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Regulatory updates for the month of July 2024

29 August 2024

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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 July 2024 to 31 July 2024.

Some of the key topics covered in this edition include:

- RBI issues revised master directions on fraud risk management for regulated entities
- SEBI notifies changes in valuation norms for AT-1 bonds
- MCA prescribes additional disclosures of outstanding payments to MSMEs.

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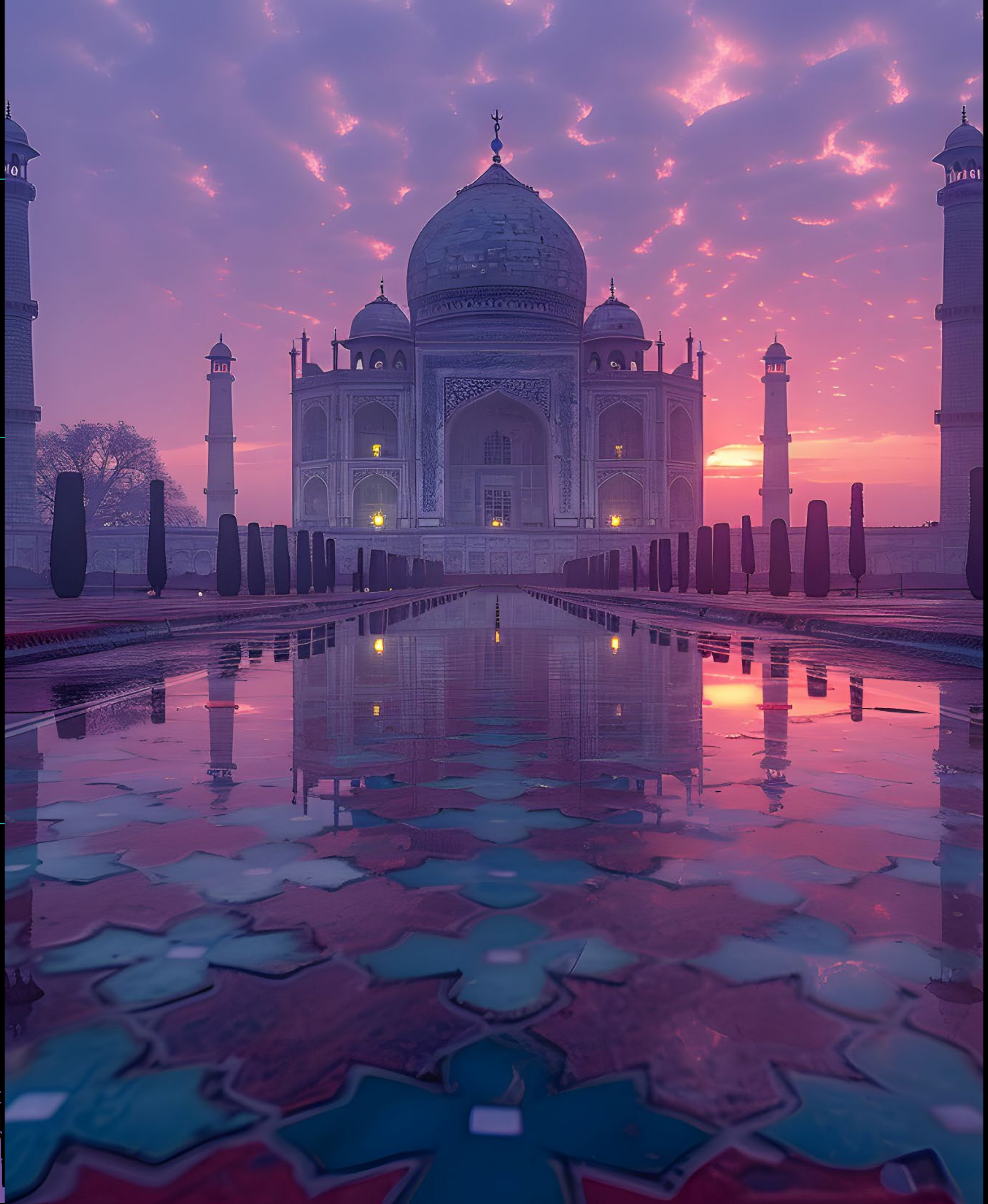
Discussion/Consultation papers and Publications



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Updates from ICAI

Amendments to AS 22, Accounting for taxes on income (for non-company entities)

The Pillar Two Model Rules, released in December 2021, are part of the two-pillar solution to address the tax challenges of the digitalisation of the economy, and are designed to ensure large Multinational Enterprises (MNEs) pay a minimum level of tax on the income arising in each jurisdiction where they operate.

Once the Pillar Two Model Rules are enacted in India, these amendments would be relevant to the non-company entities applying Accounting Standards issued by the ICAI and to whom Pillar Two Model Rules would be applicable.

In order to help such non-company entities ease into the application of the principles and requirements of AS 22 (issued by ICAI), to account for deferred taxes related to top-up taxes, ICAI has issued the following temporary exceptions to the requirements in AS 22 (issued by ICAI):

The amendments introduce:

- A temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and
- Targeted disclosure requirements for affected entities.

The amendments are effective for annual reporting periods beginning on or after 1 April 2024.

To access the text of the amendments, please click here.

Action points for auditors

- Auditors of non-company entities that are a part of larger groups, would need to assess the status of the pillar two implementation in the countries where the group operates at the interim reporting date. Where these amendments become applicable, companies would need to determine how to reflect the current top-up tax and what information to disclose.
- Auditors of non-company entities would also need to reflect the impact of the changes in tax laws in their impairment assessments.

Updates from SEBI

Revised norms for investments by passive mutual fund schemes

Regulations 43 and 44(1) of the Securities and Exchange Board of India (SEBI) (Mutual Funds) Regulations, 1996 (MF regulations) permit mutual funds to invest moneys collected under their schemes in certain assets, which inter alia includes securities. Such investments can be made subject to certain restrictions prescribed in the Seventh Schedule of the MF regulations.

As per clause 9(c) of the Seventh Schedule to the MF regulations, mutual fund schemes are not permitted to invest more than 25 per cent of their net assets in the listed securities of group companies of the sponsor[1] (group companies).

