Quarterly GAAP Bulletin

Updates from January to March 2025

April 2025

Introduction

Dear reader,

Grant Thornton Bharat is delighted to present 'Quarterly GAAP Bulletin', a bulletin that summarises significant accounting, auditing and regulatory updates. 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.

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India updates – Effective

A. Accounting updates

1. EAC opinion on capitalisation of annual technical support charges due to an intangible asset under development

The Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) has issued an opinion on a query that relates to the capitalisation of the Annual Technical Support (ATS) charges due on intangible assets under development (ERP-SAP), in accordance with the provisions of Indian Accounting Standard (Ind AS) 38, Intangible Asset.

Facts of the query:

- **Project overview:** Implementation of SAP-ERP, including IT infrastructure, cloud hosting, ERP licenses, ATS, application support, and SDWAN solution.
- **Timeline:** Originally scheduled for completion within 12 months from the work order date.
- **Delays:** Implementation delayed due to unavoidable issues; still in progress.
- **Costs incurred:** INR 30.44 crore spent up to 31 March 2023, including INR 7.42 crore for ATS charges.
- **ERP licenses:** Perpetual ERP licenses (SAP S4/HANA) procured, which will be customised and integrated by the implementing agency.
- **ATS service/charges:** It comprises of ATS for core ERP functions and ATS for e-office solutions, including the Document Management System (DMS) and workflow (if applicable). ATS services include the delivery of support services, implementation of latest updates, upgrades, service packs, enhancements and installation of patches of the ERP software solution and licenses.
- **ATS payments:** Yearly ATS payments are due after one year of license delivery, for a period of four years.
- **Accruals:** Due to delays, ATS payments accrued and capitalised with the cost of the ERP software under development.

The EAC opined that:

01 ERP licenses were procured for the development of ERP software, and without these licenses, the intended use of the SAP-ERP software solution till go-live was not possible. Further, the ATS was in relation to these licenses on which ERP development, testing, etc. was still continuing. ERP licenses were the base over which the SAP-ERP software solution/system of the company was to be developed, and the ATS ensured the upgradation of the licenses.

02 Thus, license charges, including ATS charges, were necessary for the development of ERP (intangible asset), and hence, assessed to be directly attributable to costs necessary to create, produce, and prepare the updated/upgraded ERP software/system for it to be capable of operating in the manner intended by the management.

03 Accordingly, till the ERP software/system is under development, the ATS charges relating to such period should be capitalised to the cost of ERP software/system under development in accordance with Ind AS 38.

Click here to access the EAC opinion

2. EAC opinion on classification of 'Provision for doubtful debts no longer required written back' as 'Other Income' or 'Other Operating Revenue'

The EAC of the ICAI has opined that the 'Provision for doubtful debts no longer required written back', which is identified as 'reversal of impairment loss' under the Ind AS, should be presented in the Statement of Profit and Loss under the line item 'Impairment losses'.

Key aspects noted by the EAC basis facts of the case are:

The EAC observed that the querist had used the nomenclature 'Provision for doubtful debts', which is not relevant under the Ind AS scenario, as 'provision for doubtful debts' is now termed as 'impairment loss on receivables or trade receivables'. Similarly, 'provision written back' is termed as 'reversal of impairment loss'.

Further, the EAC noted that as per the requirements of Paragraph 108 of Ind AS 115, Revenue from Contracts with Customers, receivables, including impairment thereof, are accounted for in accordance with Ind AS 109, Financial Instruments. As per Ind AS 109, an entity is required to recognise a loss allowance (impairment) based on the forward-looking expected credit loss (ECL) model.

Furthermore, the EAC noted that as per Paragraph 82 of Ind AS 1, Presentation of Financial Statements, the impairment loss, including reversals of impairment losses or gains, determined in accordance with Section 5.5 of Ind AS 109, should be presented separately on the face of the Statement of Profit or Loss. This is also consistent with the requirements contained in Part II of Division II of Schedule III to the Companies Act, 2013 (the Act).

Considering the above-mentioned requirements, the EAC is of the view that the question of presenting the same as 'other income' or 'other operating revenue' does not arise.

Click here to access the EAC opinion.

3. EAC opinion on classification and presentation of accrued wages and salaries to employees under Trade Payables or Provisions (current)

The EAC of the ICAI has issued an opinion on a query related to the classification and presentation of accrued wages and salaries of employees under the Ind AS framework.

