

B S R & Co. LLP  
Chartered Accountants

# Corporate reporting insights

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## FAQs on ESG Rating Provider

In July 2023, the Securities and Exchange Board of India (SEBI) introduced Chapter VIA on ESG<sup>1</sup> Rating Provider (ERPs) by amending the SEBI (Credit Rating Agencies) Regulations, 1999 (CRA Regulations). These regulations are applicable to a person engaged in, or proposes to engage in, the business of issuing ESG ratings. Subsequently, on 9 August 2023, SEBI issued Frequently Asked Questions (FAQs) covering the disclosure and registration requirements for ERPs, shareholding restrictions, sharing of resources, eligibility criteria, applicability of circulars, etc.

In this regard, on 12 December 2023, SEBI issued revised FAQs with some additional clarifications related to ERPs. Some of the key considerations from revised FAQs are as follows:

- **Scope of ESG ratings:** Regulation 28B(1)(b) of the CRA Regulations defines ESG ratings. The FAQ has clarified that ESG ratings include all types of rating and scoring products that encompass both rule-based and algorithmic scores and are calculated as per the published methodology as well as those that involve some application of

judgment or discretion. This is also in accordance with the International Organization of Securities Commissions (IOSCO's) Report on ESG Ratings and Data Products Providers issued in November 2021.

- **Registration requirements for international ERPs in India:** Regulation 28C states that a person could act as an ERP only after obtaining a certificate from SEBI. Further, the Fourth Schedule to the CRA Regulations lays down the applicability criteria of the CRA Regulations depending on the location of the ESG rating user and the rated asset class (Indian/Global) in the securities market. Determination of the applicability of the regulatory framework to international ERPs should be based on the provisions under the Fourth Schedule.

The FAQs have clarified that the regulations would not apply to a foreign ERP outsourcing or using back/middle office support in India for providing ESG rating services to users outside India.

It is further clarified that an overseas ERPs offering ESG rating products covering Indian

asset classes to Indian clients should obtain certificate of registration from SEBI by establishing a locally incorporated entity. In case the application is made before 3 January 2024, such an overseas ERP could continue offering its services till the time the registration is granted by SEBI. Once the registration is granted, the Overseas ERP shall cease such offering and the services should be rendered from the locally incorporated entity.

- **Description of 'Indian' and 'Global' asset classes:** The 'Indian' asset classes are the asset classes listed in the Indian securities market while 'Global' asset classes pertain to asset classes in overseas markets.
- **Shareholding restrictions in an ERP:** Regulation 28U of the Regulations details the provisions regarding restrictions on shareholding among ERPs. Any entity holding 10 per cent or more shares or voting rights in an ERP is restricted from holding 10 per cent or more shares or voting rights in any other SEBI registered ERP. The FAQ clarified that such restriction would not apply to international ERPs.

- **Whether ERPs can provide internationally-aligned ratings alongside Indian specific ratings:** It is clarified that ERPs are permitted to offer any ESG rating or scoring products, including ratings/scores based on international frameworks in addition to the ESG rating products that incorporate the ESG aspects of the Indian market. Therefore, it is not necessary to make any adjustment to the existing rating methodologies or to provide comparable sector-specific ratings.



1. Environmental, Social and Governance (ESG)



## SEBI updates

- **Definition of 'Core ESG Rating':**  
From FY 2023-24 onwards, over a glide path of four years, the top 1000 listed entities in India are mandated to undertake reasonable assurance of the Business Responsibility and Sustainability Report (BRSR) Core. The master circular for ERPs states that the 'Core ESG Rating' must be based on third-party assured data. The details of the same are prescribed in Chapter II to the master circular.
- **Determination of 'Indian ESG rating user':**  
It is clarified that an 'Indian ESG rating user' is any individual, entity or organisation within India that utilises ESG rating services for decision making, investment analysis, compliance, or research purpose related to ESG investment, performance and practices. Therefore, a foreign ESG rating user that outsources or uses back/middle office support in India would be considered 'outside India' as per the Fourth Schedule to the CRA Regulations. The CRA Regulations would not apply to ESG rating services provided to such users.



