


B S R & Co. LLP
Chartered Accountants

Corporate reporting insights

November 2023



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Board meeting approvals

The Securities and Exchange Board of India (SEBI), in its board meeting dated 25 November 2023 approved the following proposals:

Flexibility in the framework for Social Stock Exchanges (SSE)

- Reduction in the minimum issue size in case of public issuance of Zero Coupon Zero Principal Instruments (ZCZP) by Non-Profit Organisation (NPOs) from **INR1 crore to INR50 lakh**.
- Reduction in minimum application size in case of public issuance of ZCZP by NPOs from **INR2 lakh to INR10,000**, thereby enabling wider participation of the subscribers (including retail).
- Changing the nomenclature of 'social auditor' with 'social impact assessor', in order to provide comfort to NPOs and convey a positive approach towards the social sector.

- Permitting NPOs to disclose past social impact report in the fund raising document as per their existing practice (subject to disclosure of key parameters such as number of beneficiaries, cost per beneficiary and administrative overhead).
- More entities (NPOs) would be permitted to registered under Section 10(23C) and Section 10(46) of the Income Tax Act, 1961 and to be made eligible for registration and fund raising through issuance and listing of ZCZP on SSE.

Amendment to SEBI (Alternative Investment Funds) Regulations, 2012

- In order to facilitate ease of compliance and to strengthen investor protection in Alternative Investment Funds (AIF), SEBI approved that any fresh investment made by an AIF, beyond September 2024, should be held in dematerialised form. However, the existing investments¹ made by AIFs have

been exempted from the said requirement.

- The mandate for appointment of custodian, currently applicable to schemes of Category III AIFs and to schemes of Category I and II AIFs with corpus more than INR500 crore, should be extended to all AIFs.

Regulatory framework for Small and Medium REITs (SM REITs)

The board approved a new regulatory framework for SM REITs with an asset value of at least INR50 crore as compared to the minimum asset value of INR500 crore for existing REITs. The regulatory framework would provide the structure of SM REITs, migration of existing structures meeting certain specified criteria, obligations of the investment manager including net worth, experience and minimum unitholding requirement, investment conditions, minimum subscription, distribution norms, valuation of assets, etc.

(Source: SEBI Board Meeting PR No. 27/2023 held on 25 November 2023)



1. The exceptions to existing investments that have been exempted from the said requirement are cases where –
 a. Investee company has been mandated under applicable law to facilitate dematerialisation of its securities; and,
 b. Investments where the AIF, on its own, or along with other SEBI registered intermediaries/entities which are mandated to hold their investment in dematerialised form, has control in the investee company.

Further, the said requirement is exempted for investments held by –

- a. Liquidation schemes of AIFs;
- b. Schemes of an AIF whose tenure (not including permissible extension of tenure) ends within one year from the date of issuance of necessary notification in this regard; and,
- c. Schemes of an AIF which are in extended tenure as on the date of issuance of the notification.



SEBI update



MCA update



RBI update



Other updates

Effective date for the listing of securities in foreign jurisdictions

In 2020, the Ministry of Corporate Affairs (MCA) issued Companies (Amendment) Act, 2020 which, *inter alia*, amended Section 23 of the Companies Act, 2013 (2013 Act). The amendment enabled certain classes of public companies to issue specific class of securities for the purpose of listing on permitted stock exchanges in the prescribed foreign jurisdictions. The amendment further states that the Central government can exempt any class of companies from the provisions of the amended Section 23, Chapter IV, Section 89, Section 90, or Section 127² of the 2013 Act.

In this regard, MCA issued a notification specifying that the effective date for the applicability of the provisions related to listing of securities in foreign jurisdictions under Section 23 of the 2013 Act would be 30 October 2023.

(Source: MCA circular no S.O. 4744(E) dated 30 October 2023)

Amendments related to Limited Liability Partnerships (LLPs)

i. Amendment relating to registration of Partners and declaration in respect of beneficial interest

On 27 October 2023, MCA notified the LLP (Third Amendment) Rules, 2023 (the amendment). The amendment introduced two new Rules – Rule 22A and 22B in the LLP Rules, 2009 (the LLP Rules 2009). These are discussed below:

- **Rule 22A, Register of Partners:** Under this rule, every LLP is required to maintain a register of its partners in Form 4A at its registered office, from the date of its incorporation. The register should contain information such as the name and address details of the partners, date of becoming/ ceasing to be a partner, amount and nature of contribution, etc.

