CHAPTER 3

Regulatory updates

Amendments to Ind AS

The Ministry of Corporate Affairs (MCA), through a notification dated 31 March 2023, issued the Companies (Indian Accounting Standards) Amendment Rules, 2023 to notify certain amendments to Ind AS. These amendments are effective from 1 April 2023.

Source: MCA notification no. G.S.R. 242(E). dated 31 March 2023

The key amendments are with respect to:

Ind AS	Amendment notified
Ind AS 1, *Presentation of Financial Statements*	• Companies are now required to disclose material accounting policies instead of significant accounting policies. • Accounting policy information considered together with other information, is material when it can reasonably be expected to influence decisions of primary users of general-purpose financial statements. • Accounting policy information that relates to immaterial transactions, other events or conditions need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.
Ind AS 8, *Accounting policies, Change in Accounting Estimates and Errors*	• The definition of 'change in account estimate' has been replaced by the definition of an 'accounting estimate'. As per the amendment, accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. • The amendment states that a company develops an accounting estimate to achieve the objective set out by an accounting policy. • As per the amendment, measurement techniques and inputs are used to develop an accounting estimate. Measurement techniques include estimation techniques and valuation techniques.
Ind AS 12, *Income Taxes*	The amendment has narrowed the scope of the Initial Recognition Exemption (IRE) for deferred tax liability and asset. As per the amendment, a deferred tax liability or asset is not required to be recognised from: a. Initial recognition of goodwill or b. Initial recognition of an asset or liability arising in a transaction which: I. Is not a business combination II. At the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and **III. At the time of the transaction, does not give rise to equal taxable and deductible temporary differences** *(emphasis added to highlight the change)*
Other consequential amendments	• On account of the amendment to Ind AS 1 consequential amendment have been made in Ind AS 107, Financial Instrument Disclosures and Ind AS 34, Interim Financial Reporting • On account of the amendment to Ind AS 12, consequential amendments have been made in Ind AS 101, First-time Adoption of Indian Accounting Standards

SEBI issues circular for Large Corporates (LCs) meeting financing needs from debt market

On 31 March 2023, the Securities Exchange Board of India (SEBI) issued a circular to extend the period of compliance stipulated in the NCS Operational Circular[1] for LCs meeting their financing needs through issuance of debt securities in debt markets.

As per a circular issued on 31 March 2023, LCs are required to raise minimum 25 per cent of their incremental borrowings in a financial year through issuance of debt securities which has to be met over a contiguous block of **three years** *(earlier two years)* from Financial Year (FY) 2021-22 onwards.

Source: SEBI circular no. SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/049 dated 31 March 2023)

RBI issues framework for acceptance of green deposits

Green finance has been gaining importance in India. It has been observed that some Regulated Entities (REs) are offering green deposits for financing green activities and projects.

In this regard, the Reserve Bank of India (RBI) issued a framework for acceptance of green deposits on 11 April 2023. The framework aims to encourage REs to offer green deposits to customers, protect interest of the depositors, aid customers to achieve their sustainability agenda, address greenwashing concerns and assist in increasing the flow of credit to green activities/ projects.

The framework would be applicable to the following REs with effect from 1 June 2023:

a. Scheduled commercial banks including small finance banks (excluding regional rural banks, local area banks and payments banks) and

b. All deposit taking Non-Banking Financial Companies (NBFCs) registered with RBI[2].

The framework provides guidance with respect to:

- Denomination, interest rates and tenor of deposits
- Policy on issuance of green deposits
- Financing framework for effective allocation of green deposits
- Allocation and use of proceeds raised from green deposits
- Requirements on independent third-party verification/assurance with respect to the allocation of funds raised through green deposits
- Reporting and disclosure requirements.

Source: RBI notification no. RBI/2023-24/14 DOR. SFG.REC.10/30.01.021/2023-24 dated 11 April 2023

1. Operational Circular for issue and listing of Non-Convertible Securities (NCS), Securitised Debt Instruments (SDI), Security Receipts (SR), Municipal Debt Securities and Commercial Paper (CP) dated 10 August, 2021 and amended from time to time

2. Register under Section 45IA(5) of the RBI Act, 1934, including Housing Finance Companies (HFCs) registered under Section 29A of the National Housing Bank Act, 1987

NFRA issues circular on measurement of revenue and trade receivables

On 29 March 2023, the National Financial Reporting Authority (NFRA) issued a circular to highlight non-compliances in the areas of recognition and measurement of revenue and initial measurement of corresponding trade receivables.

The key takeaways from the circular are as follows:

- **Revenue from contracts with customers - recognition and measurement**

  As per Ind AS 115, *Revenue from Contracts with Customers,* transaction price should be recognised as revenue, and it should exclude estimates of variable consideration that is allocated to the performance obligation.