## RBI updates

- **Compliance requirements for registered ERPs:** Registered ERPs should comply with the transparency and disclosure requirements, eligibility criteria, conditions for certificate, code of conduct, auditing process and other requirements as laid down the master circular for ERPs.
- **Applicability subject to business model used:** As per the CRA Regulations, the contractual obligations between the issuer and the ERP are required to be specified and complied with in an 'issuer pays' model. Whereas, in a 'subscriber-pays' model, there are no such contractual obligations. Therefore, requirements/provisions laid down in the regulations/master circular pertaining to or arising out of such contractual obligations would not apply to an ERP following 'subscriber-pays' model. However, it is important to note that, certain requirements are regulatory and are to be complied with by all ERPs, irrespective of the business model.

(Source: SEBI FAQs on 'FAQs on Registration as an ESG Rating Provider (ERP)' dated 12 December 2023)



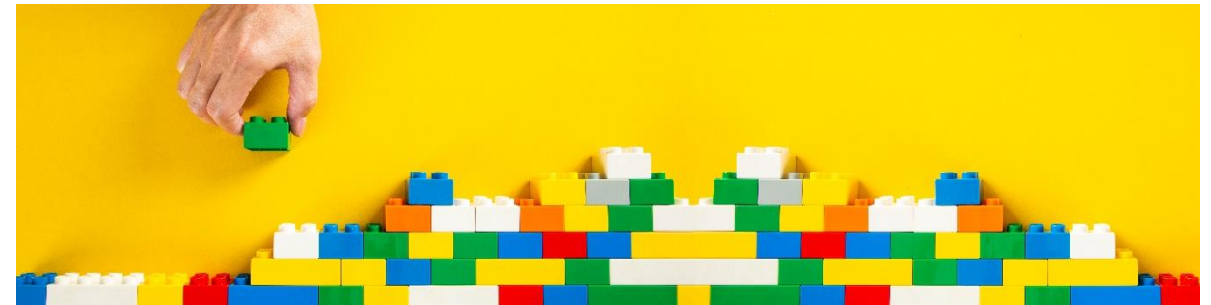
## Other updates

### Flexibility in the framework of social stock exchange

In September 2022, SEBI had notified a detailed framework on Social Stock Exchange (SSE). With an aim to introduce flexibility in the framework on Social Stock Exchange (SSE) with respect to the Non-Profit Organisations (NPOs), SEBI has issued amendments to the existing framework. Some of the key amendments introduced are as follows:

**Registration requirements:** The circular provides certain prerequisites for NPO looking to register on a SSE. They includes:

- Providing a registration certificate under Sections 12A/12AA/12AB/10(23C)/10(46) of the Income-tax Act, 1961 which is valid for the next 12 months.
- Having a valid registration under Section 80G for entities registered under Sections 12A/12AA/12AB of the Income-tax Act, 1961.
- Disclosure of pending notices or scrutiny cases from regulatory or statutory authorities along with fines and penalties paid or appealed.





## SEBI updates

**Procedure for the public issuance of Zero Coupon Zero Principal (ZCZP) Instruments by NPOs:** A detailed procedure has been prescribed for the issuance of ZCZP instruments specifying the following:

- Filing of the draft fund-raising document with the SSE seeking an in-principle approval for listing of ZCZP instruments. The draft fund raising document should be made available on the website of SSE and NPO for a minimum period of 21 days.
- The SSE should provide observations on the draft document filed. The NPO should incorporate the observations of the SSE and file the final fund-raising document with the SSE prior to opening of the issue.
- The draft fund-raising document and the final fund-raising document should contain disclosures as may be specified by the board from time to time. The SSE can mandate additional disclosures in respect of the draft fund-raising document and the final fund-raising documents.



