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# Regulatory updates for the month of November 2022

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# Regulatory updates for November 2022

The regulatory updates publication issued by the Foundation for Audit Quality (FAQ) highlights the latest developments in accounting, auditing and regulatory developments in India and internationally.

## In this edition

Recently, the Securities and Exchange Board of India (SEBI) issued amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations). The amendments mainly pertain to the following areas:

- Appointment, re-appointment and removal of Independent Directors
- Appointment of monitoring agency in case of preferential issue and Qualified Institutions Placement
- Amendments relating to the financial reporting requirements of issuers of Non-Convertible Securities (NCS)
- Amendments relating to schemes of arrangement undertaken by issuers of NCS
- Unclaimed NCS and accrued benefits

Additionally, SEBI has issued certain amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations). Some of the key amendments issued include – Pre-filing of draft offer document, requirement to appoint a monitoring agency to monitor the use of proceeds of an issue, amendments made to Schedule VI of the ICDR Regulations, amongst others.

This issue of the regulatory updates publication covers some of the important updates on auditing and regulatory matters for the period from **1 November 2022 to 30 November 2022**. It also highlights some of the action points that auditors may consider when applying the relevant provisions.



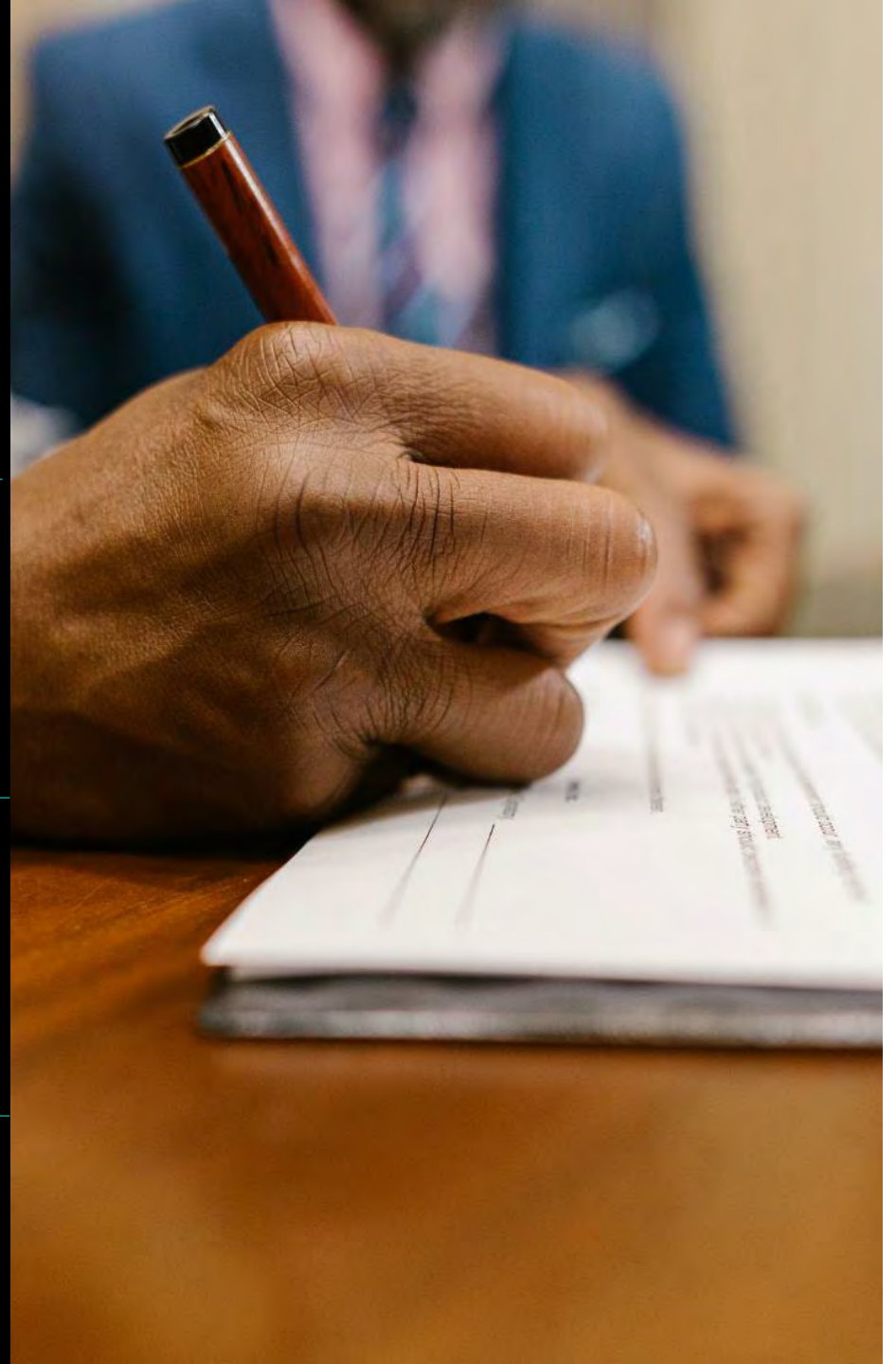


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## Updates from NFRA

### NFRA issues audit quality inspection guidelines

On 11 November 2022, the National Financial Reporting Authority (NFRA) published its audit quality inspection guidelines. The overall objective of inspections is to evaluate compliance of the audit firm/auditor (together termed as 'auditors') with auditing standards and other regulatory and professional requirements, as well as the sufficiency and effectiveness of quality control system of the auditors including:

- Adequacy of governance framework and its functioning
- Effectiveness of firm's internal control over audit quality
- System of assessment and identification of audit risks and mitigating measures.

Further the guidelines discuss the following aspects:

- Criteria and scope
- Methodology for selection
- Inspections
- Inspection report.

#### Criteria and scope

**Criteria:** The criteria for audit quality inspections, include:

- Provisions in the Companies Act, 2013, NFRA Rules, 2018 and amendments thereof
- Standard on Quality Control (SQC) 1, including Code of Ethics
- Standards on Auditing
- Policies, guidelines, manuals, etc. of the audit firm
- Ind AS as may be applicable to selected individual audit engagements
- Relevant circulars/directions of other regulators, as applicable
- Directions issued by internal quality boards/committees and Quality Review Board (QRB), ICAI, as may be applicable.

**Scope:** The scope of audit and a change in scope of audit would be intimated to auditors.  
Inspections could also lead to financial reporting quality reviews of financial statements of the companies whose audits are selected for inspection

#### Methodology for selection

**Selection of auditors:** Selection of audit firms and determination of periodicity of their inspections is based on:

- Assessment of risks in the audit environment
- Size of the firm
- Composition and nature of the audit firm
- Number of audit engagements completed in the year-end review
- Complexity and diversity of preparer financial statements audited by the audit firm
- Specific concerns highlighted by the government
- Other indicators as determined by NFRA

**Selection of audit assignment:** Selection of audit engagement will be on the basis of both, risk based and random selection and also on the basis of financial and non-financial indicators identified by NFRA.

#### Inspections

For the purpose of inspections, NFRA will issue questionnaires and request auditors to keep relevant records ready. Further, the inspection has been explained as below:

- Start of inspection:** At the start of inspections, NFRA will hold meetings with senior management of audit firms to understand working of the auditors and/or have enquiry meeting(s) with audit engagement team
- Execution cycle:** The execution cycle will comprise site-visits, interviews, review of controls, substantive testing, issue of queries and observations and follow up of previously issued observations (in case of recurring inspections). Auditors would be required to provide written responses to queries, observations, confirmations, etc.
- Closing:** Inspections would close with a meeting with the senior management of the audit firm or with the auditor, and issuance of a draft inspection report for obtaining responses of the auditors.

#### Inspection report

The inspection report would comprise the NFRA's inspection approach in brief, findings or non-compliances, responses of the auditors, NFRA's conclusions and recommendations and any other matter deemed significant by the inspection team.

(Source: Foundation for Audit Quality's analysis, 2022 read with NFRA press release id: 1875275, dated 11 November 2022)

To access the text of the audit quality inspection guidelines, please [click here](#).

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## Updates from SEBI

### SEBI issues amendments to LODR Regulations

Recently, the Securities and Exchange Board of India (SEBI), vide a notification dated 14 November 2022 issued various amendments to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirement) Regulations, 2015 (LODR Regulations<sup>1</sup>).

The amendments mainly pertain to the following areas:

- Appointment, re-appointment and removal of Independent Directors
- Appointment of monitoring agency in case of preferential issue and Qualified Institutions Placement
- Amendments relating to the financial reporting requirements of issuers of Non-Convertible Securities (NCS)
- Amendments relating to schemes of arrangement undertaken by issuers of NCS
- Unclaimed NCS and accrued benefits

These amendments are applicable from the date of publication in the Official Gazette, i.e., 14 November 2022. Some of the key changes introduced in this regard are discussed below:

#### a. Appointment, re-appointment and removal of Independent Directors

Regulation 25(2A) of the Listing Regulations specifies that the appointment, re-appointment or removal of an Independent Director (ID) of a listed entity would be subject to the approval of shareholders by way of a Special Resolution (SR).

With a view to promote the participation of public shareholders<sup>2</sup> in the corporate governance framework of a listed company, SEBI, in its Board Meeting dated 30 September 2022 had approved an alternate threshold for the appointment and/or removal of IDs. The revised provisions have been subsequently incorporated in the LODR Amendment Regulations.



1. The amendments have been issued vide the SEBI LODR (Sixth Amendment) Regulations, 2022 (LODR Amendment Regulations).
2. Public shareholders refer to the shareholders other than the promoter and promoter group.

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- **Appointment of IDs:** Where an SR for the appointment of ID fails to get the requisite majority of votes, in such cases, an alternate threshold would now need to be tested. In this regard, the appointment would be deemed to have been made if the following two conditions are satisfied:
  - Ordinary majority<sup>3</sup> has been achieved based on the votes cast by all shareholders (i.e., promoters as well as public shareholders), and
  - Ordinary majority has been achieved based on the votes cast by public shareholders.

- **Removal of IDs:** Where an ID has been appointed through an SR, then he/she can also be removed only by passing an SR. However, if the appointment has been made using the alternate threshold criteria specified above, then removal would also need to be approved in the similar manner.

These amendments are applicable to all the entities that have listed their specified securities<sup>4</sup> as well as High Value Debt Listed Entities (HVDLEs)<sup>5</sup>.