However, SEBI noted that risks associated with passively managed MF schemes (such as Exchange Traded Funds (ETFs) and Index funds), were lower as compared to active MF schemes[2]. Accordingly, to institute ease of compliance with regulatory requirement s for passively managed MFs, on 2 July 2024, the SEBI notified the SEBI (Mutual Funds) (Amendment) Regulations, 2024 (the amendment) to amend clause 9(c) of the Seventh Schedule of the MF regulations.

As per the amendment, equity-oriented ETFs and index funds, may invest more than 25 per cent of their net assets in listed securities of group companies, subject to certain conditions specified by SEBI (the conditions). Subsequently, on 8 July 2024, SEBI vide a circular (the circular) stipulated the following conditions:

Outer limit of investment: Equity oriented ETFs and index funds, which use widely tracked and non-bespoke indices, can make investments in accordance with the weightage of the constituents of the underlying index subject to an overall cap of 35 per cent of net asset value of the scheme, in the group companies.

Definition of widely tracked and non-bespoke indices: Widely tracked and non-bespoke indices have been defined as indices that are tracked by passive funds or act as primary benchmark for actively managed funds with collective Asset under Management (AUM) of INR20,000 crore and above (AUM threshold).

1. Sponsor means any person who, acting individually or in concert with another body corporate, establishes a mutual fund.
2. This is because passively managed funds replicate an underlying index wherein the portfolios of ETFs/Index funds can be easily tracked as the underlying index compositions are available in public domain.

Frequency of tracking indices: The list of indices would be listed on a half yearly basis as per the AUM threshold as on 31 March and 30 September respectively. The list of indices would be updated by Association of Mutual Funds in India (AMFI) and published on its website by 15 April and 15 October respectively, every year post seeking SEBI approval. The list of such indices as on 30 June 2024 was provided in Annexure A of the circular.

Rebalancing of portfolios: Passive schemes based on underlying indices other than those prescribed in Annexure A to the circular are required to rebalance within 30 business days from the issuance of this circular. Failure to rebalance would involve certain repercussions[3] including restrictions from launching new schemes by the Asset Management Company (AMC).

Effective date: These regulations come into effect on 2 July 2024.

To access the text of the amendments issued on 2 July 2024, please click here

To access the text of the circular dated 8 July 2024, please click here

Action points for auditors

Auditors of AMCs and of passive mutual funds would need to check compliance with the rebalancing requirements where applicable. Auditors should also consider the revised investing threshold while performing procedures around investments.

3. These repercussions include:
   - Provide a justification in writing
   - Details of efforts taken to rebalance to be placed before the Investment Committee of the AMC
   - Investment committee may grant an extension of 60 business days from mandated period of completing rebalancing
   - AMCs would not be permitted to launch any new scheme till the portfolio is rebalanced
   - No exit load on exiting investors of schemes

Amendments applicable to issuers of non-convertible securities

SEBI has issued the following amendments that are applicable to issuers of non-convertible securities.

A. Requirement to publish a window newspaper advertisement by issuers of non-convertible securities

Currently, the following regulations inter alia require issuers of Non-Convertible Securities (NCS) to issue financial results to the users:

- **Part B of Schedule III** to the LODR Regulations: requires issuers of NCS to disclose financial results to the Stock Exchange within thirty minutes of the closure of the meeting of the board of directors
- **Regulation 52** of the LODR Regulations: publish financial results in the newspapers within two working days from the conclusion of the meeting of board of directors
- **Regulation 62** of the LODR Regulations: mandates disclosure of financial results on the website of the listed entity.

Based on these requirements, financial results are available to investors on the day of the meeting of the board of directors on the website of the stock exchange and on the website of the company. Accordingly, market participants suggested that publishing the same information in the newspapers becomes redundant as it is already accessible to the investors.

With this context, in order to reduce cost of compliance, SEBI issued the SEBI (LODR) (Second Amendment) Regulations, 2024 on 8 July 2024, thereby making it optional for issuers of NCS to publish detailed advertisements in newspapers providing their financial results under Regulation 52(8) of the LODR Regulations[4]. The amendment states that listed entities can provide a small section in the newspaper with details of QR code and weblink of the page of the listed entity's website which provides details of the financial results of the issuer of NCS for the benefit of investors.

This option may be availed by issuers of NCS subject to the following conditions:

- For NCS **outstanding as on the date of notification** of this proviso, where prior approval from the debenture trustee is obtained;
- In case of any **issuances after the date of notification** of this proviso, the issuer of NCS should either make disclosure in the offer document regarding the window advertisement in the newspapers or obtain prior approval from the debenture trustee.

To access the text of the SEBI notification, please click here

4. This amendment was earlier proposed by SEBI in its consultation paper- Consultation paper on review of provisions of NCS Regulations and LODR Regulations for ease of doing business and introduction of fast track public issuance of debt securities issued on 9 December 2023.

Regulatory updates

Action points for auditors

It is to be noted, that while SEBI has amended regulation 52 of the LODR Regulations, which is applicable to issuers of NCS, similar amendments have not been made yet to regulation 47 (which requires equity listed entities to issue newspaper advertisements). Accordingly, auditors should be aware that equity listed entities (including entities that have listed their equity securities and NCS on a recognized stock exchange) would continue to provide a full fledged advertisement in the newspaper.

However, given that similar amendments have been proposed by SEBI in its consultation paper- 'Consultation Paper on Recommendations of the Expert Committee for facilitating ease of doing business and harmonization of the provisions of ICDR and LODR Regulations' issued in June 2024, this is an area to track for future developments.

B. Other amendments

On 8 July 2024, SEBI issued the SEBI (Issue and Listing of NCS) (Amendment) Regulations, 2024 (NCS amendment regulations) which are effective from the date of their publication in the official gazette (i.e. 10 July 2024). The NCS amendment regulations deal with the following:

- **Fixing of record date:** Record date is the specific day on which listed entities determine the list of holders eligible for forthcoming payment of interest/dividend/principal obligation.

  Currently, the LODR Regulations[5] require issuers of NCS to fix a record date and the SEBI (Issue and Listing of NCS) Regulations, 2021 (NCS regulations)[6] require issuers of NCS to disclose such record date in the offer document. However, prior to the amendment there was no uniformity in market practice in terms of duration between the record date and due date for payment obligations.

