B S R & Co. LLP
Chartered Accountants

Corporate reporting insights

June 2023

Click here to access

Amendments to the SEBI Listing Regulations

On 14 June 2023, the Securities and Exchange Board of India (SEBI) amended SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 (Listing Regulations) through SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023 (the amendment).

The key amendments issued include:

- **Disclosure of material events or information (Regulation 30):** Regulation 30 of the Listing Regulations requires every listed entity to provide disclosures of events or information which, in the opinion of the Board of Directors of the listed entity, are material in accordance with the provisions of Part A of Schedule III of the Listing Regulations.

  The following amendments to Regulation 30 are effective from 15 July 2023:

i) Materiality threshold for disclosure (Regulation 30(4)(i)): Para B of Part A of Schedule III of the Listing Regulations (Para B) provides a list of events that are required to be disclosed as per the materiality policy framed by the listed entities. In addition to the existing requirements stipulated in Regulation 30(4)(i), the amendment has introduced a quantitative threshold for disclosure of events specified under Para B. Therefore, events may be considered material if *inter alia* their value or the expected impact in terms of value, exceeds the lower of the following:

i) Two per cent of turnover, as per the last audited consolidated financial statements of the listed entity;

ii) Two per cent of net worth, as per the last audited consolidated financial statements of the listed company, except in case the arithmetic value of the net worth is negative;

iii) Five per cent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed company

Further, where any continuing event or information becomes material on account of the notification of this amendment, then such a continuing event or information should be disclosed by the listed entity by 14 August 2023 (i.e. within 30 days from the date of the amendment coming into effect).

ii) Materiality policy (Regulation 30(4)(ii)): The amendment has inserted a proviso requiring listed entities to ensure the following while determining the materiality policy:

- The materiality policy should not dilute any requirement specified under the provisions of the Listing Regulations
- The materiality policy should assist the relevant employees of the listed entity in identifying any potential material event or information and reporting the same to the authorised Key Managerial Personnel (KMP) for determining the materiality of the said event or information and for making the necessary disclosures to the stock exchange(s).

iii) Timeline for disclosure (Regulation 30(6)): The amendment has revised the timelines for disclosure, of material events or information, to the stock exchange. As per the amendment, the disclosure should be made as soon as reasonably possible and in any case not later than the following:

Event or information emanating from…	Timeline for disclosure to the stock exchange*
Outcome of a meeting of the Board of Directors	Within 30 minutes from closure of meeting in which the decision was taken
Within the listed entity	Within 12 hours *(earlier 24 hours)* from occurrence of event
Externally (i.e. not emanating from within the listed entity)	Within 24 hours from the occurrence of the event
Events specified in Part A of Schedule III of the Listing Regulations	Timelines specified within Part A of Schedule III of the Listing Regulations

*In case the disclosure is made after the abovementioned timelines, then the listed entity should also provide an explanation for the delay in disclosure.

iv) Mandatory verification of market rumours (Regulation 30(11)): As per this sub-regulation, every listed entity should on its own initiative, confirm or deny any reported event or information to stock exchange(s).

In addition to the above-mentioned general provision, the amendment requires certain specified listed companies to confirm, deny or clarify any reported event or information in the mainstream media which is not general in nature and which indicates that rumours of an impending specific material event or information in terms of the provisions of this regulation are circulating amongst the investing public.

The specified listed entities are as follows:

Top 100 listed entities[1]	With effect from 1 October 2023
Top 250 listed entities[1]	With effect from 1 April 2024

The confirmation by the listed companies should be made within 24 hours from the reporting of the event or information. Further, the listed company should also provide the current stage of such event or information.

The amendment also defines the term 'mainstream'. Accordingly, 'mainstream media' includes print or electronic mode of the following:

i. Newspapers registered with the Registrar of Newspapers for India
ii. News channels permitted by Ministry of Information and Broadcasting under Government of India
iii. Content published by the publisher of news and current affairs content as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 and
iv. Newspapers or news channels or news and current affairs content similarly registered or permitted or regulated, as the case may be, in jurisdictions outside India.

v) Disclosure of communication from any regulatory, statutory, enforcement or judicial authority (Regulation 30(13)): The amendment has inserted a new sub-regulation which requires a listed entity to disclose communication received from any regulatory, statutory, enforcement or judicial authority with respect to an event or information which is required to be disclosed in terms of the provisions of this regulation. However, the disclosure of such communication should not be made if the listed company is prohibited to do so by the concerned authority.