- b. **Appointment of monitoring agency in case of preferential issue and Qualified Institutions Placement (QIP)**

Regulation 32 of the LODR Regulations requires listed entities to submit a quarterly statement of deviation(s) or variation(s) to the stock exchange(s), thereby indicating deviation, if any, in utilization of the proceeds of the issue with the objectives of the issue<sup>6</sup>.

Before amendment, Regulation 32(6) of the LODR Regulations required listed entities to submit to the stock exchange(s) any comments or report received from a monitoring agency (where such an agency had been appointed) relating to utilisation of proceeds of a **public issue or a rights issue**. Such comments or report had to be submitted within 45 days from the end of each quarter.

With the issuance of the LODR Amendment Regulations, an issuer of NCS may appoint a monitoring agency for utilisation of proceeds of:

- Public issue
- Rights issue
- **Preferential issue and**
- **QIP**

*(Emphasis added to highlight the change)*

- c. **Amendments relating to the financial reporting requirements for issuers of Non-Convertible Securities (NCS)**

Chapter V of the LODR Regulations specifies the obligations of an issuer of NCS, including the financial reporting requirements of issuers of NCS.



3. Ordinary majority is said to be achieved when the votes cast in favor of the resolution exceed the votes cast against the resolution.
4. Specified securities refer to the equity shares and convertible securities.
5. HVDLE refers to an entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of INR500 crore and above.
6. The objectives of the issue are mentioned in the offer document or explanatory statement to the notice for the general meeting



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Some key amendments and clarifications that have been introduced by the LODR Amendment Regulations, with respect to the financial reporting requirements of such entities include:

- **Timeline for submission of financial results for the last quarter [Regulation 52(1)]**

The timelines for submission of un-audited or audited quarterly and year to date standalone financial results (standalone financial results) to the stock exchange for the last quarter has been updated to be **within 60 days from the end of the quarter**. *(Before amendment, the LODR Regulations required the standalone financial results to be submitted to the stock exchange within 45 days from the end of all quarters, except for the last quarter<sup>7</sup>.)*

- **Submission of annual financial results by companies subject to CAG audit [Proviso to Regulation 52(2)(d)]**  
SEBI has prescribed a revised framework for issuers of NCS who are subject to audit by the Comptroller and Auditor General of India (CAG). Such entities would need to adopt the following two-step process for the disclosure of annual financial results:

**Step 1:** Such entities would need to submit the unaudited financial results along with the limited review report issued by the CAG, an auditor appointed by the CAG, or a practising Chartered Accountant, to the stock exchange(s), within 60 days from the end of the financial year.

**Step 2:** Post this, the audited financial results are required to be submitted to the CAG within nine months from the end of the financial year<sup>8</sup>.

- **Filing of statement of utilisation of proceeds and statement of material deviation(s) along with the financial results [Regulation 52(7) and 52(7A)]**

The LODR Amendment Regulations now requires an issuer of NCS to submit **along with the quarterly financial results** the following statements in a prescribed format to the stock exchange:

- A statement indicating the utilisation of issue proceeds of NCS *(before amendment this statement was required to be submitted within 45 days from the end of every quarter)*
- A statement disclosing material deviations in the use of proceeds obtained from the issue of NCS from the objects of the issue *(before amendment, the timelines for submission of this statement<sup>9</sup> and time period upto which<sup>10</sup> this statement was required to be submitted was not clearly specified)*

These statements would be submitted till such proceeds have been fully utilised or the purpose for which the proceeds were raised has been achieved.

- **Disclosure of ratios [Regulation 52(4)]**

Regulation 52(4) of the LODR Regulations requires issuers of NCS to disclose certain ratios/financial information in the quarterly and annual financial results<sup>11</sup>.

7. Requirements of Regulation 52(1) of the LODR Regulations
8. Before amendment, the two-step process for submission of audited financial results followed by issuers of NCS who were required to get their accounts audited by CAG was:
  - i. The first level audit must be carried out by the auditor appointed by the CAG, and the audited financial results need to be submitted to the stock exchange(s) within 60 days from the end of the financial year, and
  - ii. After the completion of audit by the CAG, the financial results are required to be submitted to the stock exchange(s) within nine months from the end of the financial year.
9. Timeline refers to the time period from the end of the quarter within which these statements need to be submitted. Post amendment, it has been clarified that this needs to be submitted along with the quarterly financial results.
10. Time period upto which refers to till when will such statements be submitted to the stock exchanges. Post amendment, it has been clarified that this needs to be submitted till such proceeds have been fully utilised or the purpose for which the proceeds were raised has been achieved.
11. Before amendment, the ratios prescribed by Regulation 52(4) included Debt-equity ratio, Debt service coverage ratio, Interest service coverage ratio, Outstanding redeemable preference shares (quantity and value), Capital redemption reserve/debenture redemption reserve, Net worth, Net profit after tax, Earnings per share, Current ratio, Long term debt to working capital, Bad debts to account receivable ratio, Current liability ratio, Total debts to total assets, Debtors' turnover, Inventory turnover, Operating margin per cent, Net profit margin per cent, and Sector specific equivalent ratios, as applicable.



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The LODR Amendment Regulations has omitted the requirement to disclose sector specific equivalent ratios. Further, it has been clarified that in case the ratios or information in Regulation 52(4) of the LODR Regulations is not applicable to a listed entity, it should disclose other ratio/equivalent financial information, as may be required under applicable law.

- **Publication of consolidated financial results in newspaper by issuers of NCS [Regulation 52(8)]**

Regulation 52(8) of the LODR Regulations requires an issuer of NCS to publish the financial results and other specified details, within two working days of the conclusion of the meeting of the Board of Directors, in at least one English national daily newspaper, circulating in the whole or substantially the whole country.

The LODR Amendment Regulations have now clarified that where entities have submitted both standalone as well as consolidated financial results to the stock exchange, it should publish only the consolidated financial results in the newspaper. *(Before amendment, there was no clarification on whether the standalone results, consolidated results, or both standalone as well as consolidated results were required to be published in the newspaper.)*

- d. **Amendments relating to schemes of arrangement undertaken by issuers of NCS (Regulation 59A and 94A):** Sections 230 to 234<sup>12</sup> of the Companies Act, 2013 specify the provisions with regard to the schemes of arrangements of the Insolvency and Bankruptcy Code (IBC) in certain circumstances.

entered into by the companies. Regulations 37 and 94 of the LODR Regulations specify provisions regarding such schemes of arrangement, entered into by the entities which have listed their specified securities. However, no such provisions existed for issuers of NCS. In this regard, SEBI has introduced a framework pertaining to schemes of arrangements for issuers of NCS (Regulations 59A and 94A of the LODR Regulations). Some of the key provisions introduced are discussed below:

- **Applicability:** Regulations 59A and 94A of the LODR Regulations would be applicable to all the schemes of arrangement undertaken by the issuers of NCS. However, it would not apply to a restructuring proposal approved as part of a resolution plan by the National Company Law Tribunal (NCLT) under Section 31<sup>13</sup> of the Insolvency and Bankruptcy Code (IBC) in certain circumstances.
- **Obtaining NOC from the stock exchange:** The LODR Amendment Regulations specify that every issuer of NCS, before filing the scheme of arrangement under Sections 230 to 234 or under Section 66<sup>14</sup> of the Companies Act, 2013 should file the draft scheme of arrangement with the stock exchange(s), along with non-refundable fees<sup>15</sup> for obtaining the No-Objection Letter (NOL). Such NOL would be valid for a period of six months from the date of its issuance.
- **Sanctioning of scheme by NCLT:** The issuer of NCS would place the NOL before the NCLT at the time of seeking approval for the scheme of arrangement. Upon sanction of the scheme by the NCLT, the issuer of NCS should submit such documents to the stock exchange as may be specified by SEBI/stock exchange from time to time.



- 12. -Section 230: Power to compromise or make arrangements with creditors and members
- Section 231: Power of Tribunal to enforce compromise or arrangement
- Section 232: Merger and amalgamation of companies
- Section 233: Merger or amalgamation of certain companies
- Section 234: Merger or amalgamation of company with foreign company

13. Section 31: Approval of resolution plan

14. Section 66: Reduction of share capital

15. The fees to be paid to the stock exchanges has been prescribed in Schedule XI of the LODR Regulations.

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## Operational guidelines for schemes of arrangement

On 17 November 2022, SEBI issued a circular (the circular) containing the operational aspects with respect to scheme(s) of arrangement by entities that have listed their Non-Convertible Debt securities (NCDs)/Non-Convertible Redeemable Preferences Shares (NCRPS).

Applicability and effective date: The circular is applicable to all listed entities that have listed NCDs/NCRPS and intend to undertake or are involved in a scheme of arrangement as per Chapter XV of the Companies Act, 2013. The provisions of the circular are applicable with immediate effect (i.e., 17 November 2022).

Overview of the circular: The overview of the circular is as follows:

Requirements to be fulfilled by issuers of listed NCDs/NCRPS: The circular prescribes that the following requirements should be complied by issuers of listed NCDs/NCRPS before the scheme of arrangement is filed with NCLT:

- **Choose a designated stock exchange:** Stock Exchange(s) having nationwide trading terminals should be chosen as the designated stock exchange for the purpose of coordinating with SEBI
- **Submission of documents:** Issuers of listed NCDs/NCRPS should submit the following documents to the stock exchange(s):
  - **Draft scheme of arrangement** along with specific disclosures.
  - **Valuation report** issued by a registered valuer<sup>16</sup>, along with an undertaking from the listed entity that no material events have impacted valuation during the intervening period.
  - **Fairness opinion** on the valuation of assets done by a registered valuer for the entities involved in the scheme of arrangement from a SEBI registered Merchant Banker<sup>17</sup>
  - **Report from the Board of Directors** recommending the draft scheme of arrangement and that the scheme is not detrimental to the holders of listed NCDs/NCRPS.



