

B S R & Co. LLP
Chartered Accountants

AUDIT COMMITTEE UPDATE

Quarter ended 30 September 2024



Item	Unit Price	Price
Front photography for summer menu	2,13,116	2,13,116
Menu design and printing on green cardstock DIN A5	2,52	16,876
Single sided 80 pieces package printed photo on white	2,52	16,876
Photo Licenses for Certificates	16,876	2,52
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Agenda

01

Ind AS updates

02

Capital gains taxation
amendments
introduced by the
Finance Act, 2024

03

NFRA Report on
valuation methodology
of AT1 bonds

04

Other regulatory
updates

Agenda

01

Ind AS updates

02

**Capital gains taxation
amendments
introduced by the
Finance Act, 2024**

03

**NFRA Report on
valuation methodology of
AT1 bonds**

04

**Other regulatory
updates**

Ind AS 117, *Insurance Contracts* – Overview



Replaces Ind AS 104, *Insurance Contracts* – refer to next slide



Effective **1 April 2024**



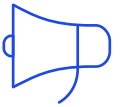
Applies to all companies i.e. it applies to 'insurance contracts', regardless of the issuer



Applicable **retrospectively**



Does not apply if an entity is the **policyholder**



Evaluate implications for the quarter ended 30 June 2024



Ind AS 117, *Insurance Contracts* – Key considerations

Ind AS 117
provides
comprehensive
guidance



Notification by IRDAI

The Insurance Regulatory and Development Authority of India (IRDAI) has not prescribed Ind AS for insurance companies. Therefore, Ind AS 117 would not be applicable for statutory reporting for IRDAI registered insurance companies.



Applicability to consolidated financial statements*

The MCA through its notification dated 28 September 2024, permitted insurer or insurance company to prepare its financial statements as per Ind AS 104 for the purpose of submitting information to their parent companies for consolidation, till the IRDAI has notified Ind AS 117.



Applicable to non-insurance companies

Non-insurance companies would need to evaluate the terms of their contracts to determine whether they meet the definition of an insurance contract.

Some of the key contracts that should be examined for implications of Ind AS 117 include performance guarantee contracts, fixed-fee service contracts and group company warranties.



Scope exemptions

Ind AS 117 also provides scope exemptions to certain contracts such as certain warranties, employer's assets and liabilities, contingent consideration, policyholder, credit cards, etc.

* Other than banking companies.

Amendments to Ind AS 116 - Sale and leaseback with variable lease payments

Variable lease payments include variable payments that do not depend on an index or rate. New accounting model introduced for seller lessee under Ind AS 116, *Leases*.

Initial recognition of lease liability

Seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

Subsequent accounting

After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it does not recognise any gain or loss relating to the right of use it retains.

Estimated lease payments

Estimated lease payments can be determined in a number of ways at the date of transaction– e.g. as ‘expected lease payments’ or as ‘equal periodic payments’ over the lease term.

Actual lease payments

The seller-lessee would reduce the lease liability as if the ‘lease payments’ estimated at the date of the transaction had been paid. It would recognise any difference between those lease payments and the amounts actually paid in profit or loss.



- The amendments are applicable from **1 April 2024**.
- Under Ind AS 8, a seller-lessee will need to apply the amendments **retrospectively** to sale-and-leaseback transactions entered into or **after the date of initial application of Ind AS 116** (i.e. since April 2019).

Yet to be notified...

Corresponding amendments of following IFRS amendments to Ind AS yet to be notified:

- Classification of liabilities as current or non-current - IAS 1, *Presentation of Financial Statements*.
- Supplier Finance Arrangements – Amendments to IAS 7, *Statement of Cash Flows* and IFRS 7, *Financial Instruments: Disclosures*.

