Quarterly GAAP Bulletin

July 2022

Introduction

Dear reader,

Grant Thornton Bharat is delighted to present this quarterly GAAP Bulletin, which summarises significant accounting, auditing and related updates during the months of **March, April and May 2022**.

This publication has been compiled to meet the needs of dynamic Indian businesses and focuses on key developments in India and across the globe.

To access the source of information and complete details, you can click the hyperlinked text below each update.

We would be pleased to receive your valuable feedback. Please write to us at npsg@in.gt.com with your comments, questions or suggestions.

Contents

A. India updates - Effective

a. Accounting updates

b. Auditing updates

c. Regulatory updates

A. India updates - Effective

B. International updates - Effective

a. Accounting updates

1. Indian (Accounting Standards) Amendment Rules 2022

Ministry of Corporate Affairs (MCA) vide its notification dated 23 March 2022 has notified Companies (Indian Accounting Standards) Amendment Rules, 2022 (published in the Official Gazette on 4 April 2022) to further amend the Companies (Indian Accounting Standards) Rules, 2015 ('the amendments'). These amendments to Ind AS have been made, amongst others, pursuant to 'Annual improvements to IFRS 2018-2020 cycle'. Key amendments have been made to the following standards as follows:

- Ind AS 101: First time adoption of Indian Accounting Standards - A subsidiary that becomes a first-time adopter later than its parent may elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to Ind AS. A similar election is available to an associate or joint venture that has significant influence or joint control over it.
- Ind AS 103: Business combinations - The amendment updated the reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Further, Ind AS 103 adds an exclusive statement that an acquirer shall not recognise a contingent asset at the acquisition date and a requirement that for transactions and other events within the scope of Ind AS 37 an acquirer applies Ind AS 37 instead of conceptual framework to identify the liabilities it has assumed in a business combination. An entity shall apply above amendments to business combinations for which the acquisition date is on or after 1 April 2022.
- Ind AS 109: Financial instruments - The amendment clarifies that an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf when it applies the '10 percent' test in paragraph B3.3.6 of Ind AS 109 in assessing whether to derecognise a financial liability.
- An entity shall apply Annual Improvements to Ind AS (2021) to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
- Ind AS 16: Property, Plant and Equipment - In May 2020, IASB had issued amendments to IAS 16 which prohibits an entity from deducting from the cost an item of property, plant and equipment ('PPE') the proceeds from selling items produced while bringing an item of PPE to the location and condition necessary for it to be capable of operating in a manner intended by management. The aforementioned amendment has not been made to Ind AS 16 and paragraph 17(e) has been amended to clarify that excess of net sale proceeds of items produced over the cost of testing, if any, shall not be recognised in the profit or loss but deducted from the directly attributable costs considered as part of cost of an item of PPE.
- Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets - The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of PPE used in fulfilling the contract.

  Corresponding changes are done to Para 69 of Ind AS 37 to align the terminology from 'assets dedicated to that contract' to 'assets used in fulfilling the contract'. These amendments shall apply to contract for which the entity has not yet fulfilled all its obligations at the beginning of 1 April 2022 being the period in which it first applies the amendments. Instead of restating the comparative information, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other components of equity, as appropriate, at the date of initial application.
- Ind AS 41: Agriculture – The amendment removes the requirement in paragraph 22 of Ind AS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in Ind AS 113.

These amendment rules are effective from 01 April 2022.

Click here for the MCA notification dated 23 March 2022.

b. Auditing updates

2. ICAI issues Exposure Draft on AS 108, Segment Reporting

In continuation of upgrading the accounting standards for the entities to whom Ind AS is not applicable, Accounting Standards Board of ICAI has published Exposure Draft on AS 108, Segment Reporting on 29 April 2022, by taking cognizance of the corresponding Ind ASs, as the base. Key difference between proposed AS 108 and Ind AS 108 is:

- Identification of segments based on related products and services and geographical segment as against management approach (CODM)
- Segment information to be prepared in conformity with the accounting policies as against those measured as per reporting to CODM
- AS 108 states that in case there is neither more than one business segment nor more than one geographical segment, segment information as per the standard is not required to be disclosed. Ind AS 108 requires certain disclosures even in case of entities having single reportable segment.

Last date for submitting comments was 28 May 2022.

Click here for the exposure drafts issued by ICAI.

1. ICAI notification on revision of Guidance Note on CARO 2020 and interplay between CARO 2020 and Schedule III amendments

The Auditing and Assurance Standards Board (AASB) of the ICAI had issued the Guidance Note on the Companies (Auditor's Report) Order, 2020 (the Guidance Note) in July 2020 to provide detailed guidance on reporting requirements for

auditors under various clauses of CARO 2020. Click here for the Guidance Note issued by ICAI.