  Accordingly, to standardize the requirements, the NCS amendment regulations now require issuers of NCS to fix a record date for the purposes of payment of interest or dividend, repayment of principal or any other corporate actions. Such record date should be fixed at **15 days prior to the relevant due date.**[7]

5. Regulation 60 of the LODR Regulations require the listed entity to fix a record date for purposes of payment of interest, dividend and payment of redemption or repayment amount or for such other purposes as specified by the stock exchange.
6. Schedule I of the NCS regulations
7. A new sub-regulation (7), under Regulation 23 has been inserted for this amendment.

- **Due diligence by debenture trustees:** Regulations 40[8] and 44[9] of the NCS Regulations inter alia deal with issuance of due diligence certificate by debenture trustees. The NCS amendment regulations have made the following amendments with regard to due diligence certificates by debenture trustees:

  Additional due diligence certificate

  Prior to the amendment, Regulation 40 of the NCS regulations required debenture trustees to issue a due diligence certificate[10] only at the time of filing the draft offer document with stock exchanges. However, the NCS amendment regulations now require debenture trustees to issue a due diligence certificate even at the time of filing of the listing application by the issuer of NCS[11].

  Disclosure of due diligence certificate on website

  The stock exchanges are now required to disclose the offer document (in case of public issue) and placement memorandum (in case of private placement) and due diligence certificates issued by the debenture trustee on their websites (Additional requirements inserted under Regulation 40(3) and Regulation 44(3A) of NCS regulations).

  Harmonisation of format of due diligence certificate

  The format of due diligence certificates (as provided in Schedule IV and IVA of NCS Regulations) has been harmonized with the format of certificate provided in the Master Circular for Debenture Trustees.

- **QR code for financial information in offer document**: Schedule I of the NCS regulations[12] inter alia requires the disclosure of financial information for three years in the offer document or placement memorandum (together referred to as offer document) in a stipulated manner.

  In order to reduce the size of the offer document, issuers of NCS that are already listed as on date of filing of the offer document may only provide a web link and a static QR code of the audited financial information in the offer document, subject to the following conditions:

  – Comparative key operational and financial parameters on a standalone and consolidated basis, audited by the statutory auditors should be disclosed in the offer document

  – The web-link or QR code should lead to the website of the stock exchange which has hosted such financial information.

8. Regulation 40 of NCS Regulations deals with issuance of due diligence certificate by debenture trustees in case of a public issue and listing of debt securities.
9. Regulation 44 of NCS Regulations inter alia deals with issuance of due diligence certificate by debenture trustee in case of private placement of debt securities and non-convertible redeemable preference shares.
10. to SEBI and to stock exchanges.
11. This is because the debenture trustee would be providing a confirmation on additional aspects at the time of filing for listing.
12. Schedule I prescribes the disclosure requirements in an offer document or placement memorandum by an issuer of NCS.

Action points for auditors

Statutory auditors of issuers of NCS should note that the requirement to disclose the web link and QR code of the financial information in the offer document is an optional requirement. However, where issuers of NCS opt for this, auditors would need to provide assurance on the operational and financial parameters disclosed in the offer document.

The period of comparison of the parameters should also be assessed by the listed entity- i.e. whether it should be for the same period that the financial information is disclosed.

Since this is a comparative disclosure required by SEBI, statutory auditors of issuers of NCS would need to consider the reporting requirements where the audit for the prior period had been undertaken by another auditor.

Wider scope of venture capital fund

Currently, there are two regulations which govern venture capital funds:

- The SEBI (Venture Capital Funds) Regulations, 1996- which lays down the framework for registration, operation and investment processes for venture capital funds (VCF regulations)
- The SEBI (Alternative Investment Fund) Regulations, 2012- which regulates social venture funds, SME funds infrastructure funds, etc. besides venture capital funds (AIF regulations)

To enable venture capital funds registered under the VCF regulations to register under the broader AIF regulations, SEBI issued the SEBI (Alternative Investment Funds) (Third Amendment) Regulations, 2024 on 11 July 2024 (amendment regulations). Some of the key amendments are as follows:

a. 'Migrated venture capital fund'[13] has been added to the definition of venture capital fund and a new chapter 'Chapter III-D' has been inserted to specify the applicability, eligibility criteria, registration procedure, etc. of migrated venture capital funds.

13. Migrated venture capital fund' means a fund that was previously registered as a venture capital fund under the SEBI (Venture Capital Funds) Regulations, 1996 and subsequently registered under these regulations as a sub-category of Venture Capital Fund under Category I - AIFs

b. It has been specified that venture capital funds may seek registration as migrated venture capital funds within 12 months from the date of notification of the amendment regulations.

To access the text of the notification, please click here.

Action points for auditors

- Audit practitioners would need to compare the regulations under the VCF regulations and AIF regulations to inter alia determine the changes in the reporting requirements and audit requirements for such migrated venture capital funds.

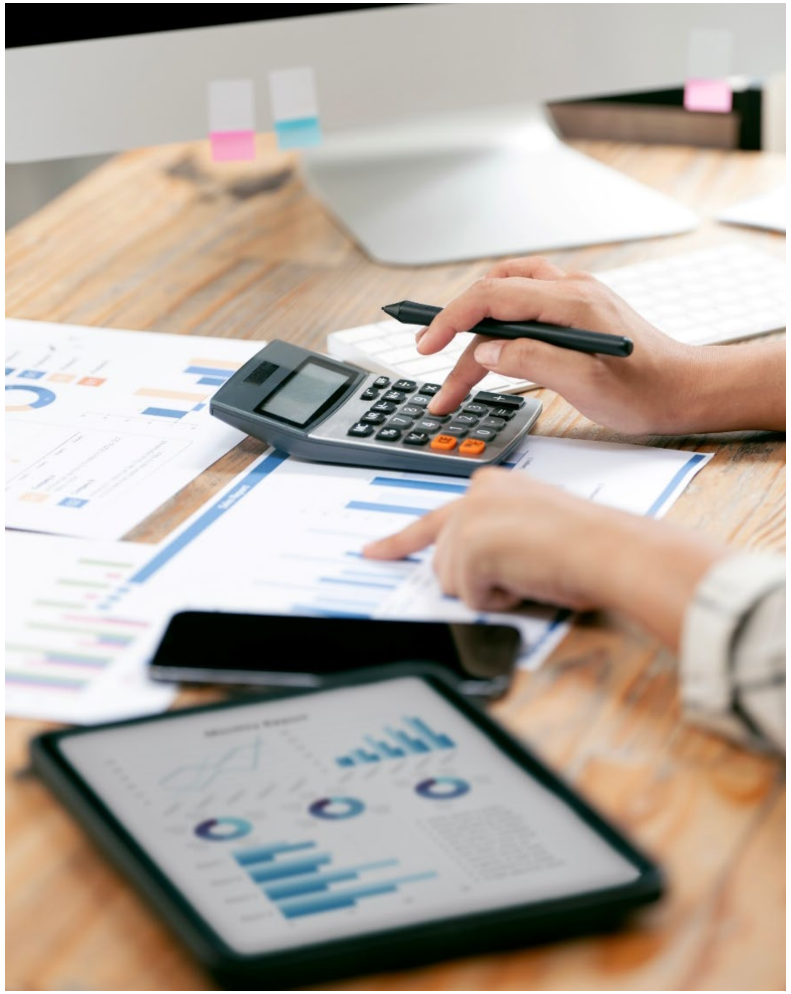
Credit Rating Agencies (CRAs) and ESG Rating Providers (ERPs) to operate under International Financial Services Centres Authority (IFSCA)