Agenda

01

Ind AS updates

02

Capital gains taxation
amendments
introduced by the
Finance Act, 2024

03

NFRA Report on valuation
methodology of AT1
bonds

04

Other regulatory
updates

Capital gains taxation amendments

Key changes introduced by the Finance Act, 2024

- No Indexation benefit for calculating long-term capital gains.
- Long term capital gain tax rate on any asset would be 12.5 per cent.
- Change in holding period in few cases.
- Short term capital gain tax rate for listed securities increased from 15 per cent to 20 per cent (Securities Transaction Tax (STT) paid)
- Change in tax laws on buy back of securities.
- Retrospective clarification on capital gains on unlisted shared being sold under offer for sale in IPO.

Accounting implications

- Amendment to be considered for quarter ended 30 September 2024.
- Current tax impact of retrospective clarification on capital gains on unlisted shared being sold in prior years under offer for sale in IPO to be recognised fully in quarter ended 30 September 2024.
- Impact of other changes in capital gains to be spread over the annual reporting period via an adjustment to the estimated annual effective tax rate.

Agenda

01

Ind AS updates

02

Capital gains taxation
amendments
introduced by the
Finance Act, 2024

03

NFRA Report on valuation
methodology of AT1
bonds

04

Other regulatory
updates

Valuation of AT-1 bonds

In July 2024, the National Financial Reporting Authority (NFRA) issued a report on 'Valuation methodology for AT-1 bonds'

Prior to the Valuation report on AT-1 bonds issued by the NFRA, the valuation of the bonds was prescribed in the following manner:

- **By SEBI:** Value basis Yield To Maturity (YTM), where the maturity of these bonds was considered 100 years. Applicable to mutual funds and insurance companies.
- **By RBI:** Value bonds on Yield to first Call (YTC) basis, in accordance with the principles of Ind AS 113, *Fair Value Measurement*. Applicable to banks.

NFRA report

- Recommended that valuation of AT-1 bonds should be on YTC basis (adjusted with appropriate risk spreads). The methodology suggested is in accordance with Ind AS 113, *Fair Value Measurement*.



Clarification by SEBI

- Valuation of AT-1 Bonds by Mutual Funds should be based on YTC basis.

Agenda

01

Ind AS updates

02

Capital gains taxation
amendments
introduced by the
Finance Act, 2024

03

NFRA Report on
valuation methodology
of AT1 bonds

04

Other regulatory
updates

Amendments to MSE suppliers payment information order

- The MSME order 2019¹ requires every specified company to file a return as per MSME Form I (specifying the details of all outstanding dues to MSEs) by 31 October (April to September period) and by 30 April (October to March period).
- On 15 July 2024, MCA introduced two key changes:

Applicability

- Only specified companies which are having payments pending to any MSEs for **more than 45 days** from the date of acceptance or deemed acceptance of goods or services required to furnish MSME Form I



New disclosures

- MCA has revised the MSME Form I.
- New form requires comprehensive disclosures with respect to amounts due to MSEs along with **ageing of dues** as well.

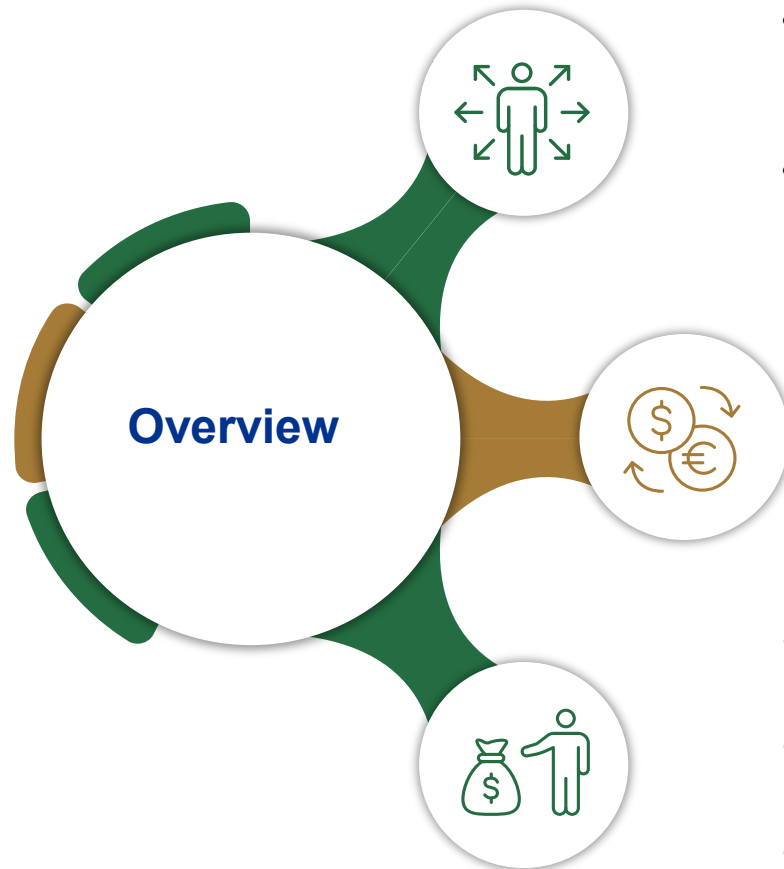
¹The Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019 (MSME order 2019).