AASB vide notification dated 02 April 2022 has issued an announcement that in the light of amendments to Schedule III of the Act by the MCA by its notification dated 24 March 2021, a comprehensive revision of the Guidance Note is being initiated by them.

Meanwhile, the auditors are advised to read CARO 2020 in conjunction with the corresponding amendments to Schedule III and perform audit procedures accordingly. The notification also covers the interplay of some of the clauses in CARO 2020 and consequential amendments to Schedule III as an annexure.

Click here for the ICAI announcement.

On 07 June 2022, ICAI has also issued Exposure Draft on Guidance Note on the Companies (Auditor's Report) Order, 2020 (Revised 2022 edition). The exposure draft has been issued in light of the amendments in Companies Act, 2013 (including amendments to Schedule III) made after issuance of the Guidance Note in July 2020.

Last date for submission of comments was 22 June 2022

Click here for the exposure draft.

2. ICAI issues Implementation Guide on Reporting under Rule 11(e) and Rule 11(f) of the Companies (Auditors) Rules, 2014

ICAI issued Implementation Guide on Reporting under Rule 11(e) and Rule 11(f) of the Companies (Auditors) Rules, 2014 on 26 April 2022. The Implementation Guide contains detailed guidance on various aspects of reporting under Rule 11(e) like analysis of Rules, management's responsibilities in respect of disclosures in financial statements under Schedule III to the Act, various audit procedures to be performed, reporting considerations, illustrative formats of confirmation letters, illustrative formats of management representations.

The Implementation Guide also contains detailed guidance on various aspects of reporting under Rule 11(f) like relevant requirements under the Act and Rules thereunder, audit considerations, reporting requirements, audit procedures and illustrative reporting.

Click here for the Implementation Guide issued by ICAI.

c. Regulatory updates

Companies Act updates

3. ICAI notifies effective date for applicability of SAE 3410 Assurance Engagements on Greenhouse Gas Statements

The Institute of Chartered Accountants of India (ICAI), in February 2021, had issued Standard on Assurance Engagements (SAE) 3410, Assurance Engagements on Greenhouse Gas Statements, in order to strengthen assurance frameworks for non-financial information. The Standard is based on ISAE 3410 issued by the International Accounting and Auditing Standards Board (IAASB). The Standard deals with assurance practitioners to report on an entity's Greenhouse Gas (GHG) statement and to obtain either limited or reasonable assurance, as applicable, about whether the GHG statement is free from material misstatement, whether due to fraud or error.

ICAI vide announcement dated 02 May 2022 has notified the effective date for application of SAE 3410 as follows:

(i) Voluntary basis for assurance reports covering periods ending on 31 March 2023

(ii) Mandatory basis for assurance reports covering periods ending on or after 31 March 2024

Click here for SAE 3410.

Click here for the ICAI announcement.

1. LLP amendment rules notified by MCA

MCA has issued the Limited Liability Partnership (LLP) (Second Amendment Rules), 2022 vide notification dated 4 March 2022. Through these amendment rules, MCA has notified updated forms such as Form 8 (Solvency), Form 9 and Form 11, among others. Further, MCA has also made procedural changes to the LLP Rules, 2009 dealing with changes made around incorporation, manner of signing by LLPs when under insolvency proceedings, etc.

The key amendments are as follows:

- If an individual required to be appointed as designated partner does not have a DPIN or DIN, application for allotment of DPIN shall be made in Form FiLLiP. Provided further that the application for allotment of DPIN shall not be made by more than five individuals in Form FiLLiP.
- The Certificate of Incorporation of LLP shall be issued by the Registrar in Form 16 and shall mention Permanent Account Number and Tax Deduction Account Number issued by the Income Tax Department during Incorporation of Limited Liability Partnership.
- Statement of Account and Solvency shall be signed on behalf of the limited liability partnership by its designated partners. In cases where Corporate Insolvency Resolution Process has been initiated against an LLP or the LLP has come under liquidation, then the Statement of Account and Solvency may be signed by interim resolution professional or resolution professional or liquidator or limited liability partnership administrator.

These rules will come into force from the date of its publication in Official Gazette.

Click here for LLP (Amendment) Act, 2021 and click here for the MCA notification dated 11 February 2022 for LLP (Amendment) Rules, 2022.

Click here for the MCA notification dated 4 March 2022 for LLP (Second Amendment) Rules, 2022

2. Companies (Accounts) Second Amendment Rules 2022

Audit trial feature

MCA vide its notification dated 24 March 2021 had introduced the requirement relating to audit trial feature in the accounting software of companies which was effective from 01 April 2021. The requirement was thereafter deferred to 01 April 2022. Click here for the MCA notification dated 01 April 2022.

