

B S R & Co. LLP
Chartered Accountants

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Inclusion of mutual funds units in PIT Regulations

In November 2022, with an aim to strengthen the regulatory framework concerning insider trading in mutual funds, the Securities and Exchange Board of India (SEBI) included mutual funds units under the purview of SEBI (Prohibition of Insider Trading) Regulations, 2015 (PIT Regulations). The regulations pertaining to mutual funds are effective from 1 November 2024.

In order to streamline the implementation of newly notified provisions, SEBI, on 22 October 2024, issued a circular to provide certain clarifications and modifications pertaining to mutual funds provisions. Following are the key provisions from the circular:

- **Disclosure of holdings:** In relation to disclosure by Asset Management Companies (AMCs), SEBI clarified that an AMC should disclose holdings of the designated persons, trustees and their immediate relatives on a quarterly basis. For the initial disclosure of holdings on 31 October 2024, AMC should make such disclosure by 15 November 2024. For all

subsequent quarters AMCs would be required to make quarterly disclosures within 10 calendar days from the end of the quarter.

- **Threshold based disclosure of transactions:** Any transaction or series of transactions in the units of its own mutual funds by the designated person of the AMC, its trustees and their immediate relatives that exceed the threshold limit of INR15 Lakh per quarter across all schemes are required to be reported by the concerned person to the compliance officer of the AMC within 2 business days from the date of the transaction.
- **Formats:** SEBI has specified the formats in which various disclosures required under PIT Regulations are to be provided.

(Source: SEBI Circular SEBI/HO/IMD/IMD-PoD-1/P/CIR/2024/144, dated 22 October 2024)

Clarifications with respect to research analysts

The SEBI (Research Analysts) Regulations, 2014 (RA Regulations) governs the framework related to Research Analysts (RAs). Additionally, SEBI issued notifications to outline the advertisement code provisions that research analysts are required to follow in their advertisements. On 24 October 2024, SEBI issued a circular to issue a clarification relating to advertisement code for RAs. As per the circular, research reports and research recommendations are not considered as advertisements unless they promote the products or services offered by the RA.

Further, on 25 October 2024, SEBI issued another circular relating to periodic reporting format for RAs and Proxy Advisers (PAs). Regulation 24(4) of the RA Regulations requires RAs to submit specified reports and information to SEBI. The circular specifies the periodicity and timeline relating to filing of such reports. Additionally, SEBI has recognised BSE Limited as Research Analyst Administration and Supervisory Body (RAASB) for the purpose of

administration and supervision of RAs under the Regulation 14 of the RA Regulations.

Following are the reporting requirements specified by the circular:

1. RAs to submit their periodic report to RAASB and proxy advisers are required to submit their periodic reports to SEBI.
2. RAs/PAs to submit periodic report for half-yearly periods within 30 days from the last date of the reporting period i.e. 30 September and 31 March of every financial year. The first reporting requirements would begin from 31 March 2025, and the report should be submitted by 30 April 2025.
3. Provides periodic reporting formats for RAs and PAs

(Source: SEBI Circulars SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/146, dated 24 October 2024 and SEBI/HO/MIRSD/MIRSD-PoD-1/P/CIR/2024/148, dated 25 October 2024)

Proposals related to corporate governance norms for HVDLEs

Regulation 15(1A) in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) requires compliance of corporate governance norms by an entity having outstanding value of listed non-convertible debt securities of INR500 crore and above, referred to as 'High Value Debt Listed Entities' (HVDLEs). The said provisions are applicable on a 'comply or explain' basis until 31 March 2025.

To promote ease of doing business and reduce the compliance burden for HVDLEs, SEBI formed a working group in May 2023 to review the applicability of corporate governance norms under LODR Regulations. Based on the recommendations of working group and representations from various stakeholders, SEBI issued a consultation paper on 31 October 2024 – 'Consultation paper on review of provisions of LODR pertaining to corporate governance norms for HVDLEs'. Following are the key proposals from the consultation paper:

- a) **Introduction of a separate chapter:** To include new chapter for corporate governance norms which will be applicable only to HVDLEs.
- b) **Relaxation in the threshold for applicability:** It is proposed that the threshold of listed outstanding non-

convertible securities for identification of a debt listed entity as HVDLE may be increased from INR500 crore to INR1000 crore.

