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Chartered Accountants

Corporate reporting insights

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SEBI board meeting approvals

On 15 March 2024, the Securities and Exchange Board of India (SEBI) approved certain proposals with the aim of promoting ease of doing business. The approved proposals have provided certain relaxations to some provisions of the SEBI Regulations applicable to various categories of entities.

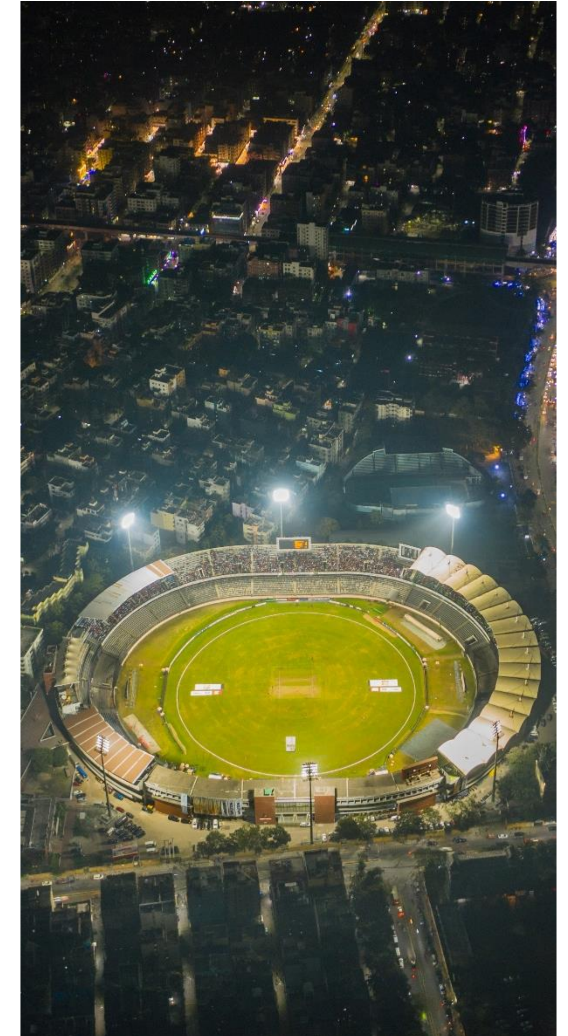
Below are the key decisions from SEBI board meeting:

I. **Certain relaxations in the SEBI Listing Regualtions:** SEBI has approved amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) in respect of the following:

- **Average market capitalisation:** The existing provisions require listed entities to determine market capitalisation for the applicability of certain provisions of Listing Regulations based on a single day's market capitalisation i.e. 31 March. SEBI, in its board meeting approved that the market capitalisation for compliance requirements of listed entities should be determined on the basis of average market capitalisation of six months ending 31 December instead of single day's (i.e. 31 March) market capitalisation. Further, in order to ease the compliance requirements, a sunset clause of three years for cessation of applicability of market capitalisation based provisions has been introduced.
- **Extension of timeline for Key Managerial Personnel (KMP) vacancy:** The timeline for filling up the vacancy in the office of a KMP has been extended from three months to six months in case statutory authority approval required.
- **Prior intimation for board meetings:** The timeline for prior intimation of board meetings has been reduced to two working days *(earlier timeline varies from two to 11 working days).*
- **Duration between meetings of the Risk Management Committee (RMC):** The maximum permitted time gap between two consecutive meetings of the RMC has been increased to 210 days (*earlier 180 days*).

