B S R & Co. LLP
Chartered Accountants

Corporate reporting insights

May 2023

Introduction of Legal Entity Identifier (LEI) system for issuers

On 3 May 2023, the Securities and Exchange Board of India (SEBI) introduced the LEI system for issuers that have listed or are planning to list non-convertible securities, securitised debt instruments and security receipts. The LEI code is a unique 20-character code used as a global identifier for legal entities participating in financial transactions. It aims to create a global reference data system that uniquely identifies every legal entity, in any jurisdiction, that is a party to a financial transaction.

Presently, the RBI's directions require non-individual borrowers having aggregate exposure of above INR25 crore, to obtain an LEI code. Further, SEBI has specified a deadline to obtain and report the LEI code by issuers, as tabulated below:

Category of security	Relevant regulation	Applicability	Timeline
Non-convertible Securities	SEBI (Issue and listing of Non-convertible Securities) Regulations, 2021 (NCS Regulations)	Issuer proposing to issue and list non-convertible security	On or after 1 September 2023
		Issuer having outstanding listed non-convertible security as on 31 August 2023	On or before 1 September 2023
Securitised Debt Instruments and Security Receipts	SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008	Issuer proposing to issue and list securitised debt instruments or security receipts	On or after 1 September 2023
		Issuer having outstanding listed securitised debt instruments and security receipts as on 31 August 2023	On or before 1 September 2023

The SEBI would additionally specify the requirement of LEI for issuers proposing to list or that have outstanding municipal debt securities in future.

(Source: SEBI circular no. SEBI/HO/DDHS/DDHS_Div1/P/CIR/2023/64 dated 3 May 2023)

© 2023 B S R & Co. LLP a limited liability partnership firm registered under The Limited Liability Partnership Act, 2008. All rights reserved.

Additional requirements for issuers of transition bonds

In February 2023, SEBI issued amendments to certain provisions of the NCS Regulations which, *inter alia*, included expansion of the definition of green debt security that included transition bonds as one of the sub-categories of green debt security. Further, as per the NCS Regulations, transition bonds comprise of 'funds raised for transitioning to a more sustainable form of operations, in line with India's Intended Nationally Determined Contributions.

Additionally, on 6 February 2023 SEBI issued the revised disclosure requirements for such issuances.

On 4 May 2023, with an aim to facilitate transparency and informed decision-making among the investors and to ensure that the funds raised through transition bonds are not being misallocated, SEBI prescribed certain additional disclosure requirements for issuance and listing of transition bonds. The additional requirements are as follows:

- For differentiating transition bonds from other categories of green debt security, an issuer should disclose the denotation GB-T in the offer documents on the cover page and in type of instrument field in the term sheet. The same denotation should also be disclosed in the centralised database for corporate bonds/debentures.
- Details of transition plans such as interim targets, project implementation strategy, usage of technology and overseeing mechanism should be disclosed in the offer document.
- Revised transition plan accompanied by an explanation for each revision should be disclosed to the stock exchanges.
- Details of transition plans along with a brief on the progress of its implementation should be disclosed in the annual report.

(Source: SEBI circular no. SEBI/HO/DDHS/DDHS_Div1/P/CIR/2023/66 dated 4 May 2023)

Modification to the underwriting framework for public issues

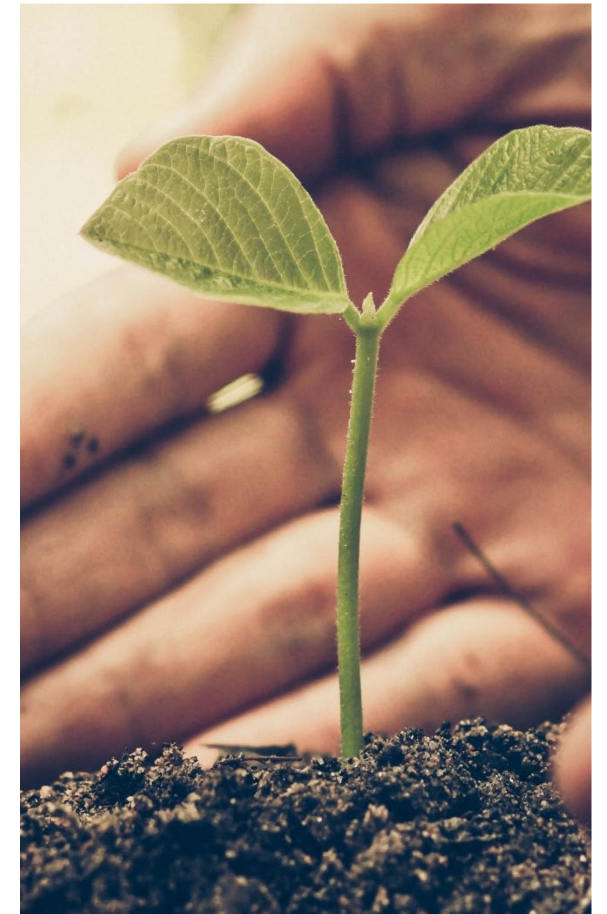
On 23 May 2023, SEBI issued amendments to the underwriting framework applicable to public offerings under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations).