Regulation 9(f) and 28E(d) of SEBI (Credit Rating Agencies) Regulations,1999 provides that CRAs and ERPs respectively, can offer rating services of any product or issuer based on the requirement and guidelines of a financial sector regulator or authority.

In order to allow CRAs and ERPs to undertake rating activities in the International Financial Services Centre – Gujarat International Finance Tech-city (IFSC-GIFT City), SEBI has added the International Financial Services Centres Authority (IFSCA) to the list of financial sector regulators/authorities for CRAs and ERPs.

To access the text of the circular for ERPs, please click here.

To access the text of the circular for CRAs, please click here.



Updates from MCA

Disclosure of outstanding payments to MSMEs

On 15 July 2024, the Ministry of Company Affairs (MCA) amended the Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019 (Specified companies order) by issuing the Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Amendment Order, 2024 (Amendment order).

The Specified companies order requires every specified company[14] to file details of all outstanding dues to Micro or small enterprises suppliers in MSME Form 1. The amendment order states that only those specified companies which are having payments pending to any micro or small enterprises for more than 45 days from the date of acceptance or the date of deemed acceptance of the goods or services under Section 9 of the Micro, Small and Medium Enterprises Development Act, 2006 should furnish the information in MSME Form-1.

The amendment order has further provided a revised format of MSME Form-1 which contains details to be filed by specified companies relating to delay in payments to MSME. The amendments are effective from 15 July 2024.

To access the text of the MCA notification, please click here.

Action points for auditors

This is an important update for companies, and implications of any non-compliance should be reviewed by auditors in accordance with SA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements.*

Additionally, auditors should review the tax implications and interest accrual in case of delays in payments to be made to MSEs within the 45 days timeline.

14. Specified companies include all companies, who get supplies of goods or services from micro and small enterprises and whose payments to micro and small enterprise suppliers exceed forty five days from the date of acceptance or the date of deemed acceptance of the goods or services as per the provisions of section 9 of the Micro, Small and Medium Enterprises Development Act, 2006

Updates from RBI

Revised master directions on fraud risk management

Recently, RBI issued three revised Master Directions (MD) on fraud risk management[15], which are applicable to all Regulated Entities (REs) – which include banks (including All India Financial Institutions), Non-Banking Financial Companies (NBFCs) (including Housing Finance Companies (HFCs)) and co-operative banks. In this note, we have summarised the key requirements of banks MD and NBFCs MD (together referred to as revised MDs).

The revised MDs focus on the role of the board of directors in the overall governance of the regulated entities and also inculcate the principles of natural justice while declaring or classifying a borrower account as a fraud account.

The key requirements prescribed by the revised MD are as follows:

Wider scope: The scope of the MDs has been extended to Regional Rural Banks and all NBFCs (including HFCs) having asset size of INR 500 crore and above.

Focus on prevention of frauds: The revised MDs focus on developing principles of 'prevention' of fraud in addition to detection and reporting.

Development of fraud risk management policy: Banks and NBFCs (including HFCs) are required to develop board a pproved fraud risk management policies which are required to be reviewed at least once in every three years.

These fraud risk management policies should ensure compliance with the principles of natural justice in a time bound manner.

Role of special committee and senior management: Banks and NBFCs (including HFCs) are required to set up a special committee, chaired by an independent director which would inter alia review and monitor cases of fraud. The senior management on the other hand would be responsible for implementing the board approved policies.

Framework for Early Warning Signals (EWS): Banks and certain NBFCs[16] have been provided six months from the date of the circular to establish robust EWS systems, integrated with the core banking solution, including a dedicated analytics unit that would capture early warning signals for both credit and non-credit facilities.

Framework for Red Flagging of Accounts (RFA): A framework for red flagging of accounts needs to be developed by banks. Based on the EWS triggers, each bank would individually assess which borrower account needs to be tagged as RFA. Further, when Law Enforcement Agencies (LEAs) suo moto initiates investigation against a borrower, such borrower should also be tagged as an RFA.

Requirement for external or internal audit: Once a bank classifies a borrower as an RFA, or an NBFC (including HFC) suspects a borrower of indulging in fraudulent activities, it would need to initiate an audit of such borrower. This audit may be conducted either by an external or an internal auditor.

15. These master directions are:
    – Master Directions on Fraud Risk Management in Commercial Banks (including Regional Rural Banks) and All India Financial Institutions (Banks MD)
    – Master Directions on Fraud Risk Management in Urban Cooperative Banks (UCBs) / State Cooperative Banks (StCBs) / Central Cooperative Banks (CCBs) (co-operative banks MD)
    – Master Directions on Fraud Risk Management in Non-Banking Financial Companies (NBFCs) (including Housing Finance Companies (HFCs)) (NBFC MD)
16. NBFCs in the upper and middle layer of the scale-based framework.

Regulatory updates

Classification of accounts as fraud accounts: Based on findings of the audit and bank's assessment, banks may classify accounts tagged as RFA as fraud accounts within 180 days of tagging them as RFA. Borrowers that continue to be tagged as RFA beyond 180 days need to be reported to the special committee and would be under a supervisory review of RBI.

However, both banks and NBFCs need to ensure that principles of natural justice (which includes issuing show cause notice, providing the borrower a right to represent his/her case, etc.) should be strictly adhered to before classifying an account as a fraud account.