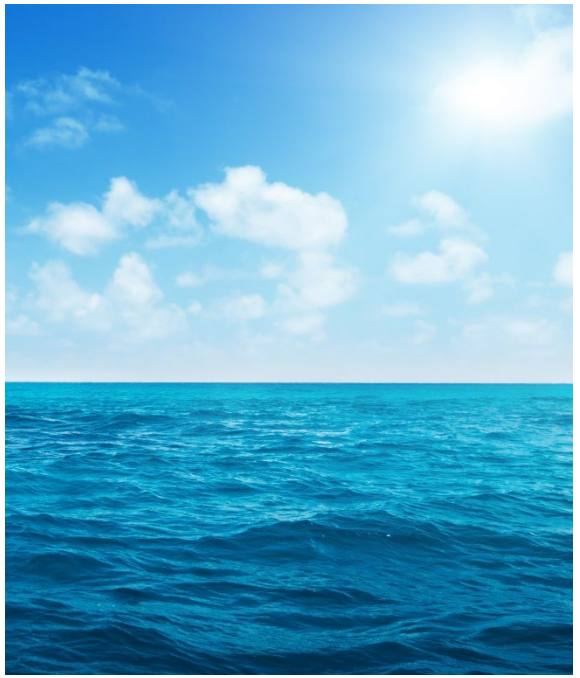
vi) Disclosure requirements for certain types of agreements binding listed companies (Regulation 30A): The amendment requires listed entities to disclose agreements (including rescission, amendment, or alteration), which directly, indirectly or potentially impacts the management, or control of a listed entity, or imposes any restriction, or creates any liability on a listed entity, whether or not the listed entity is a party to such agreements.

Such agreements can be entered into by the shareholders, promoters, promoter group entities, related parties, directors, Key Managerial Personnel (KMP) and employees of a listed entity or of its holding, subsidiary and associate company. These parties should inform the listed entity about any such agreement within 2 working days of entering into these agreements or signing an agreement to enter into such agreements.

The listed entity should disclose these types agreements under Para A of Part A of Schedule III of the Listing Regulations (Para A). Further, it should disclose the following in the Annual Report for the financial year 2022-23 or for the financial year 2023-24:

- The number of agreements that subsist as on 14 June 2023 under Para A
- Salient features of these agreements
- Link to the webpage where the complete details of these agreements are available.

vii) Addition and modification of events in Para A and Para B: The events specified in Para A are deemed to be material events which are required to be disclosed by the listed entities, whereas the events enumerated in Para B are required to be disclosed based on the materiality policy of the listed entity. The amendment has added and modified certain events/information under Para A and Para B.



1. The top 100 and 250 listed entities shall be determined on the basis of market capitalisation, as at the end of the immediately preceding financial year.

- **Board permanency at listed companies (Regulation 17(1D)):** SEBI has inserted Regulation 17(1D) in the Listing Regulations, which states that effective 1 April 2024, continuation of directors on the board of a listed entity will be subject to shareholders' approval in a general meeting. This approval should be obtained at least once in every five years from the date of such director's appointment or reappointment, as the case may be. The amendment further clarifies that every director serving on the board of a listed entity as on 31 March 2024, and for whom a shareholders' approval has not been obtained in the last five years, the approval of shareholders should be obtained in the first general meeting to be held after 31 March 2024.
- **Prescribed timeline for filling the vacancy of directors and key managerial personnel (Regulation 6(1A), 17(1E) and 26A):** The amendment has prescribed the following timelines for filling of vacancy:

Role	Timeline to fill vacancy
Directors	Any vacancy of directors to be filled at the earliest but not later than three months from the date such vacancy. In case of non-compliance of Regulation 17(1)[2] due to expiration of the term of office of any director, the resulting vacancy so created shall be filled-up on the same day it arose. However, this is not applicable if the listed entity complies with Regulation 17(1) of the Listing Regulation without filling up the vacancy created.
• Compliance Officer • CFO • CEO/Managing Director (MD)/ Whole Time Director (WTD)/ Manager	Any vacancy created should be filled-up at the earliest but not later than three months from the date of such vacancy. However, the listed entity should not fill such a vacancy by appointing a person in an interim capacity, unless such appointment is made in accordance with the laws applicable in case of a fresh appointment to such office and the obligations under such laws are made applicable to such person.