The implementation date of the above said requirement to use software with audit trail feature by companies has been further extended via notification issued by MCA dated 31 March 2022 and is now applicable from financial years commencing on or after 1 April 2023.

Form CSR-2

MCA vide notification dated 11 February 2022 inserted new rule 12(1B) to prescribe a new requirement in the case of every company, covered under section 135(1), to furnish Form CSR-2: Annual CSR Report, as an addendum to Form AOC-4 or AOC-4 XBRL or AOC-4 NBFC (Ind AS), as the case may be, for the preceding financial year (from FY 2020-21 onwards).

Click here for the notification issued by MCA dated 11 February 2022.

All such companies were required to submit the Form CSR-2 for FY 2020-21 separately by 31 March 2022.

The due date for submitting Form CSR-2 for FY 2020-21 was extended up to 31 May 2022 via a notification issued by MCA on 31 March 2022.

Click here for the MCA notification dated 31 March 2022.

3. Insolvency and Bankruptcy Board of India amends the Insolvency and Bankruptcy Board of India (Voluntary Liquidation Process) Regulations, 2017

The Insolvency and Bankruptcy Code (IBC), 2016 read with Insolvency and Bankruptcy Board of India (Voluntary Liquidation Process) Regulations, 2017 provides mechanism for voluntary liquidation of solvent corporate person. It was noticed that there has been substantial delay in completion of voluntary liquidation process, though the process involves nil or negligible claims of creditors, fewer assets to be realised and few litigations to be concluded.

To curtail such delay and ensure faster exit for firms, the amended regulation modify timelines for some stipulated activities undertaken during the process are as under:

- The liquidator shall prepare the list of stakeholders within fifteen days (against the previously stipulated 45 days) from the last date for receipt of claims, where no claim from creditors has been received till the last date for receipt of claims
- The liquidator shall distribute the proceeds from realisation within thirty days (against the previously stipulated six months) from the receipt of the amount to the stakeholders.
- It has been further provided that the liquidator shall endeavour to complete the liquidation process of the corporate person within 270 days from the liquidation commencement date, where the creditors have approved the resolution under section 59(3)(c) or regulation 3(1)(c), and 90 days from the liquidation commencement date in all other cases (against the previously stipulated 12 months in all situations).

The amendments are effective from 05 April 2022.

Click here for IBBI circular dated 8 April 2022.

4. MCA issues Nidhi (Amendment) Rules, 2022

MCA vide its notification dated 19 April 2022 has introduced substantial amendments to the existing Nidhi Rules, 2014 by notifying Nidhi (Amendment) Rules, 2022 which shall come into force on the date of its publication in the Official Gazette.

MCA has amended rules governing Nidhi companies, whereby the company shall not be allowed to raise deposits from its member/provide any loan to its members if it fails to comply with amended Rule 3A.

This rule is not applicable to the companies who are incorporated as Nidhi on or after the commencement of the Nidhi (Amendment) Rules, 2022. Now, public companies desiring to function as Nidhis must obtain prior declaration from the central government within 120 days of its incorporation as per newly inserted Rule 3B before accepting deposits. The Central Government will convey the decision, about accepting or rejecting the application, within a period of 45 days to the company, in absence of which it will be deemed that the application is approved.

The Rules are further amended with respect to definition of Branch, closing of Branch, increase in amount of net owned funds from INR 10 lakhs to INR 20 lakhs, increase in the amount of minimum paid up equity share capital and declaration of dividend. These amendments will apply for such companies which shall be incorporated after Nidhi (Amendment) Rules, 2022 come into force.

Click here for MCA Notification dated 19 April 2022.

5. MCA grants extension for holding AGMs and EGMs through video conference (VC) or other audit visual means (OAVM)

In view of the prevailing situation due to the COVID-19 pandemic, various relaxations have been provided to companies ,i.e., allowing them to conduct their meetings (AGMs and/or EGMs) through video conference (VC) or other audit visual means (OAVM) or

transact items through postal ballot in accordance with the specified framework, Ministry of Corporate Affairs (MCA) or before 31 December 2022 (earlier extended up till 30 June 2022).

Click here for the circular dated 08 December 2021.

Click here for circular dated 14 December 2021.

Click here and here for the circulars dated 05 May 2022 respectively.

It has been further clarified that the above should not be construed as an extension of time limit for holding AGMs prescribed under Companies Act, 2013.