II. **Uniform approach for verification of market rumours by equity listed companies:** In order to facilitate a uniform approach for verification of market rumours by equity listed entities, SEBI has approved the following proposals:

- **Material price movement:** SEBI through subsequent amendments in the Listing Regulations would specify an objective and uniformly assessed criteria for rumour verification in terms of material price movement of equity shares.
- **Unaffected price:** Unaffected price for transactions should be considered wherever pricing norms have been prescribed under SEBI Regulations provided that the rumour pertaining to such transaction has been confirmed within 24 hours from the trigger of material price movement.
- **Responsibility of the promoters, directors, senior management and KMP:** The promoters, directors, KMP and senior management are required to provide timely response to the listed entity for verifying a market rumour.
- **Unverified event or information:** Unverified event or information reported in print or electronic media should not be considered as 'generally available



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III. Relaxation related to Initial Public Offerings (IPOs) or fund raising: Following amendments have been approved in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations):

- **Requirement of security deposit in public/rights issue:** The existing provision require an issuer to deposit one per cent of the issue size available for subscription to the public, with the designated stock exchange. SEBI has now approved to remove this requirement of security deposit in public/rights issue of equity shares.

- **Minimum Promoters' Contribution (MPC):** The existing provisions require the promoters of a company to contribute 20 per cent of the post-offer, paid-up equity share capital for meeting the MPC on listing. Shortfalls, if any, can be met by certain class of investors[1] by contributing equity shares subject to a maximum of 10 per cent, without being identified as a promoter. SEBI in its board meeting has permitted promoter group entities and non-individual shareholders holding more than five per cent of the post-offer equity share capital to contribute towards MPC without being identified as a promoter.

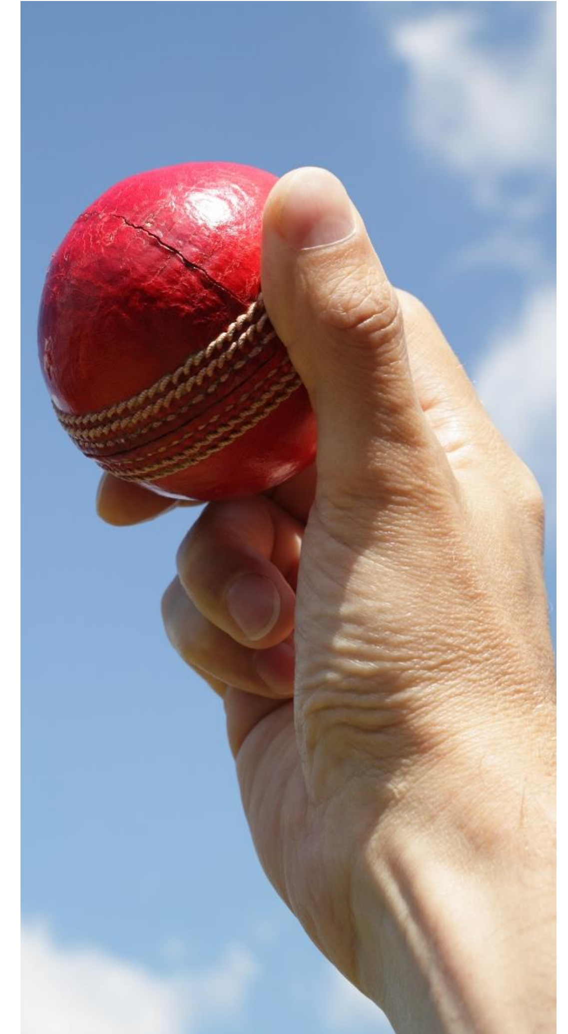
  Further, SEBI has decided to consider equity shares from the conversion of compulsorily convertible securities held for a year before filing the Draft Red Herring Prospectus (DRHP), for meeting the MPC requirement.

- **Criteria for fresh filing for Offer for Sale (OFS):** Currently, the increase or decrease in OFS requires fresh filing of the offer document. SEBI has now approved that the requirement of fresh filing should be based on only one of the criteria i.e. either issue size in INR or number of shares, as disclosed in the draft offer document.

- **Extension of bid/offer closing date:** Currently, in case of force majeure events, issuer companies could extend the bidding period disclosed in the offer document by a minimum period of three working days. SEBI approved the extension of bid/offer closing date to be minimum one day (instead of present requirement of minimum three days)s.

