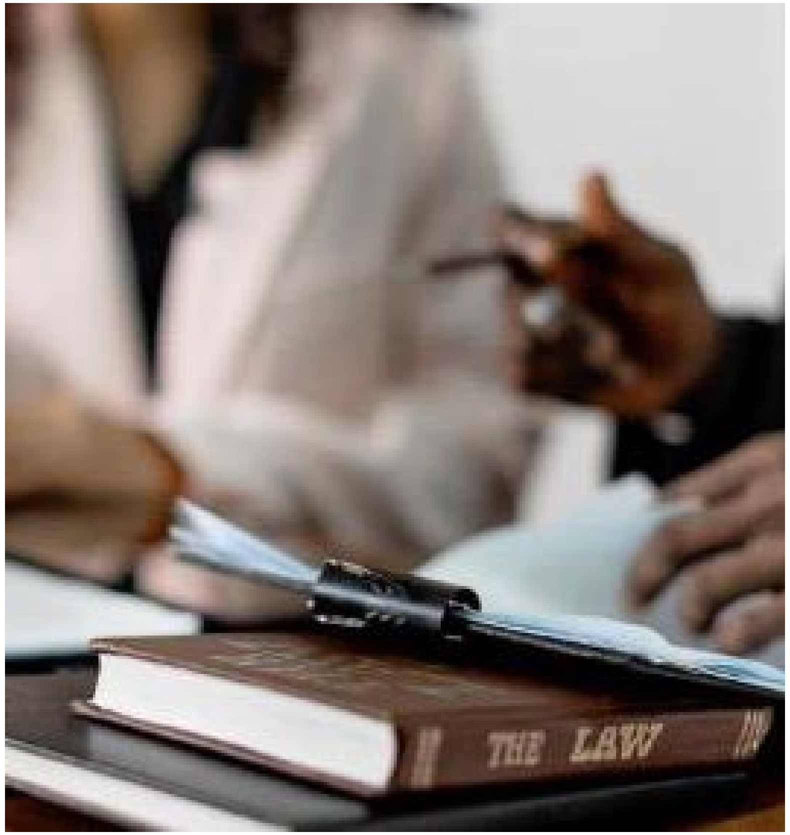
With an aim to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss, in April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 *Presentation and Disclosure in Financial Statements*. IFRS 18 would be effective from **1 January 2027** (however, early application is permitted). IFRS 18 would replace IAS 1. Though IFRS 18 will not affect how companies measure financial performance, it will affect how companies **present and disclose** financial performance. It is expected that IFRS 18 would impact all companies in all industries.

IFRS 18 aims to improve financial reporting by:

I. **Requiring additional sub-totals in statement of profit and loss** – IFRS 18 requires a company to classify income and expenses into operating, investing and financing activities, including income taxes and discontinued operations.

   Companies are required to report the newly defined **'operating profit'** subtotal which is an important measure for investors' understanding of a company's operating results, (i.e. investing and financing activities are specifically excluded) and an important starting point for forecasting future cash flows.

   The standard also requires companies to analyse their operating expenses directly on the face of the income statement – either by nature, by function or using a mixed presentation. This presentation provides a 'useful structured summary' of those expenses. If any items are presented by function on the face of the income statement (e.g., cost of sales), then a company provides more detailed disclosures about their nature. Another sub-total required to be disclosed includes profit before financing and income taxes.



II. **Management Performance Measures -** IFRS 18 now requires some of the 'non-GAAP' measures to be reported in the financial statements. It introduces the concept of MPMs[14] as:

- Subtotals of income and expenses (other than that listed in IFRS 18 or any other IFRS standard);
- That a company uses in public communications outside the financial statements; and
- That reflects management's view of financial performance.

For each MPM presented, companies will need to explain in a single note to the financial statements why the measure provides useful information, how it is calculated and reconcile it to an amount determined under IFRS Accounting Standards.