In the given case, the management was of the opinion that the accrued obligations for employee payments, including pay and perquisites, arise from the services rendered to the company. Therefore, such amounts had been consistently classified under 'Trade Payables.' This classification is supported with reference to Paragraph 11(b) of Ind AS 37, Provisions, Contingent Liabilities, and Contingent Assets, which states that accruals represent liabilities for goods or services received but not yet paid, invoiced, or formally agreed upon, including employee-related amounts like accrued vacation pay. While the estimation of accruals may involve some uncertainty, it is typically lower compared to provisions. Accruals are generally classified under 'Trade and Other Payables,' whereas provisions are disclosed separately.

The EAC opined that:

01 When an employee has rendered services during a specific period, the corresponding employee benefits expected to be paid in return for those services must be recognised as a 'liability' or 'accrued expense,' rather than being categorised as 'provisions.' This distinction arises because provisions represent liabilities characterised by uncertain timing or amounts for future expenditures, whereas accruals pertain to obligations arising from services already received, with the amounts and timing being relatively certain.

02 The EAC noted that as per Paragraph 7.4 of the Guidance Note on Division II - Ind AS Schedule III to the Act, trade payables and employee salaries payable are two separate items under current liabilities. Further, Paragraphs 54 (k) and (l) of Ind AS 1, read with Paragraph 70 thereof, also indicate that accruals or payables for employees are to be presented separately from 'provisions' and 'trade payables'.

03 Accordingly, accrued wages and salaries should not be classified and presented under 'Trade Payables' or under 'Provisions' but under 'other current liabilities' or any other appropriate separate head created for this purpose under 'Current Liabilities' in the balance sheet.

Click here to access the EAC opinion.

4. Publication on Study on Compliance of Financial Reporting Requirements (Ind AS Framework)

The Financial Reporting Review Board (FRRB) of the ICAI has published Volume III of the series titled 'Study on Compliance of Financial Reporting Requirements (Ind AS Framework)'. This publication aims to highlight common non-compliance issues in financial statements. For ease of access, the observations are categorised into multiple areas, such as assets, equity, liabilities, components of profit and loss, statement of cash flows, other disclosures, auditor's report, and CARO.

Click here to access the FRRB publication.

B. Auditing updates

1. Guidance on non-compliances observed by the Quality Review Board during quality reviews

The Auditing and Assurance Standards Board (AASB) of the ICAI has published Volume 3 of the series titled 'Guidance on Non-Compliances Observed by Quality Review Board During Quality Reviews'. This publication is a compilation of non-compliances observed by the Quality Review Board (QRB) while conducting quality reviews and covers observations in relation to standards on quality control, standards on auditing and internal financial controls. This publication includes suggested guidance from the AASB, along with relevant technical literature against each such observation.

Click here to access the aforesaid publication.

2. Case studies on common non-compliance issues in financial market

The Committee on Financial Markets and Investors Protection of the ICAI has released a publication titled 'Case Studies on Common Non-Compliance Issues in Financial Markets'. The compendium of case studies delves into certain common areas of non-compliances in financial markets and their repercussions, such as:

Penalties for unregistered investment advisory services

- Penalties for unregistered investment advisory services
- Non-adherence to accounting standards
- Violations of various Securities and Exchange Board of India (SEBI) regulations
- Mishandling unpublished price-sensitive information, etc.

The publication aims to increase awareness of the importance of compliance requirements and foster a culture of better governance and risk management within financial markets. It also serves as a guide for key management personnel (KMP), companies, and other stakeholders involved in financial markets to mitigate risks and foster better governance and risk management practices.

Click here to access the ICAI publication.

3. Guidance note on Audit of Banks (2025 Edition)

The AASB of the ICAI has updated the "Guidance Note on Audit of Banks" (Guidance Note) in February 2025 as part of its annual exercise to incorporate the latest developments, the impact of amendments and changes in the banking landscape. These updates encompass factors such as Master Directions / Circulars issued by the Reserve Bank of India, relevant advisories, the ICAI's pronouncements affecting bank audits, and changes applicable to laws and regulations.

The Guidance Note aims to provide detailed instructions and standards for auditing banks, ensuring compliance with regulatory requirements and best practices in the banking sector.