IV. Extension of timeline for applicability of Listing Regulations to High Value Debt Listed Entities (HVDLEs): The timeline for mandatory applicability of certain provisions of the Listing Regulations[2] and compliance thereof, by HVDLEs has been extended till 31 March 2025 (*earlier 31 March 2024*).

(Source: SEBI Press Release No. PR No. 05/2024 dated 15 March 2024 and SEBI circular no SEBI/HO/AFD/AFD-POD-2/P/CIR/2024/19 dated 20 March 2024)



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1. Alternative investment funds, foreign venture capital investors, scheduled commercial banks, public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India (IRDAI) are permitted
2. Regulation 16 to 27 of SEBI Listing Regulations

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Clarifications related to investment in AIFs

In order to address certain regulatory concerns relating to investment by Regulated Entities (REs) in the Alternative Investment Funds (AIFs), on 19 December 2023, the Reserve Bank of India (RBI) issued a notification providing a set of instructions for investment in AIFs by REs. Subsequently, on 27 March 2024, to ensure uniformity in implementation among the REs, RBI has further issued certain clarifications with respect to the existing requirements (issued in December 2023) as mentioned below:

I. **Downstream investments:** REs were instructed to not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE. The notification clarified that downstream investments should exclude investments in equity shares of the debtor company of the RE but include all other investments, including investment in hybrid instruments.

II. **Provision requirement:** In case of a downstream investment by the AIF, the RE is required to liquidate its investment in the scheme within 30 days from the date of such investment. If the REs fail to liquidate the investment within the prescribed timeline, they should make 100 per cent provision on such investments. It has been clarified that provisioning is required only to the extent of investment by the RE in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the RE in the AIF scheme.

III. **Investment in subordinated units of AIF scheme:** 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. In this regard, it has been clarified that:

- The deduction should take place equally from both Tier-1 and Tier-2 capital.
- Investment in subordinated units of AIF Scheme includes all forms of subordinated exposures, including investment in the nature of sponsor units.
- RE should comply with paragraph 2 of the December 2023 circular issued by RBI if it has investment in subordinated units of an AIF scheme, which also has downstream exposure to the debtor company.

IV. **Scope exclusion:** Investments by REs in AIFs through intermediaries such as fund of funds or mutual funds are not included in the scope of the December 2023 circular.

(Source: RBI circular no. RBI/2023-24/140 dated 27 March 2024)

3. RBI circular no. RBI/2023-24/90 dated 19 December 2023

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SEC adopts climate-related disclosure rules

On 6 March 2024, the Securities and Exchange Commission (SEC) adopted the 'The Enhancement and Standardisation of Climate-Related Disclosures for Investors' rules to enhance and standardise climate-related disclosures by public companies. The rules provide a more consistent, comparable, and reliable information about the financial effects of climate-related risks on a registrant's operations and how it manages those risks while balancing concerns about mitigating the associated costs of the rules.

Some of the key disclosures to be made by companies in the annual reports and registration statements are as follows:

i. **Material impact on business strategy:** Potential and actual impact of material climate-related risks along with the climate related goals and targets on the company's strategy, financial condition and business operations.

ii. **Mitigation of climate related risk:** Quantitative and qualitative descriptions of activities that aim to mitigate or adapt to a material climate related risk such as expenditure incurred, impact of financial estimates made, impact of transition plans, scenario analysis and internal carbon prices.

iii. **Board oversight:** The role played by management in identifying processes that manage climate related risk and in ensuring its integration in the company's overall risk management system.

iv. **Financial statement disclosure:** Companies should disclose, *inter alia*, the impact of severe weather conditions and natural events on the estimates and assumptions used in the financial statements.

