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Corporate reporting insights

April 2024

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RBI updates



SEBI updates



International updates



Other updates

Directives related to unfair lending practices

During recent reviews of Regulated Entities¹ (REs), the Reserve Bank of India (RBI) identified cases of unfair lending practices. In this regard, on 29 April 2024, RBI issued a directive which requires REs to review and update their internal systems and practices around loan disbursement, application of interest and other charges in order to have a fair and transparent dealings with customers.

The key observations and respective directions are listed below:

Observations	Regulatory directions
REs were charging interest from the date of sanction of loan or date of execution of loan agreement.	Interest should be charged only from the date of disbursement.
Customers were charged interest for the entire month, in cases where cheque was handed over to a customer during the course of the month.	Interest should be charged from the date when the cheque is handed over to the borrower.
It was noted that one or more instalments were collected in advance but interest was charged on full loan amount.	Interest should be charged on the balance loan amount after deducting the advance received.

The RBI advised banks to refund such excess interest and other charges to customers. REs are also being encouraged to use online account transfers in lieu of cheques being issued in a few cases for loan disbursement.

(Source: RBI notification no. RBI/2024-25/30 dated 29 April 2024)

1. Regulated entities include the following:

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





RBI updates



SEBI updates



International updates



Other updates

Draft regulatory framework for payment aggregators

On 16 April 2024, RBI issued draft directions for regulation of Payment Aggregators (PAs) that facilitate offline payments. The existing regulations² covering the payment landscape provide a framework for PAs executing online/e-commerce transactions.

These regulations do not cover offline PAs who handle proximity/face-to-face transactions and play a significant role in the spread of digital payments.

The proposed regulation promotes transparency and integrity in the payment eco-system. Further, it is in addition to the existing regulatory framework applicable to PAs that facilitate e-commerce transactions.

The draft directions have been issued in the following two parts:

- New draft directions on regulation of PAs – Physical point of sale (PAPs)
- Amendments to the existing regulatory framework on PAs

Some of the key proposals in the draft guidelines are as follows:

- I. Revised definition of PA:** The definition of payment aggregator has been updated to include both online and offline transactions, with focus on aggregation of payments through a merchant's interface.
- II. Entry requirements:** The draft guidelines have proposed non-bank Physical point of sale (PAPs) to get RBI authorisation for operating the offline payment aggregation business by 31 March 2025. Non-bank online PAs also need RBI authorisation for their offline payment aggregation activity in case they continue with the same. Additionally, all non-bank PAs are required to register with the Financial Intelligence Unit – India (FIU-IND) and provide the relevant information.
- III. Minimum net-worth requirement:** All Physical point of sale (PAPs) are required to maintain a minimum net-worth of INR15 crore at the time of submission of the

application for authorisation to the RBI and INR25 crore by 31 March 2028 and always maintain such net-worth thereafter.

- IV. Utilisation of escrow account:** An escrow account is a third-party account that holds funds till both buyer and seller fulfil the contractual terms. The draft guidelines propose non-bank PAs to route their online and offline activities through escrow accounts in order to streamline the collection and settlement process.
- V. KYC for merchants:** The draft directions bifurcate the payment aggregator merchants under the category of small³ and medium⁴ merchants.
 - In case of small merchants, the PAs need to conduct due diligence by verifying the physical premises operated by them. Additionally, verification of the bank account used for settlement of funds is required.
 - In case of medium merchants, the PAs need to obtain a valid document of the

beneficial owner/proprietor and business in addition to the physical verification of the premise operated by the merchant.

- VI. Card storage requirements:** The draft directions have proposed to extend the restrictions of storage of card details to offline transactions as well. Additionally, the PAPs are required to remove the previously stored card details. These conditions are proposed to be effective from 1 August 2025. The comment period on the draft regulations ends on 31 May 2024.

(Source: RBI notification no. RBI/2024-25/30 dated 29 April 2024)

2. The Reserve Bank of India (RBI) circulars DPSS.CO.PD.No.1810/02.14.008/2019-20 dated 17 March 2020 and CO.DPSS.POLC.No.S33/02-14-008/2020-2021 dated 31 March 2021 on "Guidelines on Regulation of Payment Aggregators and Payment Gateways", and circular CO.DPSS.POLC.No.S-761/02-14-008/2022-23 dated 28 July 2022 on "Regulation of Payment Aggregators – Timeline for submission of applications for authorisation – Review"

3. Small merchants have a business turnover of less than INR 5,00,000 per annum and are not registered under the GST regime

4. Medium merchants have a business turnover of more than INR 5,00,000 but less than INR 40,00,000 per annum and are not registered under the GST regime.