The above timelines are effective from 15 July 2023.

- **Special rights to shareholders (Regulation 31B):** The existing provisions of the Listing Regulations provide for one-time approval of the shareholders for retaining any special rights granted as per the Articles of Association (AOA) of the company post its listing. An amendment has been introduced Regulation 31B which specifies that any special right granted to the shareholders must be subject to the approval by shareholders in a general meeting through a special resolution once in every five years, beginning from the date of grant of such special right. This amendment is applicable from 15 July 2023.
- **Sale, lease or disposal of an undertaking outside scheme of arrangement (Regulation 37A):** The amendment has inserted Regulation 37A prescribing the provisions for sale, lease or disposal of an undertaking outside the scheme of arrangement. It states that where an entity carries out the sale, lease or disposal of the whole or substantially the whole of one or more than one undertaking (where it owns more than one undertaking), it should:
  - Obtain prior approval of the shareholders by way of a special resolution, and
  - Disclose the object of and commercial rationale for conducting such sale, lease or disposal and the use of proceeds arising therefrom, in the statement annexed to the notice to be sent to the shareholders.

  Such a special resolution should be acted upon, only if the votes cast by the public shareholders in favour of the resolution exceed the votes cast against the resolution.

  The above-mentioned requirements would not be applicable to transactions involving sale, lease or disposal of the whole or substantially the whole of the undertaking by a listed entity to its wholly owned subsidiary, whose accounts are consolidated with the entity. However, such a listed entity should ensure compliance with the above-mentioned requirements prior to the wholly owned subsidiary selling, leasing or disposing off the whole or substantially the whole of the undertaking received, whether in whole or in part, to any other entity.

  Additionally, the provisions of Regulation 37A would not be applicable in cases where the sale, lease or disposal is by virtue of a covenant covered under an agreement with a financial institution regulated by or registered with the RBI or with a debenture trustee registered with SEBI, in this regard.

  This amendment is applicable from 14 June 2023.
- **Submission of financial results by newly listed entities (Regulation 33(3)):** The amendment issued by SEBI requires a newly listed entity to disclose its first financial results post its listing, for the period (*quarter or financial year*) immediately succeeding to the periods for which financial results were disclosed in the offer documents for an initial public offer. The financial results should be published within 21 days from the date of listing or as per the applicable timeline under the Listing Regulations, whichever is later. This amendment is effective from 15 July 2023.

2. Regulation 17(1) of Listing Regulations specifies the composition of board of directors for the listed entities including minimum number of directors, independent directors, non-executive directors, woman director and independent woman director

- **Applicability of corporate governance provisions to High Value Debt Listed Entities (HVDLEs) (Regulation 15(1A)):** The amendment has extended the applicability of corporate governance provisions, on a 'comply or explain' basis to HVDLEs till 31 March 2024 (earlier 31 March 2023). Further, it would be applicable on a mandatory basis to HVDLEs post 31 March 2024.
- **Disclosure of cyber security incidents or breaches and loss of data/documents (Regulation 27):** Listed entities are additionally required to provide details of cyber security incidents, breaches, loss of data, or documents along with the quarterly corporate governance report. This information is required to be submitted to the recognised stock exchange(s) within 21 days from the end of each quarter, in the prescribed format. This amendment is effective from 15 July 2023.
- **Submission of Business Responsibility and Sustainability Reporting (BRSR) (Regulation 34(2)(f)):** Top 1,000 listed entities[3] are required to submit BRSR which consists of Environmental, Social and Governance (ESG) disclosures, in the format prescribed by SEBI.

  The amendment clarifies that:

  a) Assurance for the BRSR Core should be obtained in the manner specified by SEBI.

  b) The listed entities are also required to make disclosures and obtain assurance as per the BRSR Core for their value chain in the manner specified by SEBI.

