B S R & Co. LLP
Chartered Accountants

Corporate reporting insights

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Draft disclosure framework of climate related financial risks

Regulated Entities[1] (REs) play a significant role in financing the transition towards an environmentally sustainable economy. Given the transition towards environment-friendly products and services, the impact of climate change on REs is inevitable. It is therefore imperative for the REs to implement robust climate-related financial risk management policies and processes to effectively deal with the impact of climate-related financial risks.

In this regard, on 28 February 2024, the Reserve Bank of India (RBI) issued a draft disclosure framework (the framework) for REs on climate-related financial risks.

Some of the key points of the framework are as follows:

Thematic pillars of disclosure

The disclosures proposed to be provided by REs would cover following thematic areas:

Governance: This covers details of the governance processes, controls and procedures used by the REs to identify, assess, manage, mitigate, monitor and oversee climate-related financial risks and opportunities. Under this section, the REs should disclose:

a. The Board's oversight on climate-related risks and opportunities.

b. Senior management's role in assessing and managing climate-related risks and opportunities.

Strategy: The REs should provide details of strategy for managing climate-related financial risks and opportunities. The disclosures should include:

a. Identified climate-related risks and opportunities over short, medium and long term.

b. Impact of climate-related risks and opportunities on the REs businesses, strategy and financial planning.

c. Resilience of the REs strategy taking into consideration different climate scenarios.

Risk management: The disclosures by the RE's should cover the details of processes to identify, assess, prioritise and monitor climate-related financial risks and opportunities, including whether and how those processes are integrated into the overall risk management process. The disclosure should include:

a. Processes and related policies to identify, assess, prioritise and monitor climate related financial risks.

b. Processes used for managing climate-related risks.

c. Extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related financial risks and opportunities are integrated into and inform the overall risk management.

Metrics and targets: Disclosures under this section should provide the details of the RE's performance in relation to its climate-related financial risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by statute or regulation. It would cover the following:

a. Metrics used to assess the climate-related financial risks and opportunities in line with its strategy and risk management process.

b. Scope 1, Scope 2 and Scope 3 Greenhouse Gas (GHG) emissions and the related risks.

c. Targets used to manage climate-related risks and opportunities and performance against targets.

Details of the minimum disclosures required under the aforementioned pillars are provided in Annexure 1 of the circular.

1. The guidelines would apply to the following type of REs:
   - Scheduled Commercial Banks (excluding Local Area Banks, Payments Banks and Regional Rural Banks)
   - Tier-IV Primary (Urban) Co-operative Banks (UCBs)
   - All-India Financial Institutions (viz. EXIM Bank, NABARD, NaBFID, NHB and SIDBI)
   - Top and Upper Layer Non-Banking Financial Companies (NBFCs)

Glide path

The following glide path has been provided for disclosures by REs:

	Governance, strategy, and risk management	Metrics and targets
Scheduled Commercial Banks (SCBs), All India Financial Institutions (AIFIs), Top and Upper layer Non-Banking Financial Compnaies (NBFCs)	FY 2025-26 onwards	FY 2027-28 onwards
Tier IV Urban Co-operative Banks (UCBs)	FY 2026-27 onwards	FY 2028-29 onwards
Disclosure requirements for the other REs would be announced in due course.		

Validation of the disclosures

The disclosures to be provided by REs would be subject to appropriate internal control assessments and reviewed by the Board of Directors or a committee of the Board. Further, the disclosures should be included and disclosed as a part of the RE's financial results/statements on its website.

The last date to provide comments on the proposed framework is 30 April 2024.

(Source: RBI circular no. RBI/2023-24/DOR.SFG.REC/30.01.021/2023-24 dated 28 February 2024)

Increase in the remuneration of non-executive directors

In 2021, RBI issued a circular on corporate governance in banks specifying the fixed remuneration granted to Non-Executive Directors (NEDs) of banks. The ceiling of INR20 lakh per annum was specified in respect of remuneration of NEDs, other than the Chair of the Board.