16. The registered valuer should be independent

17. The merchant banker should be independent



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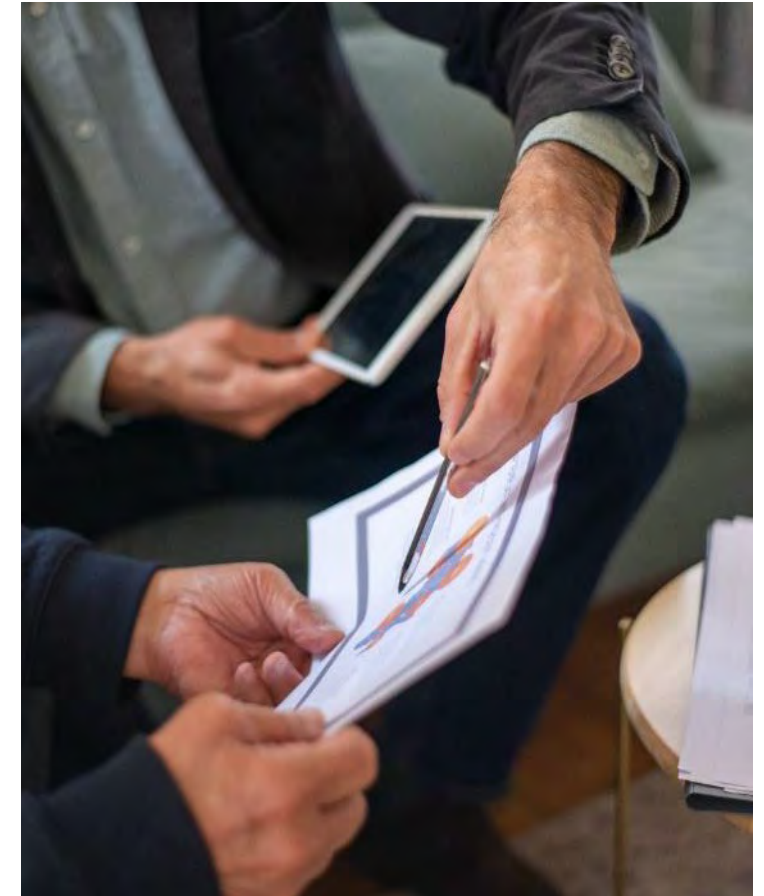
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- **Audited financial statements** for the last three years (financials not being more than 6 months old) of unlisted entity.
- **Auditors' certificate** certifying the payment/repayment capability of the resultant entity and certifying the accounting treatment contained in the schemes<sup>18</sup>. The format of the auditor's certificate has been prescribed in the circular.
- **Detailed compliance report** in a prescribed format certified by the Company Secretary (CS), Chief Financial Officer (CFO) and the Managing Director (MD), confirming compliance with various regulatory requirements for the scheme of arrangement and with the accounting standards.
- **Report on unpaid dues/fines/penalties** in a prescribed format.
- **Declarations** on any past defaults of listed debt obligations of the entities forming part of the scheme and whether the issuer of NCDs/NCRPS or any of its promoters or directors is a willful defaulter.
- **No-Objection Certificate** from the debenture trustee.
- **Conditions for schemes of arrangement involving unlisted entities:** While seeking approval for the scheme of arrangement from the holders of listed NCDs/NCRPS (the holders), the notice or proposal sent to the holders should include information pertaining to the unlisted entity in a prescribed format. This information should be certified by a SEBI registered merchant banker. Additionally, this information should be sent to the stock exchanges for uploading on their websites.
- **Report of complaints/comments received by the issuers of listed NCDs/NCRPS:** A report containing details of complaints/comments received by the issuers of listed NCDs/NCRPS from various sources will be submitted to the stock exchange on the expiry of 10 days from the date of filing of draft scheme of arrangement with the stock exchange.
- **Disclosure on website:** The issuer of listed NCDs/NCRPS shall disclose the draft scheme of arrangement, along with documents submitted to the stock exchange on its website. The NOL obtained from the stock exchange will be uploaded on the website within 24 hours.



18. The accounting treatment should be in compliance with all the Accounting Standards specified by the Central Government under Section 133 of the Companies Act, 2013 read with the rules framed thereunder or the Accounting Standards issued by ICAI, as applicable, and other generally accepted accounting principles.

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- **Notice or proposal sent to holders of listed NCDs/NCRPS:** The NOL obtained from the stock exchange will be sent to the shareholders by email/speed post to seek approval for the scheme of arrangement. Additional documents and information should also be issued such as expected debt structure, fairness opinion obtained, etc. Further the facility of e-voting will also be provided to the holders of listed NCDs and NCRPS.
- **Disclosure on website:** The issuer of listed NCDs/NCRPS shall disclose the draft scheme of arrangement, along with documents submitted to the stock exchange on its website. The NOL obtained from the stock exchange will be uploaded on the website within 24 hours.

Obligations of stock exchange: The circular has prescribed the obligations of the stock exchange and timelines to forward the draft scheme of arrangement and other documents to SEBI and the timelines for providing the NOL to the issuers of listed NCDs/NCRPS.

Processing of scheme by SEBI: On receipt of the NOL from the stock exchange, SEBI will provide comments on the draft scheme of arrangement to the stock exchanges. While processing the draft scheme, SEBI may seek clarifications from any person relevant in this regard including the listed entity or the Stock Exchange(s) and may also seek an opinion from an Expert such as Practicing CS, Practicing Chartered Accountant, Lawyer, etc. The timelines for SEBI to provide comments on the draft scheme of arrangement has been prescribed.

The circular has also prescribed the requirements of the listed entity/resultant entity post sanction of scheme of arrangement by NCLT.

On 9 December 2022, SEBI issued a circular clarifying that the provisions of the circular would not apply to a scheme of arrangement which solely provides for an arrangement between a debt listed entity and its unlisted wholly owned subsidiary. However, such debt listed entity shall file the draft Scheme of Arrangement with Stock Exchange(s) for the purpose of disclosure and the Stock Exchange(s) shall disseminate the scheme documents on their websites.





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## e. Unclaimed NCS and accrued benefits

Regulation 61A of the LODR Regulations state that an issuer of NCS should not forfeit unclaimed interest/dividend/redemption amount and such amounts should be transferred to an escrow account opened in any scheduled bank and to the Investor Education and Protection Fund within a prescribed period of time.

The LODR Amendment Regulations have now inserted a new provision that in case of listed entities which do not fall within the definition of “company” under the Companies Act, 2013 and the Rules made thereunder, then any amount in the escrow account that remains unclaimed for seven years should be transferred to the Investor Protection and Education Fund.

To access the text of the LODR Amendment Regulations, please [click here](#).

To access the text of the circular, please [click here](#).

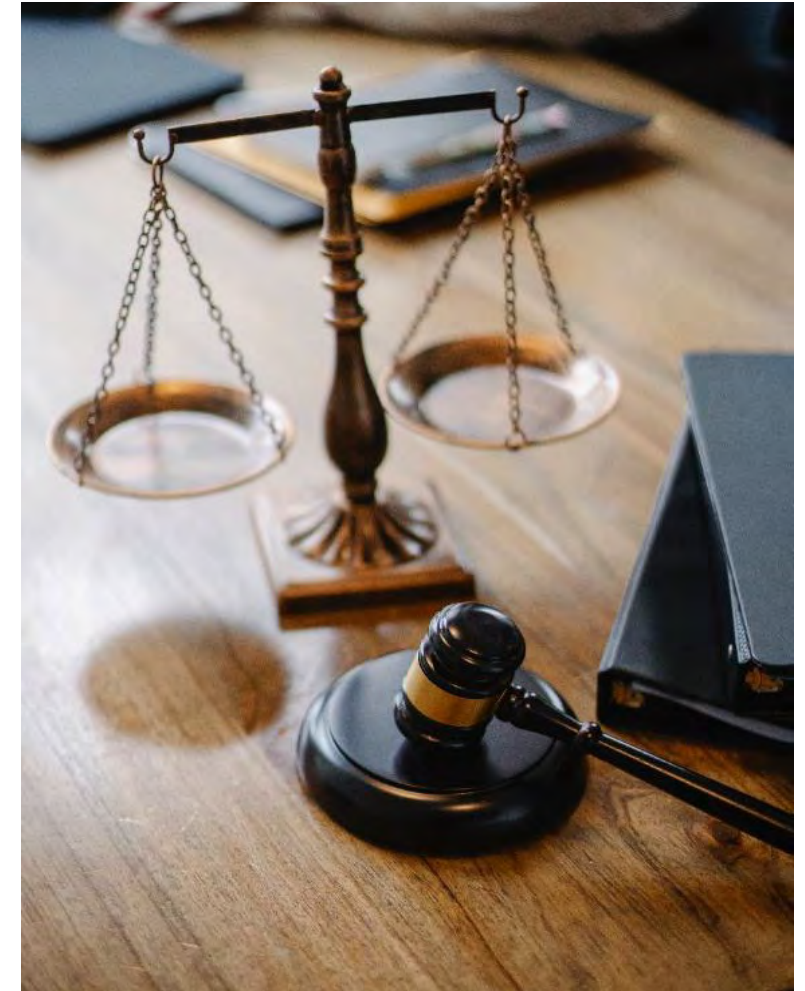
To access the text of the circular dated 9 December 2022, please [click here](#).

## Action Points for Auditors

Through the amendments, SEBI has introduced certain governance related requirements for listed entities and has streamlined reporting requirements for issuers of NCS. Auditors should actively engage with issuers of NCS and discuss the requirement and implications of the revised financial reporting and disclosure requirements.

In the schemes of arrangement, the issuers of listed NCDs/NCRPS are required to inter alia submit audited financial results of the unlisted entity for a period of three years. Additionally, auditors are required to issue a certificate with regard to the payment/repayment capability of the resultant entity and certify the accounting treatment. Members of the profession should discuss these requirements with issuers of NCDs/NCRPS that are about to or are in the process of entering into schemes of arrangement.

It is to be noted that while SEBI processes a scheme of arrangement submitted by issuers of NCS, it may make enquiries of any person relevant in this regard, including a practicing CS, a practicing Chartered Accountant, a lawyer, etc. Accordingly, practitioners issuing auditor certificates for issuers of NCS should maintain appropriate audit documentation relating to the work performed by them to respond to the inquiries from SEBI.



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## SEBI issues consultation paper on disclosure of material events or information

Regulation 30 of the LODR Regulations requires a listed entity to provide disclosures of events or information which, in the opinion of the Board of Directors of the listed entity, are material. While providing such disclosures, listed entities should also consider providing disclosures in accordance with the provisions of Part A of Schedule III<sup>19</sup> of the LODR Regulations (Schedule III-A).