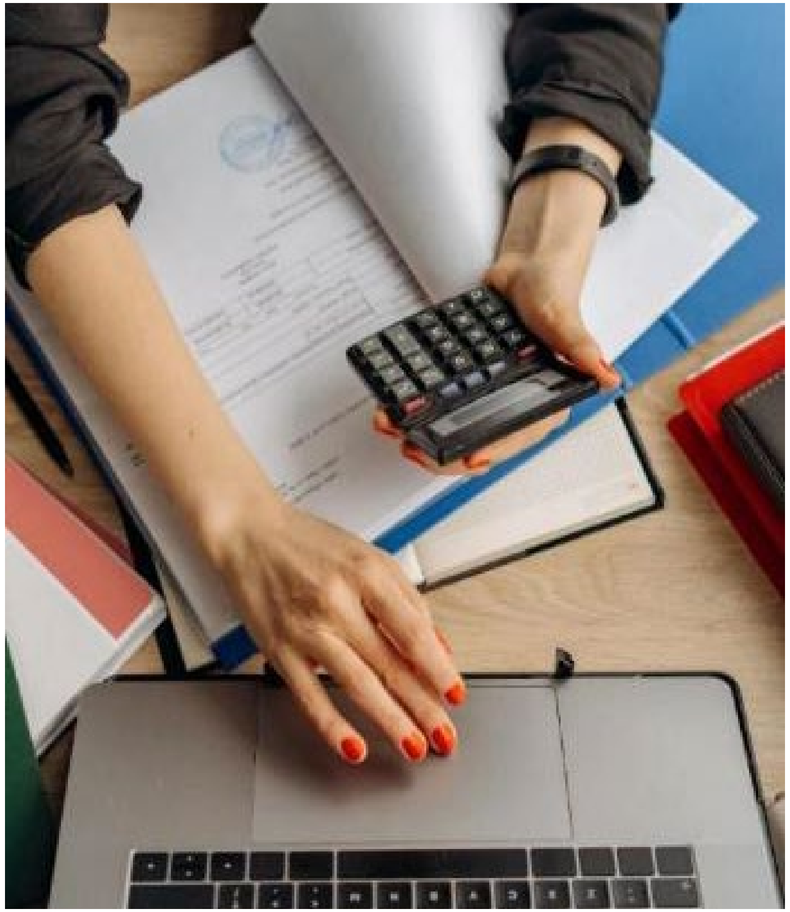
III. **Grouping of information in financial statements -** IFRS 18 sets out enhanced guidance on how to organise information and whether to provide it in the primary financial statements or in the notes and sets out principles for determining the level of detail needed for the information. IFRS 18 also requires companies to provide more transparency about operating expenses, helping investors to find and understand the information they need. Companies are discouraged from labelling items as 'other' and will now be required to disclose more information if they continue to do so.

IV. **Transitional provisions:** Companies would be required to apply the new requirements of INRS 18 in the interim financial statements in the initial year of application, and to restate comparative information for the prior year ('apply IFRS 18 retrospectively').

To access the text of the standard, please click here

Action points for auditors

Given that Ind AS are largely converged with the IFRS, it appears that similar amendments will be adopted in India as well. However, given that Schedule III to the Companies Act, 2013 provides a format for disclosure of the balance sheet and statement of profit and loss, the extent to which IFRS 18 would be adopted in India and corresponding changes to Schedule III would need to be determined. Members in practice should watch this space for further updates in the Indian scenario.



[14] IFRS 18 defines management performance measures (MPMs); these measures are currently commonly known as non-GAAP measures, alternative performance measures (APMs) or key performance indicators (KPIs).

Discussion/Consultation papers and Publications

Exposure Drafts/consultation papers – India and international

Publications

Matter for consideration

EDs/Consultation papers – India and International

The table below provides an overview of some important exposure drafts/consultation papers released by various regulators during this month:

Regulator	Topic	Particulars
ICAI	**Exposure Draft - 'Guidance Note on Reports on Audit under Section 12A/10(23C) of the Income-tax Act,1961'**	Charitable trusts and institutions have been subject to reporting requirements that have transformed over the years. In October 2023, ICAI had issued a technical guide on reports of audit under Section 12A/10(23C) of the Income Tax Act, 1961 (the technical guide). Recently, ICAI issued an exposure draft on 'Guidance Note on Reports on Audit under Section 12A/10(23C) of the Income-tax Act,1961' taking the technical guide as base. The draft guidance note aims to: • Better equip the practitioners in engaging with charitable institutions while conducting audit under section 12A and 10(23C) of the Income Tax Act, 1961 and • Provide guidance to those in charge of governance of charitable institutions for discharging their respective responsibilities towards audit of accounts The comment period ends on 29 May 2024. To access the text of the exposure draft, please click here
RBI	**Draft directions on regulation of Payment Aggregators**	On 16 April 2024, the RBI placed on its website two draft directions pertaining to payment aggregators, these are: • **New draft directions on regulation of Payment Aggregators (Physical Point of Sale):** These new directions would regulate those payment aggregators who handle proximity / face-to-face payments. In addition to the existing regulations, these circulars prescribe the authorization requirements and net-worth criteria for such payment aggregators. • **Amendments to existing directions on payment aggregators:** The updates in the existing directions, *inter alia* cover KYC and due diligence of merchants, operations in escrow accounts, etc, and are intended to further strengthen the payment ecosystem. To access the text of the circular, please click here. The comment period on the draft directions ends on 31 May 2024.

EDs/Consultation papers – India and International

The table below provides an overview of some important exposure drafts/consultation papers released by various regulators during this month:

Regulator	Topic	Particulars
RBI	**Draft circular on 'Digital Lending – Transparency in aggregation of loan products from multiple lenders'**	In order to enhance transparency, the RBI is considering new rules on digital lending. Recently, RBI issued a draft circular on digital lending, proposing Lending Service Providers (LSPs) to digitally share all the available loan offers from willing lenders to the borrowers. This will enable borrowers to have a clear view of their loan options with details such as lender names, amounts, rate of interest and key terms. The comment period ends on 31 May 2024. To access the text of the exposure draft, please click here
SEBI	**Consultation paper on framework for price discovery of shares of listed Investment Companies (ICs) & listed Investment Holding Companies (IHCs)**	Currently, shares of a few listed ICs or IHCs are getting traded less frequently but at a price which is significantly lower than the book value disclosed by the listed entities in their last audited financial statements. SEBI, vide a draft circular dated 19 April 2024, has proposed a framework for price discovery of shares of listed ICs and listed IHCs whose market price is at a significant discount as compared to book value. The comment closed on 10 May 2024. To access the text of the consultation paper, please click here

EDs/Consultation papers – India and International

The table below provides an overview of some important publications released by various regulators during this month:

Regulator	Publication	Particulars
ICAI	**Indian Accounting Standards (Ind AS) Disclosure Checklist (Revised April 2024)**	ICAI has released the revised Ind AS disclosure checklist that has been updated to include the disclosure requirements added/amended as a part of the Companies (Indian Accounting Standards) Amendment Rules, 2023. To access the text of the checklist, please click here.
ICAI	**Guidance on non-compliances observed by Quality Review Board (QRB) during quality reviews**	This publication is a compilation of some common non compliances regarding Standards on Quality Control, Standards on Auditing, audit reports, CARO, internal financial controls observed by QRB while conducting quality reviews. It also contains suggested guidance developed by the Auditing and Assurance Standards Board on these common non compliances. The publication is in two parts as follows: • Part 1 contains the observations related to Engagement and Quality Control Standards. • Part 2 contains the observations related to CARO and internal financial controls. In Part 1, observations have been classified standard wise. In Part 2, observations have been classified topic wise. To access the text of Part 1 publication, please click here To access the text of Part 2 publication, please click here

EDs/Consultation papers – India and International

The table below provides an overview of some important international publications released by various regulators during this month:

Regulator	Publication	Particulars
IFAC	**Equipping professional accountants for sustainability**	IFAC released a new publication that sets out four key areas where accountants need to update their knowledge to meet the growing demand for high-quality sustainability-related information. Given IFACs focus on the intersection between education and sustainability, it has developed this sustainability education framework covering what is new and what has not changed in four key focus areas for professional accountants such as: • Technical expertise • Business acumen • Behavioral competence • Ethics and professional values The framework aims to help professional accountants as well as professional accountancy organizations close any gaps between the known and the required knowledge/skills in the above key areas. To access the text of the publication, please click here
IAASB	**Elevating trust in audit and assurance**	The IAASB issued its strategy and work plan for 2024-2027 that aims at enhancing consistency and quality of audit and assurance standards worldwide and reflects the crucial role of audit and assurance in fostering trust in the world's economies. Some of its key strategies for 2024-2027 are as follows: • Focus on completing priority audit and assurance projects related to fraud, going concern and sustainability assurance • Establishing globally accepted standard(s) for assurance on sustainability reporting • Engaging with standard setting and regulatory partners to strengthen trust in markets globally • Creating more agile and innovative ways of working in line with Monitoring Group's recommendations to enhance independence and accountability in standard setting. To access the text of the strategy and work-plan, please click here