Further, the amendment specifies that entries in the register should be made within seven days pursuant to any change made in the contribution amount, or in the name and details of the partners in the

LLP agreement, or in cases of cessation of partnership interest.

In case any rectification is made in the register pursuant to any order passed by the competent authority under any law, then the necessary reference of such order should be provided in the register.

- **Rule 22B, Declaration in respect of beneficial interest in any contribution:** The amendment specifies that a person whose name is entered in the register of partners but does not hold any beneficial interest fully or partly in contribution, then such person must file with the LLP, a declaration to that effect in **Form 4B**, within a period of 30 days from the date on which his/her name is entered in the register of partners.

Further, every person who holds or acquires a beneficial interest in contribution, but his/her name is not registered in the register of partners, should file with the LLP, a declaration

disclosing such interest in **Form 4C**, within a period of 30 days after acquiring such beneficial interest.

The LLP must record such declarations received in the register of partners and file it, within a period of 30 days from the date of receipt of declaration a return in **Form 4D** to the registrar. Additionally, it should specify a designated partner who would be responsible for furnishing of and extending co-operation for providing information w.r.t. beneficial interest in contribution to the registrar or any other authorised officer and file such information in **Form 4**.

The amendment also introduced a revised format of **Form 4**.

Effective date: The amendment are effective from 27 October 2023.

(Source: MCA notification no. G.S.R. 803(E) dated 27 October 2023).

2. Chapter IV specifies provisions regarding share capital and debentures, Section 89 relating to Declaration in respect of beneficial interest in any share, Section 90 relating to Register of significant beneficial owners in a company and Section 127 – Punishment for failure to distribute dividends



SEBI update



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Other updates

ii. Amendment relating to Significant Beneficial Owners Rules

On 9 November 2023, MCA issued the LLP (Significant Beneficial Owners) Rules, 2023 (the SBO Rules 2023). Some of the key provisions of the SBO Rules 2023 include:

- **Applicability:** The SBO Rules 2023 are applicable to an LLP, subject to certain exemptions as prescribed in the notification.
- **Duty of reporting LLP:** It has been specified that every reporting LLP³ should take the necessary steps to find out if there is any individual who is a SBO⁴ in relation to that LLP. If yes, then the LLP should identify him/her and cause such individual to make a declaration in **Form No. LLP BEN-1**. Further, every reporting LLP should in all cases, where its partner (other than an individual), holds

not less than 10 per cent of its – contribution, or voting rights, or right to receive or participate in the distributable profits or any other distribution payable in a F.Y., should give a notice to such partner in **Form No. LLP BEN-4**.

- **Declaration of SBO:** The SBO Rules 2023 specify that every individual, who is a SBO must file a declaration in Form No. LLP BEN-1 within 90 days from the commencement of the SBO Rules 2023. Also, every individual, who subsequently becomes a SBO, or where his/her ownership undergoes any change, should file a declaration in Form No. LLP BEN-1, within 30 days of acquiring such SBO or any change therein.
- **Return of SBO in contribution:** The reporting LLP should file a return in **Form No. LLP BEN-2** with the registrar within a period of 30 days from the date of

receipt of the aforementioned declaration.

- **Register of SBO:** It has been specified that a LLP should maintain a register of SBO in **Form No. LLP BEN-3**.
- **Application to the Tribunal:** In case a person fails to provide information as required in the Form No. LLP BEN-3 within the specified time or provides non-satisfactory information, then the LLP should apply to the Tribunal for directing restrictions on the contribution under question.

Effective date: The SBO Rules 2023 are applicable from 9 November 2023.

(Source: MCA notification dated 9 November 2023)



3. Reporting LLP means a LLP which is required to comply with the requirements of Section 90 of the Companies Act, 2013

4. SBO refers to an individual, who acting alone or together or through one or more persons or trust, possesses one or more of the following rights or entitlements:

- Holds indirectly or together with any direct holdings, not less than 10 per cent of the contribution
- Holds indirectly or together with any direct holdings, not less than 10 per cent of the voting rights w.r.t. the management or policy decisions in the LLP
- Has right to receive or participate in not less than 10 per cent of the total distributable profits, or any other distribution, in a F.Y. through indirect holdings alone or together with any direct holdings
- Has right to exercise or actually exercises, significant influence or control, in any manner other than through direct-holdings alone.



