

B S R & Co. LLP
Chartered Accountants

Corporate reporting insights

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MCA issued Ind AS amendments

On 31 March 2023, the Ministry of Corporate Affairs (MCA) issued the Companies (Indian Accounting Standards) Amendment Rules, 2023. These rules notify certain amendments to Ind AS which are effective from 1 April 2023.

An overview of the key amendments are as follows:

Ind AS	Amendment notified
Ind AS 1, <i>Presentation of Financial Statements</i>	<ul style="list-style-type: none"> Companies are now required to disclose material accounting policies rather than their significant accounting policies. Accounting policy information, together with other information, is material when it can reasonably be expected to influence decisions of primary users of general purpose financial statements. Accounting policy information that relates to immaterial transactions, other events or conditions need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.
Ind AS 8, <i>Accounting policies, Change in Accounting Estimates and Errors</i>	<ul style="list-style-type: none"> The definition of 'change in account estimate' has been replaced by the definition of an 'accounting estimate'. As per the amendment, accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendment has clarified that a company develops an accounting estimate to achieve the objective set out by an accounting policy. As per the amendment, measurement techniques and inputs are used to develop an accounting estimate. Measurement techniques include estimation techniques and valuation techniques.
Ind AS 12, <i>Income Taxes</i>	<p>The amendment has narrowed the scope of the Initial Recognition Exemption (IRE) for deferred tax liability and asset. As per the amendment, a deferred tax liability or asset is not required to be recognised from:</p> <ol style="list-style-type: none"> Initial recognition of goodwill or Initial recognition of an asset or liability arising in a transaction which: <ol style="list-style-type: none"> Is not a business combination At the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and At the time of the transaction, does not give rise to equal taxable and deductible temporary differences <p><i>(emphasis added to highlight the change)</i></p>
Other consequential amendments	<ul style="list-style-type: none"> On account of the amendment to Ind AS 1 consequential amendment have been made in Ind AS 107, <i>Financial Instrument Disclosures</i> and Ind AS 34, <i>Interim Financial Reporting</i> On account of the amendment to Ind AS 12, consequential amendments have been made in Ind AS 101, <i>First-time Adoption of Indian Accounting Standards</i>

(Source: MCA notification no. G.S.R. 242(E). dated 31 March 2023)



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SEBI approved certain key proposals

At its board meeting on 29 March 2023, the Securities Exchange Board of India (SEBI) approved proposals on certain significant matters pertaining to the SEBI Regulations. Following are the key takeaways from the board meeting:

• **Balanced framework for ESG disclosures, ratings and investing**

SEBI has approved the regulatory framework for ESG (Environmental, Social and Governance) disclosures, ratings and investing and corresponding amendments would be made in SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) and SEBI (Mutual Funds) Regulations, 1996 (MF Regulations) to facilitate a balanced approach to ESG. The key proposals which have been approved are as follows:

i. **ESG ratings:**

- a) BRSR (Business Responsibility and Sustainability Reporting) Core to be introduced which would contain a limited set of Key Performance Indicators (KPIs) for which listed entities would need to obtain reasonable assurance. This is applicable for the top 150 listed entities (by market capitalisation) from FY 2023-24 and gradually applicability will be

extended to the top 1,000 listed entities by FY 2026-27.

- b) As a number of companies have significant ESG footprints in their value chain, ESG disclosures and assurance (BRSR Core) will be introduced for the value chain of listed entities with certain specified thresholds. Following is the applicability for listed entities

- Disclosure: Top 250 listed entities (by market capitalisation), on a comply-or-explain basis from FY 2024-25 and
- Assurance: Top 250 listed entities, on a comply-or-explain basis from FY 2025-26.

- ii. **ESG ratings:** The ESG Rating Providers (ERPs) would be required to consider India/emerging market parameters while providing ESG Ratings. However, there would be no constraints on issuing other/additional ratings as required by their clients. Further, in order to facilitate the credibility of ESG ratings, ERPs would offer a separate category of ESG rating called as 'Core ESG Rating', which will be based on the assured parameters under BRSR Core.