EDs/Consultation papers – India and International

The table below provides an overview of some important international publications released by various regulators during this month:

Regulator	Publication	Particulars
IFAC	**Proposed changes to International Education Standards (IES)**	**Proposed revisions to IES 2, 3 and 4 - Sustainability** IFAC is responsible for maintaining and promoting the IESs[15] and overseeing the revision process of standards. Aspiring professional accountants are required to achieve learning outcomes prescribed in IES 2, 3, and 4[16] by the end of Initial Professional Development (IPD). The extant IESs did not sufficiently address the competence areas and learning outcomes needed in areas of sustainability for professional accountants to perform their roles in a competent manner. Thus IFAC issued, *inter alia*, the following key proposals to IES 2,3 and 4: • Emphasizing working with experts and in multi-disciplinary teams; • Introducing key sustainability reporting concepts, such as systems thinking, value chains and scenario analysis; • Referencing relevant sustainability reporting and assurance standards; and • Creating a new assurance competence area and learning outcomes. **Proposed revisions to IES 6: Professional Development – Assessment of Professional Competence** IES 6 prescribes the requirements for the assessment of the professional competence that aspiring professional accountants are required to demonstrate by the end of Initial Professional Development. IFAC has proposed new principles of emphasizing integrity, equity, inclusion and authenticity that aim to help professional accountancy organisations, universities and training programs in evaluating the right candidate for the professional accountant role. The comment period ends on 24 July 2024 To access the text of proposed revisions, please click here

[15] The IESs improve the quality of professional accounting education worldwide by prescribing requirements for:
- Entry to professional accounting education programs;
- Initial Professional Development ("IPD") of aspiring professional accountants; and
- Continuing development ("CPD") of professional accountants

[16] IES 2, Initial Professional Development – Technical Competence (2021); IES 3, Initial Professional Development – Professional Skills (2021); and IES 4, Initial Professional Development – Professional Values, Ethics, and Attitudes (2021)

EDs/Consultation papers – India and International

The table below provides an overview of some important international publications released by various regulators during this month:

Regulator	Publication	Particulars
IESBA	**Towards a more sustainable future – Advancing the centrality of ethics**	IESBA has issued its Strategic Work Plan (SWP) with an aim to be agile and encourage the Code of Ethics as an integral part of business and organisations. The two areas of focus in the SWP for the period 2024 to 2027 are as follows: • Firm culture and governance • Extending the applicability of the Code of Ethics to all individuals performing the same activity. To access the text of SWP, please click here
IESBA	**Standards on ethical considerations in tax planning and related services**	IESBA issued the first global ethics standard on tax planning. The standards establish a framework of expected behaviors and ethics provisions applicable to all professional accountants and covers concerns of public interest about tax avoidance and the role of consultants in such cases. These new standards are aimed at complementing and further strengthening the relevance of the existing IESBA Code addressing Tax Planning and Related Services. The standards become effective 1 July 2025. To access the text of the standards, please click here.

EDs/Consultation papers – India and International

The table below provides an overview of some important matters for consideration of Chartered Accountants :

Regulator	Topic	Particulars
ICAI	**Expert Panel for queries related to statutory audit (expert panel)**	The Auditing Assurance Standards Board (AASB) of ICAI has formed an expert panel to provide technical support to the members of ICAI with respect to queries on auditing aspects. The panel will address queries from 16 April 2024 till 30 September 2024. For further details on the expert panel, please click here.

FOUNDATION FOR AUDIT QUALITY

Enhancing professional excellence

HOME

FAQ on social media		
Twitter	LinkedIn	Facebook

For any comments or questions, you can write to us at FAQ@faqonline.org

The Foundation for Audit Quality is an autonomous, non-partisan and not-for-profit organization.
Registered office: Level 9, Spaze i-Tech Park, A1 Tower, Sector - 49, Sohna Road, Gurgaon, Haryana 122018

https://www.faqonline.org

This document is for e-communication only