However, SEBI received various representations from the stakeholders regarding inadequate and delayed information being reported by the listed entities, while providing such disclosures. In this regard, on 12 November 2022, SEBI issued a consultation paper, 'Consultation Paper on Review of disclosure requirements for material events or information', with an aim to streamline the disclosure requirements for material events or information by a listed entity. Some of the key recommendations provided by the consultation paper include:

- **Materiality threshold for disclosure:** The existing regulation, rationale for change and proposed regulation have been discussed hereunder:

Existing regulation	Rationale for change proposed	Proposed change
<p>Events or information in Para B of Schedule III-A would be disclosed to the stock exchange and on the website of the listed entity, if the listed entity considers them material. As per Regulation 30(4) of the LODR Regulations, events or information would be considered material if their omission is likely to result in:</p> <ul style="list-style-type: none"> <li>- Discontinuity or alteration of publicly available events or information</li> <li>- Significant market reaction when such omission comes to light</li> <li>- The event/information is considered material by the Board of Directors.</li> </ul> <p>Additionally, listed entities are required to formulate a materiality policy on the basis of the materiality criteria prescribed by the LODR Regulations (stipulated in Regulation 30(4) of the LODR Regulations).</p>	<p>SEBI observed that many entities did not disclose the events or information mentioned in Para B of Schedule III-A, citing that such events or information is not material.</p> <p>Additionally, the materiality policies developed by such entities were generic. SEBI has accordingly proposed to make the provision of regulation 30(4) of the LODR Regulations more objective and non-discretionary by adding a quantitative criteria, prescribing a minimum threshold for disclosure of events.</p>	<p>It has thus been proposed that listed entities should disclose an event or information, whose threshold value or the expected impact in terms of value <b>exceeds the lower of the following:</b></p> <ol style="list-style-type: none"> <li>Two per cent of turnover, as per the last audited standalone financial statements of the listed entity</li> <li>Two per cent of net worth, as per the last audited standalone financial statements of the listed entity</li> <li>Five per cent of three-year average of absolute value of profit/loss after tax, as per the last three audited standalone financial statements of the listed entity.</li> </ol>

19. Schedule III Part A: Disclosures of events or information: Specified securities. Para A of Schedule III Part A are deemed to be material events and listed entities should make disclosures of such events. Para B of Schedule III Part A and other events, which may be disclosed by listed entities based on application of the guidelines for materiality. The guidelines for determining materiality of an event have been prescribed in Regulation 30(4) of the LODR Regulations.



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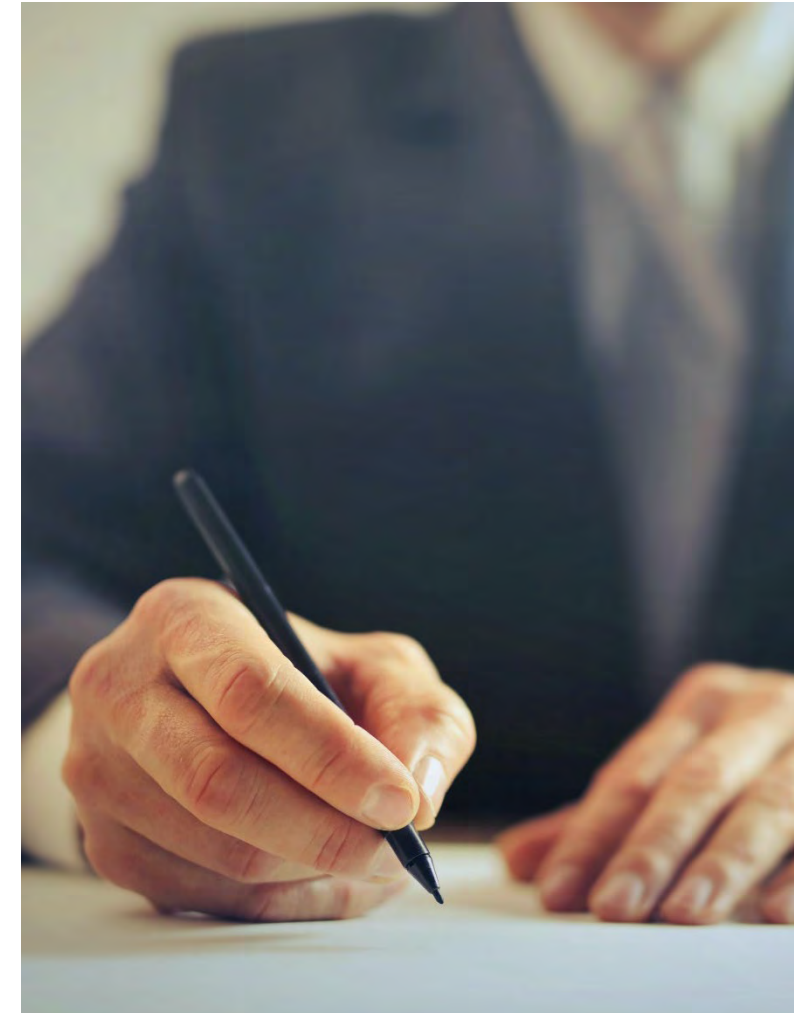
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**Materiality policy:** The existing regulation, rationale for change and proposed regulation have been discussed hereunder:

Existing regulation	Rationale for change proposed	Proposed change
<p>Regulation 30(4) of the LODR Regulations requires listed entities to formulate a materiality policy for reporting of events/information by the listed entity based on the materiality criteria prescribed by the LODR Regulations.</p> <p>Additionally, listed entities are required to authorise one or more Key Managerial Personnel (KMP) for the purpose of making disclosures to stock exchange(s).</p>	<p>There may be a situation wherein a material event/information originating at ground level, may not be accessible/come to the attention of KMP(s) authorised by the Board of Directors to determine the materiality of the event or information.</p>	<p>It has been proposed that Regulation 30(4) of the LODR Regulations be amended to state as below:</p> <ol style="list-style-type: none"><li>Materiality policy of a listed entity should not dilute any requirements specified under the LODR Regulations</li><li>Materiality policy of a listed entity should be framed in a manner so as to assist employees in identifying potential material events or information, which should be escalated and reported to the relevant Key Managerial Personnel (KMP), in order to determine the materiality of the event or information and make disclosure to stock exchange(s).</li></ol>



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- **Timeline for disclosure:** The existing regulation, rationale for change and proposed regulation have been discussed hereunder:

Existing regulation	Rationale for change proposed	Proposed change								
Regulation 30(6) of the LODR Regulations requires listed entities to disclose to the stock exchange all events specified in Schedule III-A as soon as reasonably possible but not later than 24 hours from the occurrence of the event. However, outcome of meetings of the Board of Directors needs to be disclosed to the stock exchange within 30 minutes of the closure of the meetings.	SEBI noted that in the present age of digital communication and widespread usage of social media, information permeates very fast. Hence, there is a need for ensuring quicker disclosure of material events or information by listed entities to avoid information asymmetry.	<div>SEBI has proposed revised timelines for disclosure of material events/information, which is as follows:</div> <table><tr><th>Event/information<sup>20</sup></th><th>Timelines for disclosure</th></tr><tr><td>Emanating from within the listed entity</td><td>Not later than 12 hours from occurrence of event or information</td></tr><tr><td>Not emanating from within the listed entity</td><td>Not later than 24 hours from occurrence of event or information</td></tr><tr><td>Outcome of meetings of Board of Directors</td><td>Within 30 minutes from the closure of the meeting of the Board of Directors</td></tr></table>	Event/information <sup>20</sup>	Timelines for disclosure	Emanating from within the listed entity	Not later than 12 hours from occurrence of event or information	Not emanating from within the listed entity	Not later than 24 hours from occurrence of event or information	Outcome of meetings of Board of Directors	Within 30 minutes from the closure of the meeting of the Board of Directors
Event/information <sup>20</sup>	Timelines for disclosure									
Emanating from within the listed entity	Not later than 12 hours from occurrence of event or information									
Not emanating from within the listed entity	Not later than 24 hours from occurrence of event or information									
Outcome of meetings of Board of Directors	Within 30 minutes from the closure of the meeting of the Board of Directors									



20. Annexure II to the consultation paper has provided the proposed timelines for disclosure of events/information prescribed in Schedule III-A of the LODR Regulations.

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- **Verification of market rumours:** The existing regulation, rationale for change and proposed regulation have been discussed hereunder:

Existing regulation	Rationale for change proposed	Proposed change
Regulation 30(11) of the LODR Regulations prescribes that a listed entity may on its own initiative, confirm or deny any reported event or information to stock exchange(s).	SEBI noted that today's age is highly influenced by print, digital and television media. In order to keep pace, it is essential that companies verify reported events or information which may have material effect on the listed entity and establish a false market sentiment or impact on the securities of the entity.	The SEBI has accordingly proposed that the top 250 listed entities <sup>21</sup> should necessarily confirm or deny any event or information reported in the mainstream media, whether in print or digital mode, which may have material effect on the listed entity under the Listing regulations.

- **Disclosure of cyber security incidents or breaches and loss of data/documents:** It has been provided that the listed entities should provide disclosures in relation to 'cyber security incident'<sup>22</sup> or 'cyber security breaches' or loss of data/documents in the quarterly corporate governance report in the format as prescribed by SEBI
- **Addition and modification of events:** The consultation paper has proposed certain additions and modifications to events specified under Para A and Para B of Schedule III-A<sup>23</sup>.

The consultation paper is open for comments up to 12 December 2022<sup>24</sup>.

To access the text of the consultation paper, please [click here](#)

To access the text of the circular extending the timeline for issuing the comment period, please [click here](#)



21. The top 250 listed entities should be determined on the basis of market capitalisation, as at the end of the immediate previous financial year.
22. As defined in Information Technology (The Indian Computer Emergency Response Team and Manner of Performing Function and Duties) Rules, 2013
23. Some of the key additions to para A of Schedule III-A of the LODR Regulations include:
  - Details of the regulatory actions taken against listed entity, its directors, KMP, senior management, promoter, or subsidiary;
  - Delay or default in payment of fines, penalties, dues, etc. to any regulatory, statutory, enforcement or judicial authority;
  - Details regarding voluntary revision of financial statements or the report of the Board of Directors of the listed entity;
  - The letter of resignation along with detailed reasons in case of resignation of a KMP, a senior management, or a director other than independent director, to the stock exchange(s) by the listed entities within seven days from the date of resignation etc.
24. As per the consultation paper, the last date for comments was 27 November 2022. This has been extended upto 12 December 2022 vide a circular issued by SEBI on 1 December 2022.