## RBI updates

- ZCZP Instruments should be issued in dematerialised form only
- The minimum issue size should be INR50 lakh
- The minimum application size should be INR10,000
- The minimum subscription required to be achieved should be 75 per cent of the funds proposed to be raised through issuance of ZCZP instruments
- In case of under-subscription, the NPO is required to provide additional disclosures in the fund-raising document, as prescribed.

**Details of social impact:** NPOs are required to provide details of past social impact as per the existing practice. The disclosure of past social impact should highlight trends in key metrics/parameters relevant to the NPO (as may be determined by the stock exchanges) for which it seeks to raise funds on SSE, number of beneficiary, cost per beneficiary and administrative overheads.

(Source: SEBI circular no. SEBI/HO/CFD/PoD-1/P/CIR/2023/196 dated 28 December 2023)



## Other updates





## Proposed amendments to verification of market rumours provision

Regulation 30(11) of (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) require listed entities to verify and confirm, deny or clarify market rumours which are reported in the mainstream media. The rumour verification requirement is applicable to the top 100 listed entities with effect from 1 February 2024 and to top 250 listed entities with effect from 1 August 2024.

With an aim to facilitate capital formation and ease of doing business, on 28 December 2023, SEBI issued a consultation paper proposing framework related to verification of market rumours:

### I. Material price movement criteria

It has been proposed to determine the material price movement based on the price range of securities of the listed entity. The material price movement in the securities may be determined based on the following parameters:

- **Price range of the securities of the listed entity:** In case of shares falling under the high price range, a lower percentage change would be considered material. Whereas, in case of shares in

the lower price range, a higher percentage change would be considered material. The framework for material price movement is placed as Annexure B of the consultation paper.

- **Movement in the benchmark index (Nifty50/Sensex):** The price variation in the securities of the listed entity are proposed to be indexed to movement in Nifty50/Sensex (benchmark index).

It has been further proposed that the timeline for verifying market rumour would be within 24 hours of material price movement instead of within 24 hours of reporting in the mainstream media as per the existing rumour verification requirement.

### II. Obligations on promoters, directors, KMP and senior management

If market rumours pertain to promoters/directors/KMP/senior management then the consultation paper proposes to cast an obligation upon the promoters, directors, KMP and senior management to provide adequate, accurate and timely response to queries raised or explanation sought by the listed entity to ensure compliance with

Regulation 30(11) of LODR Regulations.

### III. Market rumour not verified by listed entities as Unpublished Price Sensitive Information (UPSI)

There could be instances where a rumour pertaining to a listed entity does not result in a material price movement in the scrips of the entity and the entity neither confirms, denies or clarifies market rumour pertaining to such information published in the media. In such cases, it has been proposed that such media reports should not be used at a later date by an insider as a defence that the information was 'generally available'.