Considering the crucial role of NEDs in efficient functioning of bank boards and its various committees and to further enable the banks to sufficiently attract qualified competent individuals, RBI through a circular dated 9 February 2024, revised the aforementioned ceiling to INR30 lakh per annum.

Further, banks are required to make disclosure regarding the remuneration paid to the directors in their annual financial statements.

The instructions in this circular are effective from 9 February 2024.

(Source: RBI circular no. RBI/2023-24/121 dated 9 February 2024)

Appointment/re-appointment of Director, MD/CEO in an ARC

As per the extant regulatory framework[2], Asset Reconstruction Companies (ARCs) are required to obtain prior approval of the Reserve Bank of India (RBI) for appointment/re-appointment of any Director, Managing Director (MD) or Chief Executive Officer (CEO).

In order to bring uniformity in the information submitted by ARCs for obtaining such approvals, RBI has prescribed the following enclosures through its notification dated 27 February 2024:

- Annexure I - Form for furnishing the requisite information about the candidate.
- Annexure II - Indicative list of documents required to be submitted along with the application.

Further, ARCs are required to submit applications, complete in all respect, along with duly signed Annexure I and the documents/information mentioned in Annexure II to the department[3] at least 90 days before the vacancy arises or the proposed date of appointment or re-appointment.

Further, RBI can call for additional information/documents to process the application, if required.

The above-mentioned instructions are applicable from 27 February 2024.

(Source: RBI notification no RBI/2023-24/127 dated 27 February 2024)

2. Section 3(6) of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and the guidelines contained in Para 5(i) of the Annex to circular No. DoR.SIG.FIN.REC.75/26.03.001/2022-23 dated 11 October 2022 on 'Review of Regulatory Framework for Asset Reconstruction Companies (ARCs)'.
3. Department of Regulation, Mumbai.

Addendum to the consultation paper on harmonising ICDR and LODR Regulations

In January 2024, the Securities and Exchange Board of India (SEBI) issued proposals to amend the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations).

Subsequently, on 2 February 2024, the Expert Committee of SEBI has provided an additional recommendation under the ICDR Regulations relating to the requirement of security deposit in public/rights issue of equity shares.

The existing provisions require an issuer to deposit with the designated stock exchange, an amount calculated at the rate of one per cent of the issue size available for subscription to the public in the manner specified by SEBI and/or stock exchange. This security deposit was used to resolve post issue investor complaints. However, with various reforms such as Applications Supported by Blocked Amount (ASBA), Unified Payments Interface (UPI), etc., the concerns related to post-issue investor complaints do not arise.

Therefore, it has been proposed to remove the requirement of one per cent security deposit to reduce cost for the issuers.

For a detailed note on consultation paper on SEBI LODR and ICDR, refer BSR Corporate reporting insights for the month of January 2024.

(Source: Addendum to SEBI consultation paper on Interim recommendations of the expert committee for facilitating ease of doing business and harmonisation of provisions of ICDR and LODR regulations issued on 2 February 2024)

ICAI issued revised implementation guide on reporting on audit trail

Rule 3 of the Companies (Accounts) Rules, 2014 (Accounts Rules) provides management's responsibility relating to implementation of the audit trail feature in the accounting software. Additionally, Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 (Audit Rules) relates to auditor's responsibility on audit trail applicable from financial year beginning 1 April 2023.

In this regard, in March 2023, the Institute of Chartered Accountants of India (ICAI) had issued an 'Implementation Guide on Reporting on Audit Trail under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014' (or the 'Implementation Guide'). The Implementation Guide provides a detailed guidance on the auditor's responsibility for reporting on the use of accounting software by a company for maintaining its books of accounts which has a feature of recording audit trail.

Considering the practical issues faced by companies related to audit trail requirement, on 12 February 2024, ICAI has issued the revised Implementation Guide to include a new section Frequently Asked Questions (FAQs) on certain practical aspects relating to reporting requirements under Rule 11(g).