- iii. **ESG investing:** Following would be introduced to address the risk of mis-selling and greenwashing and enhance the reporting requirements for ESG investing:

- Mandating ESG schemes to invest at least 65 per cent of Asset Under Management (AUM) in listed entities, where assurance on BRSR Core is undertaken.
- Mandating third party assurance and certification by board of Asset Management Companies (AMCs) on compliance with objective of the ESG scheme.
- Mandating enhanced disclosures on voting decisions with specific focus on environmental, social and governance factors.
- Mandating disclosure of fund manager commentary and case studies which inter-alia highlight how the ESG strategy is applied on the fund/investments.
- Introduction of new scheme category, enabling the launch of multiple schemes on ESG related factors.

- **Establishing a regulatory framework for ERPs:** SEBI has approved the proposal to introduce a regulatory framework for ERPs in the Indian securities market by introducing a new chapter in the SEBI (Credit Rating Agencies) Regulations, 1999 (CRA Regulations).

• **Amendments to SEBI LODR Regulations to facilitate more comprehensive and timely disclosure**

a) **Disclosure of material events or information:**

- Following amendments have been approved to bring transparency and to ensure timely disclosure of material events or information by listed entities:
- Introduction of a quantitative threshold for determining 'materiality' of events/information.
 - For decisions taken in the meeting of the Board of Directors, disclosure of material events/information to be made within 30 minutes whereas for material events/information emanating from within the listed entity the disclosure should be made within



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within 12 hours from the closure of board meeting (*currently 24 hours*).

- Market rumours to be verified and confirmed, denied or clarified, as the case may be. Applicable to

- Top 100 listed entities by market capitalisation effective from 1 October 2023 and
- Top 250 listed entities with effect from 1 April 2024.

- Disclosure for certain types of agreements binding listed entities.

b) Strengthening corporate governance at listed entities by empowering shareholders:

Following amendments approved by SEBI:

- Periodic approval of shareholders for any special right granted to a shareholder of a listed entity to address the issue of perpetuity of special rights.
- The extant mechanism of sale, lease or disposal of an undertaking of a listed entity outside the 'scheme of arrangement' framework would be strengthened.
- Periodic approval of shareholders for directors serving on the board of a listed entity in order to do away with practice of permanent board seats.

- Streamlining timeline for submission of first financial results by newly listed entities:** It has been approved to streamline the timeline for submission of first financial results by newly listed entities in order to overcome the challenges in immediate submission of financial results post listing and to ensure that there is no omission in submission of financial results.

- Timeline to fill up vacancy of directors and other officials of listed entities:** Listed entities are now required to fill up the vacancy of directors, compliance officer, Chief Executive Officer (CEO) and Chief Financial Officer (CFO) within a period of three months from the date of such vacancy, to ensure that such critical positions are not kept vacant.

• Amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, (ICDR Regulation)

- Disclosure regarding underwriting:** If an issuer has entered into an underwriting agreement to cover shortfall in demand or to cover subscription risk, the same would be required to disclose in the offer document prior to opening of an issue.
- Bonus issue:** A listed entity would

announce bonus issue of shares, only after obtaining approval from the stock exchanges for listing and trading of all the pre-bonus securities issued by it. Further, bonus issue should be made only in dematerialised form.

• Amendments approved for debt market related entities

- Compliance of corporate governance norms by High Value Debt Listed Entities (HVDLEs):** The corporate governance norms (i.e. Regulation 16 to 27 of LODR Regulations) would be applicable on a 'comply or explain' for HVDLEs till 31 March 2024 (*earlier till 31 March 2023*).

- Introduction of concept of General Information Document (GID) and Key Information Document (KID) for issuance of bonds/commercial paper and streamlining of disclosures:** The following have been approved:

- The concept of concept of GID and KID to be introduced for issuers for non-convertible securities and commercial paper. A GID would contain the specified information and disclosures in common schedule and should be filed with the stock exchanges at the time of the first issuance. The GID shall have a validity period of one year. Thereafter,

for subsequent private placements of non-convertible securities and/or commercial paper within the validity period, only a KID shall be required to be filed with the stock exchanges containing material changes. This is proposed to be made applicable on a 'comply or explain' basis till 31 March 2024 and mandatory thereafter.