Reporting of frauds: The revised master directions require REs to report the incidents of fraud to LEAs and to regulators (including RBI) within a prescribed timeline and have provided additional categories within which frauds may be classified while reporting to RBI.

Closure of fraud cases reported to RBI: The revised master directions provide the following relaxations pertaining to closure of frauds:

- The conditions of write off, recovery, insurance claims, and review of systems and procedures have been eliminated.
- The limits for closure of fraud for statistical/reporting purpose has been increased from INR 2.5 million to INR10 millions.

To access the text of the RBI notification, please click here.

Action points for auditors

- Banks and NBFCs (including HFCs) can in certain cases initiate audits of borrower accounts- such audits may be undertaken by either an external or internal auditor of the bank or NBFC (including HFC). Considering that an external auditor need not be the statutory auditor of the RE, auditors in practice may engage with banks and NBFCs to determine terms of appointment for such engagements.
- The scope of statutory auditors of REs now includes to report suspected frauds to management and if necessary, to the audit committee. It is to be noted that the NFRA has provided detailed guidelines to auditors for reporting of frauds identified in companies under its purview. Auditors should consider the requirements while reporting fraud under various regulations such as RBI and NFRA.

Master Directions on wilful and large defaulters

On 30 July 2024, RBI issued the Master Direction on Treatment of Wilful Defaulters and Large Defaulters ('the Master Directions'). The Master Directions aim to provide a non-discriminatory and transparent procedure, having regard to the principles of natural justice for classifying a borrower as a willful defaulter. It also puts in place a system to disseminate credit information about willful defaulters and ensures that further institutional finance is not made available to them. Some of the key aspects discussed in the Master Directions include:

- **Applicability:** The Master Directions are applicable to All-India Financial Institutions (AIFI)[17], banks, or NBFCs (in the middle layer, upper layer and top layers) which have granted a credit facility to the borrower. Further, the reporting requirements stipulated in the master directions are binding on an Asset Reconstruction Companies (ARCs) and Credit Information Companies (CICs).
- **Wilful defaulter:** It covers, *inter alia*, a borrower or a guarantor who has committed wilful default and the outstanding amount is INR25 lakh and above, or as may be notified by the RBI from time to time.
- **Large defaulter:** It covers a defaulter with an outstanding amount of INR1 crore and above and who has a suit filed or whose account has been classified as doubtful or loss.
- **Process of identifying a wilful defaulter:** The Master Direction requires the identification of wilful default to be made keeping in view the borrower's track record and not on the basis of isolated transactions/incidents. Lenders should also examine the accounts of certain Non Performing Assets (NPAs). A process for identifying a willful defaulter has been prescribed in the Master Directions.

The process of classifying/declaring an account as a wilful defaulter should be completed within six months. Also, principles of natural justice should be adhered to in the process of identifying and classifying a wilful defaulter.

Measures against borrowers classified as wilful defaulters: The following penal measures would be implemented by the lenders against borrowers classified as wilful defaulters and entities with which a wilful defaulter is associated[18] (together referred to as wilful defaulters and associates):

- No additional credit facility would be granted by any lender
- Not be eligible for restructuring of credit facility
- Wherever warranted, lenders may initiate action against the borrowers/guarantors for foreclosure/recovery of dues expeditiously
- Once the name of the wilful defaulter has been removed from the List of Wilful Defaulters (LWD) by the lender:
  - Bar on additional credit facility to a wilful defaulter and associates for a period of one year
  - Bar on credit facility for floating of new ventures to a wilful defaulter and associates for a period of five years.

17. All India Financial Institution (AIFI) means:
    (i) Export Import Bank of India (EXIM Bank)
    (ii) National Bank for Agriculture and Rural Development (NABARD);
    (iii) National Housing Bank (NHB);
    (iv) Small Industries Development Bank of India (SIDBI); and
    (v) National Bank for Financing Infrastructure and Development (NaBFID).

18. Entities associated with wilful defaulters are:
    – Where wilful defaulter is a company- a subsidiary, associate or joint venture of such company (as defined in Companies Act, 2013)
    – Where wilful defaulter is a natural person- all entities in which the wilful defaulter is a promoter, director or person in charge/responsible for managing the activities

- **Reporting:** Reporting requirements on a monthly basis of wilful defaulters and large defaulters to the Credit Information Companies (CICs) has been prescribed in the Master Directions
- **Preventive measures:** The Master Directions provide a set of preventive measures that can be adopted by the lenders to reduce the possibility of defaults in payments.
- **Role of statutory auditors and third parties:**
  - Where the statutory auditors are found negligent in a case of falsification of accounts by the borrower, a complaint against such auditor can be lodged with the National Financial Reporting Authority (NFRA) or the Institute of Chartered Accountants of India (ICAI)
  - Where third parties engaged by the lender for credit sanction/disbursement process were found negligent in their work, details of such third parties would be sent to the Indian Banking Association.

Action points for auditors

While the RBI had earlier issued a Master Circular on Wilful Defaulters in 2015 (2015 circular), it has made the Master Directions more comprehensive and increased the applicability to certain NBFCs. RBI continues to hold the statutory auditors accountable for falsifications of accounts by the borrower (similar to the 2015 circular), however, with the establishment of the NFRA, complaints can now also be lodged with NFRA (in addition to ICAI) in such instances.