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## Action Points for Auditors

The consultation paper proposes various important changes with regard to the disclosure of material events or information by a listed entity. Auditors should discuss these requirements with listed entities to determine the preparedness of their secretarial teams for the enhanced compliances and disclosures. Auditors should also utilise the comment period for sharing their recommendations to the regulators while the regulations are under consideration.

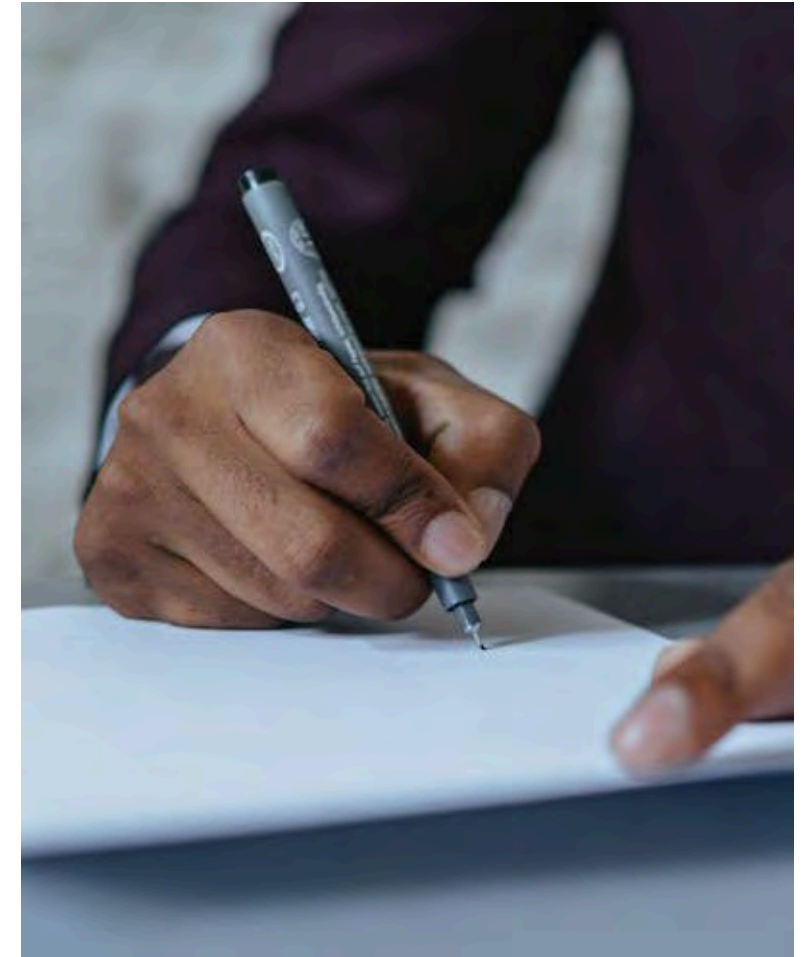
## SEBI issues consultation paper on buyback of shares

On 16 November 2022, SEBI issued a consultation paper on 'Review of SEBI (Buyback of Securities) Regulations, 2018' (the consultation paper). The consultation paper has proposed certain amendments to regulations pertaining to buyback of specified securities, buyback through tender offer as well as from open market through stock exchange mechanism, etc<sup>25</sup>.

Some of the key changes proposed by the consultation paper are as follows:

- **Open market buy backs through stock exchanges**
  - In view of certain drawbacks associated with buyback under the stock exchange mechanism, SEBI has proposed a glide path for reduction in the maximum limit and time period for completion of buyback offer under the stock exchange mechanism. The glide path is given hereunder:

Parameter	Current thresholds	W.e.f. 1 April 2023	W.e.f. 1 April 2024	W.e.f. 1 April 2025
Maximum limit	15 per cent	10 per cent	5 per cent	0 per cent
Time period for completion of buyback offer	6 months	66 working days	22 working days	NA



25. These recommendations are basis the sub-group on the SEBI (Buy-back of Securities Regulations), 2018 issued in October 2022.

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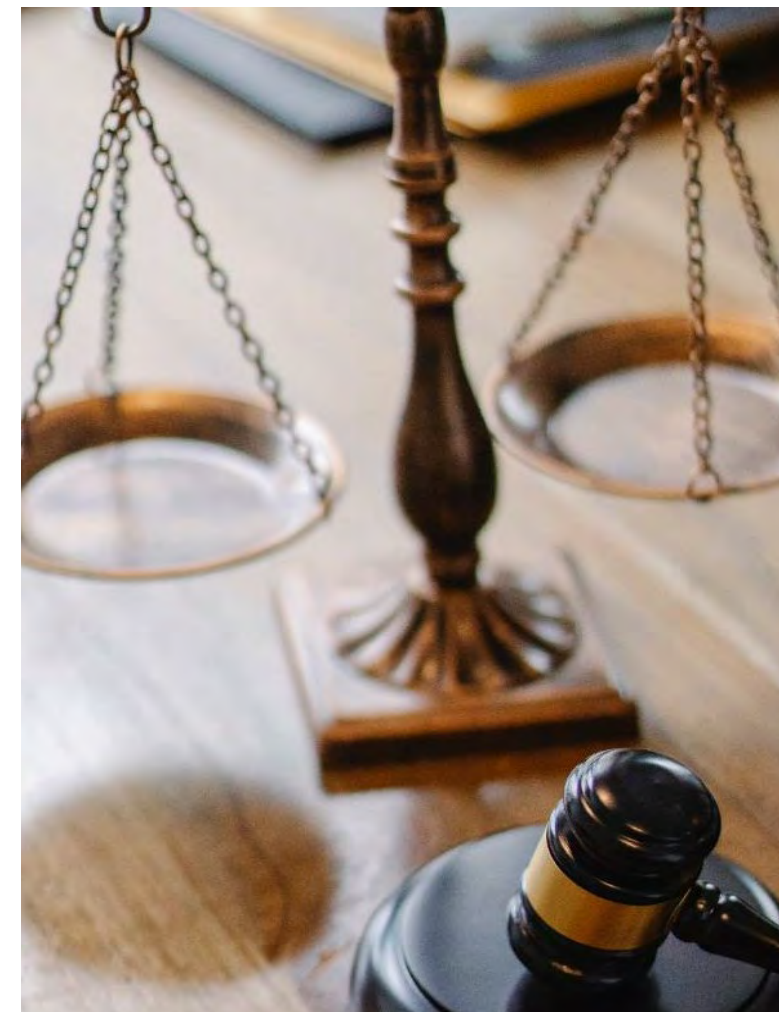


- A **minimum of 75 per cent** of the amount earmarked for buy-back (as specified in the resolution of the Board of Directors or the special resolution, as the case may be) should be utilised for buying back shares or other specified securities (*currently, this limit is 50 per cent*). Additionally, 40 per cent of the amount earmarked for buy back should be utilized within half of the duration specified as per the glide path specified above
- Buy-back through stock exchanges should only be undertaken in respect of **frequently traded shares**
- Restrictions on **volume and price and quantum** of buy-back has also been proposed.
- Companies should create an **escrow account** towards security for performance of its obligations within two working days of the public announcement (*currently, no timeline for creation of an escrow account has been prescribed*).
- **Buy-backs through tender offers:** Some of the recommendations proposed with respect to buy-backs that are undertaken through the tender offer process are as follows:
  - It has been proposed that the Board of Directors should be allowed the flexibility to **revise the buy-back price** prior to the opening of the buy-back offer (*currently, the maximum buy-back price is not permitted to be revised once it has been approved by the Board of Directors or shareholders*).

- In order to simplify the process and reduce the timelines for buy-back, it has been proposed that merchant bankers should be allowed to **directly disseminate the Letter of Offer (LOF)** to the shareholders, thereby removing the current requirement for SEBI to review the Draft LOF (DLOF) prior to the LOF being released by the merchant bankers.
- Companies should create an **escrow account** towards security for performance of its obligations within two working days of the public announcement (*currently, no timeline for creation of an escrow account has been prescribed*).
- **Framework for effecting open market buy-backs through the book building process**  
While the framework for effecting open market buy-backs through the book-building process has been provided under the SEBI (Buy-back of Securities) Regulations, 2018, it has been rarely used. Accordingly, the SEBI through the consultation paper has proposed a revised mechanism for effecting open market buy-backs through the book building process.
- **Other matters:** The SEBI has also prescribed total limits to buy-backs, cooling off periods between buy-backs and post buy-back compliances.

The comment period on the consultation paper closed on 1 December 2022.

To access the text of the consultation paper, please [click here](#).





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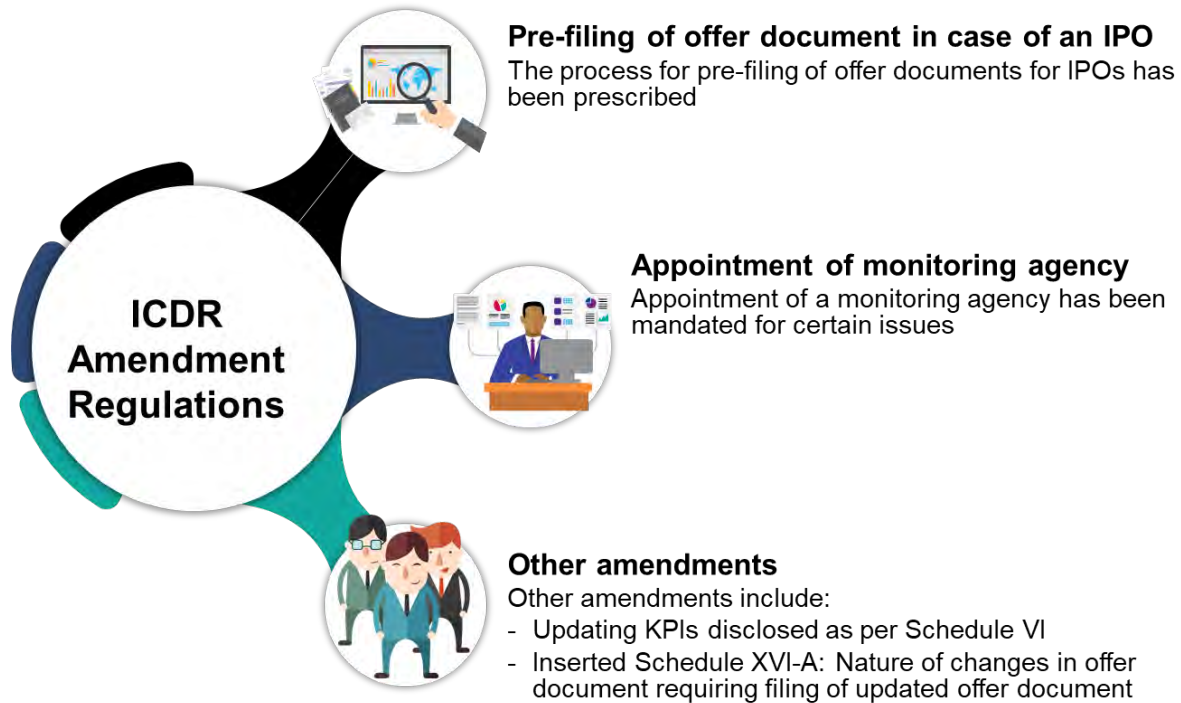
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## SEBI introduces pre-filing of offer documents in case of IPO and mandates appointment of a monitoring agency for certain issues