- Common schedule for disclosures would be introduced for public issuance of debt securities/non-convertible redeemable preference shares and placement memorandum for private placement of non-convertible securities proposed to be listed.

(Source: SEBI press release no. PR No.6/2023 on board meeting)





ICAI issues implementation guide on auditor's reporting requirement on audit trail

Section 143(3) of the Companies Act, 2013 (2013 Act) prescribes the various matters on which auditors are required to report in their auditor's report. Further, Rule 11 of the Companies (Audit and Auditors) Rules, 2014 (Audit Rules) specifies matters that are to be reported by the auditor.

In 2021, the Ministry of Corporate Affairs (MCA) amended the provisions of the Companies (Accounts) Rules, 2014 and the Companies (Audit and Auditors) Rules, 2014 with respect to the implementation of the audit trail feature in the accounting software of companies and its reporting in audit report by the auditors. As per the new rules, auditors need to evaluate the accounting software of an organisations to assess whether the audit trail feature operated throughout the year and

was not tampered with and report accordingly in his/her report. Additionally, auditors are required to evaluate whether such audit trail has been preserved by the company as per statutory requirements for record retention.

In this regard, on 28 March 2023, the Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) issued an implementation guide on the new reporting requirement. The implementation guide aims to provide detailed guidance on various aspects relating to auditor's reporting. Additionally, it suggests the management's and auditor's responsibility, discusses audit approach to be applied, illustrative wordings for the auditor's report and management representation letter.

(Source: ICAI announcement dated 28 March 2023)



FAQs on auditor's opinion and audit sampling issued by ICAI

Standard on Auditing (SA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* deals with the form and content of audit report whereas SA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* deals with how the form and content of audit report is affected when the auditor expresses a modified opinion. SA 530, *Audit Sampling* prescribes the principles for using audit sampling in audit engagements.

ICAI has issued Frequently Asked Questions (FAQs) on 25 March 2023 to explain important principles enunciated in SA 700 (Revised), SA 705 (Revised) and SA 530. Some of the key principles explained in the FAQs are with respect to:

a) Auditor's opinion

- Circumstances under which the auditor should express an unmodified (clean) and modified opinion
- The different types of modified opinion
- What constitutes a material misstatement and when is the effect of a misstatement or a possible misstatement considered to be pervasive

- Circumstances under which an auditor is unable to obtain sufficient appropriate audit evidence
- Steps to be taken by an auditor in case the management imposes a scope limitation after an auditor has accepted the engagement

b) Audit sampling

- Definition of sampling risk
- How the auditor should determine the sample size and select items for the sample
- Auditor's responsibility to determine completeness of population from which audit sample is drawn.

(Source: ICAI announcement dated 25 March 2023)



ICAI has issued implementation guide on Standard on Auditing (SA) 580, *Written Representations*

Written representations are an important means of obtaining audit evidence as they supplement 'other audit evidence' obtained by auditors during the course of audit. SA 580 prescribes the basic principles of written representations. These principles should be followed by auditors while complying with the requirements of the standards on auditing.

In this regard, on 7 March 2023 ICAI issued an implementation guide on SA 580 to help auditors to effectively comply with the requirements of the standard. The guide includes an introduction and an overview of SA 580, guidance on various aspects of the standard in a Question-Answer format, illustrative checklist and appendices on the illustrative format for a written representation letter.

(Source: ICAI announcement dated 7 March 2023)





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NFRA issues circular on measurement and recognition of revenue and trade receivables

The National Financial Reporting Authority of India (NFRA) has issued a circular on instances of Ind AS non-compliances which have been identified in the areas of revenue recognition and measurement and initial measurement of corresponding trade receivables. Therefore, NFRA has advised that entities which are required to follow Ind AS to comply with the principles of the standard.