Updates from NFRA

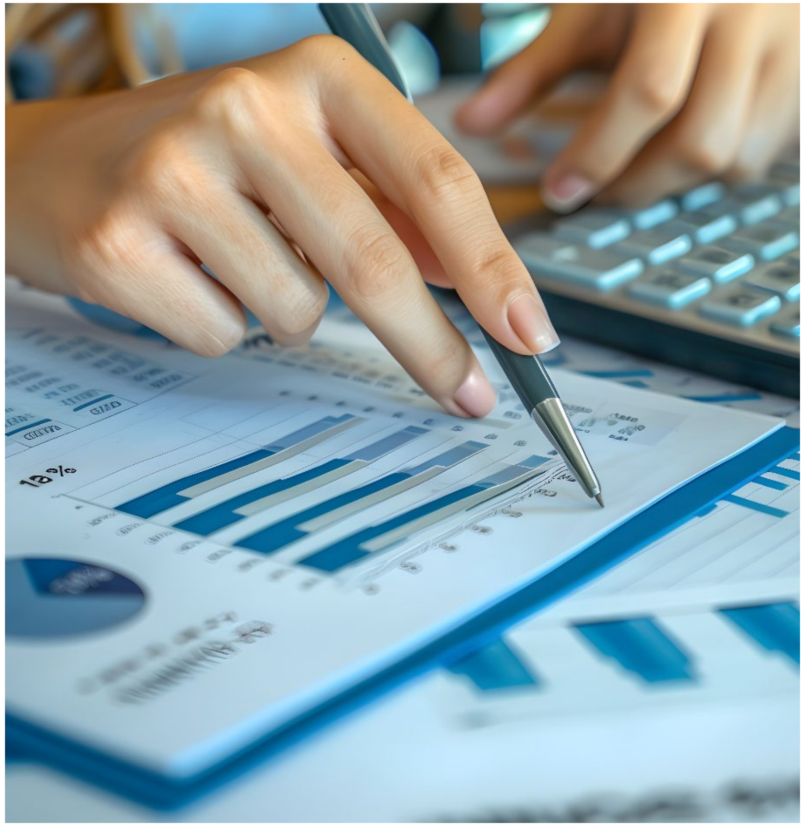
Report on valuation of AT-1 bonds

Additional Tier (AT)-1 bonds, popularly known as perpetual debt instruments are issued by banks to raise money and build up their core equity capital. Banks have a call option that permits them to redeem these bonds after a certain period.

Prior to the report on valuation of AT-1 bonds issued by the National Financial Reporting Authority (NFRA), the valuation of the bonds was prescribed in the following manner:

- **By SEBI:** AT-1 bonds were required to be valued basis Yield To Maturity (YTM), where the maturity of these bonds was considered 100 years. This valuation was applicable to mutual funds and insurance companies[19].
- **By RBI:** Banks were required to value AT-1 bonds on Yield to first Call (YTC) basis[20]. These valuation norms were in accordance with the principles of Ind AS 113, *Fair Value Measurement*.

Considering the divergence in the valuaton requirements by SEBI and RBI, the Ministry of Corporate Affairs (MCA) requested NFRA to suggest a methodology for valuation of AT-1 bonds, which would be in sync with Ind AS 113.



19. The Insurance Regulatory Development Authority of India (IRDAI) vide a master circular required insurance companies to comply with the valuation directions issued by SEBI for mutual funds.
20. Yield to Call is the expected return an investor gets if they buy a bond and hold it until the issuer repurchases it on call date, before maturity.

Regulatory updates

Based on market consultation and its study, in July 2024, NFRA issued a report on ‘Valuation methodology for Additional Tier (AT)-1 bonds’ (valuation report), which recommended that valuation of AT-1 Bonds should be on YTC basis (adjusted with appropriate risk spreads)[21]. However, NFRA also clarified that the issue of deemed maturity date for other purposes is outside NFRA’s remit.

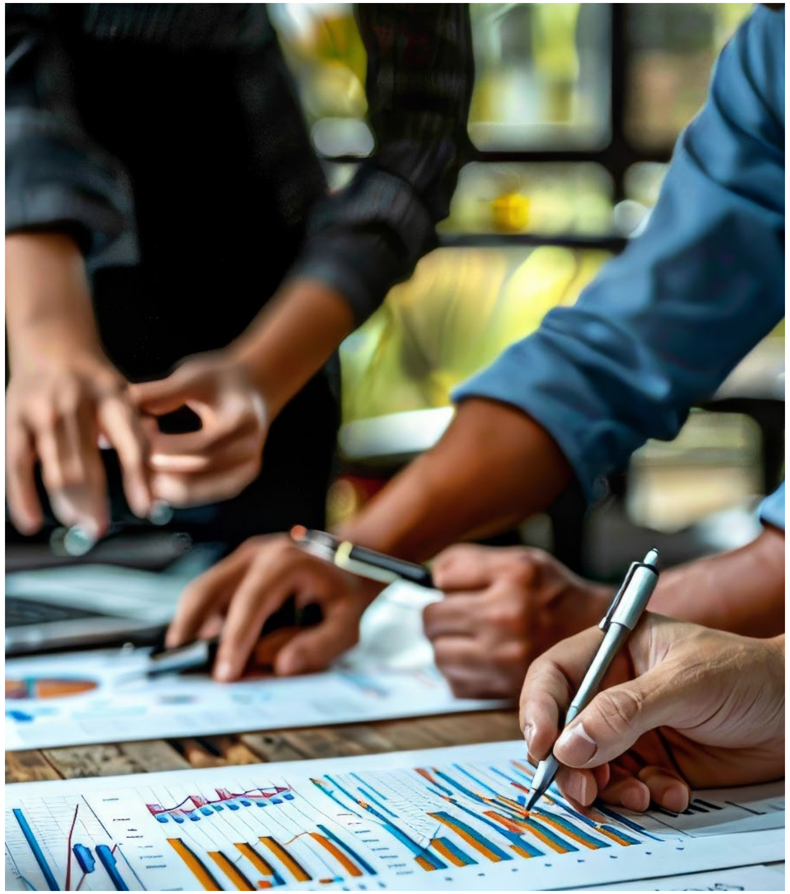
Subsequent clarification by SEBI

Subsequent to the issuance of the valuation report by NFRA, on 5 August 2024, SEBI issued a circular clarifying the following:

- Valuation of AT-1 Bonds by Mutual Funds should be based on YTC basis
- For all other purposes, deemed maturity of all perpetual bonds would continue to be as per the earlier circulars.

Action points for auditors

- Given that IRDAI requires insurance companies to follow the valuation rules prescribed by SEBI from time to time. Accordingly, insurance companies should also take heed of the circular issued by SEBI on 5 August 2024.
- Auditors would need to review the revaluation of AT-1 bonds held as investments by mutual funds and insurance companies based on the revised circular issued by SEBI. Also, auditors should discuss with management on how they would disclose the adjustments on revaluation of such investments.



22. The rationale for such valuation is that based on market practice, AT-1 bonds have been observed to trade at or quote prices closer to YTC basis- accordingly, this basis of valuation is in line with the principles of valuation stipulated by Ind AS 113.