Amendments to MSE suppliers payment information order (cont.)

Extracts of MSME Form I: Updated information required to be disclosed

Sno	Name of MSME supplier	PAN of the supplier	Paid within 45 days [NEW]				Paid after 45 days [NEW]		Outstanding for 45 days or less [NEW]		Outstanding for more than 45 days [NEW]		Reason for delay in payment/ amount outstanding
			Through TReDS (i)		Other mode of payments (ii)		No.	Amount (Rs.)	No.	Amount (Rs.)	No.	Amount (Rs.)	
			No.	Amount (Rs.)	No.	Amount (Rs.)							
	Total												

Amendments to rules relating to mergers with foreign holding company



- Rule 25A of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 provides provisions and requirements relating to compromises, arrangements, and amalgamations under the 2013 Act.
- A foreign company incorporated outside India to merge into an Indian company is required to comply with the provisions of Sections 230 to 232 of the 2013 Act

On 17 September 2024, MCA amended Rule 25A to simplify the procedure for mergers and amalgamations involving foreign holding company incorporated outside India (transferor) and an Indian wholly owned subsidiary (transferee).

New provisions:

- **RBI approval:** The foreign holding company and the Indian subsidiary are required to obtain prior RBI approval.
- **Compliance with Section 233:** The Indian subsidiary should comply with the provisions of Section 233 of the 2013 Act, which governs simplified fast-track mergers.
- **Application to Central Government:** The Indian subsidiary to apply to the Central Government under Section 233 of the 2013 Act and Rule 25.
- **Declaration:** Declaration referred to in sub-rule (4) shall be made at the stage of making application under section 233 of the Act.

Window newspaper advertisement by issuers of NCS

Requirement under SEBI Listing Regulations

Regulation 52 of the Listing Regulations requires issuers of Non-Convertible Securities (NCS) to publish financial results in the newspapers within two working days from the conclusion of the meeting of board of directors.

Option to provide window newspaper advertisement



Option available

Issuers of NCS have an option to provide a window newspaper advertisement.



QR Code

The window newspaper advertisement would include details of QR code and weblink of the page providing detailed financial results.



Conditions

This option may be availed by issuers of NCS subject to certain conditions (such as approval of debenture trustee/disclosure in the offer document.)

Similar amendment has been approved to Regulation 47- for issuers of specified securities#

#Specified securities includes equity shares and convertible securities.

Revised Fraud Risk Management Framework (FRM) by RBI

On 15 July 2024, RBI has prescribed revised FRM framework for Regulated Entities (REs)

Applicable to all banks and NBFCs (including HFCs) having asset size of INR500 crore and above

Key features



Emphasises on principles of prevention, in addition to early detection and timely reporting of incidents of fraud



Principles based as it prescribes main principles and application is at the discretion of the board of the REs



Strengthens the role of Board of Directors in the overall governance and oversight of fraud risk management



Upholds principles of natural justice by providing reasonable time before an account is classified as a fraud account.