Regulation 40 and 136 of ICDR Regulations has been amended to provide than an issuer should enter into an underwriting agreement, prior to the filing of the prospectus, with the merchant bankers or stockbrokers that are registered with the Board to act as underwriters.

The underwriting agreement should include the maximum number of specified securities that the underwriters will subscribe to, either by themselves or by procuring subscription, at a predetermined price which should not be less than the issue price. A disclosure of the underwriting agreement entered into is required to be made in the prospectus.

The amended norms further state that if an extract of any industry report is disclosed in the offer document, then the complete industry report should be provided as part of the material documents under Schedule VI of the ICDR Regulations.

(Source: SEBI circular no. SEBI/LAD-NRO/GN/2023/130 dated 23 May 2023)



© 2023 B S R & Co. LLP a limited liability partnership firm registered under The Limited Liability Partnership Act, 2008. All rights reserved.

Stricter norms for removal of a company's name from the RoC

Rule 4 of the Companies (Removal of Names of Companies from the Registrar of Companies) Rules, 2016 (the Rules) specifies the procedure to be followed by companies for making an application for removal of its name from RoC.

In April 2023, through amendments to Rule 4 of the Rules, the Ministry of Corporate Affairs notified the establishment of Centre for Processing Accelerated Corporate Exit (C-PACE) with the aim to centralise the process of striking off companies and to promote ease of doing business and the ease of exit for the companies.

Subsequently, on 10 May 2023, the MCA issued further amendments to Rule 4(1) to include following requirements for companies while filing an application for removal of a company's name from RoC:

- The company should not file an application unless the company has filed overdue financial statements under Section 137 (Copy of financial statement to be filed with RoC) and overdue annual returns under Section 92 (Annual return) of the 2013 Act up to the end of the financial year in which the company ceased to conduct its business operations
- In case a company intends to file an application after the RoC has initiated steps to remove the name of the company, then it can only file the application after filing all pending financial statements under Section 137 and all pending annual returns under Section 92 of the 2013 Act
- Once RoC has issued a notice for publication pursuant to action initiated under Section 248(1), then the company will not be allowed to file the application under this sub-rule.

The above-mentioned amendments are effective from 10 May 2023.

(Source: MCA notification dated 17 April 2023 and 10 May 2023)

© 2023 B S R & Co. LLP a limited liability partnership firm registered under The Limited Liability Partnership Act, 2008. All rights reserved.

Revisions to the approval process of merger and amalgamation of companies

Rule 25 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 deals with the approval procedure of merger and amalgamation of certain companies. On 15 May 2023, MCA notified certain amendments to Rule 25 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016.

As per the amendment, in case of mergers and acquisitions, companies would be able to receive approval or deemed approvals within 15 days or maximum of 60 days. The below mentioned sub-rules to Rule 25 (Directions at hearing of the application) have been modified to bring clarity with respect to deemed approvals in the following cases:

- **No objection received (Rule 25(5)):** The amended rule provides that if no objection/suggestion is received within a period of 30 days from the Registrar of Companies (RoC)/official liquidator by the Central Government (CG), and if the CG is of the opinion that the scheme is in the public interest or in the interest of creditors, then CG can issue a confirmation order of such scheme of merger or amalgamation in Form No. CAA.12 within a period of 15 days after the expiry of the said 30 days. However, if the CG does not issue a confirmation order within 60 days, it will be deemed that there is no objection, and a confirmation order will be issued by the CG.
- **Objections received from RoC (Rule 25(6)):** The amended rule provides that if objections or suggestions are received within the 30 days window from the RoC or official liquidator, then the CG should undertake the following action:
  - Issue a confirmation order within 30 days, if the CG is of the opinion that the objections/suggestions are unsustainable, and the scheme is in the public interest or the interest of creditors.
  - If CG is of the opinion that the scheme is not in the public interest or the interest of creditors, CG can file an application before the Tribunal within 60 days, stating the objections/opinion and requesting the Tribunal to consider the scheme under Section 232 of the 2013 Act.

Further, if the CG does not issue a confirmation order or file an application within a period of 60 days of the receipt of the scheme under Section 233 of the 2013 Act, it would be deemed that it has no objection to the scheme and a confirmation order would be issued accordingly.

(Source: MCA notification no G.S.R. 367(E) dated 15 May 2023)

© 2023 B S R & Co. LLP a limited liability partnership firm registered under The Limited Liability Partnership Act, 2008. All rights reserved.

The final phase of LIBOR transition

Prior to 2021, the London Inter-Bank Offered Rate (LIBOR) was one of the most critical numbers as it was used as an interest rate benchmark across various contracts in multiple currencies. However, with questions being raised on the integrity and reliability of LIBOR, in 2017, the Financial Conduct Authority (FCA) had announced that post 2021, corporates and banking institutions should adopt Alternative Reference Rates (ARRs) in place of LIBOR. IBOR (Interbank Offered Rates) linked with most of the currencies have ceased permanently by 31 December 2021 with certain select like USD LIBOR, which would finally phase out by 30 June 2023.

Globally, most banks and financial institutions have processed all business-related changes and have also adopted the accounting amendments (phase 2 amendments were applicable from 1 January 2021 internationally, and for annual reporting periods beginning on or after 1 April 2021 in India). India too had trillions of dollar worth contracts that were linked to LIBOR. Post the announcements made by FCA and RBI (in July 2021), India has achieved a smooth transition with respect to LIBOR settings that have ceased to be published/become non-representative after 31 December 2021.

With 30 June 2023 nearing, regulators are issuing constant reminders to banks/financial institutions and other businesses to complete the transition.

Position in India: In India new transactions are now predominantly undertaken using ARRs, such as Secured Overnight Financing Rate (SOFR) and Modified MIFOR (Mumbai Interbank Offered Rate). However, there are still certain contracts that have not transitioned from LIBOR to ARRs.

With effect from 30 June 2023, the publication of remaining five USD LIBOR settings would cease permanently, and accordingly, the MIFOR would also cease to be published[1]. Accordingly, RBI vide its circular dated 12 May 2023 has stated the following:

- Banks/financial institutions/their customers should not enter into any new transaction that relies on or is priced using the USD LIBOR or the MIFOR
- Banks/financial institutions should take all necessary steps to ensure insertion of fallback clauses in all remaining legacy financial contracts that reference USD LIBOR or MIFOR
- While certain synthetic LIBOR settings would continue to be published post 30 June 2023, these settings are not meant to be used in new financial contracts.
- Banks/financial institutions should develop systems and processes to manage the complete transition away from LIBOR from 1 July 2023.

(Source: RBI notification no RBI/2023-24/30 dated 12 May 2023)

1. MIFOR is a domestic interest rate benchmark that is reliant on USD LIBOR- it is published by the Financial Benchmarks India Private Limited (FBIL)

© 2023 B S R & Co. LLP a limited liability partnership firm registered under The Limited Liability Partnership Act, 2008. All rights reserved.

Amendments pertaining to supplier finance arrangements

On 25 May 2023, the International Accounting Standards Board (IASB) issued amendments to IAS 7, *Statement of Cash Flows* and IFRS 7, *Financial Instruments: Disclosures* relating to disclosure of supplier finance arrangements' impacts on the financial statements. These amendments are basis the agenda decision issued by the IFRS Interpretations Committee in December 2020 and the subsequent exposure draft on Supplier Finance Arrangement, issued by the IASB, proposing amendments to IAS 7 and IFRS 7.