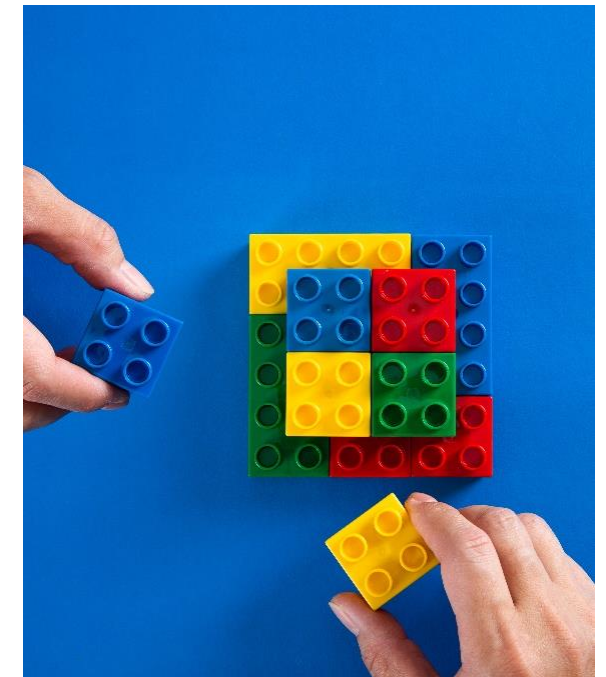
### IV. Unaffected price mechanism

In order to determine the transaction price relating to the securities of a listed entity, it has been proposed that the unaffected price would be considered when the listed entity confirms the market rumour due to material price movement. Additionally, the unaffected price should be applicable for a specified period, from the date of confirmation of the market rumour till the 'relevant date'. Further the consultation paper has suggested two alternatives for

deciding on the unaffected share price.

The period to provide comments ended on 18 January 2024.

(Source: SEBI circular no. SEBI/HO/CFD/PoD-1/P/CIR/2023/196 dated 28 December 2023)





## FAQs on the framework for acceptance of green deposits

In April 2023, the Reserve Bank of India (RBI) issued the Framework for Acceptance of Green Deposits (the framework) to encourage Regulated Entities (REs) to offer green deposits to customers. In this regard, in December 2023, RBI issued a Frequently Asked Questions (FAQs) on the framework.

Following are the key points from the FAQ:

**Nature of the requirement:** REs are not mandated to raise green deposits from their customers. However, they are mandated to follow the prescribed framework in case they issue green deposits.

**Differential interest rates:** REs are required to pay interest on green deposits to their customers as per agreed terms and conditions and aforesaid directions irrespective of allocation/utilisation of proceeds. The extant guidelines<sup>2</sup> do not permit REs to offer differential

rate of interest on green deposits.

**Restriction on withdrawal of green deposits:**

There is no restriction on premature withdrawal of green deposits, however, the REs should adhere to the extant guidelines referred above. Additionally, premature withdrawal would not have any bearing on the activities/projects undertaken using the proceeds of green deposits.

**Allocation of proceeds:** As per the framework, the REs can temporarily park unallocated proceeds of green deposits in liquid instruments<sup>3</sup> with maximum maturity up to one year. The framework does not stipulate any penalty for non-allocation of proceeds towards green activities/projects. However, it should be subject to supervisory review.

**External review of the framework:** REs can engage with any appropriate and reputed

domestic/international agency for external review of the framework, third-party verification/assurance and impact assessment of the green activities/projects.

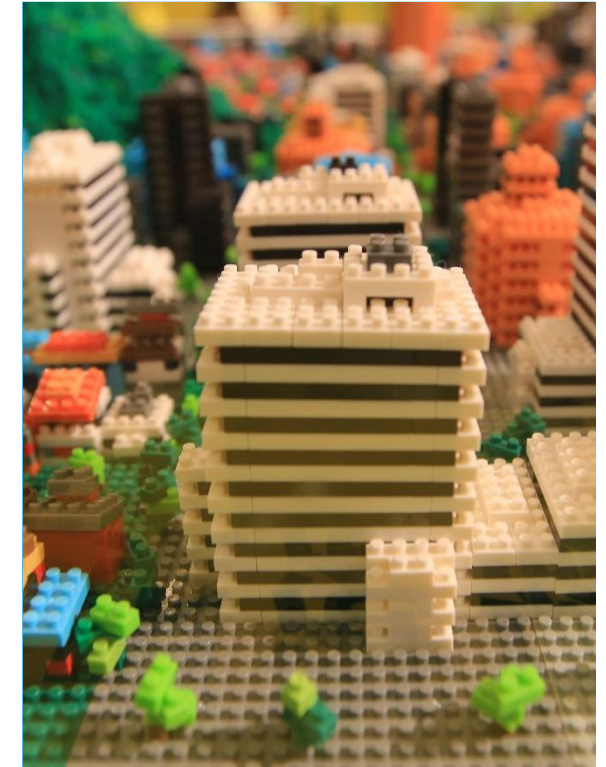
**Overdraft facility against green deposits:**

Banks are allowed to offer overdraft facility to customers against green deposits subject to the prescribed instructions<sup>4</sup>.