  The amendment further states that the remaining listed entities, including the entities which have listed their specified securities on the SME Exchange, can voluntarily disclose the BRSR or can voluntarily obtain the assurance of the BRSR Core, for themselves or for their value chain, as the case may be.

  This amendment is effective from 14 June 2023.
- **Information on the listed entity's website (Regulation 46(2)(o)):** As per the amendment the disclosure of schedule of the analysts or institutional investors' meet and presentations should be made on an entity's website at least two working days in advance (excluding the date of the intimation and the date of the meet). The amendment is effective from 15 July 2023.
- **Intimation to stock exchanges (Regulation 57):** The amendment has clarified that a listed entity should submit a certificate to the stock exchange regarding status of payment of interest, dividend, repayment, or redemption of principal of non-convertible securities, within one working day of it becoming due, in the specified format. The amendment is effective from 14 June 2023.

(Source: SEBI notification no. No. SEBI/LAD-NRO/GN/2023/131 dated 14 June 2023)

3. Based on market capitalization as calculated as on 31 March of every financial year

Standard methodology for AIF investment valuation

On 21 June 2023, SEBI issued a circular on standardised approach with respect to the valuation of investment portfolio of Alternative Investment Funds (AIFs).

The valuation of investment portfolio should be based on criteria specified by SEBI from time to time. In this regard, some of the key aspects specified in the circular are as follows:

Manner of valuation

a) Valuation of securities which are carried out basis the SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) should continue to be valued as per the norms prescribed under the MF Regulations
b) For securities other than those mentioned above, valuation should be in accordance with the guidelines approved by the AIF Industry Association

Responsibility of AIF manager

a) The manager should be responsible for true and fair valuation of the investments of the scheme of the AIF
b) The manager should ensure that an independent valuer, who is appointed basis criteria specified by SEBI, computes and conducts the valuation of the investments of the AIF scheme in the manner as specified by SEBI periodically
c) The manager should make an annual disclosure to SEBI and the investors regarding changes in accounting policies/practices, valuation methodology related to the scheme of AIF as a part of changes made in the private placement memorandum
d) In case of deviation of more than 20 per cent between two consecutive valuations or more than 33 per cent in a financial year in respect of each asset class, the manager should inform the investors the reasons for the same.

Reporting requirements

a) AIFs are required to report valuation based on audited data of investee companies as on 31 March to performance benchmarking agencies within the specified timeline of six months
b) The reporting mentioned in point (a) should take place only after the audit of books of accounts of the AIF in terms of Regulation 20(14) of AIF Regulations, within the stipulated timelines
c) A report on compliance with the provisions of the circular dated 21 June 2023 should be submitted by the manager of AIF on the SEBI portal.

This circular is applicable from 1 November 2023.

(Source: SEBI circular no. SEBI/HO/AFD/PoD/CIR/2023/97 dated 21 June 2023)

Disclosure of information regarding issuers not co-operating with CRAs

As per the SEBI (Credit Rating Agencies) Regulations, 1999 (CRA Regulations), every CRA is required to conduct periodic reviews of all published ratings during the lifetime of the securities, unless the rating is withdrawn. In case of non-cooperation from a client, the CRA should review on the basis of best available information or in the manner specified by SEBI.

