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MCA updates



SEBI updates



RBI updates

Amendments to Ind AS

With an aim to align Ind AS with IFRS, the Ministry of Corporate Affairs (MCA) issued a notification on 12 August 2024, introducing significant amendments to the Companies (Indian Accounting Standards) Rules, 2015. Through these amendments, MCA introduced Ind AS 117, *Insurance Contracts* for accounting of insurance contracts and replaced current standard Ind AS 104, *Insurance Contracts*.

Ind AS 117 sets out detailed guidelines for the recognition, measurement, presentation, and disclosure of insurance contracts. Additionally, amendments have been made to Ind AS 101, *First-time Adoption of Indian Accounting Standards*, Ind AS 103, *Business Combinations*,

Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*, Ind AS 107, *Financial Instruments: Disclosures*, Ind AS 109, *Financial Instruments* and Ind AS 115, *Revenue from Contracts with Customers* to align them with Ind AS 117. The amendments also introduced detailed disclosure requirements particularly in Ind AS 107, relating to financial instruments associated with insurance contracts.

The amendments are applicable with effect from 1 April 2024.

(Source: [Companies \(Indian Accounting Standards\) Amendment Rules, 2024 dated 12 August 2024](#))

Amendments to adjudication of penalties provisions

Section 454 of the Companies Act, 2013 (2013 Act) read with Rule 3 of the Companies (Adjudication of Penalties) Rules, 2014 (Adjudication of Penalties Rules) enables adjudication of penalties by certain officers appointed by the central government (referred to as adjudicating officers). Such adjudicating officers are empowered to issue show cause notices to companies and officers in default, summon the attendance of such persons or require the production of evidence, etc.

On 5 August 2024, MCA issued the amendments to Adjudication of Penalties Rules to introduce the e-adjudication platform developed by the central government. As per the amendments all adjudication proceedings of the adjudicating officer and regional director

would be conducted electronically through the e-adjudication platform. In situations where email address of concerned persons is not available for sending notices or summons, then such notice would be sent by the adjudicating officer by post at the last intimated address. The adjudicating officer would also upload a copy of such notice on the e-adjudication platform.

The adjudication amendment rules have also provided a format of Form ADJ for e-filing an appeal against the adjudication notices.

The amendments are effective from 16 September 2024.

(Source: [MCA notification G.S.R. 476\(E\) - Companies \(Adjudication of Penalties\) Amendment Rules, 2024 dated 5 August 2024](#))





Consolidated Cyber Security and Cyber Resilience Framework

The Securities and Exchange Board of India (SEBI) has issued Cybersecurity and Cyber Resilience Framework (CSCRF) for all Regulated Entities (REs). The CSCRF aims to provide standards and guidelines for strengthening cyber resilience and maintaining robust cybersecurity. The framework provides a standardised approach to implement various cybersecurity and cyber resilience methodologies. The framework would supersede existing cybersecurity circulars, guidelines, advisories or letters issued by SEBI.

The key objective of CSCRF is to address evolving cyber threats, to align with the industry standards, to encourage efficient audits, and to ensure compliance by REs. The CSCRF also sets out standard formats for reporting by REs. The CSCRF broadly covers the five cyber resiliency goals adopted from Cyber Crisis Management Plan (CCMP) of Indian Computer Emergency Response Team (CERT-In). The cyber resiliency goals have been mapped to cybersecurity functions in CSCRF. The framework is broadly based on two approaches cybersecurity and cyber resilience. Cybersecurity approach covers various aspects from governance to operational controls (including Identify, Detect, Protect, Respond, and Recover) and the cyber resilience goals include Anticipate, Withstand, Contain, Recover, and Evolve.

The key consideration for CSCRF is as below:

- **Cybersecurity policy:** REs should establish a comprehensive cybersecurity policy that defines the roles and responsibilities of various stakeholders. The cybersecurity framework of the entity should provide the scope and objectives of cybersecurity including governance and oversight mechanisms, risk

management processes, the awareness and training programs, information protection processes and procedures, incident response and recovery plans and the audit and review procedures.