- c) **Introduction of the sunset clause:** The consultation paper proposes that if the corporate governance norms become applicable to a HVDLE basis specified threshold, they would continue to remain applicable till such time the value of outstanding listed debt securities reduces and remains below the specified threshold for a period of three consecutive financial years. For such a computation, the value of outstanding listed debt securities to be reviewed on the last day of every financial year. Further, the provision could become applicable if the value of outstanding listed debt reaches the specified threshold again. In such a scenario the HVDLEs would need to comply with the provisions within six months and disclosures of such compliance may be provided in corporate governance compliance report on and from third quarter following the trigger.
- d) **Relaxation:** For HVDLEs which are not companies, but a body corporate or are subject to regulations under other statutes, the corporate governance provisions

under LODR Regulations would apply to the extent that it does not violate their respective statutes and guidelines or directives issued by the relevant authorities.

- e) **Relaxation regarding constitution of the Nomination and Remuneration Committee (NRC), Risk Management Committee (RMC) and Stakeholders Relationship Committee (SRC):** To avoid constitution of multiple committees by HVDLEs, it is proposed that the board of directors of a HVDLE may either choose to constitute NRC, RMC or SRC, or may ensure that the functions of such committees as specified under LODR Regulations is delegated and discharged by the Audit Committee.
- f) **XBRL:** Introduction of filing of corporate governance compliance report on quarterly basis in XBRL format and harmonisation of reporting formats with that specified for equity listed entities.
- g) **BRSR:** Introduction of Business Responsibility and Sustainability Reporting (BRSR) for HVDLEs on a voluntary basis.
- h) **Requirements relating to maximum number of directorships:** Regulation

17A of LODR Regulations, *inter-alia*, specifies restrictions related to directorship in listed entities. The consultation paper proposes to include directorships in HVDLEs along with directorships in equity listed entities while reckoning the number of directorships held by a person in listed entities.

- i) **Requirements relating to number of memberships or chairpersonships in the committees by a director:** Regulation 26 of the LODR Regulations provides a maximum cap on the number of committees across all listed entities, a director can act as a member or chairperson. While determining the number of such listed entities, currently HVDLEs are excluded. In this regard, the consultation paper proposes that HVDLEs (along with equity listed entities) should be considered for the purpose of computing the maximum limit of committees, a director can act as a member or chairperson.

(Source: SEBI Consultation paper on Consultation paper on review of provisions of LODR Regulations pertaining to corporate governance norms for High Value Debt Listed entities (HVDLEs) dated 31 October 2024)

Responsibility of principal and other auditors in group audits

The National Financial Reporting Authority (NFRA) on 3 October 2024 outlined the responsibilities of Principal Auditors and Other Auditors in group audits. The circular clarifies auditors' obligations under the Companies Act 2013 (2013 Act) and the existing requirements in SA 600, "Using the Work of Another Auditor" as well as related standards ensuring consistent interpretation with the 2013 Act, Standard on Quality Control (SQC), and other applicable auditing standards.

Key points covered in the circular include:

- **Principal auditors' responsibility:** The principal auditor is ultimately responsible for reporting on group financial statements and must ensure that significant risks of the group companies are addressed. While SA 600 does not specifically require the principal auditor to review the audit work papers of component auditors or other auditors, such a review may be necessary to gather sufficient appropriate audit evidence and form an

appropriate opinion on the group financial statements. This should be done by an auditor in appropriate cases, in exercise of his/her professional duties, professional skepticism and professional judgement.

- **Understanding professional competence of component auditors:** Paragraph 11 of SA 600 requires the principal auditor to assess the professional competence of another auditor when planning to use their work, especially if the other auditor is not a member of the ICAI. This provision does not imply that the principal auditor should not or cannot evaluate the professional competence of the other auditor in the context of the specific assignment, even if the other auditor is a member of the ICAI. The NFRA emphasises that professional competence includes experience, relevant skills, sectors audited, complexity of audit assignments handled, and availability of adequate resources, beyond just acquiring a professional degree or certification.

- **Interpreting standards on auditing:** The word "should" in SA 600 implies mandatory responsibilities and not recommendatory. Principal Auditors must perform all procedures specified in SA 600 and related standards in fulfilment of their obligations under the 2013 Act, unless they have valid reasons for carrying out alternative procedures that achieve the same objectives without materially impacting their opinion on the accounts being true and fair.

The recent NFRA circular applies to auditors of all entities covered under Rule 3 of NFRA Rules 2018 (i.e., Public Interest Entities (PIEs) and large Non-PIEs) with immediate effect to prevent audit failures and maintain confidence in the audit of Public Interest Entities (PIEs).