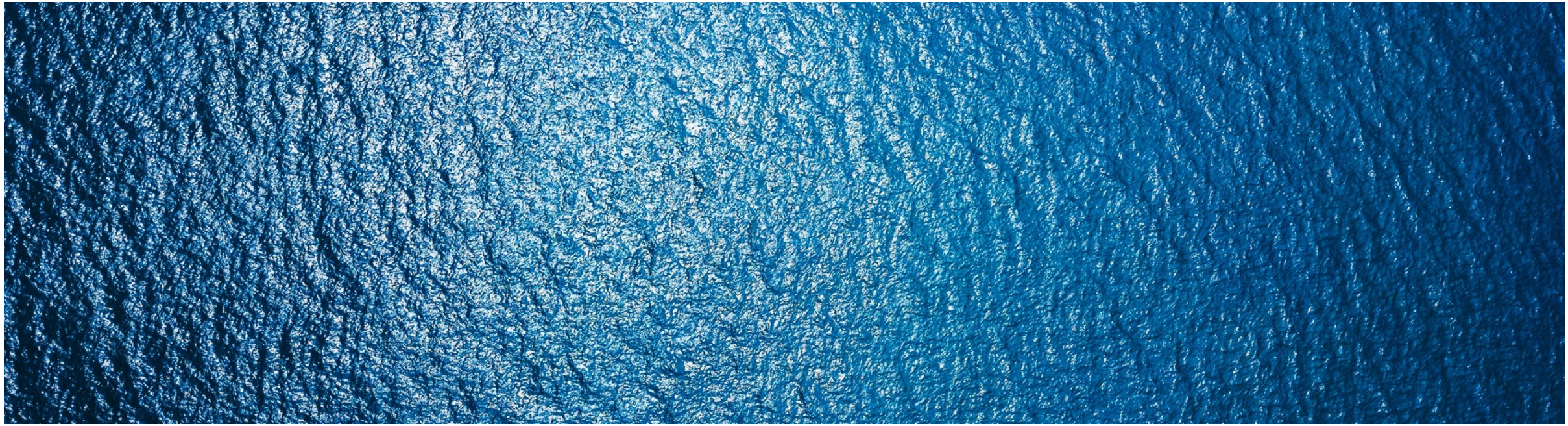
SEBI observed that the number of issuers that are not cooperating with the CRAs have increased over time with majority issuers being unlisted and small entities.

In order to encourage enhanced transparency towards various stakeholders, SEBI has prescribed the following:

- CRA should disclose two lists of issuers who are non-cooperative with CRA, separately for:
  - Securities that are listed, or proposed to be listed, on a recognised stock exchange, and
  - Other ratings
- The aforementioned lists should be disclosed in the prescribed format and updated on a daily basis.

Applicability and monitoring: The above mentioned circular is applicable from 15 July 2023. CRAs are required to report on their compliance with this circular to SEBI within one quarter from the date of applicability of this circular. Further, such compliances should be monitored by half-yearly internal audits for CRAs.

(Source: SEBI circular no. SEBI/HO/DDHS/DDHS-POD2/P/CIR/2023/105 dated 27 June 2023)



Extension of timeline for submission of form DPT-3

Rule 16 of the Companies (Acceptance of Deposits) Rules, 2014 (Deposit Rules) provides that every company (other than a government company) should file with the registrar a return of deposits in Form DPT-3 on or before the 30 June of every year. This report would comprise of information as on 31 March of that year duly audited by the auditor of the company.

On 21 June 2023, the Ministry of Company Affairs (MCA) issued a circular extending the due date for filing form DPT-3 for the financial year ended on 31 March 2023, without payment of additional fees, up to 31 July 2023.

(Source: MCA circular no. 06/23 dated 21 June 2023)

Timeline for submission of form CSR-2 by companies for FY 2022-23

Rule 12(1B) of the Companies (Accounts) Rules, 2014 (Accounts Rules) requires every company covered under Section 135(1) of the Companies Act, 2013 (2013 Act), to furnish a Corporate Social Responsibility (CSR) report in Form CSR-2 to the Registrar of Companies (RoC), as an addendum to Form No. AOC-4[4] or Form No. AOC-4-NBFC (Ind AS), as the case maybe.

On 2 June 2023, the Ministry of Corporate Affairs (MCA) issued a notification specifying the timeline for submission of Form CSR-2 for the financial year 2022-2023. As per the notification, Form CSR-2 should be filed separately on or before 31 March 2024 after filing Form No. AOC-4 or Form No. AOC-4-NBFC (Ind AS), or Form No. AOC-4 XBRL , as the case may be.