Further, in view of above relaxations provided by MCA, Securities and Exchange Board of India (SEBI) on 13 May 2022, has also provided relaxation upto 31 December 2022, under Regulation 36 (1) (b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), which requires sending physical copies of annual report (unless specifically requested) containing salient features of all the documents prescribed in Section 136 of the Companies Act, 2013 to the shareholders who have not registered their email addresses. Further, the notice of AGM published by advertisement in terms of Regulation 47 of LODR Regulations, should contain a link to the annual report, to enable shareholders to have access to the full annual report.

Click here for the SEBI circular.

6. **MCA grants relaxation for filing of various forms by LLPs**

In view of transition from version-2 of MCA-21 to version-3 and to promote compliance on part of LLPs, MCA vide circular dated 27 May 2022 and 31 May 2022, has allowed Limited Liability Partnership (LLPs) to file e-form 11 (Annual Return of LLP) for the financial year 2021-2022 without paying additional fees upto 30 June 2022 (original timeline within 60 days, i.e., 30 May 2022 for the financial year ending 31 March 2022) and has also relaxed the payment of additional fees up to 30 June 2022 in case of delay in filing of all the event-based LLP e-forms which are due on and after 25 February 2022 to 31 May 2022.

Click here and here for the circular dated 27 and 31 May 2022 respectively

7. **The Companies (Registration of Charges) Amendment Rules, 2022**

Section 77 of The Companies Act 2013 and Rule 3 of the Companies (Registration of Charges) Rules, 2014 require every company creating a charge within or outside India, on its property or assets or any of its undertakings, to register the particulars of such charge with the Registrar of Companies (RoC) within 30 days from the date of creation or any modifications.

MCA, on 27 April 2022, has issued amendment to the Companies (Registration of Charges) Rules, 2014, inserting a new sub-rule Rule 3(5), which provides that Rule 3 would not apply to any charge required to be created or modified by a banking company under Section 77 in favour of the Reserve Bank of India (RBI) when any loan or advance has been made to it under Section 17(4)(d) of the RBI Act, 1934.

Click here for the circular dated 27th April 2022.

8. **The Companies (Prospectus and Allotment of Securities) Amendment Rules, 2022**

Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 provides the procedure to be followed and disclosures applicable in explanatory statement annexed to the notice for shareholders' approval, for a company proposing to make an offer or an invitation to subscribe to securities through issue of a private placement offer letter. It also states that an entity should not make an offer to subscribe through securities for private placement unless the proposal has been previously approved by shareholders through special resolution.

On 5 May 2022, MCA issued the Companies (Prospectus and Allotment of Securities) Amendment Rules, 2022 inserting a new proviso under Rule 14, which provides that no offer or

invitation of any securities should be made to a body corporate incorporated in, or a national of, a country which shares a land border with India, unless such body corporate or the national have obtained government approval under Foreign Exchange Management (non-debt Instruments) Rules, 2019 and have attached the same with the private placement offer cum application letter.

Consequential amendments were made in Form PAS- 4 Private Placement Offer Letter and Form INC-9 Declaration by Subscriber/First Director.

Click here and here for the circular dated 5 May 2022 and 20 May 2022 respectively

SEBI updates

1. **Change in control of Sponsor and/or Manager of Alternative Investment Fund involving scheme of arrangement under Companies Act, 2013**

The Securities and Exchange Board of India (SEBI) vide its circular dated 23 March 2022 has streamlined the process for approval with respect to change in control of Sponsor and Manager of Alternative Investment Funds (AIFs) involving a scheme of arrangement under the company's law. It has been clarified that applications seeking approval for the proposed change in control should first be filed with SEBI for an in-principal approval that will have a validity of three months from the date such approval is granted, within which an application to NCLT has to be made.

The circular also requires that within 15 days from the date of NCLT order, the applicant should submit the requisite documents, including copies of the order and approved scheme, for the final approval to SEBI.

The circular will apply to all the applications for which the scheme(s) of arrangement is filed with NCLT on or after 1 April 2022.

Click here for the circular dated 23 March 2022.

However, in case of material changes to the placement memorandum in all other cases that may significantly influence the decision of the investor to continue to be invested in the AIF, the process as per para 2(b)(iv) of the earlier prevailing circular dated 19 June 2014 and 18 July 2014 will continue to remain applicable.

Click here for SEBI circular dated 19 June 2014 and here for SEBI circular dated 18 July 2014.

2. Clarification on applicability of regulation 23 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in relation to Related Party Transactions

SEBI vide notification dated 9 November 2021 and 22 November 2021 had amended Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015 (LODR Regulations) enhancing the scope of related party, related party transactions (RPTs), revised materiality threshold for seeking shareholder approval and prescribed the information to be placed before the audit committee and the shareholders for consideration of RPTs.