Some of the key points clarified in the FAQs relate to the following:

- Audit trail requirements are applicable to all companies and no exemptions from audit trail requirements is available for the small and medium companies or for banks and Non-Banking Finance Companies (NBFCs).
- Reporting on accounting software outside India.
- Auditor requirement to comment on details of audit trail logs.
- Failure of General IT Controls (GITCs) and implication for audit trail reporting.
- Auditor responsibility in case the audit trail feature is not operational throughout the year.
- Requirement for auditors to comment on the details of audit trail logs.
- Definition of 'books of account' maintained in accounting software.
- Use of specialist or expert by the statutory auditor while reporting on the audit trail feature of an accounting software.

(Source: Implementation Guide on Reporting on Audit Trail under Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014 (Revised 2024 Edition) dated 12 February 2024)

ICAI issued revised Standards on Auditing

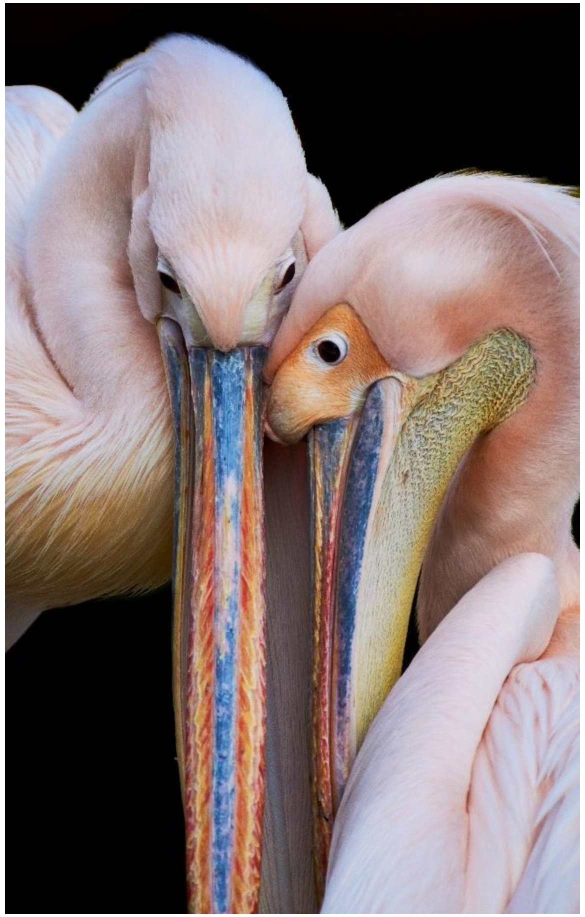
On 7 February 2024, ICAI issued the following revised Standards on Auditing (SAs):

- SA 800(Revised): 'Special Considerations: Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks'
- SA 805(Revised): 'Special Considerations: Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement'
- SA 810(Revised): 'Engagements to Report on Summary Financial Statements'

The revised standards will be applicable to audits/engagements for financial years beginning on or after 1 April 2024.

The existing versions of SA 800, SA 805, and SA 810 will continue to be applicable for audits and engagements for the financial year 2023-24.

(Source: ICAI announcement dated 7 February 2024)



Tree plantation methodology for calculation of green credit

The Ministry of Environment, Forest and Climate Change (MoEFCC) notified the Green Credit Rules (the rules) in October 2023. These rules have a wider focus that goes beyond greenhouse gas emissions reduction or removal and define ‘green credit’ as a single unit of an incentive provided for a specified activity, delivering a positive impact on the environment.

The rules collate activities for preservation and protection of the environment. It expands the scope of climate action by introducing a voluntary market that is independent of the obligatory framework of the Carbon Credit Trading Scheme (CCTS). The governance framework under these rules is supported by inter-ministerial Steering Committee and the Indian Council of Forestry Research and Education (ICFRE) as the administrator, who are responsible for program implementation, management, monitoring and operation.