(Source: MCA notification no. G.S.R. 408(E) dated 2 June 2023)

Auditor responsibility in relation to fraud in a company

The National Financial Reporting Authority (NFRA) on 26 June 2023, issued a circular to reiterate the mandatory obligations on auditors to report fraud/suspected fraud to the Central Government and the Board/Audit Committee

The circular states the following:

- Statutory auditors are under a mandatory obligation to report fraud or suspected fraud if they observe suspicious activities, transactions or operating circumstances in a company that indicate reasons to believe that an offence of fraud is being or has been committed against the company by its officers or employees. In such an event, the statutory auditor shall initiate the steps prescribed under Rule 13 of the Companies (Audit and Auditors) Rules 2014 which begins with reporting the matter to the Board/Audit Committee within two days of his/her knowledge of the fraud
- In the case of reporting of a fraud involving or expected to involve individually an amount of INR1 crore or above, the statutory auditor fails to get any reply/observations from the Board/Audit Committee within 45 days, the auditor shall forward a report in the specified form viz., ADT-4 to Secretary, Ministry of Corporate Affairs, Government of India.
- The statutory auditor is duty bound to submit Form ADT-4 to the Central Government under Section 143 (12) of the 2013 Act even in cases where the statutory auditor is not the first person to identify the fraud/suspected fraud
- Resignation does not absolve the auditor of his responsibility to report suspected fraud or fraud as mandated by the law
- The statutory auditor shall exercise his/her own professional skepticism while evaluating fraud, and need not be influenced by legal opinion provided by the company or its management.

(Source: NFRA circular no. NF-25013/2/2023 dated 26 June 2023)

4. Form AOC 4 - Form for filing financial statement and other documents for each financial year with the Registrar
Form No. AOC-4-NBFC (Ind AS) - Form for filing financial statement and other documents of NBFCs for each financial year with the Registrar
Form No. AOC-4 XBRL - Form for filing XBRL document in respect of financial statement and other documents with the Registrar

Framework for compromise settlements and technical write-offs

In the past, the Reserve Bank of India (RBI) has issued various instructions to Regulated Entities[5] (REs) regarding compromise settlements of stressed accounts, including the Prudential Framework for Resolution of Stressed Assets, dated 7 June 2019 (Prudential Framework). With the aim to streamline instructions related to resolution of stressed assets across all REs, on 8 June 2023, the RBI issued a comprehensive regulatory framework governing compromise settlements[6] and technical write-offs[7].

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

- **Meaning of compromise settlement and technical write off:**
  a) *Compromise settlement* refers to any negotiated arrangement with a borrower to fully settle the claims of the RE against the borrower in cash. It may entail some sacrifice of the amount due from the borrower on the part of the REs with corresponding waiver of claims of the RE against the borrower to that extent.
  b) *Technical write-off* refers to cases where the non-performing assets remain outstanding at borrowers' loan account level but are written-off (*fully or partially*) by the RE only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same.
- **Board approved policy:** All REs are required to put in place board approved policies for executing compromise settlements with borrowers and technical write-offs. It lays down the process to be followed for all such arrangements in addition to specific guidance on necessary conditions precedent such as minimum ageing, deterioration in collateral value, etc. The policies should put in place a graded framework for examination of staff accountability in such cases with reasonable thresholds and timelines as may be decided by the board.
- **Delegation of power:** The policy should cover the delegation of powers with respect to approval/sanction of compromise settlements and technical write-offs. This power should rest with an authority that is one level higher than the authority vested with power to sanction the credit/investment exposure. All proposals for compromise settlements in case of fraudulent debtors or wilful defaulter need to be approved by the board.
- **Reporting mechanism**: The framework requires a reporting mechanism to the next higher authority at least on a quarterly basis, with respect to compromise settlements and technical write offs approved by a particular authority. The compromise settlements and technical write-offs approved by the Managing Director (MD) and Chief Executive Officer (CEO)/Board Level Committee should be reported to the Board.
- **Prudential treatment:** In case the time-period, for payment of agreed settlement amount in such transactions, exceeds 3 months, such arrangement should be treated as restructuring as defined in terms of the Prudential Framework. In case of partial technical write-offs, the prudential requirements in respect of residual exposure, including provisioning and asset classification, should be with reference to the original exposure subject to certain conditions.
- **Board oversight:** The board should implement a suitable reporting format ensuring coverage of the following aspects:
  - The trend in number of accounts and the amounts subjected to compromise settlement and/or technical write-off
  - Separate breakup of accounts under various categories such as fraud, red-flagged, wilful default and quick mortality accounts
  - Grouping of such accounts amount-wise, sanctioning authority-wise, business segment-wise
  - Extent of recovery in technically written-off accounts.
- **Cooling period**: The framework requires a cooling period to be determined as per the board approved policies, in case of borrowers that are subject to compromise settlements. Additionally, the framework also states the provisions for cooling period pertaining to farm and non-farm credit exposures.
- **Treatment of accounts categorised as fraud and wilful defaulter**: REs may undertake compromise settlements or technical write-offs in respect of accounts categorised as wilful defaulters or fraud without prejudice to the criminal proceeding underway against such debtors.