Click here for SEBI circulars dated 9 November 2021.

Click here for SEBI circulars dated 22 November 2021.

SEBI vide notification dated 30 March 2022 has now issued the following clarification:

- RPTs that have been approved by both audit committee and shareholders prior to 1 April 2022 are not required to be approved again by the shareholders.
- RPTs approved by audit committee prior to 1 April 2022 but not by shareholders and become material as per the revised materiality threshold are required to be approved by the shareholders in the first general meeting held after 1 April 2022
- RPTs for which audit committee has granted omnibus approval are required to be approved by the shareholders, as required earlier, if it is material in terms of Regulation 23(1)

Further, the circular requires the listed companies to provide relevant information in the explanatory statement contained in the notice sent to the shareholders for seeking approval for any RPT so as to enable the shareholders to take a view whether the terms and conditions of the proposed RPT are not unfavourable to the listed entity, compared to the terms and conditions, had similar transaction been entered into between two unrelated parties.

The circular is effective from 01 April 2022.

Click here for SEBI circular dated 30 March 2022.

SEBI vide its Circular dated 8 April 2022 has clarified the applicability of Regulation 23(4) of LODR Regulations in relation to RPTs.

Regulation 23(3)(e) of the LODR Regulations specifies that omnibus approval granted by the audit committee shall be valid for a period not exceeding one year and shall require fresh approvals after expiry of one year.

Regulation 23(4) of the LODR Regulations requires shareholder approval for material RPTs.

In order to facilitate listed entities to align their processes to conduct AGMs and obtain omnibus shareholders' approval for material RPTs basis representations received from stakeholders, SEBI vide the circular has specified that the omnibus approval for material RPTs approved in an AGM shall be valid up to the date of the next AGM for a period not exceeding fifteen months. In case the approval was received in general meetings other than AGMs, the validity of approval shall not exceed one year.

Click here for SEBI circular dated 8 April 2022.

3. Updated Operational Circular for issue and listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper

SEBI vide its Circular dated 13 April 2022 had updated operational circular for Issue and Listing of Non-convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper UPI.

The circular modifies Chapter I, II and XIV to reflect changes brought by circular issued by SEBI on 8 March 2022 updating the UPI limits and requirement for submission of requisite information within 30 days of listing of securities. The updated operation circular also introduced two additional chapters to include circulars issued in past on these topics

- Chapter XIX - Publishing Investor Charter and Disclosure of Complaints by Merchant Bankers on their Websites which is applicable to merchant Bankers from 1 January 2022
- Chapter XX - Bank account details for payment of fees which is applicable from 1 October 2021

Click here for SEBI circular dated 13 April 2022.

Click here for SEBI circular dated 8 March 2022.

4. Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Third amendment) Regulations, 2022

SEBI vide its notification dated 11 April 2022 has updated regulation 54 and regulation 56 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 by replacing asset cover as security cover.

The amendment further amends the sub-regulation (1) of regulation 54 which states that in respect of its secured listed non-convertible debt securities, the listed entity shall maintain hundred percent security cover or higher security cover as per the terms of offer document/Information Memorandum and/or Debenture Trust Deed sufficient to discharge the principal amount and the interest thereon at all time for the non-convertible debt securities issued.

The amendments are effective immediately on date of publication in official gazette.

Click here for SEBI notification dated 11 April 2022.

5. Securities and Exchange Board of India (Issue and Listing of Non Convertible Securities) (Amendment) Regulations, 2022

SEBI vide notification dated 11 April 2022 has further amended SEBI (Issue and Listing of Non-Convertible Securities Regulations), 2021. Key amendments to the principal regulations are as follows:

- Regulation 23(5) required issuer to ensure that the secured debt securities are secured by hundred percent security cover. This has been amended to include or higher security cover as per the terms of the offer document and/or Debenture Trust Deed, sufficient to discharge the principal amount and the interest thereon at all time for the issued debt securities. (Similar amendment has been made to Regulation 38(2), 43(2) and 48(2) to align the requirements)
- Regulation 44(3) now requires submission of due diligence certificate to stock exchange as per format in Schedule IV in case of secured debt securities and in case of unsecured debt securities, in the format as specified in Schedule IVA of these regulations (similar amendment has been made to Regulation 40 to align the requirements)
- Certain changes have been made to Schedule I and II of these regulations with respect to requirements of credit rating agencies and extension of validity of rating letter from one month to one year. Now latest press release of the credit rating agency shall not be older than one year from the date of opening of the issue.

The amendments are effective immediately on date of publication in official gazette.