Draft regulatory framework for aggregation of loan products

With an aim to ensure transparency to a borrower in the process of credit intermediation, RBI issued a draft regulatory framework for aggregation of loan products by lending service providers (LSPs) on 26 April 2024. It has been observed that the identity of the potential lender is not known to the borrower in cases where a Loan Service Provider (LSP) has arrangements with multiple lenders.

In this regard, the draft guidelines propose the following:

- LSPs to provide a digital view of all the loan offers available to the borrower from all the willing lenders available with the LSPs.
- The LSP can adopt any mechanism to ascertain the willingness of the lenders to offer a loan, however, a consistent approach to be followed which should be disclosed on its website.
- The details hosted digitally should include the name of the bank or the NBFC extending the loan, the amount and tenor of loan, the annual percentage rate and other key terms and conditions in a way that enables the borrower to make a fair comparison between various offers.

- The content displayed by the LSPs should be unbiased and not be designed in a way that misleads borrowers into choosing a particular loan product.

The comment period on the draft guidelines ends on 31 May 2024.

(Source: RBI notification no. RBI/2024-25/DOR.STR.REC./21.07.001/2024-25 issued on 26 April 2024)





RBI updates



SEBI updates



International updates



Other updates

Flexibility related to operational standards of AIF schemes

The Alternative Investment Funds (AIFs) are regulated by the Securities and Exchange Board of India (SEBI) (Alternative Investment Funds) Regulations, 2012. These regulations provide a framework for the registration, operation, and governance of AIFs in India. It also prescribes the eligibility criteria, investment conditions, disclosure requirements, and reporting norms for AIFs and their managers.

On 25 April 2024, SEBI notified the SEBI (Alternative Investment Funds) (Second Amendment) Regulations, 2024. These regulations enhance the regulatory framework and revise the operational standards for AIFs.

Some of the key features of the amendments are as follows:

- I. **New terms defined:** The amendments introduced the definition of terms 'dissolution period' and 'encumbrance' under Regulation 2(1) of the AIF Regulations⁵.

- II. **Encumbrance on equity:** The amendments permit the Category I and II AIFs to create encumbrances on the equity of investee companies only for the purpose of borrowing by such investee company under conditions specified by SEBI. Further, SEBI has issued detailed requirements⁶ through a circular dated 26 April 2024.

- III. **Unliquidated investments:** The amended regulations provide AIFs with more flexibility in dealing with unliquidated investments during the liquidation period, including the distribution of these investments to investors or entering into a dissolution period with significant investor approval. Additionally, SEBI has issued detailed requirements⁷ through a circular dated 26 April 2024.

(Source: SEBI notification no. SEBI/LAD-NRO/GN/2024/168 dated 25 April 2024)



5. SEBI (Alternative Investment Funds) Regulations, 2012.

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

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



IASB issued accounting standard for presentation and disclosure in financial statements

In order to guide entities how to present and disclose financial information in their statements, on 9 April 2024, the International Accounting Standards Board (IASB) issued IFRS 18 *Presentation and Disclosure in Financial Statements*. IFRS 18 replaces IAS 1, *Presentation of Financial Statements* with effect from accounting periods beginning on or after 1 January 2027.

IFRS 18 aims to provide stakeholders with transparent and comparable information that will impact their investment decisions. Though IFRS 18 will not affect how companies measure financial performance, it will affect how companies present and disclose financial performance.

The main objective of the standard is to improve and enhance the quality of financial reporting through the new requirements.

Following are key requirements under IFRS 18.

I. New sub-totals in statement of profit and loss: IFRS 18 have introduced sub totals in the statement of profit or loss and requires company to specify which income and

expense are to be allocated to the following newly defined categories:

- Operating
- Investment
- Financing.

Companies are required to report the newly defined 'operating profit' subtotal which is an important measure for investors' understanding of a company's operating results, i.e., investing and financing activities are specifically excluded. This means that the results of equity-accounted investees are no longer part of operating profit and are presented in the 'investing' category. The standard also requires companies to analyse their operating expenses directly on the face of the income statement – either by nature, by function or using a mixed presentation. This presentation provides a 'useful structured summary' of those expenses. If any items are presented by function on the face of the income statement (e.g., cost of sales), then a company provides more detailed disclosures about their nature.