The above framework is effective from 8 June 2023.

(Source: RBI notification no. RBI/2023-24/40 DOR.STR.REC.20/21.04.048/2023-24 dated 8 June 2023)

---

5. The framework for compromise settlement and technical write offs are applicable to the following REs:
   a) Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks)
   b) Primary (Urban) Co-operative Banks/State Co-operative Banks/ Central Co-operative Banks All-India Financial Institutions
   c) Non-Banking Financial Companies (including Housing Finance Companies)
6. "Compromise settlement" refers to any negotiated arrangement with the borrower to fully settle the claims of the RE against the borrower in cash. It may entail some sacrifice of the amount due from the borrower on the part of the REs with corresponding waiver of claims of the RE against the borrower to that extent.
7. "Technical write-off" refers to cases where the non-performing assets remain outstanding at borrowers' loan account level but are written-off (fully or partially) by the RE only for accounting purposes, without involving any waiver of claims against the borrower, and without prejudice to the recovery of the same

Framework on default loss guarantee in digital lending

The Reserve Bank of India (RBI) had issued guidelines on digital lending on 2 September 2022 that are applicable to all Regulated Entities (REs)[8]. The REs are required to ensure that the Lending Service Providers (LSPs) and the Digital Lending App (DLAs) that are a part of their outsourcing agreements are in compliance with the guidelines of this circular. However, these guidelines did not stipulate the regulation for Default Loss Guarantee (DLG).

Consequently, on 8 June 2023, RBI issued guidelines on DLG related to digital lending. DLG arrangements that fall under the ambit of these guidelines should not be treated as synthetic securitization[9] and will not attract provisions of loan participation[10].

Some of the key aspects of the DLG guidelines are as follows:

- **Existence of DLG arrangement:** There should be a contractual arrangement between the RE and a DLG provider where the latter guarantees to compensate the RE, loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront. Any other implicit guarantee of similar nature linked to the performance of the loan portfolio of the RE and specified upfront, should also be covered under the definition of DLG.
- **Eligibility for a DLG Provider:** LSP or other REs with whom an outsourcing (LSP) arrangement has been entered into are eligible to be treated as a DLG provider. Further, the LSP providing DLG should be incorporated as a company under the 2013 Act.
- **Approval by Board of Directors:** REs shall put in place policies approved by the Board of Directors before entering into any DLG arrangement. At the minimum, the policy should include:
  i. The eligibility criteria for DLG provider
  ii. Nature and extent of DLG cover
  iii. Process of monitoring and reviewing the DLG arrangement, and
  iv. The details of the fees, if any, payable to the DLG provider.
- **Structure of DLG arrangements:** A legally enforceable contract should be entered into by the RE and the DLG provider, containing the following details:
  v. Extent of DLG cover
  vi. Form in which DLG cover is to be maintained with the RE
  vii. Timeline for DLG invocation
  viii. Disclosure requirements as under Para 11 of these guidelines.
- **Various forms of DLG:** RE should accept DLG only in one or more of the following forms:
  i. Cash deposited with the RE
  ii. Fixed deposits maintained with a scheduled commercial bank with a lien marked in favour of the RE
  iii. Bank guarantee in favour of the RE.
- **Cap on DLG:** RE should ensure that total amount of DLG cover on any outstanding portfolio which is specified upfront should not exceed five per cent of the amount of that loan portfolio. In case of implicit guarantee arrangements, the DLG Provider should not bear performance risk of more than the equivalent amount of five per cent of the underlying loan portfolio.
- **Recognition of Non-Performing Asset (NPA):** The RE is responsible to comply with the asset classification and provisioning norms while categorising a loan asset as an NPA and its consequent provisioning, irrespective of any DLG cover available at the portfolio level. The amount of DLG invoked should not be set off against the underlying individual loans. In cases where DLG has been invoked and realised, the details of recovery by the RE can be shared with the DLG provider as per the contractual arrangement.
- **Tenor and invocation of DLG:** The period for which the DLG agreement will remain in force should not be less than the longest tenor of the loan in the underlying loan portfolio. Additionally, the RE should invoke DLG within a maximum overdue period of 120 days, unless made good by the borrower before that.
- **Disclosure Requirements:** The RE should have a mechanism to ensure that LSPs with whom they have a DLG arrangement should publish on their website the total number of portfolios and the respective amount of each portfolio on which DLG has been offered.
- **Treatment of DLG for regulatory capital:** Capital computation on individual loan assets in the portfolio should continue to be governed by the extant norms.