- **Cybersecurity mechanism:** CSCRF mandates that all REs are required to establish appropriate security monitoring mechanisms through Security Operation Centre (SOC). The onboarding of SOC can be done through RE's own or group SOC or market SOC or any other third-party managed SOC for continuous monitoring of security events and timely detection of anomalous activities.
- **Cybersecurity reporting:** The entities should report any cyber incidents and breaches to the SEBI-CERT within 24 hours of detection. The report should include the details of the incident, the impact and severity, the actions taken, and the remedial measures. The entities should also submit periodic reports on the status of their cybersecurity and cyber resilience to the SEBI-CERT as per the prescribed format and frequency.
- **Cybersecurity audit:** REs should conduct an independent external audit of their cybersecurity on a half-yearly (for MIIs, Qualified REs Mid-size REs and Small-size REs who are providing IBT or Algo trading facility) and yearly (for other REs) by an auditor empaneled by SEBI. The audit should cover the adequacy and effectiveness of the cybersecurity policy, architecture, operations, and reporting. Further such audit report should be submitted to the SEBI-CERT within one month of completion.

- **Applicability:** The circular has defined the below timelines for demonstrating compliance to the CSCRF requirements”.

Applicability	Timeline
For the entities which already have regulator prescribed cybersecurity and resilience structures (Market Infrastructure Institutions (MIIs), stockbrokers / depository participants, Asset Management Company (AMC's)/mutual funds, KRAs ¹ , QRTAs ² , Portfolio Managers)	1 January 2025
For other REs where CSCRF is being issued for the first time	1 April 2025

(Source: [SEBI circular SEBI/HO/ ITD-1/ITD_CSC_EXT/P/CIR/ 2024/113 - Cybersecurity and Cyber Resilience Framework \(CSCRF\) for SEBI Regulated Entities \(REs\) dated 20 August 2024](#))

1. KYC (Know Your Client) Registration Agency (KRA)
2. Qualified Registrar to an Issue and Share Transfer Agent (QRTAs)



PIT Regulations for trading in mutual fund units

The SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations) stipulates the regulations and guidelines applicable to a person who is in possession of Unpublished Price Sensitive Information (UPSI) of certain securities other than units of a mutual fund. In November 2022, SEBI issued SEBI PIT (Amendment) Regulations, 2022 to amend the PIT Regulations by inserting Chapter II-A to provide regulatory provisions that are applicable to units of mutual fund. The amended regulation provides provisions relating to connected person as defined under Regulation 5B(1)(b) of Chapter II-A or any person who has access to UPSI with respect to the mutual fund scheme.

On 25 July 2024, SEBI appointed 1 November 2024 as the date for applicability of SEBI PIT (Amendment) Regulations, 2022³.

Some of the key provisions are:

- An insider is not permitted to trade in units of a mutual fund which may have a material impact on the net asset value of a scheme or may have a material impact on the interest of the unit holders of the scheme.
- The board of directors of an Asset Management Company (AMC), after approval from the trustee, are required to formulate a policy on legitimate purposes for sharing UPSI to certain persons specified in the regulation in the ordinary course of business.

- The structured digital database should be maintained containing the nature of UPSI shared and other details relating to such transaction.
- Code of conduct is required to be maintained.
- An adequate and effective system of internal controls should be developed and implemented by the Chief Executive Officer/Managing Director of the AMC.
- A whistle blower policy should be framed to enable the employees to report instances of leakage of UPSI.
- Audit committee of the AMC or intermediary or fiduciary are required to review compliance of these regulations and verify whether the systems for internal controls are adequate and are operating effectively.
- Detailed disclosures are required to be provided to the stock exchange.

(Source: SEBI notification No. SEBI/LAD-NRO/GN/2024/195, Commencement notification of the Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2022 dated 25 July 2024)

³ SEBI (Prohibition for Insider Trading) (Amendment) Regulations, 2022 dated 24 November 2022.





AMCs required to put in place an institutional mechanism for identification and deterrence of potential market abuse

With an aim to introduce specific regulatory provision to cast responsibility on the AMC or its senior management to put in place a system for deterrence, detection or reporting of market abuse or fraudulent transactions, on 1 August 2024, SEBI issued amendments to the SEBI (Mutual Funds) Regulations, 1996 (MF Regulations).

Additionally, SEBI issued a circular on 5 August 2024, which requires AMCs to put in place an institutional mechanism for identification and deterrence of potential market abuse including front-running and fraudulent transactions in securities (institutional mechanism). Such an institutional mechanism should be able to identify, monitor and address specific types of misconduct, including front running, insider trading, misuse of sensitive information, etc.