II. Management Performance Measures: IFRS 18 requires some of the 'non-GAAP' measures to be reported in the financial statements. It introduces a narrow definition for MPMs⁸, requiring them to be:

- Subtotal of income and expenses;
- Used in public communications outside the financial statements; and
- Reflective of management's view of financial performance.

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

III. Grouping of information in financial statements: IFRS 18 sets out enhanced guidance on how to organise information and whether to provide it in the primary financial statements or in the notes. IFRS 18 also requires companies to provide more transparency about operating expenses,

helping investors to find and understand the information they need. Companies are discouraged from labelling items as 'other' and will now be required to disclose more information if they continue to do so.

IV. Effective date: IFRS 18 is effective from 1 January 2027 and applies retrospectively. Early adoption is permitted.

(Source: IFRS announcement dated 9 April 2024)



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



Governance framework for insurers

In order to strengthen the regulatory framework for insurers, on 20 March 2024, Insurance Regulatory and Development Authority of India (IRDAI) notified the IRDAI (Corporate Governance for Insurers) Regulations, 2024 (Corporate Governance Regulations). The regulations aim to protect policy holders' interests by increasing oversight and governance within the insurance sector and insurers operate within the boundaries of the established norms and standards.

Some of the key points of the regulations pertain to the following:

I. Applicability

The Corporate Governance Regulations are applicable to all insurers except foreign company engaged in re-insurance business through a branch established in India.

II. Board composition

- The board of the insurer should comprise of competent and qualified individuals as directors with experience and expertise relevant to the insurance business. The qualification and experience should be commensurate with the complexity and scale of business operations.

- Mandates a minimum of three independent directors on the board and the Chief Executive Officer (CEO) should be a whole-time director of the board.
- The appointment of chairperson of the board requires prior approval of the competent authority⁹, except in case of public sector insurers.

III. Independent directors

- The board of the insurer is required to intimate the competent authority if the minimum number of independent directors falls below the specified number.
- Such vacancy should be filled up by the board at the earliest but not later than immediate next board meeting or three months from the date of such vacancy, whichever is later.
- Any removal/resignation of an independent director should be informed to the competent authority within 30 days of such an occurrence.

IV. Independence of the board

Insurers are required to ensure independence of the board from the management as well as the promoters and maintain independence of control functions including compliance, risk, audit, actuarial and secretarial function.

V. Related party transactions

- Insurer to ensure that the related party transactions and disclosures are in accordance with the relevant provisions of the Companies Act, 2013, SEBI Regulations, other regulations or circulars, etc. (as applicable) and such other requirements specified by the competent authority.
- Formulate a board approved policy which should be reviewed annually. The policy should include a definition of transactions in the ordinary course of insurance business, method of determination of arm's length pricing, list of items requiring approvals under applicable laws and/or from audit committee, board, shareholders, and any other matter relevant for related party transactions.

VI. Key managerial personnel appointment

- The minimum fixed tenure of the Chief Compliance Officer (CCO) should not be less than three years.
- The board should fill vacant KMP positions on priority to ensure it does not remain vacant for a continuous period of 180 days.
- KMPs should be appointed by the board on recommendation of the Nomination and Remuneration Committee (NRC).
- Formulate and adopt a comprehensive board approved remuneration policy in accordance with the framework specified by the competent authority for Chairperson of the board, non-executive directors and KMPs.

9. "Competent authority"
(i) means Chairperson or
(ii) such whole-time member or committee of the whole-time members or such officer(s) of the authority, as may be determined by the Chairperson



RBI updates



SEBI updates



International updates



Other updates

VII. Appointment of statutory auditors

- Insurers should appoint joint statutory auditors with no conflict of interest in their appointment.
- The appointment should be based on the recommendation of the audit committee, subject to the shareholders' approval at the general meeting of insurer.

VIII.Environment, Social and Governance (ESG) compliance

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

(Source: IRDAI notification F. No. IRDAI/Reg/7/201/2024 dated 20 March 2024)



ICAI issues Ind AS disclosure checklist

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) has issued the Ind AS - Disclosures Checklist. The disclosure checklist provides relevant disclosures required under Ind AS to prepare and present financial statements and acts as a ready reference of disclosure requirements under Ind AS. It contains all the amendments made in Ind AS up to March 2023 and which are effective from 1 April 2023. The checklist contains only disclosure requirements, therefore, it should be read together with the standards, regulatory requirements and related guidance material.

(Source: ICAI announcement issued in April 2024)





Website: bsr-co.in

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

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BSR & Co LLP-14 Floor, Central B Wing & North C Wing, Nesco IT Park 4, Nesco Center, Western Express Highway, Mumbai-400063

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