Recently, SEBI, vide a notification dated 21 November 2022 issued amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations)<sup>26</sup>. Some of the key amendments issued include:



(Source: Foundation for Audit Quality's analysis, 2022 read with ICDR Amendment Regulations)



26. The amendments have been issued by the SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2022 (ICDR Amendment Regulations).

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## Pre-filing of draft offer document

In May 2022, SEBI had issued a consultation paper<sup>27</sup> proposing that issuers of securities be permitted to pre-file offer documents when contemplating an Initial Public Offer (IPO).

The ICDR Amendment Regulations have incorporated the proposals by inserting a new chapter, 'Chapter IIA, Initial Public Offer on Main Board through pre-filing of draft offer document' in the ICDR Regulations. Chapter IIA gives details of the steps to be followed while pre-filing an offer document. The key guidelines prescribed by the ICDR Amendment Regulations are given below:

### **Step 1: Pre-filing of draft offer document with SEBI and the stock exchanges**

Prior to an IPO, following documents will be filed with SEBI and the stock exchanges:

The Lead Manager (LM) associated with an issue will file the following documents with SEBI:

- Three copies of Draft Offer Document (DOD) in accordance with Schedule IV along with fees in Schedule III
- A certificate confirming an agreement between the issuer and the LM
- A due diligence certificate issued by the LM in a prescribed form
- In case of an issue of convertible debt instruments, a due diligence certificate from the debenture trustee in a prescribed form
- An undertaking, in a prescribed format, from the issuer and LM that they will not advertise or market the issue

The issuer will file the following documents with the stock exchange where the securities are proposed to be listed (stock exchange):

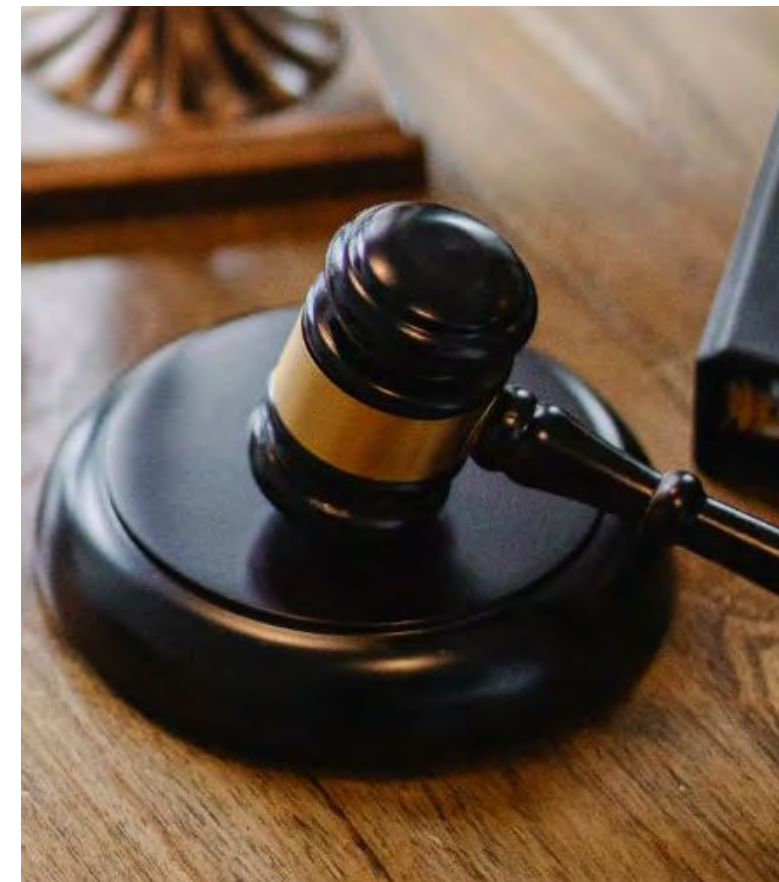
- Pre-filed DOD
- Prescribed details of the promoters

### **Public notice**

Within two days of pre-filing the DOD with SEBI, the issuer will make a public announcement\* regarding the fact that the DOD has been pre-filed (no other detail will be provided in the public announcement).

Issuer should also clarify that pre-filing of DOD does not necessarily mean that an IPO will be undertaken.

*\* All public announcements will be undertaken in one English newspaper, one Hindi newspaper and one regional language newspaper at the place where the registered office of the issuer is situated. All three newspapers should have a wide circulation.*



27. [https://www.sebi.gov.in/reports-and-statistics/reports/may-2022/consultation-paper-on-pre-filing-of-offer-document-in-case-of-initial-public-offerings\\_58875.html](https://www.sebi.gov.in/reports-and-statistics/reports/may-2022/consultation-paper-on-pre-filing-of-offer-document-in-case-of-initial-public-offerings_58875.html)



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It is to be noted that pre-filed DOD will not be made available to the public.

## Step 2: Changes and observations by SEBI

SEBI will recommend changes or issue observations on the pre-filed DOD within a prescribed time period.

## Step 3: Updated Draft Red Herring Prospectus I (UDRHP I)

### A. Submission of UDRHP I to SEBI

Changes suggested by SEBI will be processed by the issuer and LM on the pre-filed DOD, and a UDRHP I will be submitted to SEBI<sup>28</sup> along with:

- a statement certifying that all changes, suggestions and observations made by SEBI have been incorporated in the offer document
- a due diligence certificate issued by the LM in a prescribed format at the time of filing of the offer document.

### B. Making UDRHP I public

The UDRHP I will be made public for comments for a period of at least 21 days from the date of filing. It will be hosted on the websites of SEBI, the stock exchange(s) and of the LM.

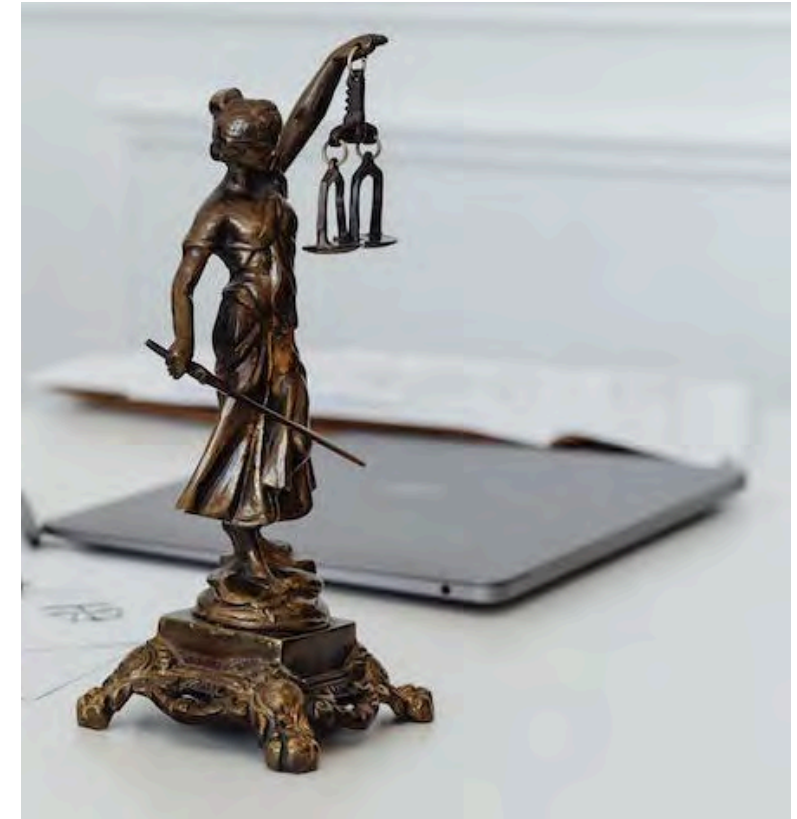
#### Public notice

Within two days of filing the UDRHP I, with SEBI, an issuer will make a public announcement regarding the fact that UDRHP I has been filed, and inviting the public to provide their comments to SEBI, the issuer and to the LM in respect of the disclosures provided in the UDRHP I.

## Step 4: UDRHP II

After expiry of the public comment period, the issuer and the LM will submit the following documents to SEBI:

- Comments received by them from the public on the UDRHP I and consequential changes required to be processed to the same
- UDRHP-II – (i.e., document issued after changes have been processed upon UDRHP I).



28. There has to be a minimum prescribed time gap between the date of intimation to SEBI about the completion of interaction with the qualified institutional buyers and the date of filing the UDRHP I.

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## Step 5: Filing offer document

### A. *Before filing offer document*

Before filing the offer document with the Registrar of Companies (ROC), the LM will submit the following documents to SEBI:

- a statement certifying that all changes, suggestions and observations made by SEBI have been incorporated in the offer document;
- a due diligence certificate issued by the LM, in prescribed format, at the time of filing of the offer document;
- a copy of the resolution passed by the Board of Directors of the issuer for allotting specified securities to promoter(s) towards amount received against promoters' contribution, before opening of the issue;
- a certificate from a statutory auditor, before opening of the issue, certifying that promoters' contribution has been received in accordance with the ICDR Regulations, along with stipulated details of the promoters and amounts received from them;
- a due diligence certificate issued by the LM, in a prescribed format, in the event the issuer has made a disclosure of any material development by issuing a public notice pursuant to para 4 of Schedule IX of the ICDR Regulations<sup>29</sup>.