(Source: NFRA Circular NF-25013/2/2023-O/o Secy-NFRA, dated 03 October 2024)



Proposed liquid waste management rules

The Ministry of Environment, Forest and Climate Change (MoEFCC) issued the draft Liquid Waste Management Rules, 2024 (draft Rules) to address the issue of the management of liquid waste. The main goal of the draft Rules is to reduce liquid waste, manage waste collection, ensure proper treatment, effectively utilise wastewater, and appropriately dispose of the remaining treated wastewater.

Applicability: These draft rules are proposed to be applicable to both urban and rural local bodies, as well as all public authorities involved in the generation and management of wastewater. This includes:

- Entities involved in wastewater generation and management, whether government or private
- Special areas such as industrial zones, Special Economic Zones (SEZs), and food parks

- Locations under the jurisdiction of Indian Railways, including stations, tracks, and adjacent lands
- Airports, ports, and defense establishments
- Religious and historical sites
- Landowners and various waste generators, including domestic, commercial, and institutional entities.

Coverage of waste types: The draft Rules focus on the management of wastewater, sludge from treatment facilities, and faecal sludge.

The draft Rules are proposed to come into effect from 1 October 2025. The proposal is open for comments until 6 December 2024.

(Source: MoEFCC Notification no S.O. 4341(E), dated 7 October 2024)

Biological Diversity Rules

With an aim to conserve the biological diversity in India, the MoEFCC through its notification dated 22 October 2024, issued the Biological Diversity Rules, 2024 (the Rules) under the Biological Diversity Act, 2002 (2002 Act). The recently issued Rules would replace existing Biological Diversity Rules, 2004.

Key aspects of the Rules are:

1. Establishing the National Biodiversity Authority (Authority), which would administer the National Biodiversity Fund (NBF) established under the 2002 Act, grant approvals for biodiversity related agreements, provide technical guidance and support state bodies.
2. Specifies manner of selection and appointment of chairperson for the Authority. The Chairperson to be appointed by the Central Government for a term of three years.
3. Prescribes procedures to access biological resources.

4. Prescribes procedure for registration and obtaining prior approval from Authority (Authority) before grant of intellectual property rights.
5. Prescribes procedure for obtaining a certificate of origin for cultivated medicinal plants.
6. Measures and procedure prescribed for conducting non-commercial research or research for emergency purposes outside India by Indian researcher or institution.
7. Enhanced guidelines for the use of genetic resources, ensuring fair and equitable sharing of benefits arising from their use.

The rules will come into effect from expiry of 60 days from the date of their notification in the Official Gazette i.e. 25 October 2024.

(Source: MoEFCC Notification no G.S.R. 665(E), dated 25 October 2024)

Guidelines for prevention of greenwashing and misleading environmental claims

Recently, the Central Consumer Protection Authority (CCPA) has issued guidelines for the Prevention and Regulation of Greenwashing and Misleading Environmental Claims (Greenwashing guidelines) to address green washing and deceptive environmental statements. The Greenwashing guidelines aim to foster honest practices where environmental claims are both accurate and meaningful, thereby enhancing consumer trust and promoting sustainable business practices.

Some key features of the guidelines are :

- Applicability to all environmental claims by manufacturers, service providers, or traders whose goods or services are advertised, as well as advertising agencies.
- Clear definitions of various terms related to greenwashing and environmental claims.

- Detailed disclosure requirements with respect to the nature, mode, and content related to environmental claims of goods and services.
- Prohibition of using environmental claims and use of vague or misleading terms such as 'eco-friendly,' 'green,' and 'sustainable' without credible evidence of the same in the form of third-party certificates, scientific evidence, etc.
- A guidance note with illustrations to help the industry comply with the Greenwashing guidelines.

The Greenwashing guidelines are applicable with effect from 15 October 2024.

(Source: Central Consumer Protection Authority, F.No. CCPA/28/2023-CCPA (Reg). released on 15 October 2024)



Submission of credit information by ARCs

The Reserve Bank of India (RBI) released updated guidelines for Asset Reconstruction Companies (ARCs) to align their membership with Credit Information Companies (CICs), making the requirements similar to the guidelines for banks and Non-Banking Financial Companies (NBFCs). This initiative aims to maintain a comprehensive record of borrowers' credit history following the transfer of loans from banks and NBFCs to ARCs. The key points of the guidelines are as follows:

- **Membership to CIC mandatory:** ARCs are required to become members of all CICs and submit data in accordance with the credit reporting format prescribed by the RBI.
- **Data submission:** ARCs must ensure that data is updated regularly, either on a fortnightly basis or at intervals agreed upon

between the ARC and the CIC.

- **Data rectification:** Any data that is rejected must be corrected and resubmitted within seven days of receiving the rejection notice from the CIC.
- **Best practices:** ARCs should adopt best practices for CIC-related matters, including regular data updates, providing customer information, and appointing nodal officers.