Additionally, the circular also specifies schemes/entities that should not be covered within the definition of DLG.

(Source: RBI notification no. RBI/2023-24/41 dated 8 June 2023)

---

8. The guidelines on digital lending issued on 2 September 2022 are applicable to REs which are:
   a) All Commercial Banks (including Small Finance Banks),
   b) Primary (Urban) Co-operative Banks, State Co-operative Banks, Central Co-operative Banks; and
   c) Non-Banking Financial Companies (including Housing Finance Companies)
9. Synthetic securitisation means "a structure where credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of credit derivatives or credit guarantees that serve to hedge the credit risk of the portfolio which remains on the balance sheet of the lender", as defined under Para 5(y) of the RBI (Securitisation of Standard Assets) Directions, 2021 dated 24 September 2021.
10. Loan participation means "a transaction through which the transferor transfers all or part of its economic interest in a loan exposure to transferee(s) without the actual transfer of the loan contract, and the transferee(s) fund the transferor to the extent of the economic interest transferred which may be equal to the principal, interest, fees and other payments, if any, under the transfer agreement", as defined under Para 9(e) of the RBI (Transfer of Loan Exposures) Directions, 2021 dated 24 September 2021.

The global sustainability reporting standards – IFRS S1 and S2

On 26 June 2023, the International Sustainability Standards Board (ISSB) issued the final version of the first two IFRS Sustainability Disclosure Standards (the standards):

- IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1)
- IFRS S2, *Climate-related Disclosures* (IFRS S2)

The standards are designed to ensure that companies standardise on a single, global baseline of sustainability disclosures for the capital markets and provide sustainability related information alongside financial statements as the same reporting package. They are based on existing frameworks and standards, including that of Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB).

A brief overview of the standards are as follows:

IFRS S1: The objective of this standard is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. This standard sets the foundation for implementation. It contains general features of sustainability reporting, including on materiality. The disclosure of information should be provided across four areas of:

- Governance
- Strategy
- Risk management
- Metrics and targets

The standard also includes practical guidance, including guidance on presentation of information.

IFRS S2: This standard requires an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity. It is based on the above-mentioned four focus areas with additional guidance, particularly in relation to:

- Disclosure of risks, climate transition plans, Greenhouse Gas (GHG) emissions and scenario analysis and
- General and industry-specific metrics

(Source: ISSB announcement dated 26 June 2023)

FASB expands the conceptual framework on reporting entity

A Conceptual Framework is a body of interrelated objectives and fundamental concepts. The term reporting entity is used multiple times in existing concepts statements. Further, general purpose financial reporting aims to provide useful financial information about a reporting entity that assists existing and potential resource providers in making resource allocation decisions.

In order to be consistent with the objective of general-purpose financial reporting, on 8 June 2023, the Financial Accounting Standard Board (FASB) issued a new chapter defining a "reporting entity" as a part of its Conceptual Framework. The description of reporting entity focuses on the notion of a circumscribed area of economic activities that can be represented by general purpose financial reports. Additionally, the framework also states that identifying the reporting entity in a specific situation requires considering the boundary of the economic activities that have been conducted. The existence of a legal entity is not necessarily a means to identify the reporting entity. The reporting entity can include more than one entity, or it can be a portion of an entity.

(Source: FASB media advisory dated 8 June 2023)

Website: bsr-co.in

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

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