The instances of non-compliance highlighted in the circular are as follows:

- **Revenue from contracts with customers - recognition and measurement**

As per Ind AS 115, *Revenue from Contracts with Customers*, the revenue to be recognised by an entity should consist of the

transaction price excluding the estimates of variable consideration that is allocated to that performance obligation.

NFRA through its circular highlighted that many companies, in their significant accounting policies, have incorrectly stated that revenue is recognised and measured at fair value of the consideration received or receivable. This has resulted in a non-compliance with the requirements of the standard. Further, the circular reiterated that the transaction price defined under Ind AS 115 is different from 'fair value' defined in Ind AS 32, *Financial Instruments: Presentation*. Under Ind AS 115, the application of fair value is relevant only in a limited set of situations, for example, where the customer

promises consideration in a form other than cash, an entity shall measure the non-cash consideration at fair value.

- **Trade receivables – initial measurement**

As per Ind AS 109, *Financial Instruments*, trade receivables are considered to be financial assets and the measurement requirements of Ind AS 109 would apply. Further, Ind AS 109 states that trade receivables should be initially measured (initial recognition amount) at their transaction price (as defined in Ind AS 115) unless they contain a significant financing component determined as per Ind AS 115.

However, NFRA through its circular highlighted that many companies in their

accounting policy are erroneously stating that the trade receivables are initially recognised (or measured) at fair value, which is contrary to the requirements of Ind AS 109. Further, there have also been instances of inconsistency between the accounting policy for initial measurement of trade receivables and the accounting policy for measurement of corresponding revenue leading to misleading and confusing information to the users of the financial statements. This has resulted in a non-compliance with requirements of the standards.

(Source: NFRA circular no. NF-25011/1/2023-O/o Secy-NFRA dated 29 March 2023)



IASB has concluded its project to improve its approach to develop disclosure requirements in IFRS Accounting Standards

On 8 March 2023, International Accounting Standards Board (IASB) concluded its project on improving its approach to developing and drafting disclosure requirements. The improved approach is designed to help the IASB develop Accounting Standards that would enable companies to make better judgements about which information is material and should be disclosed, thereby providing more useful information to investors.

The improved approach involves:

- Engaging early with investors to understand their information needs
- Developing disclosure requirements alongside

recognition and measurement requirements; considering the digital reporting implications of new disclosure requirements

- Using general and specific objectives that describe and explain investors' information needs; and
- Supporting specific objectives by requiring companies to disclose items of information that would satisfy the objectives in most cases.

The IASB intends to use the above approach when developing disclosure requirement.

(Source: IFRS project summary news dated 8 March 2023)

FASB accounting standard update for applying leases standard to related party arrangements between entities under common control

During the Post-Implementation Review (PIR) of Topic 842, *Leases*, certain stakeholders expressed concerns with respect to application of Topic 842 to related party arrangements between entities under common control.

In this regard, on 27 March 2023, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) which aims to improve the guidance for applying Topic 842, *Leases*, to arrangements between entities under common control.

(Source: FASB news and media advisory issued on 27 March 2023)

The ASU provides private companies and not-for-profit organisations that are not conduit bond obligors with a practical expedient to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. Additionally, the ASU requires all entities (that is, including public companies) to amortise leasehold improvements associated with common control leases over the useful life to the common control group.





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FASB improves accounting for investments in tax credit structures

On 29 March 2023, FASB issued an ASU which aims to improve the accounting and disclosures for investments in tax credit structures.

Reporting entities were previously permitted to apply the proportional amortisation method only to qualifying tax equity investments in low-income housing tax credit (LIHTC) structures. Subsequently, stakeholders asked FASB to extend the application of the proportional amortisation method to qualifying tax equity investments that generate tax credits through other programs

This ASU allows reporting entities to elect to account for qualifying tax equity investments using the proportional amortisation method, regardless of the program giving rise to the related income tax credits.

(Source: FASB news and media advisory issued on 29 March 2023)





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