Effective date: The ARCs must establish systems and processes to comply with these guidelines by 1 January 2025.

(Source: RBI/2024-25/82 DoR.FIN..REC.No.46/26.03.001/2024-25, dated 10 October 2024)



Amendment to Companies (Adjudication of Penalties) Amendment Rules, 2014

The Ministry of Corporate Affairs (MCA) in August 2024 issued the Companies (Adjudication of Penalties) Amendment Rules, 2024 (Adjudication Amendment Rules), introducing an e-adjudication platform developed by the central government. These amended rules, mandated that all adjudication proceedings including the issuance of notices, filing of replies or documents, submission of evidence, conducting hearings, attendance of witnesses, issuance of orders, and payment of penalties will be conducted electronically via the e-adjudication platform.

Additionally, the MCA provided further clarification through the Companies (Adjudication of Penalties) Second Amendment Rules, 2024. The recent notification clarified that any proceedings pending before an Adjudicating Officer or Regional Director as of the effective date of the (Adjudication Amendment Rules), i.e., 16 September 2024, will continue under the provisions that were applicable prior to the commencement of the amendment notification.

(Source: MCA Notification no. G.S.R. 630(E), dated 9 October 2024)

IAASB's Technology statement

Recently, the International Auditing and Assurance Standards Board (IAASB) has introduced a new technology position (the statement) to guide how IAASB is intersecting audit, assurance, and technology in its work. This new position marks a significant step forward in the IAASB's ongoing commitment to enhancing the quality and relevance of its standards in the face of rapid technological advancement.

The position is structured around three key components:

1. The technology position statement: The Statement articulates eight key actions the IAASB will take to deliver on its new technology commitments to encourage firms and practitioners to use technology when appropriate.

Following are the eight key actions included in the Statement:

1. Embrace technology-driven innovations
2. Remove barriers in the standards, real or perceived, to practitioners using technology

3. Introduce requirements and application material relating to using technology in engagements
 4. Address the impact of technology used by reporting entities
 5. Strike the right balance when referring to opportunities and risks associated with technology
 6. Align with principles of ethics and ethical requirements
 7. Ensure scalability and proportionality
 8. Convene stakeholders and foster ongoing engagement.
- 2. Operationalise the technology position statement:** This component of the Statements provides details of the IAASB's strategy for implementing the Statement by identifying opportunities for new or revised standards, along with developing non-authoritative materials and guidance.
- 3. Monitor and adapt to technological trends:** The Statement stated that the technology position will be continually

monitored and updated to remain aligned to the rapidly changing landscape.

(Source: IAASB New Technology Position, dated 15 October 2024)



New quality management standards notified for audit firms

The Institute of Chartered Accountants of India (ICAI) and Auditing and Assurance Standards Board (AASB) has introduced two new standards focused on quality management for firms involved in audits, reviews, and other assurance services. These standards are:

- **SQM 1:** Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagement
- **SQM 2:** Engagement Quality Reviews.

SQM 1 sets forth the requirements for establishing a quality management system, detailing the responsibilities of audit firms to

design, implement, and operate such a system. Whereas SQM 2, on the other hand, specifies the criteria for engagement quality reviews, addressing issues related to the appointment, qualifications, and responsibilities of the engagement quality reviewer. It is important to note that the existing standard, SQC 1, Standard on Quality Control, will be applicable until these new standards become applicable.

These new standards would be effective from 1 April 2025 on recommendatory basis and would be mandatory from 1 April 2026.

(Source: Issuance of SQM1, SQM2 - Auditing and Assurance Standards Board, ICAI, dated 14 October 2024)

Draft Insurance Fraud Monitoring Framework

In 2013, the Insurance Regulatory and Development Authority of India (IRDAI), issued the Insurance Fraud Monitoring Framework to provide a regulatory supervision and guidance on the adequacy of measures taken by insurers to address and manage risks emanating from fraud.

There has been a substantial change in the nature and intensity of fraud over the years and revised insights from practices followed by other financial sector regulators such as revised framework for banks and NBFCs issued by RBI

and international best practices in this domain. Therefore, IRDAI has issued an exposure draft of revised fraud management framework. The exposure draft proposed an enhanced framework that includes advanced measures for fraud detection, efficient fraud handling, robust fraud prevention, and other relevant aspects. The period to provide comments ended on 13 November 2024.

(Source: Exposure draft - IRDAI/IIDD/TF-Fraud/2024, dated 23 October 2024)





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

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