The key requirements of the amendment and the circular are:

- **Accountability:** The Chief Executive Officer (CEO) or the Managing Director (MD) or a person of equivalent rank and the Chief Compliance Officer (CCO) of the AMC would be responsible for implementation of such an institutional mechanism.
- **Enhanced surveillance mechanism:** Systems and procedures should be developed and implemented to generate and process timely alerts on possible instances of misconduct⁴. Suspicious alerts would be adequately investigated and processed by referring to certain data points⁵ including trade related information from stock exchanges and depositories.

Suitable action would be taken in case of instances of potential market abuse by employees or brokers/dealers, including suspension or termination of such persons/entities.

- **Internal control procedures:** AMCs should formulate board approved written policies and procedures for conducting examination and taking action in case of potential market abuse. Such procedures and systems should be reviewed and updated on a periodic basis.
- **Reporting and escalation processes:** AMCs should have an escalation process to keep the following entities informed:
 - *Board of directors and trustees:* Regarding instances of potential market abuse and results of examination conducted by AMCs
 - *SEBI:* Report all examined alerts to SEBI with action taken in Compliance Test Report (CTR) and Half-yearly Trustee Report (HYTR) in a prescribed format.
- **Whistle blower policy:** AMCs should have a documented whistle-blower policy based on provisions under the SEBI (Mutual Funds) Regulations, 1996⁶.
- **AMFI's recommended standards for institutional mechanism:** In view of the MF amendment Regulations and the circular, the AMFI in consultation with SEBI issued a circular which proposed 'Standards on Institutional Mechanism' that AMCs are required to implement to identify and deter market abuse practices. The AMFI has clarified that these standards are minimum requirements to be complied with by AMCs.

(Source: SEBI (Mutual Funds) (Second Amendment) Regulations, 2024 dated 5 August 2024)

4. Such systems may include process system driven alerts in conjunction with soft alerts such as lifestyle checks, recording of communication (such as recorded emails, chats), CCTV footage etc.

5. For processing of alerts, AMCs are required to consider and review all recorded communications including chats, emails, access logs of dealing room and CCTV footage (if available). AMCs should also maintain and monitor entry logs to the AMC's premises.

6. Such a policy should (a) provide for a confidential channel for employees, directors, trustees, and other stakeholders to raise concerns about suspected fraudulent, unfair or unethical practices, violations of regulatory or legal requirements or governance vulnerability, and(b) establish procedures to ensure adequate protection of the whistle blowers.



Board nomination rights for unitholders of InvITs and REITs

Currently, the Master circular for Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) permit eligible unitholders of InvITs and REITs to nominate one unitholder nominee director. However, where such a unitholder is a shareholder in or lender to the investment manager of such InvIT or REIT (manager), and in lieu of that is entitled to nominate one or more directors on the board of the manager, then it is restricted from exercising its right to nominate a unitholder nominee director, as the unitholder of the InvIT or REIT.

With an aim to promote ease of doing business, SEBI through its circulars dated 6 August 2024 has clarified that the restriction to nominate a unitholder nominee director would not be applicable if the unitholder has the right to appoint a nominee director in terms of Regulation 15(1)(e) of the SEBI (Debenture Trustees) Regulations, 1993⁷.

Effective date: These amendments are applicable from 6 August 2024.

(Source: SEBI Circular No.: SEBI/HO/DDHS/DDHS-PoD-2/P/CIR/2024/108 and SEBI/HO/DDHS/DDHS-PoD-2/P/CIR/2024/109 dated 6 August 2024)



7. Regulation 15(1)(e) states that it would be the duty of every debenture trustee to appoint a nominee director on the Board of the company in the event of:

- (i) two consecutive defaults in payment of interest to the debenture holders; or
- (ii) default in creation of security for debentures; or
- (iii) default in redemption of debentures.