Click here for SEBI notification dated 11 April 2022.

6. Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2022

SEBI vide notification dated 27 April 2022 has issued the SEBI (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations, 2022 (the ICDR regulations)

The circular notifies timelines for various amendments as notified in SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations 2022 issued in January 2022.

Click here for circular dated 14 January 2022.

The amendments relating to sub-regulation (3A) of regulation 32, regulation 49, regulation 129, regulation 145, clause (10) and clause (15) of Part A of Schedule XIII, and Schedule XIV carried out by ICDR regulations shall come into force in the following manner

(a) For public issues of a size less than INR 10,000 crore and opening on or after 1 April 2022 – with effect from 1 April 2022

(b) For public issues of a size equal to or more than INR 10,000 crore and opening on or after 1 April 2022 - with effect from 1 July 2022

It is effective from the date of their publication in the Official Gazette.

Click here for SEBI circular dated 27 April 2022.

7. SEBI issues Master Circulars for REITs and InvITs

SEBI has issued updated Master Circulars for REITs and InvITs. The Master Circulars are a compilation of relevant circulars issued by SEBI up to 31 March 2022 which are operational as on date of this circular.

Circulars providing temporary relaxations with regards to certain compliance requirements in the wake of the COVID-19 pandemic have not been included in the master circular.

Click here and here for SEBI circular for REIT and InvIT respectively.

8. **SEBI (Collective Investment Schemes) (Amendment) Regulations, 2022**

In order to strengthen the regulatory framework for Collective Investment Schemes (CIS), SEBI has issued CIS (Amendment) Regulations, 2022. Under the new framework, SEBI has enhanced the net worth criteria and track record requirements for entities managing such schemes. Also, each CIS will have a minimum subscription amount of INR 20 crore and each needs to have a minimum of 20 investors and no single investor will hold more than 25% of the assets under management of such schemes.

Additionally, Collective Investment Management Company (CIMC) are required to have a minimum net worth of INR 50 crore as compared to the present requirement of INR 5 crore. Also, to avoid conflict of interest, the regulator has restricted a CIMC and its group/associates/shareholders' shareholding in a scheme to a maximum of 10%.

Any person proposing to operate any CIS on or after commencement of these regulations shall make an application to SEBI for the grant of registration in Form A. While any person who immediately prior to commencement of these regulations was already operating a CIS, shall subject to the provisions of Chapter IX of these regulations make an application to the board for the grant of certificate within a period of two months from such date.

The amendments are effective on the date of publication in official gazette.

Click here for SEBI circular dated 10 May 2022.

Other regulatory updates

1. **Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022**

The Reserve Bank of India (RBI) has issued Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022, vide notification dated 14 March 2022 after necessary review and inviting public suggestions/comments.

The directions aim at harmonising the regulatory frameworks for various regulated lenders in the microfinance space.

The provisions are applicable to all Regulated Entities as defined in these Master Directions and it lays down broad guidelines for assessment of household income, limit on repayment obligations of a household, pricing of loans, guideline related to conduct towards borrowers and recovery of loan.

These directions are applicable from 01 April 2022.

Click here for RBI master directions issued on 14 March 2022. –

2. **Master Direction – Classification, Valuation and operation of Investment Portfolio of Commercial Banks (Directions), 2021 - Amendment**

The Master Direction dated 25 August 2021 – Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021 (hereinafter referred as Master Direction). outlines the prudential treatment for investment in venture capital funds (VCFs). RBI vide amendments dated 23 March 2022 has issued clarification that the investment in Category I and Category II AIFs, which includes VCFs, shall receive the same prudential treatment as applicable for investment in VCFs in the Master Direction

The circular is applicable to all commercial banks (except regional rural banks) with immediate effect.

Click here for the master direction dated 23 March, 2022.

3. **Deferment of certain provisions of Revised Code of Ethics, 2019**

The Institute of Chartered Accountant of India (ICAI) has announced that the following provisions of Volume-I of Code of Ethics, 2019 (which were previously deferred owing to COVID-19 vide announcement dated 26 July 2021) will now be further deferred for a period of six months, i.e., till 30 September 2022.

- Responding to Non-Compliance with Laws and Regulation (NOCLAR)
- Fees - Relative Size
- Tax services to audit clients

Click here for ICAI announcement dated 26 July 2021.

Click here for ICAI announcement dated 31 March 2022

4. RBI unveils large exposures framework for Upper Layer NBFCs

RBI vide its circular dated 19 April 2022 has notified large exposures framework (LEF) for non-banking financial company – upper layer (NBFC-UL) with effect from 1 October 2022. Prudential guidelines on exposure norms aim at addressing credit risk concentration in NBFCs. These instructions set out to identify large exposures, refine the criteria for grouping of connected counterparties and put in place reporting norms for large exposures.