### B. *Filing offer document*

The offer document will be filed with ROC, and post that with SEBI and the stock exchanges. It will also be hosted on the websites.

The subsequent procedures with respect to price band advertisement/issue opening would remain same as prescribed in Chapter II.

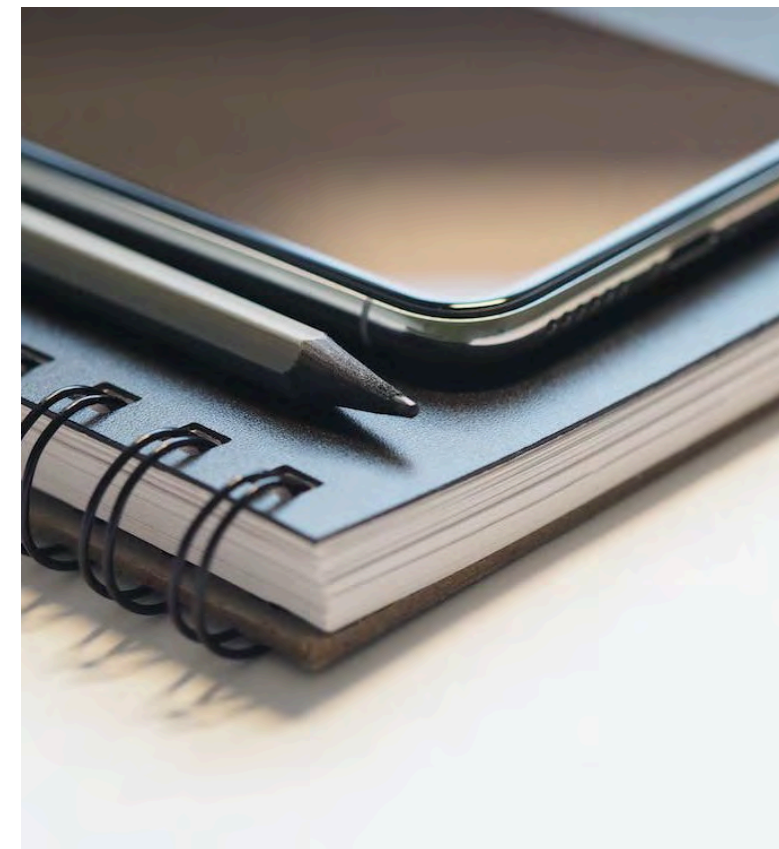
### Interaction with the Qualified Institutional Buyers (QIBs):

The ICDR Amendment Regulations specify that the interaction with QIBs would be permitted, provided such interaction is only limited to the extent of the information contained in the pre-filed draft offer document. Further, it has been provided that the issuer must prepare a list of the QIBs who have participated in such interaction and obtain a confirmation of interaction from the QIBs, to be submitted to SEBI.

### Appointment of monitoring agency

**Requirement of monitoring agency:** Chapters V and VI of the ICDR Regulations lay down the principles governing preferential issue and Qualified Institutions Placement (QIP) respectively. The ICDR Amendment Regulations have introduced the requirement to have the use of the proceeds of the preferential issues and QIPs monitored by a credit rating agency registered with SEBI (acting as a monitoring agency) in certain cases. Following principles have been specified in this regard:

- **Applicability:** Where the issue size of the preferential issue or QIP exceeds INR100 crore<sup>30</sup>, the issuer must appoint a monitoring agency to monitor the use of proceeds of the issue. However, this requirement would not apply to an issue of specified securities made by a bank or public financial institution or an insurance company.



29. Schedule IX of the ICDR Regulations deals with public communications and publicity materials.

30. In case of a QIP issue, the threshold of INR100 crore would exclude the size of offer for sale by selling shareholders.



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- **Submission of report by the monitoring agency:** The monitoring agency would submit its report to the issuer in the specified format, on a quarterly basis, till 100 per cent of the proceeds of the issue have been utilised. Post this, the Board of Directors and management of the issuer must provide their comments on the findings of the monitoring agency.
- **Submission of report to the stock exchange(s) and upload on website:** The issuer should, within 45 days from the end of each quarter, upload the report of the monitoring agency on its website and also submit it to the stock exchange(s) on which its equity shares are listed.
- **Preferential issue of shares of companies having stressed assets:** The ICDR Amendment Regulations have specified that in case of preferential issue of shares of companies having stressed assets, the issuer should make arrangements for monitoring the use of proceeds of the issue by a credit rating agency registered with SEBI (*earlier public financial institution or by a scheduled commercial bank, which is not a related party to the issuer*). Also, the monitoring agency should submit its report to the issuer on a quarterly basis till 100 per cent (*earlier until at least 95 per cent*) of the proceeds of the issue have been utilised.

## Other amendments

Other amendments introduced by the ICDR Regulations include:

- **Amendments to Schedule VI of the ICDR Regulations:**  
Part A of Schedule VI of the ICDR Regulations (Schedule VI-A)

deals with disclosures required in the offer document/letter of offer. The ICDR Amendment Regulations have introduced certain additional requirements in Schedule VI-A of the ICDR Regulations, with regard to the Key Performance Indicators (KPIs) disclosed by the issuer in the offer document. These include:

- **Approval by an audit committee:** KPIs disclosed in the offer document must be approved by the audit committee of the issuer company
- **Certification:** KPIs disclosed in the offer document should be certified by the statutory auditor(s), Chartered Accountants, or firm of Chartered Accountants, holding a valid certificate issued by the Peer Review Board of the ICAI or by Cost Accountants, holding a valid certificate issued by the Peer Review Board of the Institute of Cost Accountants of India. The certificate issued in this regard must be included in the list of material documents for inspection.
- **Explanation of KPIs:** KPIs disclosed in the offer document should be comprehensive along with an explanation stating how they have been used by the management historically to analyse, track or monitor the operational and/or financial performance of the issuer company. Further, the issuer company should also explain the comparison of KPIs over time, based on additions or dispositions to the business, if any.



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## - Disclosures under 'Basis for Issue Price' section:

The issuer company is required to make certain disclosures under 'Basis for Issue Price' section. Some of the key disclosures required to be made are as follows:

- o Disclosure of all the KPIs that have been disclosed by the issuer to its investors at any point of time during the three years preceding the date of filing of the DRHP or Red Herring Prospectus (RHP),
- o Confirmation by the audit committee stating that the verified and audited details for all the KPIs that have been disclosed to the earlier investors at any point of time during the three years, prior to the date of filing of the DRHP/RHP are disclosed under 'Basis for Issue Price' section of the offer document,
- o Comparison of the KPIs disclosed with Indian listed peer companies and/or global listed peer companies, as the case may be.

**Effective date<sup>31</sup>:** The amendments are effective from the date of publication in the Official Gazette, i.e., 21 November 2022.

To access the text of the ICDR Amendment Regulations, please [click here](#).

## Action Points for Auditors

As per the ICDR Amendment Regulations, the lead manager(s) is required to submit various documents to SEBI before filing the offer document with the Registrar of Companies. One such document that needs to be submitted is the certificate from the statutory auditor(s), certifying that the promoters' contribution has been received in accordance with the ICDR Regulations. It should be accompanied therewith the names and addresses of the promoters who have contributed to the promoters' contribution and the amount paid and credited to the issuer's bank account by each of them towards such contribution.

Further, it has been mentioned that the KPIs disclosed in the offer document must be approved by the Audit Committee of the issuer company and duly certified by the statutory auditor(s) or Chartered Accountants or firm of Chartered Accountants, holding a valid certificate issued by the Peer Review Board of the ICAI or by Cost Accountants, holding a valid certificate issued by the Peer Review Board of the Institute of Cost Accountants of India. Thus, auditors should engage with the companies intending to go for an IPO and take note of the amendments introduced by the ICDR Amendment Regulations.



31. The amendments to Schedule VI of the ICDR Regulations would be applicable for all issues where RHP is filed with the Registrars of Companies on or after the date of publication of these amendments in the Official Gazette i.e., 21 November 2022.



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## Amendment to Mutual Fund Regulations for transfer of dividend and redemption of proceeds

Regulation 53 of the SEBI (Mutual Funds) Regulations, 1996 (Mutual Fund Regulations) explains the procedure for dispatch of dividend warrants and redemption/repurchase proceeds to the unitholders.

On 15 November 2022, SEBI issued the SEBI (Mutual Funds) (Third Amendment) Regulations, 2022 (MF Amendment Regulations) to introduce new provisions on the transfer of dividend to unitholders and redemption of proceeds, thereby replacing the erstwhile Regulation 53. Also, on 25 November 2022, SEBI issued a circular stipulating the timelines for transfer of such dividend and redemption of proceeds to the unitholders.

The key guidelines issued in the revised Regulations are discussed below:

- **Payment of dividend:** The record date for payment of dividend should be **two working days** from the issue of public notice and dividend would be transferred to the unitholders within **seven working days** from the record date (*before amendment, dividend was required to be dispatched to unitholders within 15 days from record date*).
- **Redemption or repurchase:** The proceeds should be transferred to the unitholders within **three working days** from the date of redemption or repurchase<sup>32</sup>

*(before amendment, the redemption or repurchase was required to be dispatched within 10 working days from the date of redemption or repurchase).*

- **Delay in transfer of dividend, proceeds on redemption, or repurchase:** The interest would be payable to unitholders at the rate of **15 per cent per annum**. The details of such interest payments must be sent to SEBI as per the specified format and investors should be informed about the rate of interest and the amount of interest.

**Effective date:** The amendment would come into effect from 15 January 2023<sup>33</sup>.

To access the text of the MF Amendment Regulations, please [click here](#).

To access the text of the circular dated 25 November 2022, please [click here](#).

32. In case of mutual fund schemes wherein 80 per cent of total assets are invested in permissible overseas investments, the timeline for transfer is within five working days from the date of redemption or repurchase.
33. On the sixtieth day from the date of publication of the MF Amendment Regulations in the Official Gazette.