International updates

Accounting updates

Accounting updates

Updates from FASB

FASB published a new chapter under the conceptual framework related to measurement of items in financial statements

On 12 July 2024, the Financial Accounting Standards Board (FASB) issued a new chapter of its conceptual framework for financial reporting[22] related to choosing a measurement system for an asset or a liability recognised in general-purpose financial statements. It describes:

- Two relevant and representationally faithful measurement systems: the entry price system and the exit price system; and
- Considerations when selecting a measurement system.

The chapter provides a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing and potential investors, lenders, donors, and other resource providers of a reporting entity.

To access the text of the notification, please click here

Updates from IASB

Annual improvements to IFRS accounting standards issued by IASB

On 18 July 2024, the International Accounting Standards Board (IASB) issued the Annual Improvements to IFRS Accounting Standards (volume 11) (Annual Improvements).

The amendments contained in the Annual Improvements are limited to amendments that either clarify the wording of an IFRS standard or correct relatively minor unintended consequences, oversights or conflicts between requirements in the standards.[23]

These amendments are mandatory for financial years beginning on or after 1 January 2026. Early application is permitted.

To access the text of the IASB press release, please click here

22. The Conceptual Framework is a body of interrelated objectives and fundamentals that provides the FASB with a useful tool as it sets standards.
23. Amendments have been issued on the following matters:
    - IFRS 1 *First-time Adoption of International Financial Reporting Standards* - Hedge Accounting by a First-time Adopter
    - IFRS 7 *Financial Instruments: Disclosures:*
      - Gain or loss on derecognition
      - Disclosure of differences between the fair value and the transaction price
      - Disclosures on credit risk
    - *IFRS 9 Financial Instruments:*
      - Derecognition of lease liabilities
      - Transaction price
    - *IFRS 10 Consolidated Financial Statements - Determination of a 'de facto agent'*
    - *IAS 7 Statement of Cash Flows - Cost Method.*

Discussion/Consultation papers and Publications

Exposure Drafts/consultation papers – India

Publications – India & International

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
SEBI	**Consultation Paper for introduction of Mutual Funds Lite Regulations (MF LITE) for passively managed mutual funds schemes**	A passively managed mutual fund seeks to mirror the performance of an index such as ETFs and index funds where portfolios of index funds can be easily tracked. Even though both active and passive MF schemes are covered under the purview of the current MF Regulations[24], the provisions thereunder have been envisaged, primarily keeping in mind the actively managed schemes and the risks and complexities associated therewith. In this regard, SEBI has proposed a relaxed framework (MF Lite Regulations) for passive MF schemes. The proposed framework consists of the following sections: The SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) and the current regulatory framework for MFs inter-alia provide for regulation of MFs and the schemes managed thereunder. • Ease of entry and relaxed provisions for MFs intending to launch only passive schemes under MF Lite registration. **(Section I)** • Ease of compliance, relaxed disclosures and other regulatory requirements for passive schemes under existing MFs as well as schemes that may be launched under the MF Lite registration. **(Section II)** The comment period for this proposal ended on 22 July 2024. To access the text of the consultation paper please click here

24. The SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) and the current regulatory framework for MFs inter-alia provide for regulation of MFs and the schemes managed thereunder.

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	**Draft Audit Quality Maturity Model version 2.0 (AQMM v2)**	The Audit Quality Maturity Model version 1.0 (AQMM v1) is a cross-functional evaluation model developed with an objective to enable the audit firms to evaluate their current level of audit maturity and also identify areas where competencies need to be strengthened. AQMM v1 was mandatory from 1 April 2023 for firms, auditing the following entities: • Listed entity • Banks other than co-operative banks (except multi- state co-operative banks) • Insurance companies Firms conducting branch audits were not covered On 12 July 2023, the Centre for Audit Quality has proposed to bring out version 2 of the AQMM. The key changes in AQMM v2 are: • A separate section to evaluate the digital competency of firms is proposed to be introduced • Section 3 of AQMM v1 (Practice management- strategic/functional) is proposed to be merged with section 1 of AQMM v1 (practice management- operation) • Some new clauses have been introduced while some old clauses which were objectively difficult to quantify have been dropped. **Proposed effective date:** AQMM v2 may be made applicable to practice units which submit form 1 on or after 1 April 2025. The comment period on the above exposure draft ended on 2 August 2024 To access the text of the consultation paper please click here. Subsequently, on 22 August 2024, ICAI issued the final version of AQMM version 2.0. To ensure a smooth transition from AQMM v1.0, AQMM v2.0 will be applicable to firms (referred to as Practice Units) which submit Form 1 on or after 1 April 2025. This will cover firms for which the review period is from 1 April 2022 till 31 March 202 (other than firms which have been constituted during this period for which the review period shall commence from the date of constitution till 31 March 2025). Click here to access the final version of AQMM v2.0.

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
SEBI	**Consultation paper on the proposed amendments to SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) related to scope of the expression 'connected person'**	With an aim to expand the regulatory scope of PIT regulations, it has been proposed to rationalise the following terms as follows: ***Connected person****:* The definition of 'connected person' under PIT Regulations is proposed to include persons deemed to be connected to the reporting entity by virtue of their proximity with connected persons[25]. While defining such deemed connected persons, reference would be drawn from the definition of 'related party' under the Companies Act, 2013 and on SEBI's experience • ***Relative:*** The definition of 'relative' would be rationalised under PIT Regulations for the purpose of establishing insider trading. For this purpose, reference would be drawn from the definition of 'relative' under the Income Tax Act, 1961. • ***Immediate relative****:* The definition of 'immediate relative' is proposed to be retained under the PIT Regulations. However, subsequent to the proposed changes to PIT Regulations, the relevance of the term 'immediate relative' would be limited to disclosures and Code of Conduct under PIT Regulations. The comment period for this proposal ended on 18 August 2024. To access the text of the consultation paper please click here.

25. Owing to their close relationship with connected persons, such deemed connected persons are considered to be in a position where they can potentially indulge in insider trading.