  NFRA circular highlighted that many companies, in their significant accounting policies, have incorrectly stated that the revenue is recognised and measured at fair value of the consideration received or receivable leading to non-compliance with the requirements of Ind AS 115. It is pertinent to note that the transaction price defined in Ind AS 115 is different from 'fair value' defined in Ind AS 32, *Financial Instruments: Presentation.* Under Ind AS 115, the application of fair value is relevant only in a limited set of situations for example where a customer promises consideration in a form other than cash, an entity shall measure the non-cash consideration at fair value.

- **Trade receivables – initial measurement**

  As per Ind AS 109, *Financial Instruments*, trade receivables are financial assets which are initially measured at their transaction price (as defined in Ind AS 115) unless they contain a significant financing component determined in accordance with Ind AS 115.

  NFRA circular highlighted that many companies in their accounting policy are erroneously stating that the trade receivables are initially recognised (or measured) at fair value, which is contrary to the requirements of Ind AS 109. Further, there have also been instances of inconsistency between the accounting policy for initial measurement of trade receivables and the accounting policy for measurement of corresponding revenue leading to misleading and confusing information to the users of the financial statements. This has resulted in a non-compliance with requirements of the standards.

Source: NFRA circular no. NF-25011/1/2023-O/o Secy-NFRA dated 29 March 2023

ICAI has issued technical guide on disclosure and reporting of Key Performance Indicators (KPIs) in offer documents

As per the provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) an issuer company is required to disclose Key Performance Indicators (KPIs) in the offer document under heading 'Basis for Issue Price' in case of an Initial Public Offer (IPO). KPIs are numerical measures of the issuer company's historical financial or operational performance and financial or operational positions which provide valuable insight of the entity's business. KPIs are required to be approved by the audit committee of the issuer company.

Further, they should be certified by professionals (statutory auditors or chartered accountants or firm of chartered accountants or cost accountants). In this regard, the Institute of Chartered Accountants of India (ICAI) has issued a Technical Guide (the guide) on disclosure and reporting of KPIs in the offer documents.

The guide provides guidance on KPIs that can be disclosed based on different industry, the role and responsibility of bankers, issuer company and practitioners, detailed guidance to practitioners on various aspects of reporting requirements relating to KPIs including illustrative format of the report on KPIs. Additionally, the guide also provides guidance to issuer companies for disclosing KPIs in offer documents as per the requirements of ICDR Regulations.

Source: ICAI announcement 6 April 2023

ICAI issues exposure draft on transfer of capital reserve

As per the requirements under certain Ind AS, capital reserve is required to be created towards unrealised profits arising from certain transactions or other events. However, currently there is no specific guidance on subsequent transfer of such capital reserve to retained earnings or other free reserve. Therefore, in order to provide appropriate guidance on this matter, ICAI has issued an exposure draft on 'Guidance Note on Transfer of Capital Reserve'.

The draft guidance note lays down the principles for transfer of capital reserve to free reserve/ retained earnings, including the timing when such transfer can be made. However, it does not deal with whether the amount so transferred can be utilised for payment of dividend, issue of bonus shares, or any other purpose.

The key considerations from the exposure draft are as follows:

- Any reserve created as per the requirements of the Companies Act, 2013 or other applicable law cannot be transferred to other reserve except as per the requirements of the applicable law.
- For capital reserves created as per the requirements of Ind AS or erstwhile Accounting Standards (AS), the amount can be transferred to retained earnings or other free reserves when the following two conditions are met:
  a. The company has realised the underlying amount.
  b. The amount has become available for distribution under the law.
- The amount may be transferred either proportionately each year or at end on sale of the asset.
- Specific disclosures are required to be provided in the year of transfer.
- The guidance note would come into effect in respect of capital reserve appearing in the books of accounts retrospectively.

The period to provide comments on the exposure draft ended on 20 April 2023.

Source: ICAI announcement dated 21 March 2023

IASB proposes narrow-scope amendments to classification and measurement requirements for financial instruments

On 21 March 2023, the International Accounting Standards Board (IASB) has issued an exposure draft to propose amendments to the classification and measurement requirements in IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instrument:* Disclosure in response to feedback received from a Post-Implementation
Review (PIR) of the classification and measurement requirements in IFRS 9. IFRS 9 specifies how a company should classify and measure financial assets and financial liabilities.