Amendments to harmonise the regulations applicable to NBFCs and HFCs

The Reserve Bank of India (RBI) conducted a review of the existing regulations of Housing Finance Companies (HFCs) and Non-Banking Finance Companies (NBFCs). Based on the review, certain amendments have been prescribed for both NBFCs and HFCs as follows:

Amendments for HFCs

• Regulations pertaining to deposit

acceptance: With an aim to specify uniform prudential parameters for both NBFCs and HFCs, following are the amendments:

- All HFCs should maintain on an ongoing basis, liquid assets to the extent of 15 per cent (earlier 13 per cent) of the public deposits held by them.
- Regulations on safe custody of liquid assets as applicable to NBFCs⁸ would now mutatis mutandis apply to all HFCs.
- HFCs should ensure full asset cover for public deposits accepted by them. The National Housing Bank (NHB) should be informed in case the asset cover falls short of the liability.

- HFCs should obtain minimum investment grade credit rating at least once every year prior to accepting fresh deposits/renewing existing deposits.
- Ceiling on quantum of deposits that can be accepted by HFCs has reduced to 1.5 times of net owned fund (earlier 3 times).
- Public deposits accepted or renewed henceforth should be repaid within 60 months (earlier 120 months).
- HFCs should set board approved limits for exposure to capital markets.
- **Hedging of risks:** Prescribed HFCs are permitted to hedge the risks arising out of their operations by participating in exchange traded currency derivatives, interest rate futures and credit default swaps in accordance with guidelines prescribed by RBI.
- **Co-branded credit cards:** HFCs are now permitted to issue co-branded credit cards subject to instructions issued by RBI.
- **Accounting year:** HFCs are required to finalise their balance sheet within three months from the date to which it pertains. For

extension, approvals are required to be obtained from National Housing Bank (NHB) and the Registrar of Companies.

- **Periodicity of Information System Audit (IS audit):** Periodicity should be as per Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices dated 7 November 2023 (IT Master Directions).
- **Investment through Alternative Investment Funds (AIF) for computing Net Owned Fund (NOF):** Both direct and indirect investments (for example, through AIF) made by HFCs in entities of the same group would be reduced from owned funds to arrive at NOF. In this case indirect investments through AIF would be considered only if:
 - HFCs have provided 50 per cent or more funds in the AIF (company) or
 - HFCs are beneficial owners of the AIF (trust) and 50 per cent of funds of trust have come from HFC.
- **Account aggregators:** HFCs acting either as 'Financial Information Provider' or 'Financial Information User' would be expected to adopt

the technical specifications prescribed by RBI.

Amendments for NBFCs: The RBI has also prescribed certain amendments for NBFCs such as:

- Requirement to intimate details of maturity of the deposit to the depositor at least 14 days before the date of maturity of the deposit.
- NBFCs permitted to prematurely pay the full or part of the public deposits to the depositor to meet certain expenses of an emergent nature, subject to certain conditions prescribed by RBI.
- Periodicity of Information System Audit (IS audit) should be as per IT Master Directions.
- Other areas of amendments relate to nomination and safe custody of liquid assets rules.

Effective date: The above mentioned amendments would be applicable from 1 January 2025 to NBFCs and HFCs.

(Source: RBI/2024-25/61 DOR.FIN.REC.No.34/03.10.136/2024-25 dated 12 August 2024)

8. As prescribed by Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 (NBFC Master Directions)



RBI reviews risk weights for HFCs

On 12 August 2024, RBI issued a circular to modify the manner of computing risk weighted assets for the following loans issued by HFCs:

- **Undisbursed amount of housing loans/other loans:** The RBI has issued Master Direction –Non-Banking Financial Company –Housing Finance Company (Reserve Bank) Directions, 2021 dated 17 February 2021 (the HFC Master Directions). As per these directions, the risk weighted assets computed as per step 1 and step 2 would be capped at the risk weighted asset computed on a notional basis for equivalent amount of disbursed loan.
- **Risk weight for commercial real estate –residential building:** The risk weight of fund-based and non-fund based exposures which are classified as:
 - Standard, would be 75 per cent
 - Not classified as standard, would be 100 per cent (i.e. as per the category ‘Other Assets (Others)’⁹).

(Source: RBI circular RBI/2024-2025/62 DOR.CRE. REC.33/08.12.001/2024-25 dated 12 August 2024)

9. As indicated at sr. no. 6(d) of para 6.2 of the HFC Master Directions





RBI revises the directions for NBFC- Peer-to-Peer lending platforms

The RBI Master Direction - Non-Banking Financial Company – Peer to Peer Lending Platform (Reserve Bank) Directions, 2017 (the Directions) govern the NBFC-peer to peer lending (P2P) platforms.