The amendments introduced disclosure requirements related to supplier finance arrangement in order to meet the user information needs in a way that complements the current requirements in IFRS standards.

Scope of the amendments: The IASB's amendments apply to supplier finance arrangements that have following characteristics.

- A finance provider pays amounts a company (the buyer) owes its suppliers.
- A company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid.
- The company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

The amendments do not apply to arrangements for financing receivables or inventory.

Disclosure requirements: As per the amendment, entities would now be required to provide the following additional disclosures (qualitative and quantitative information) as per IAS 7:

- Qualitative information: The terms and conditions of supplier finance arrangements
- Quantitative information: As at the beginning and end of the reporting period
  - The carrying amounts of supplier finance arrangement breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities exist on the balance sheet;
  - The range of payment due dates and comparable trade payables that are not part of such arrangements
- The type and effect of non-cash changes in the carrying amounts of the financial liabilities that are a part of the arrangement.

Disclosures in IFRS 7: The amendment has added supplier finance arrangements as an example within the liquidity risk disclosure requirements of IFRS 7.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024.

(Source: IASB amendment on supplier finance dated 25 May 2023)

© 2023 B S R & Co. LLP a limited liability partnership firm registered under The Limited Liability Partnership Act, 2008. All rights reserved.

Amendments issued to IAS 12, *Income Taxes*

In December 2021, the Organisation for Economic Co-operation and Development (OECD) issued the Global Anti Base Erosion Rules (Pillar Two model rules). These rules were introduced to address the tax challenges arising from the digitisation of economy by ensuring that large multinational groups[2] pay a minimum amount of tax (i.e., 15 per cent) on income arising in each jurisdiction in which they operate.

In order to address the uncertainty over the accounting for deferred taxes arising from the rules, the International Accounting Standards Board (IASB), on 9 January 2023, issued an Exposure Draft (ED), International Tax Reform – Pillar Two Model Rules proposing amendments to provide timely relief for the affected entities and to avoid inconsistent interpretations of IAS 12.

Consequently, on 23 May 2023, IASB issued the following amendments to IAS 12:

A. **Temporary exception to the accounting for deferred taxes arising from the implementation of the rules:** The amendments specify that an entity should not recognise or disclose information about deferred taxes arising from the implementation of the rules. However, the entity should disclose the fact that it has applied this exception. The exception[3] would be effective immediately upon issuance of the amendments and retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

B. **Disclosure requirements:** IASB has specified certain disclosure requirements with respect to top-up taxes. These would be effective for the annual reporting periods beginning on or after 1 January 2023.

Following disclosures are required in this regard:

Once tax law is enacted but before top-up tax is effective:

The companies need to disclose information that is known or can be reasonably estimated and that helps users of its financial statements to understand the company's exposure to Pillar Two income taxes at the reporting date. This information does not need to reflect all the specific requirements in the legislation – companies can provide an indicative range. Disclosures may include quantitative and qualitative information.

- *Qualitative information*: Disclose how the company is affected by exposure to Pillar Two taxes and details of the jurisdictions in which the exposure arises – for example, where the top-up tax is triggered and where it will need to be paid.
- *Quantitative information*: The proportion of profits that may be subject to Pillar Two income taxes and the average Effective Tax Rate (ETR) applicable to those profits, or how the average ETR would have changed if Pillar Two legislation had been effective.

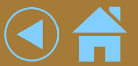
After top-up tax is effective:

An entity will disclose current tax expense related to top-up tax.

(Source: IASB amendment to IAS 12, *Income Taxes* dated 23 May 2023)

2. The minimum tax rate of 15 per cent would be applicable to multinational groups having consolidated revenues of EUR750 million or more in at least two of the preceding four years
3. It is mandatory for the companies to apply this temporary exception

© 2023 B S R & Co. LLP a limited liability partnership firm registered under The Limited Liability Partnership Act, 2008. All rights reserved.



Website: bsr-co.in

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

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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

© 2023 B S R & Co. LLP a limited liability partnership firm registered under The Limited Liability Partnership Act, 2008. All rights reserved.

This publication is intended for professional knowledge dissemination and not intended for any advertisement.

This document is for e-communication only.(005_NEWS_0623_RV)