The key proposal are as follows:

- **Classifying financial assets with an ESG-linked feature:** The proposed amendments clarify how a company would assess the Solely Payments of Principal and Interest (SPPI) condition for the contractual cash flows arising from a financial asset with contingent features. The proposals provide clarification on how to classify financial assets with an ESG-linked feature. Further, the proposal addresses all contingent features and not just ESG-linked features. The proposals also include additional disclosures for all financial assets and financial liabilities that have particular types of contingent cash flows and are not measured at fair value through profit or loss.
- **Classifying Contractually Linked Instruments (CLI):** In order to address concerns regarding application of SPPI requirements to CLIs, the proposal aims to clarify their key characteristics and how they differ from financial assets with non-recourse features. The proposals also provide factors a company could consider when assessing the cash flows underlying a financial asset with non-recourse features (the 'look through' test).
- **Disclosures on investments in equity instruments:** Additional disclosures are proposed for equity instruments that are measured at fair value and whose gains or losses are presented in other comprehensive income (FVOCI). IASB is not proposing any change to the measurement requirements for investments in equity instruments.
- **Settlement of liabilities through electronic payment systems:** With respect to settlement of a financial asset and financial liability via electronic cash transfers, the IASB's proposal clarifies that a company would generally recognise and derecognise financial assets or financial liabilities on their settlement date

  Further, the IASB is proposing an exception that would apply only for financial liabilities. As per the proposal, a company would be allowed derecognise a financial liability that will be settled with cash using an electronic payment system before the settlement date if and only if the company has initiated the payment instruction and:

  a. The company has no ability to withdraw, stop or cancel the payment instruction

  b. The company has no practical ability to access the cash to be used for settlement as a result of the payment instruction and

  c. The settlement risk associated with electronic payment system is insignificant.

The comments on the above proposal can be provided till 19 July 2023.

Source: IASB news dated 21 March 2023, KPMG IFRG article on 'Addressing financial asset classification issues' issued on 23 March 2023 and KPMG IFRG article on 'Addressing financial asset classification issues' issued on 23 March 2023

FASB provides guidance on application of leases to arrangements between entities under common control

During the Post-Implementation Review (PIR) of Topic 842, *Leases*, certain concerns were highlighted to the Financial Accounting Standards Board (FASB) with respect to application of Topic 842 to related party arrangements between entities under common control. Considering this, FASB issued an Accounting Standard Update (ASU) on 27 March 2023.

The ASU provides private companies and not-for-profit organisations that are not conduit bond obligors with a practical expedient to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. Further, the ASU also requires all entities (that is including public companies) to amortise leasehold improvements associated with common control leases over the useful life to the common control group.

(Source: FASB news and media advisory issued on 27 March 2023)

FASB issues ASU to improve accounting for investments in tax credit structures

On 29 March 2023, FASB issued an ASU with aim to improve the accounting and disclosures for investments in tax credit structures.

Reporting entities were previously permitted to apply the proportional amortisation method only to qualifying tax equity investments in Low-Income Housing Tax Credit (LIHTC) structures. However, stakeholders provided feedback to FASB to extend the application of the proportional amortisation method to qualifying tax equity investments that generate tax credits through other programs.

The ASU allows reporting entities to elect to account for qualifying tax equity investments using the proportional amortisation method, regardless of the program giving rise to the related income tax credits.

(Source: FASB news and media advisory issued on 29 March 2023)

Technology related revisions to the international code of ethics for professional accountants

On 11 April 2023, the International Ethics Standards Board for Accountants (IESBA) issued revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) in order to increase the Code's robustness and expand its relevance considering the rapid technological advancements and accelerated digitalisation.

Key takeaways from the revision are:

- To strengthen the Code in guiding the mindset and behaviour of professional accountants when they use technology.
- Provides enhanced guidance for the digital age in relation to the fundamental principles of confidentiality, and professional competence and due care, as well as in dealing with circumstances of complexity.
- Strengthens and clarifies the International Independence Standards (IIS) by addressing the circumstances in which firms and network firms may or may not provide a technology-related non-assurance service to an audit or assurance client.

The revisions to the IIS and other revisions to the ethics provisions of the Code will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2024.

(Source: IESBA news dated 11 April 2023)

New sustainability reporting guidance issued by COSO

On 30 March 2023, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued supplemental guidance, 'Achieving Effective Internal Control Over Sustainability Reporting' for organisations to achieve effective Internal Control over Sustainability Reporting (ICSR) based on globally recognised COSO Internal Control-Integrated Framework (ICIF).

The supplemental guidance includes several key themes as organisations and practitioners begin or continue their journeys towards establishing and maintaining an effective system of internal control over financial and sustainable business information. The guidance is based on COSO's 2013 framework for evaluating and improving internal control systems over all types of business information used for external reporting and enterprise decision-making.

(Source: COSO news dated 30 March 2023 and IFAC article on 'How COSO's New Sustainability Reporting Guidance Provides Opportunities for the Profession' dated 12 April 2023)