**Denomination of green deposits:** The current framework permits green deposits to be denominated in INR only and not any other foreign currency.

**Global policy of foreign banks:** Foreign banks can have a common global policy on green deposits, without prejudice to the provisions of the framework for green deposits raised in India after 1 June 2023.

(Source: RBI FAQ on Framework for Acceptance of Green Deposits issued in



2. Master Direction – Reserve Bank of India (Interest Rate on Deposits) Directions, 2016 dated 3 March 2016  
 Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016 dated 25 August 2016  
 Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 dated 17 February 2021

3. The liquid instruments are Level 1 High Quality Liquid Assets as per the extant guidelines.

4. Consolidated circular on opening current accounts and CC/OD accounts by banks dated 19 April 2022.



## Instructions related to investments in AIFs

Regulated entities (REs) make investments in units of Alternative Investment Funds (AIFs) as part of their regular investment operations. RBI has noticed some transactions that raise regulatory concern related to possible evergreening through investments in units of AIFs.

In this regard, on 19 December 2023, RBI issued a notification providing a set of instructions for investment in AIFs by REs. The key points are as follows:

- REs should not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE.
- In case an AIF scheme, in which RE is already an investor, makes a downstream investment in any such debtor company, then

the RE is required to liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. In cases where REs have already invested into such schemes, having downstream investment in their debtor companies as on date, the 30-day period for liquidation will be counted from date of issuance of this circular.

- In circumstances where REs fail to liquidate their investments within the above-prescribed time limit, they should make 100 per cent provision on such investments.
- Investment by REs in the subordinated units of any AIF scheme with a 'priority distribution model' should be subject to full deduction from RE's capital funds.

(Source: RBI notification no. RBI/2023-24/90 dated 19 December 2023)





## International standards on auditing of less complex entities

On 6 December 2023, the International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Auditing (ISA) for audits of financial statements of Less Complex Entities (LCE).

This standard is a new standalone auditing standard which has been designed to help auditors perform globally consistent and high quality audits, tailored to the nature and circumstances of smaller and less complex entities. It is based on the underlying concept of ISAs and contains all the necessary requirements to obtain reasonable assurance, whether the financial statements as a whole are free from material misstatements, whether due to fraud or error.

Some of the key aspects of this ISA are as follows:

**Objective:** The standard aims to help auditors of LCEs to execute consistent and effective high quality audits thereby addressing stakeholder needs and maintaining confidence in the financial reporting of LCEs.

**Specific prohibitions:** The use of ISA for LCE is prohibited for the following classes of entities:

- i. When prohibited by law or regulation
- ii. Listed entities
- iii. Entities with public interest characteristics

iv. Groups audits where:

- a. Any of the group's individual entities or business units meet the abovementioned criteria or
- b. Component auditors are involved, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit.

**Qualitative characteristics:** The standard provides a qualitative list that describes an LCE's characteristics. The characteristics relate to an entity's:

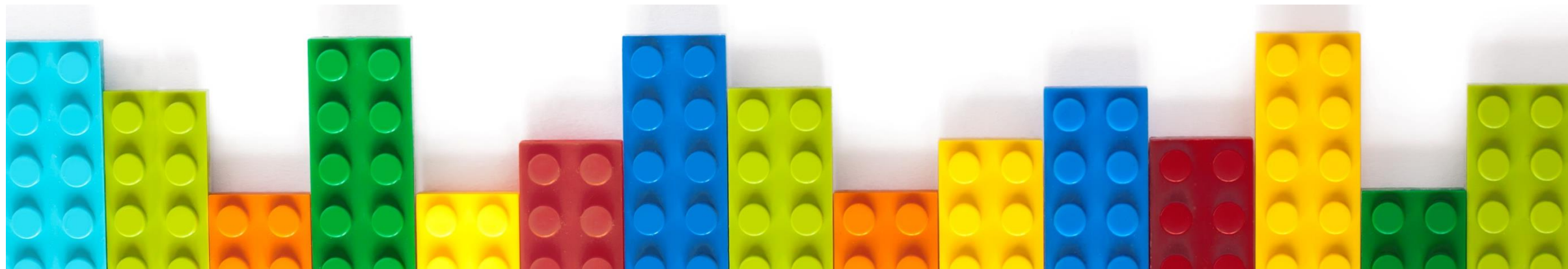
- i. Business activities and model

- ii. Organisational and ownership structure
- iii. Finance function and IT
- iv. Financial reporting framework and accounting estimates
- v. Consolidation process.

**Quantitative thresholds:** The quantitative threshold would be determined by the standard setting authorities in each jurisdiction.

**Effective date:** The ISA for LCE is effective for audits of financial statements for periods beginning from 15 December 2025.

(Source: IAASB news 'New Standard for audits of Less Complex Entities Issued By IAASB' dated 6 December 2023)





## Improved accounting and disclosure for certain crypto assets issued by FASB

On 13 December 2023, the Financial Accounting Standard Board (FASB) issued an Accounting Standards Update (ASU) aiming to improve the accounting and disclosure for certain crypto assets.

The main provisions of the recent ASU are as follows:

Topic	Amendment
<b>Subsequent measurement</b>	Entities are required to measure crypto assets at fair value in the statement of financial position at each reporting period and recognise changes from remeasurement in the statement of profit and loss.
<b>Presentation</b>	Crypto assets are presented separately from other intangible assets on the face of the balance sheet. Similarly, gains and losses from remeasurement of in-scope crypto assets are presented separately from impairments or other changes in carrying amount of other intangible assets.
<b>Disclosures</b>	Entities are required to provide enhanced disclosures for both annual and interim reporting periods to investors with the relevant information to analyze and assess the exposure and risk of significant individual crypto asset holdings.

- Are created or reside on a distributed ledger based on blockchain or similar technology
- Are secured through cryptography
- Are fungible
- Are not created or issued by the reporting entity or its related parties.

The above-mentioned amendments are effective for fiscal years beginning after 15 December 2024, including interim periods within those fiscal years.

(Source: [FASB media advisory 12-13-23](#) issued on 13 December 2023 and [KPMG LLP’s article on ‘FASB issues ASU Accounting for and disclosure of certain crypto assets’](#) issued on 13 December 2023)



The amendments in the ASU apply to assets that meet all the following criteria:

- Meet the definition of intangible asset as defined in the Codification<sup>5</sup>
- Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets

<sup>5</sup> FASB Accounting Standard Codification



## Requirement of improved income tax disclosures issued by FASB

On 14 December 2023, the Financial Accounting Standard Board (FASB) issued an Accounting Standards Update (ASU) on improved income tax disclosures aiming to help investors make informed capital allocation decisions.

The ASU enhances income tax disclosures by requiring entities to disclose:

- For public business entities, a tabular reconciliation using both percentages and amounts, broken out into specific categories with certain reconciling items at or above five percent of the statutory (i.e. expected) tax further broken out by nature and/or jurisdiction.
- For all other entities, qualitative disclosure of the nature and effect of significant reconciling items by specific categories and individual jurisdictions.

- Income taxes paid (net of refunds received), broken out between federal (national), state/local and foreign, and amounts paid to an individual jurisdiction when five percent or more of the total income taxes paid.

The ASU also includes other amendments, such as replacing the term 'public entity' with 'public business entity' and the removal of certain disclosures.

The above amendments are effective for fiscal years beginning after:

- 15 December 2024 – For public business entities
- 15 December 2025 – For all other entities

(Source: [FASB media advisory 12-14-23 issued on 14 December 2023](#) and [KPMG LLP's article on 'FASB issues ASU Improvements to income tax disclosures' issued on 15 December 2023](#))





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