Revised FRM by RBI- Key amendments



Governance

- Governance requirements have been prescribed for NBFCs for the first time.
- Responsibility to oversee frauds shifts to a special committee and responsibility of implementation assigned to senior management.
- Scope of whistle blower policy extended beyond the staff of the bank.
- Requires disclosure of frauds by NBFCs in financial statements.



Early Warning Signals (EWS)

- NBFCs need to develop and implement EWS, while banks need to make their existing systems more robust.
- EWS framework for both credit and non-credit transactions.
- Set up data analytics and market intelligence unit to identify unusual pattern and activities in accounts.



Red-flagged accounts

- Decision to classify any account as 'red flag' rests with bank's management.
- Where an account has been red-flagged or there is a suspicion of fraud, an internal or external audit of the borrower is compulsory.
- Threshold for reporting to Central Repository of Information on Large Credits (CRILC) has been amended from INR50 crore to INR3 crore.



Implications on group

- Group companies would be subjected to examination by REs from fraud risk perspective
- Penal provisions applicable on group companies, including debarment from raising funds or seeking credit facilities.

Key takeaways from SEBI's board meeting

On 30 September 2024, SEBI in its board meeting approved following important matters:

Amendments to Listing Regulations:

- Introduction of single filing system and automation for all stock exchanges
- Introduced integrated filing to minimise the number of filings done on a periodic basis.
- System driven disclosure of certain filings thereby reducing the reporting requirements on listed entities.
- Requirement of publishing detailed advertisements in newspapers for financial results would be optional
- Providing additional period of 3 months to fill up vacancies in the committees of Board of Directors
- Amended timeline for disclosure of certain material events or information.



Amendments to ICDR Regulations

- Introduced faster rights issue process with completion in 23 working days and flexibility of allotment to specific investors
- Combining 'pre-issue advertisement' and 'price band advertisement' as a single advertisement and mandating disclosure of certain information through a QR code link.
- Permitting issuers to voluntarily disclose proforma financials for acquisition or divestment already undertaken or proposed to be undertaken from issue proceeds in case of public issue, rights issue and QIPs.



Key takeaways from SEBI's board meeting (cont.)

Amendments to the SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations)

- Amendment to definition of person deemed as connected person by including:
 - A firm or its partner or its employee in which a 'connected person' is also a partner; and
 - A person sharing household or residence with a 'connected person.'
- 'Relative' would be deemed as connected person instead of 'immediate relative'.
- Introduced following definition of relative:
 - i. Spouse of the person
 - ii. Parent of the person and parent of its spouse
 - iii. Sibling of the person and sibling of its spouse
 - iv. Child of the person and child of its spouse;
 - v. Spouse of the person listed at (iii) and
 - vi. Spouse of the person listed at (iv).



Other key matters

- Introduction of liberalised Mutual Funds Lite (MF Lite) framework for passively managed schemes.
- Introduction of new asset class under mutual fund framework.

Sources

1. Companies (Ind AS) Amendment Rules, 2024 issued by MCA dated 12 August 2024 and Companies (Ind AS) Third Amendment Rules, 2024 dated 28 September 2024.
2. Companies (Ind AS) Second Amendment Rules, 2024 issued by MCA dated 9 September 2024.
3. The Finance (No 2) Act 2024 notified on 16th August 2024.
4. Report by the National Financial Reporting Authority on valuation methodology of AT-1 bonds, July 2024 and SEBI circular on Valuation of Additional Tier- 1 Bonds dated 5 August 2024.
5. Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Amendment Order, 2024 issued by MCA dated 15 July 2024.
6. Companies (Compromises, Arrangements and Amalgamations) Amendment Rules, 2024 issued by MCA dated 9 September 2024.
7. SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2024 dated 10 July 2024
8. RBI issued Revised Master Directions on Fraud Risk Management in the Regulated Entities dated 15 July 2024
9. SEBI board meeting press release PR No. 25/2024 dated 30 September 2024.

Thank you!

Website: bsr-co.in

Feedback/queries can be sent to in-fmcontact-us@bsraffiliates.com

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