SEBI update



MCA update



RBI update



Other updates

Tighter norms for consumer credit and bank credit to NBFCs

On 16 November 2023, the Reserve Bank of India (RBI) issued stringent regulatory measures pertaining to consumer credit and bank credit to a Non-Banking Financial Company (NBFC) due to high growth in this particular sector.

The regulatory measures issued by RBI are as follows:

i. Consumer credit exposure

- **Consumer credit exposure of commercial banks and NBFCs:** The RBI has assigned a higher risk weight for retail loans and personal loans and increased it to 125 percent (*earlier 100 percent*). This increase will not be applicable to housing loans, education loans, vehicle loans and loans secured by gold and gold jewellery and microfinance/SHG loans.
- **Credit card receivables:** In case of credit card receivables, a higher risk weight of 150 percent (*earlier 125 percent*) in case of Scheduled Commercial Banks (SCBs) and 125 percent (*earlier 100 percent*) in case of NBFCs has been assigned.

ii. Bank credit to NBFCs

The risk weights of exposures of SCBs to NBFCs has been increased by 25 percent in all cases where the extant risk weight⁵ as per external rating of NBFCs is below 100%. This increase does not apply to loans to HFCs, and loans to NBFCs which are eligible for classification as priority sector in terms of the extant instructions.

iii. Strengthening credit cards

Regulated Entities have been directed to review their extant sectoral exposure limits for consumer credit and Board approved limits in respect of various sub-segments under consumer credit. Further, all top up loans extended by regulated entities against movable assets which are inherently depreciating in nature, such as vehicles, shall be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

(Source: RBI circular no RBI/2023-24/85 dated 16 November 2023)



5. Para 5.8.1 of the ['Master Circular – Basel III Capital Regulations'](#) dated May 12, 2023, read with the circular ['Risk Weights for exposures to NBFCs'](#) dated February 22, 2019



SEBI update



MCA update



RBI update



Other updates

ICAI issued a report on Audit Quality Review

The Quality Review Board (QRB) of the Institute of Chartered Accountants of India (ICAI) issued a report highlighting the key findings observed in the audit quality reviews conducted in respect of audits of private limited companies up to 31 March 2023.

The QRB report provides overall trends, key findings, analysis of reviewed audit files in terms of technical standards, analysis of observations in audit files under major industries, findings in major focus areas for reviews, summary of observations in other areas, matters of general guidance for audit firms etc.

Some of the key observations highlighted pertain to:

- Audit quality control systems, supervision and auditor independence
- Related party transactions
- Auditor responsibilities relating to fraud
- Accounting estimates
- Auditor's use of experts
- Materiality and audit sampling, etc.

(Source: ICAI issued Report on Audit Quality Review – October 2023 edition)



FASB issued a new segment reporting guidance

On 27 November 2023, the Financial Accounting Standards Board (FASB) has issued a final Accounting Standards Update (ASU) that improves disclosures about a public entity's reportable segments and addresses requests from investors and other allocators of capital for additional, more detailed information about a reportable segment's expenses.

Some of the key amendments are as follows:

- Disclosure of significant segment expenses on an annual and interim basis by a public entity.
- Disclosure of other segment items⁶ by reportable segment and a description of its composition on an annual and interim basis by a public entity.
- Public entities should provide all the annual disclosures, currently required by FASB Accounting Standards Codification Topic 280, *Segment Reporting*, in interim periods.
- A public entity that has a single reportable segment should provide all the disclosures required by the amendments in the ASU and all existing segment disclosures in Topic 280.

- Public entities are required to disclose the title and position of the Chief Operating Decision Maker (CODM) along with an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.

This ASU is applicable to all public entities that are required to report segment information in accordance with Topic 280 from annual periods beginning after 15 December 2023.

(Source: FASB media advisory dated 27 November 2023)



6. The other segment items category is the difference between segment revenue less the significant expenses disclosed and each reported measure of segment profit or loss.



Website: bsr-co.in

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

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

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