The rules, provide the following list of eight activities that are eligible for green credit:

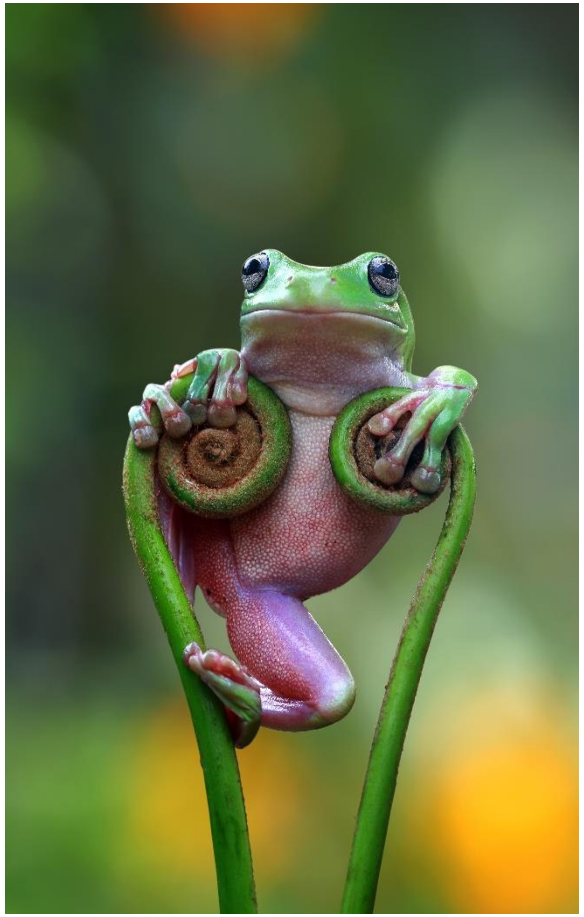
- Tree plantation
- Water management
- Sustainable agriculture
- Waste management
- Air pollution reduction
- Mangrove conservation and restoration
- Eco-mark labelling
- Sustainable building and infrastructure.

In this regard, on 22 February 2024, the MoEFCC notified the methodology for calculation of green credit in respect of tree plantation.

Some of the key points covered in the notified methodology are as follows:

- The Forest Department of every State and Union territory is responsible to identify degraded land parcels under their administrative control and management, which should be made available for tree plantation and for the purposes of generation of green credit under the said notification. The land parcels identified should be sized five hectares or above and be free from all encumbrances.
- Any person or entity desirous of undertaking tree plantation is required to apply to the administrator who will assign a land parcel to the applicant.
- The applicant is required to submit a proposal for undertaking tree plantation for generation of green credit to the administrator.
- The green credit would be calculated at the rate of one green credit per tree grown through the tree plantation on such land parcel, subject to minimum density of 1100 trees per hectare, based on the local silvi-climatic and soil conditions. The concerned Forest Department should provide a certificate of completion of tree plantation.

(Source: MoEFCC notification no. S.O.884(E) dated 22 February 2024)



Proposal to strengthen auditor’s responsibility related to fraud

Recently, the International Auditing and Assurance Standards Board (IAASB) proposed revisions to International Standard on Auditing 240 (Revised), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements* with an aim to increase transparency about the auditor’s responsibilities and fraud-related procedures in the auditor’s report.

Some of the proposed revisions to the standard include:

- Clarification regarding auditor’s responsibilities relating to fraud in an audit.
- Emphasis on professional skepticism to ensure auditors remain alert to possible fraud
- Strengthening identification and assessment of risks of material misstatement due to fraud
- Clarification regarding response to fraud or suspected fraud identified during the audit
- Increased communication with management and those charged with governance regarding fraud
- Enhanced transparency regarding auditor’s responsibilities and fraud-related procedures in the auditor’s report, etc.

The last date to provide comments on the proposals is 5 June 2024.

(Source: Proposed International Standard on Auditing 240 (Revised) issued by IAASB dated 6 February 2024)

Website: bsr-co.in

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

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