The RBI observed that certain P2P platforms had adopted practices which were violative of the Directions¹⁰. Accordingly, RBI through its circular dated 16 August 2024 modified/clarified certain existing regulations governing P2P platforms and added certain new regulations in the Directions. Some of the key changes are given below:

- **Credit risk:** The circular provides that the P2P platforms should not assume any credit risk (directly or indirectly) arising out of transactions on its platform. Further, RBI has also prohibited P2P platforms to cross-sell insurance products that function as credit enhancement or credit guarantee.
- **Matching and mapping lenders with borrowers:** P2P platforms are now required to both match and map lenders with borrowers in an equitable and non-discriminatory manner as per the P2P platform's board approved policy. However, matching/mapping of participants within a closed user group¹¹ is not permitted.

- **Fund transfer:** The loan disbursement and collection will be through two separate escrow accounts i.e. lender's escrow account and borrower's escrow account. Additionally, funds transferred into the lender's escrow account and borrower's escrow account should not remain in these accounts for more than 'T+1' day, where 'T' is the date, the funds are received in these escrow accounts.
- **Disclosures:** P2P platforms are required to make certain disclosures on their website regarding portfolio performance. Such disclosure should also include details of all losses incurred by lenders on principal or interest or both.
- **Borrowers' consent:** The P2P platform is required to disclose details about the borrower to the lender. However, the personal identity of the borrower should be disclosed only after obtaining the borrower's consent.
- **Peer to peer lending:** Peer to peer lending should not be promoted as an investment product with features like tenure linked assured minimum returns, liquidity options, etc.
- **Fees chargeable:** P2P platforms should have an objective pricing policy. The fees should

clearly be disclosed at the time of lending as either a fixed amount or a fixed percentage of the principal. Fees should not be dependent on borrower repayment.

- **Branding and caveats:** The P2P platform should display their registered/brand name in all customer touchpoints, promotional materials, and communications with stakeholders. Further, the P2P platform's website, mobile/web applications including any promotional material should have appropriate caveats.

Effective date: All the amendments are effective from 16 August 2024. However, the requirement to ensure funds in the lender's and borrower's escrow account does not stay in that account for more than T+1 days is applicable from 90 days of the date of this circular.

(Source: RBI circular RBI/2024-25/63 DoR.FIN.REC.35/03.10.124/2024-25 dated 16 August 2024)

10. Such practices include, among others, violation of the prescribed funds transfer mechanism, promoting peer to peer lending as an investment product with features like tenure linked assured minimum returns, providing liquidity options and at times acting like deposit takers and lenders instead of being a platform.

11. Examples of 'closed user group' include borrowers/lenders sourced through an affiliate/service provider to the NBFC-P2P.





Proposal related to management of model risks in credit

REs use various models as part of credit management life cycle for borrower selection, credit scoring or rating, pricing, risk management, credit loss provisions, etc. However, model outputs are exposed to uncertainties as they are based on assumptions which may not manifest in the envisaged ways. This potentially exposes the REs to model risk, which has implications on prudential aspects of credit risk management, compliance, and reputational risk.

With an aim to ensure prudence and robust validation mechanism as well as appropriate governance and oversight, RBI proposed to lay down broad regulatory principles on model development, deployment and validation. The circular outlines the regulatory principles aimed at ensuring the effective management of model risks in credit. Further, the circular requires the lender to implement a detailed board-approved policy with regard to the framework for all models deployed, covering the entire model life cycle. The policy should cover the following aspects:

- Approach with regard to adoption and usage of third-party models
- Details of governance and oversight aspects commensurate with model materiality

- Documentation requirement for models deployed
- The process of independent vetting.

The models used by the lenders can either be developed internally or sourced from external third-party suppliers subject to the specified principles. The lenders have the ultimate responsibility and accountability for the integrity and outcomes of outsourced models. Further, the models deployed by the lenders should be subjected to supervisory review.

Considering the issuance of new circular, it has been proposed that the existing guidance note on credit risk management would be repealed.

The period to provide comments on the circular ended on 4 September 2024.

(Source: [RBI notification RBI/2024-25/DOR.STR.REC./21.04.048/2024-25 dated 5 August 2024](#))





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