What is NBFC UL:

NBFC UL comprises those NBFCs which are specifically identified by the RBI as warranting enhanced regulatory requirements. The top ten eligible NBFCs in terms of their asset size will fall in the upper layer, irrespective of other factors.

Brief of the circular:

The sum of all the exposure values of an NBFC placed in the Upper Layer (UL), to a single counterparty and to a group of connected counterparties, must not be higher than 20 per cent and 25 per cent, respectively, of its available eligible capital base at all time. However, an infrastructure finance company (IFC) which is classified as an NBFC-UL, can exceed the afore mentioned limits by 5% of its Tier-I capital for exposure to a single counterparty, and by 10% of its Tier-I capital for exposure to a group of connected counterparties.

Further, an NBFC-UL may exceed the exposure limit by 5% of its Tier I capital for exposure to a single counterparty, if the additional exposure is on account of infrastructure loan and/or investment.

However single counterparty limit shall not exceed 25% in any case for NBFC-UL (other than IFC) and 30% for NBFC-UL (IFC), per RBI's large exposures framework for NBFC-UL.

Click here for RBI Circular dated 19 April 2022.

5. Rationalisation of certain compliance requirements - IRDA

The circular dated 27 April 2022 is issued under section 14(2)(e) of the Insurance Regulatory and Development Authority Act (IRDA), 1999. It shall come into force with immediate effect. On preliminary review of the extant compliance requirements pertaining to actuarial matters, it is decided to rationalise certain compliance requirements.

For life insurers:

- In regard to information to be submitted as part of the annual

actuarial valuation and related reports submission, the following reports are omitted from submission:

- Peer review report, except for domestic systemically important insurers
- Audited annual financial report along with all the financial statements
- The circular regarding submission of product planner is repealed
- The requirement to submit quarterly Asset Liability Management (ALM) returns is dispensed with, except for domestic systemically important insurers.
- The circular regarding 'Money market instrument in unit linked products' is repealed
- The circular with respect to standard format for appointment letter of appointed actuary is repealed

For Non-Life Insurers (including standalone health insurance)

- In regard to information to be submitted as part of the annual actuarial valuation and related reports submission, the following reports are omitted from submission:
  - Audited annual financial report along with all the financial statements
- Domestic systemically important insurers (including reinsurers) shall submit peer review report, prepared as per the applicable standards of the Institute of Actuaries of India, along with the IBNR report
- The requirement to submit quarterly ALM returns is dispensed with, except for domestic systemically important insurers
- The circular with respect to standard format for appointment letter of appointed actuary is repealed
- The corresponding repeals/modifications mentioned in circular shall also be applicable to reinsurers with immediate effect.

Click here for circular dated 27 April 2022.

6. RBI issues guidelines on compensation of KMPs and senior management in NBFCs

RBI had issued a Scale Based Regulatory (SBR) framework for NBFCs in order to put in place a board approved compensation policy in October 2021.

Click here for RBI Circular dated 22 October 2021.

It has now issued guidelines for providing broad guidance to NBFCs and their Nomination and Remuneration Committees in formulating their compensation policy. The policy shall at the minimum include

(a) Constitution of a Remuneration Committee

(b) Principles for fixed/variable pay structures including guaranteed bonus

(c) Malus/clawback arrangements in the event of subdued or negative financial performance

These guidelines will be applicable for fixing the compensation policy of key managerial personnel and members of senior management of all NBFCs under the SBR framework.

These guidelines shall come into effect from 1 April 2023.

Click here for the guidelines issued by RBI.

7. RBI provides clarity on presentation of reverse repo in the balance sheet of banks

In order to bring more clarity on the reporting of reverse repo on the balance sheet, RBI vide circular dated 19 May 2022 has clarified that:

(a) All type of reverse repos with the RBI including those under Liquidity Adjustment Facility shall be presented under sub-item 'In Other Account' of item 'Balances with RBI' under 'Cash and Balances'.

(b) Reverse repos with banks and other institutions having original tenors up to and inclusive of 14 days shall be disclosed under item 'Money at call and short notice' under 'Balances with banks and money at call and short notice'.

© Reverse repos with banks and other institutions having an original tenor of more than 14 days shall be classified under 'Advances' under the following heads:

A. Cash credits, overdrafts and loans repayable on demand

B. Secured by tangible assets

C. Banks/others (as the case may be)

This circular is applicable on all commercial banks.

Click here for the RBI circular.