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SEC adopts climate-related disclosure rules

The compliance dates for registrants for companies based on the filer status for both annual reports and registration statements who are required to include information for the full fiscal year is indicated in the table below:

For fiscal years beginning in calendar year:	LAFs*	AFs**	NAFs***, SRCs, EGCs
Financial statement disclosures	2025	2026	2027
Tier IV Urban Co-operative Banks (UCBs)	FY 2026-27 onwards	FY 2028-29 onwards	
Climate related disclosures			
Climate risk disclosures, except those below	2025	2026	2027
Disclosures in the Specific quantitative disclosures[4] section	2026	2027	2028
GHG emissions			
Scopes 1 and/or 2 disclosures	2026	2028	NA
Limited assurance	2029	2031	NA
Reasonable assurance	2033	NA	NA
Inline XBRL (i.e., electronic tagging. Submission in this format is intended to help investors and market participants more easily identify, locate, extract and analyse disclosures)	2026	2026	2027

Notes:

* Large accelerated filers[5]

** Accelerated filers (except Smaller Reporting Companies (SRCs) and Emerging Growth Companies (EGCs))[6]

*** Non-accelerated filers[7]

(Source: SEC press release no. 33-11275; 34-99678 dated 6 March 2024. Also read KPMG LLP's article on 'SEC mandates climate reporting and assurance' issued on 7 March 2024)

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4. The registrants are required to provide certain quantitative and qualitative disclosures that have a longer phase-in to compliance such as the following:
   - Climate risk mitigation, adaptation
   - Transition plans
   - Targets and goals
5. An LAF is an issuer after it first meets the following conditions as of the end of its fiscal year: (i) the issuer had an aggregate worldwide market value of the voting and non-voting common equity held by its nonaffiliates of $700 million or more, as of the last business day of the issuer's most recently completed second fiscal quarter; (ii) the issuer has been subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least twelve calendar months; (iii) the issuer has filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act; and (iv) the issuer is not eligible to use the requirements for SRCs under the revenue test in paragraph (2) or (3)(iii)(B) of the SRC definition in Rule 12b-2.
6. An AF is an issuer after it first meets the following conditions as of the end of its fiscal year: (i) the issuer had an aggregate worldwide market value of the voting and non-voting common equity held by its non-affiliates of $75 million or more, but less than $700 million, as of the last business day of the issuer's most recently completed second fiscal quarter; (ii) the issuer has been subject to the requirements of Section 13(a) or 15(d) of the Exchange Act for a period of at least twelve calendar months; and (iii) the issuer has filed at least one annual report pursuant to Section 13(a) or 15(d) of the Exchange Act; and (iv) the issuer is not eligible to use the requirements for SRCs under the revenue test in paragraph (2) or (3)(iii)(B) of the SRC definition in Rule 12b-2
7. Although Rule 12b-2 defines the terms "accelerated filer" and "large accelerated filer", it does not define the term "non-accelerated filer." If an issuer does not meet the definition of AF or LAF, it is considered a NAF.

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IASB issues an Exposure Draft on Business Combinations

On 14 March 2024, the International Accounting Standards Board (IASB) issued an exposure draft on 'Business Combinations – Disclosures, Goodwill and Impairment' which aims at providing enhanced information on acquisitions. The proposals aim to improve the information disclosed at the time of an acquisition and introduce requirements for reporting on the subsequent performance of the acquisition.

The key proposals are as follows:

I. **Disclosures for business combinations:** The proposed disclosure requirements under IFRS 3, *Business Combinations* is as follows:

a. **Expected synergies:** In the year of acquisition, a company is required to disclose both quantitative and qualitative information about expected synergies. This includes a breakdown of the estimated amounts of expected synergies by category – e.g. total revenue synergies or total cost synergies. A company would also have to disclose when it expects the benefits to start and how long it expects the benefits to last.

b. **Key objectives and subsequent performance against them:** This disclosure is required only for strategic business combinations. A 'strategic' business combination is one where not meeting the specific acquisition-date key objectives would put the acquiring company at serious risk of not achieving its overall business strategy. To identify such business combinations, IASB has proposed using a closed list of primarily quantitative tests e.g. if the acquiree represents more than 10 per cent of the company's operating profit, revenues or assets together with qualitative tests.