EDs/Consultation papers – India and International

Regulator	Topic	Particulars
RBI	**Draft framework on Basel III framework on liquidity standards – Liquidity Coverage Ratio (LCR)**	Given the technology advancement in the banking sector, instant transactions in the form of bank transfers and withdrawals has led to increased risk that requires oversight. With an aim to enhance the liquidity resilience of banks, the LCR framework has been reviewed, and certain requirements[26] are proposed to be made effective from 1 April 2025 to all commercial banks (excluding payment banks, regional rural banks and local area banks). The comment period for this draft circular ends on 31 August 2024. To access the text of the draft circular, please click here.
IASB	**Proposed amendments to IAS 21, The Effects of Changes in Foreign Exchange Rates**	Currently, IAS 21 does not provide an adequate basis for translating financial information, when the presentation currency of the entity is of a hyperinflationary economy and the functional currency is of a non-hyperinflationary economy. To reduce diversity in practice and improve usefulness of information for investors, the IASB has proposed narrow scope amendments to IAS 21 with the aim of addressing accounting issues that affect companies that translate financial information from a non-hyperinflationary currency to a hyperinflationary currency. IASB has proposed that when an entity translates amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy, the entity should translate those amounts, including comparative amounts, using the closing rate at the date of the most recent statement of financial position. The exposure draft is open for comments till 22 November 2024. To access the text of the exposure draft, please click here.

26. These requirements inter alia include:
- Banks should assign an additional five per cent run-off factor for retail deposits which are enabled with Internet and Mobile Banking facilities.
- Unsecured wholesale funding provided by non-financial small business customers should be treated in accordance with the treatment of retail deposits mentioned above.
- Level 1 High Quality Liquid Assets (HQLA) in the form of government securities should be valued at an amount not greater than their current market value, adjusted for applicable haircut in line with the margin requirements under the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).

In case a deposit, excluded from LCR computation (for instance, a non-callable fixed deposit), is contractually pledged as collateral to a bank to secure a credit facility or loan, such deposit shall be treated as callable for LCR purposes.

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
IASB	**Consultation document proposing illustrative examples[27] that improve reporting of climate-related and other uncertainties[28] in financial statements**	Stakeholders raised concerns that information about climate-related uncertainties in financial statements was insufficient or appeared to be inconsistent with information provided outside the financial statements. In order to address the above, the IASB proposed eight illustrative examples that focus on areas such as materiality judgements, disclosures about assumptions and estimation uncertainties, and disaggregation of information. The examples aim to: • improve transparency of information in financial statements; and • strengthen the connection between financial statements and other parts of a company's reporting, such as sustainability disclosures. The proposal is open for comments till 28 November 2024. To access the text of the IASB announcement, please click here.
FASB	**Proposed Accounting Standard Update (ASU) on derivatives scope refinements**	On 23 July 2024, the Financial Accounting Standards Board (FASB) published a proposed ASU to address the following: ***Issue 1 – Derivative scope refinements*** Due to the broad and evolving interpretation of the definition of a derivative, many types of contracts are evaluated and potentially accounted for as derivatives, including certain research and development funding arrangements and bonds in which interest payments may vary based on ESG-linked metrics. This leads to challenges in applying guidance in FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging*.

27. Illustrative examples are non-mandatory guidance that accompany IFRS Accounting Standards. Their purpose is to illustrate how the requirements in the Standards apply to particular fact patterns.

28. Other uncertainties include economic, regulatory, technological, societal and environmental uncertainties.

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
FASB	**Proposed Accounting Standard Update (ASU) on derivatives scope refinements (cont.)**	The proposed ASU aims to: • Reduce the cost and complexity of evaluating whether contracts are derivatives • Better portray the economics of those contracts in the financial statements • Reduce diversity in practice resulting from changing interpretations of the existing guidance. ***Issue 2 – Scope Clarification for a Share-Based Payment from a Customer in a Revenue Contract*** The proposed ASU clarifies the applicability of Topic 606, *Revenue from Contracts with Customers* related to accounting for share-based payments, such as warrants or shares received from a customer that are consideration for the transfer of goods or services. It aims to provide investors with more comparable information and would reduce accounting complexity and related reporting costs for preparers and auditors. The proposed ASU is open for comments till 21 October 2024. To access the text of the ASU, please click here.

Publications – India & International

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

Regulator	Topic	Particulars
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 on these common non compliances. The publication has two parts, which are 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. To access the text of Part 1 publication, please click here To access the text of Part 2 publication, please click here
ICAI	**Implementation Guide on Revision in Form No. 3CD and Form No. 3CEB**	In March 2024, the Central Bureau of Direct Taxes (CBDT) had notified changes to the Form 3CD and 3CEB Income-tax Act, 1961. Some of the key changes introduced in Form 3CD (tax audit) are as follows: • To report expenditure incurred to compound an offence and expenditure incurred to provide any benefit or perquisite which is in violation of any law or rule or regulation or guideline under clause 21(a) of Form 3CD. • To report sums payable to micro or small enterprises which are not paid within the time allowed under Section 15 of MSMED Act, 2006, under clause 26 of Form 3CD. • Minor changes to include all the applicable sections introduced through the Finance Act 2023, in reporting under respective clauses of Form 3CD.

Publications – India & International

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

Regulator	Topic	Particulars
ICAI	**Implementation Guide on Revision in Form No. 3CD and Form No. 3CEB**	In this regard, the ICAI has issued an implementation guide on revision in Forms 3CD and 3CEB. These amendments in the guide pertain to various clauses[29] of Form 3CD, as well as Part C (Specified domestic transactions) in the Annexure to Form No. 3CEB. The guidance in the implementation guide relating to Form No.3CD has to be read along with the Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961 (Revised 2023). Similarly, guidance relating to Form No.3CEB has to be read along with the Guidance Note on Report under Section 92E of the Income-tax Act, 1961 (Revised 2022). To access the text of the implementation guide, please click here.
IAASB	**New International Standard on Auditing (ISA) for Less Complex Entities (LCE) – Guidance on auditor reporting**	The ISA for LCE is a standalone global auditing standard designed specifically for smaller and less complex businesses. Built on the foundation of the ISAs, audits performed using this standard provide the same level of assurance for eligible audits, i.e. reasonable assurance. The standard is effective for audits beginning on or after 15 December 2025 for jurisdictions that adopt or permit its use. In order to help jurisdictions navigate the adoption of this new standard, the IAASB issued supplementary guidance on auditor reporting related to ISA for LCE. The document, *inter alia*, includes the following: • Guidance for auditors about modification in the auditor's report while using this standard • Eight illustrative auditor's reports • Guidance on emphasis of matter and other matter paragraphs and reporting on a material uncertainty related to going concern. To access the text of the supplementary guidance, please click here.

29. Clauses 8A, 12, 18(ca), 19, 21(a), 22, and 32(a) of Form 3CD

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