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## SEBI issues master circular on issue of No Objection Certificate under ICDR Regulations

Regulation 38 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) specifies that an issuer, before the opening of subscription list, must deposit with the stock exchange, one per cent of the issue size available for subscription to the public. This amount of one per cent would be released to the issuer after obtaining the No Objection Certificate (NOC) from SEBI. The application for NOC has to be filed by the Post Issue Lead Merchant Banker (PILMB) on the letterhead of the listed entity in a prescribed format. This application will be made after the expiry of two months from the date of listing on the stock exchange, and after all issue related complaints have been resolved.

In this regard, SEBI issued a master circular dated 7 November 2022 on issuance of NOC for release of one per cent of the issue amount and prescribed the relevant instructions and procedure to obtain the NOC from SEBI. It has also provided the formats for making applications under the various processes.

To access the text of the master circular, please [click here](#).

## Updates from the Department of Economic Affairs (DEA)

### Framework for Sovereign Green Bonds

Over the years, the Government of India has taken up several initiatives and implemented various policy changes to maintain a balance between environmental sustainability and economic growth. In this regard, India adopted an ambitious Nationally Determined Contribution (NDC) under the Paris Agreement in 2015. One of the key targets which was envisaged as a part of the NDCs was to significantly reduce the carbon intensity of the economy. In line with this, the Government of India, in the Union Budget 2022-23 had announced the issue of Sovereign Green Bonds (SGrBs), with an aim to mobilise resources for green infrastructure. The proceeds from the issue of SGrBs would be deployed in public sector projects, thereby contributing in reducing the overall carbon intensiveness.

Consequently, on 9 November 2022, the Department of Economic Affairs (DEA) released the draft Framework for Sovereign Green Bonds (the framework). It explains the obligations of the Government as a green bond issuer and clarifies that payments of principal and interests under this framework are not conditional on the performance of the eligible projects. Further, investors in bonds issued under this framework do not bear any project related risks.

To access the text of the framework, please [click here](#).



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## Updates from IAASB

### IAASB issues guidance on the impact of amendments made to IAS 1 on ISAs

On 12 February 2021, the International Accounting Standards Board (IASB) issued narrow scope amendments to International Accounting Standard (IAS) 1, *Presentation of Financial Statements*. Basis the amendments introduced, companies are required to disclose their material accounting policy information, instead of significant accounting policies. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

In this regard, on 16 November 2022, the International Auditing and Assurance Standards Board (IAASB) issued a guidance to enable users of financial information understand the impact of amendments to IAS 1 on the International Standards on Auditing (ISAs) (the guidance).

As per the guidance, few key aspects of the audit engagement that could be impacted as a result of amendment to IAS 1 are as follows:

- **Financial reporting process:** When management prepares financial statements as per IFRS, the auditor will need to evaluate the appropriateness of management's disclosures, including understanding the effect of amendments to IAS 1 on the entity's financial reporting process. Auditors will also need to assess the related impact on the auditor's report

- **ISAs relevant to auditors' work on disclosures:** Various ISAs contain requirements that are relevant to the auditor's work on disclosures in the financial statements, which include<sup>34</sup> an entity's disclosure of material accounting policy information as required in accordance with the amendments to IAS 1. Auditors will need to apply these ISAs while reviewing the management's compliances with amendments to IAS 1<sup>35</sup>.
- **Other aspects of the audit:** Other aspects of the audit that may be impacted include the audit engagement letter, communicating deficiencies in internal control to and requesting written representations from management and, where appropriate, those charged with governance.

The guidance clarifies that the amendments to IAS 1 do not impact the principles-based requirements of the ISAs. However, the same would impact the illustrative auditor reports throughout the ISAs – where the terminology of the illustrative auditor reports will have to be aligned with the amendments to IAS 1.

To access the text of the guidance, please [click here](#).

To access the text of the announcement of IASB with regard to amendments made to IAS 1, please [click here](#).



34. if the applicable financial reporting framework is IFRSs.

35. These ISAs are relevant to the auditors' identification and assessment of risks of material misstatement related to disclosures in the financial statements, the auditor's responses to assessed risks, evaluating information in disclosures, communicating significant findings from the audit, and reporting



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## Action Points for Auditors

Since the amendments would be effective for annual reporting periods beginning on or after 1 January 2023, auditors should refer the publication for understanding the effect of the amendments on the entity's financial reporting process and evaluate the changes required to implement the amendments, including the consequent impact on auditor's report.

Ind AS are largely converged with IFRS, and though similar amendments to Ind AS 1, *Presentation of Financial Statements* have not been issued yet, they may be issued and notified by the Ministry of Corporate Affairs (MCA). Auditors should monitor the amendments that would be issued by the MCA, where similar amendments have been notified, reference to the guidance may also be made.



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

Regulator	Publication	Particulars
ICAI	<b>Report on Audit Quality Review (FY 2021-22)</b>	<p>The Quality Review Board (QRB), recently issued a report on Audit Quality Review, thereby compiling the results and observations of various audit quality reviews undertaken during FY 2021-22. The report explains the basis of selection of audit firms for review, overall process of conducting such reviews and also highlights some of the key takeaways for the audit firms. The report also summarises different observations encountered during the course of the reviews. The report includes:</p> <ul style="list-style-type: none"><li>• Observations relating to Standards on Auditing (SAs)</li><li>• Observations relating to Accounting Standards (AS) and Indian Accounting Standards (Ind AS)</li><li>• Observations relating to other relevant laws and regulations.</li></ul> <p>To access the text of the report, please <a href="#">click here</a></p>
ICAI	<b>Ind AS: Disclosures checklist (Revised, November 2022)</b>	<p>Recently, ICAI issued the Revised November 2022 version of the Ind AS: Disclosures checklist. To access the text of the Revised checklist, please <a href="#">click here</a></p>





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Regulator	Publication	Particulars
ICAI	<b>Peer Review Guidelines 2022</b>	<p>Peer Review Guidelines 2022 replace the Statement on Peer Review. It comprises a complete code relating to peer review, including the terms of reference of such reviews and roles and responsibilities of the parties concerned (i.e., the practice units as well as the reviewers).</p> <p>To access the text of the guidelines, please <a href="#">click here</a></p>
ICAI	<b>Handbook on Returns and Payments under GST</b>	<p>The handbook incorporates the recent amendments made in the provisions relating to various returns prescribed under GST law and payment of taxes. The various forms for filing GST returns and making payment have been discussed in the handbook.</p> <p>To access the text of the handbook, please <a href="#">click here</a></p>
ICAI	<b>Handbook on Annual Return under GST</b>	<p>The handbook explains various provisions relating to annual return. Topics such as – who is required to file annual return, explains mandatory and optional fields and from where details may be captured to fill a particular field, etc. have been discussed in the handbook.</p> <p>To access the text of the handbook, please <a href="#">click here</a></p>



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Regulator	Publication	Particulars
ICAI	<b>Handbook on composition scheme under GST</b>	<p>The handbook contains provisions of composition levy that have been included in the GST law to provide simple and easy compliance for small taxpayers. All the significant aspects of composition scheme, i.e., meaning of aggregate turnover, treatment of interest and discounts while calculating aggregate turnover, availability of the scheme to mixed suppliers and service providers, accounts and records required to be maintained, applicable returns, etc. have been discussed in the handbook.</p> <p>To access the text of the handbook, please <a href="#">click here</a></p>
ICAI	<b>Handbook on Inspection, Search, Seizure and Arrest under GST</b>	<p>The handbook aims to explain the complex law relating to inspection, search, seizure and arrest, as well as the various legal issues associated with such provisions.</p> <p>To access the text of the handbook, please <a href="#">click here</a></p>



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## ICAI issues the peer review mandate – Phase II

The Institute of Chartered Accountants of India (ICAI), vide an announcement dated 11 April 2022 had rolled out the peer review mandate for coverage of more practice units (firms) under the peer review process. The below mentioned peer review mandate was made effective from 1 April 2022:

Phase	Category of firms covered for mandatory peer review	Date from which peer review is mandatory
I	Firms which propose to undertake statutory audit of enterprises whose equity or debt securities are listed in India or abroad	1 April 2022
II	Firms which propose to undertake statutory audit of unlisted public companies having: <ul style="list-style-type: none"> <li>• Paid-up capital of not less than INR500 crore</li> <li>• Annual turnover of not less than INR1000 crore, or</li> <li>• Having, in aggregate, outstanding loans, debentures and deposits of not less than INR500 crore as on the 31 day of March of the immediately preceding financial year.</li> </ul> <b>OR</b> Firms rendering attestation services and having five or more partners	1 April 2023
III	Firms which propose to undertake statutory audit of entities which have: <ul style="list-style-type: none"> <li>• Raised funds from public or banks or financial institutions of over INR50 crore during the period under review or,</li> <li>• Anybody corporate, including trusts which are covered under the public interest entities.</li> </ul> <b>OR</b> Firms rendering attestation services and having four or more partners	1 April 2024
IV	Firms which propose to undertake audits of branches of public sector banks <b>OR</b> Firms rendering attestation services and having three or more partners.	1 April 2025



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Thus, at each phase specified above, the firm must possess appropriate peer review certificate<sup>36</sup>, before undertaking statutory audit of the concerned entities.

In this regard, ICAI, vide an announcement dated 9 November 2022 has reiterated the guidelines pertaining to phase II of the peer review mandate becoming applicable from 1 April 2023.

To access the text of the ICAI announcement dated 9 November 2022, please [click here](#)

To access the text of the ICAI announcement dated 11 April 2022, please [click here](#)

To access text of the ICAI announcement on validity of Peer Review Certificates, please [click here](#).

### Action Points for Auditors

- Regulation 33 of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) states that a listed entity must ensure that the limited review or audit reports submitted to the stock exchange(s) are furnished only by an auditor, who has subjected himself/herself to the peer review process of the ICAI and holds a valid certificate in this regard. Thus, ICAI plans to cover a larger number of firms under the ambit of peer review exercise and thereby enhance transparency in the overall corporate governance framework.
- Firms falling under the applicability criteria of phase II guidelines should proactively focus on building the necessary resource and knowledge infrastructure for rendering audit and other related services in an effective manner.

36. If a firm is in possession of the peer review certificate, on the date peer review becomes mandatory for it, then it is not required to be subject to the peer review, till the conclusion of the validity period of the said certificate. In this regard, the ICAI has announced that in respect of Peer Review Certificates issued till 16 April 2015, which do not mention an end date, the end date shall be 31st December 2022 and till this date, the validity of such certificates would be considered effective..





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