For each strategic business combination, companies would be required to disclose certain information that is monitored by KMP.

- **In the acquisition year**: The acquisition-date key objectives and related targets for the business combination.
- **In the acquisition year and each subsequent period**: The progress towards meeting those acquisition-date objectives and targets, including actual performance and a statement on whether the objectives and targets are being met.

Disclosures in subsequent periods would generally be required as long as a KMP continues to review progress against the acquisition-date objectives and targets of the business combination.

c. **Exemptions:** The proposal also includes an exemption from some of the new disclosure requirements in specific limited circumstances. This exemption applies if disclosure could seriously affect a company's ability to meet the key objectives of the business combination.

II. **Impairment test:** The proposal aims to retain the impairment only approach for goodwill rather than reintroduce amortisation. It also proposes the following key changes to the value-in-use testing requirements in IAS 36, *Impairment of Assets* to simplify and clarify the impairment test.

1) To retain the requirement to estimate future cash flows from an asset or cash-generating unit (CGU) in its current condition, but to remove constraints on reflecting any estimated future cash flows expected to arise from:
   - Future uncommitted restructuring; and
   - Improvement or enhancement of an asset or CGU's performance.
2) To remove the requirement to use pre-tax cash flows and discount rates. Instead, a company would be required to disclose the discount rate(s) used and whether it (they) is (are) pre-tax or post-tax.
3) To clarify the guidance on how to allocate goodwill to CGUs or a group of CGUs for impairment testing.

III. **Prospective application**: The above proposed amendments would apply prospectively.

The comments period on the above proposal ends on 15 July 2024.

(Source: IASB news dated 14 March 2024)

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Supreme Court ruling related to political contributions

Section 182 of the Companies Act, 2013 lays down provisions relating to prohibitions and restrictions regarding political contributions. The Finance Act, 2017 prescribed certain amendments, which *inter alia* include amendment to Section 182 of the Companies Act, 2013[8]. These amendments included:

i. **No limits to contribution**: Prior to the Finance Act, 2017, there was a monetary limit upto which companies could contribute to the political parties. This monetary limit was 7.5 per cent of the average net profit for the three immediately preceding financial years.

However, the Finance Act, 2017 deleted this requirement, thereby removing any limits for contributions that could be made to political parties.

ii. **Disclosure of contributions made:** Prior to the Finance Act, 2017, every company had to provide details of amounts contributed by it to any political party during the financial year, by disclosing the following details:

- The total amount contributed during the year
- Name of the party to which the amount is contributed.

However, the Finance Act, 2017 removed this requirement, thereby a separate disclosure of amounts of political contributions made by companies during the year is not required to be made.

On 15 February 2024, the Supreme Court (SC) in its ruling struck down the amendment made to Section 182 through the Finance Act, 2017.

Basis the SC judgement, following needs to be considered relating to contribution to political parties:

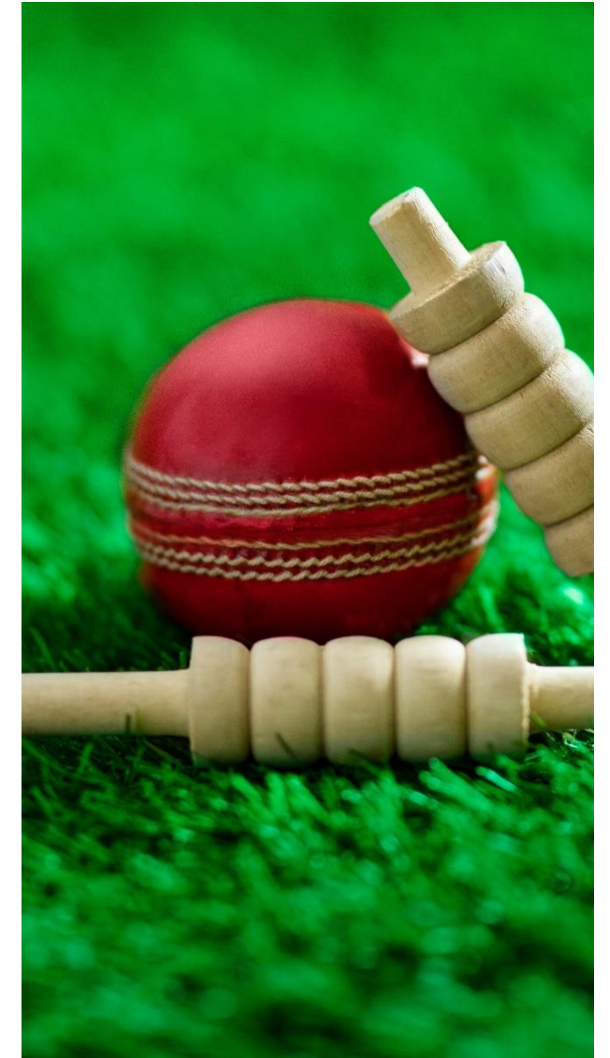
a) Contribution to a political party (either directly or through an Electoral Trust) in any financial year should not exceed 7.5 per cent of the average net profits during the three immediately preceding financial years.

b) Disclose details of name of the political parties and the amounts contributed to such political parties.

c) Not permitted to participate in any electoral bond scheme.

Companies are required to assess the impact of this judgement on contributions made during financial year 2023-24 and prescribed disclosures would be required for financial year 2023-24 and comparative period FY2022-23.

(Source: Final judgment and order dated 15-02-2024 in W.P.(C) No. No. 880/2017 passed by the Supreme Court of India)



8. Section 182 of the Companies Act, 2013 deals with Prohibitions and Restrictions Regarding Political Contributions

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Plastic Waste Management (Amendment) Rules

The Plastics Waste Management Rules, 2016 (Plastic Waste Management Rules) provides regulatory requirements related to collection, segregation, processing, treatment and disposal of the plastic waste in an environmentally sound manner. On 14 March 2024, the Ministry of Environment, Forest and Climate Change (MOEFCC) notified the Plastic Waste Management (Amendment) Rules, 2024 (the rules) by amending the Plastic Waste Management Rules, 2016. Some of the key amendments to the rules are as follows:

- Revised definition of biodegradable plastics, importer, manufacturer, producer and seller.
- Revision in the conditions and provisions related to selling of raw material.
- Guidelines for manufacturers of compostable plastic materials have been specified.
- Responsibility of the local bodies with respect to plastic waste management have been inserted.
- Registration process for manufacturer and importer of plastic raw material has been revised.
- Requirements of preparation and submission of annual reports have been amended.
- Extended Producer Responsibilities (EPR) guidelines pertaining to commodities made from compostable plastics or biodegradable plastics have been inserted in Schedule II of the rules.

(Source: MOEFCC notification no. G.S.R.. 201(E) dated 14 March 2024)

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ICAI has issued an education material on Ind AS 12, *Income Taxes*

Ind AS 12 provides a structured framework for recognising and measuring income taxes, ensuring that financial statements accurately reflect an entity's tax obligations and the associated impacts on its financial performance and position.

On 13 March 2024, the Institute of Chartered Accountants of India (ICAI) has issued an educational material on Ind AS 12 which provides summary of the standard and discusses fundamental concepts related to exploring the nuances of deferred tax assets and liabilities. Additionally, it includes Frequently Asked Questions (FAQs) to address certain practical issues along with guidance that covers accounting for the interest and penalties related to income taxes, difference between current tax and deferred tax, accounting and presentation of taxes that are scoped out of Ind AS 12, etc.

(Source: ICAI announcement dated 13 March 2024)

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