B. International updates - Effective

a. Auditing updates

b. Accounting updates

A. India updates - Effective

B. International updates - Effective

a. Accounting updates

1. FASB issued Accounting Standards Updates ASU 2022-01 and 2022-02

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU), Derivatives and Hedging (Topic 815) – 'ASU 2022-01: Fair Value Hedging – Portfolio Layer Method'.

The key highlights of the ASU 2022-01 are:

- Allows multiple hedge layers for a single closed portfolio
- Expanding the scope of the portfolio-layer method to include non-prepayable assets
- Specifies eligible hedging instruments in a single-layer hedge
- Provides additional guidance on the accounting for and disclosure of hedge basis adjustments under the portfolio-layer method
- Specifies how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio
- The amendments in the update are effective from fiscal years beginning after 15 December 2022

ASU 2022-02: Troubled debt restructuring and vintage disclosures

FASB has issued Accounting Standards Update (ASU), Financial Instruments – Credit Losses (Topic 326) – 'ASU 2022-02: Troubled Debt Restructuring and Vintage Disclosures'.

The key highlights of the ASU 2022-02 are:

- Troubled debt restricting (TDR) by creditors
- The amendments in this update eliminate the accounting guidance for TDRs by creditors, Receivables – Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty.
- Vintage disclosures – gross write offs
- For public business entities, the amendments in this update require that an entity disclose current-period gross write offs by year of origination for financing receivables and net investments in leases within the scope, financial instruments—credit losses—measured at amortised cost.
- The amendments are effective from fiscal years beginning after 15 December 2022 subject to condition specified in respective updates.

Click here for the ASU 2022-01.

Click here for the ASU 2022-02.

2. IFRS has published Compilation of Agenda Decisions

The International Accounting Standards Boards (IASB) has published Compilation of Agenda Decisions - Volume 6 which is a compilation of all agenda decisions published by the IFRS Interpretations Committee from November 2021 to April 2022.

The various topics under discussion were as follows:

IFRS 9 Financial Instruments and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance- Targeted long-term refinancing operations (TLTRO) III Transactions

IFRS 16 Leases - Economic Benefits from use of a Windfarm

IAS 7 Statement of Cash Flows - Demand Deposits with Restrictions on Use arising from a Contract with a Third Party

Click here for the publishment by IFRS Board

b. Auditing updates

1. IAASB released International Standard on Auditing (ISA) 600 (Revised)

The International Auditing and Assurance Standards Board (IAASB) has released International Standard on Auditing (ISA) 600 (revised). The revised standard addresses special considerations that apply to audits of group financial statements (group audits). Group audits are often more complex and challenging than single-entity audits because a group may have many entities or business units across multiple jurisdictions, and component auditors may be involved.

ISA 600 (revised) includes a robust risk-based approach for planning and performing a group audit. The approach focuses the group auditor's attention and work effort on identifying and assessing the risks of material misstatement of the group financial statements and designing and performing further audit procedures to respond to those assessed risks. It also recognises that component auditors can be (and frequently are) involved in all phases of the group audit. The standard furthermore promotes a clear, proactive and scalable approach for group audits that can be applied to today's evolving group audit structures.

The changes in the standard build of other recent IAASB revisions, such as the revisions to the quality management standards and aims to enhance audit quality by strengthening

A. India updates - Effective

B. International updates - Effective

the accountability of group auditors and clarifying the interactive relationship between group and component auditors.

The revised standard becomes effective for audits of group financial statements for periods beginning on or after December 15, 2023.

Click here for IAASB update.

2. IFAC releases new implementation tool for auditors for ISA 540 (Revised)

The International Federation of Accountants (IFAC) today released a new resource, Auditing Accounting Estimates: ISA 540 (Revised) Implementation Tool. It will help auditors implement ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures by providing an overview of steps practitioners could take and related considerations.

This implementation tool contains what, why and how suggestions. These are not all-encompassing and more or different considerations may apply depending on the circumstances of the engagement.

The implementation tool also works in conjunction with the IAASB's previously published ISA 540 (Revised) flowcharts showing the requirements flow. The implementation tool aims at providing guidance to the practitioner but the choice of specific procedures an auditor decides to perform to meet the requirements ISAs is a matter of professional judgement.

Click here for the IFAC update

3. IAASB issues Non-Authoritative Guidance on Fraud in an Audit of Financial Statements

The International Auditing and Assurance Standards Board (IAASB) has released non-authoritative guidance 'The Fraud Lens - Interactions Between ISA 240 and Other ISAs'. The guidance illustrates the relationship and linkages between ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, and other ISAs when planning and performing an audit engagement and reporting thereon.

Click here for the guidance issued by IAASB.

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