The AASB has also required members to note three other publications: "Technical Guide on Audit of Internal Financial Controls in case of Public Sector Banks", "Technical Guide on Revised Formats of Long Form Audit Report" and "Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)", which are relevant for bank audits and certification during bank audits.

Click here to access the Guidance Note.

4. Implementation Guide on Audit Quality Maturity Model version 2.0

To facilitate audit firms' self-evaluation of their current level of audit maturity, identify areas for improvement, and develop a roadmap for upgrading to a higher level of maturity, the Centre for Audit Quality (CAQ) of the ICAI issued the Audit Quality Maturity Model version 2.0 (AQMM v2.0) on 22 August 2024.

Further, in order to assist the audit firms, members, and relevant reviewers with insights and tools necessary to effectively implement the Audit Quality Indicators (AQI) outlined in AQMM v2.0, the CAQ has issued an implementation guide for AQMM v2.0 in February 2025.

It may be noted that there is no change in the applicability requirements when compared to AQMM v.1 0., and accordingly, the revised AQMM is mandatory to the firms auditing the following categories of entities:

a) Any listed entity; or

b) Banks other than co-operative banks (except multi-state co-operative banks); or

c) Insurance companies

However, firms doing only branch audits of aforesaid entities are not covered.

Some additional features of AQMM v2.0 over the earlier version are:

- A separate annexure for the presence and implementation of checklist, formats and templates.
- A separate section to evaluate the digital competency of firms has been introduced.
- Score basis and maximum scores have been revised for certain sections.
- A firm needs to score at least 30% under each section to be eligible for getting a level assigned.
- The maturity level of the firm is the percentage of score achieved based on the ratio of the total actual score (i.e., total of each section) to the maximum score (i.e., 600)

The AQMM v 2.0 framework evaluates firms based on below three critical dimensions:

a) Practice management – Assurance

b) Human resource management

c) Digital competency

The maturity levels are categorised as follows: Level 1 (30-50%), Level 2 (51-65%), Level 3 (66-84%), and Level 4 (85-100%).

Effective from 1 April 2025, the revised model will apply to firms submitting peer review applications, assessing the review period from 1 April 2022 to 31 March 2025. However, firms have the option to voluntarily adopt AQMM v 2.0 prior to the enforcement date, ensuring a seamless transition from the previous version. This initiative aligns with the ICAI's continued commitment to elevating audit quality across the profession by promoting excellence in practice management, workforce management, and digital competencies.

Click here and here to access the revised model and the Implementation Guide respectively.

C. Regulatory updates
SEBI updates

1. Industry Standards on minimum information to be provided for review of the Audit Committee and Shareholders for approval of Related Party Transactions (RPT)

SEBI, on 14 February 2025, issued a circular, introducing industry standards on "Minimum information to be provided for review of the audit committee and shareholders for approval of a related party transaction". Regulation 23(2), (3) and (4) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations) require related party transactions (RPTs) to be approved by the Audit Committee and shareholders, if material.

In order to facilitate a uniform approach and assist listed entities in complying with the above requirements, the Industry Standards Forum (ISF) comprising of representatives from three industry associations, viz. The Associated Chambers of Commerce & Industry of India (ASSOCHAM), Confederation of Indian Industry (CII) and The Federation of Indian Chambers of Commerce and Industry (FICCI), under the aegis of the stock exchanges, has formulated industry standards (hereinafter referred to as 'the Industry Standards'), in consultation with SEBI, for minimum information to be provided for the review of the audit committee and shareholders for approval of the RPTs, which are briefly described below:

A. Scope of RPTs covered under the Industry Standards:

a) Material RPT as defined under Regulation 23(1) & (1A) of the SEBI LODR Regulations.

b) RPTs during a financial year, individually or taken together with prior transactions, exceed the lesser of:

- 2% of turnover as per the last audited consolidated financial statements of the listed entity,
- 2% of net worth as per the last audited consolidated financial statements of the listed entity, except in case the arithmetic value of the net worth is negative), or
- 5% of average of the absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed entity.

The Industry Standards also provide an applicability matrix based on type of transactions, thresholds, impact on financial statements and approvals required, in order to prescribe the level of disclosures required (comprehensive, limited or minimum).

B. The management should consider the following while collecting and collating the information required for prescribed disclosures:

01 Certificates from the CEO, CFO or promoter director to the effect that the RPTs to be entered into are not prejudicial to the interest of public shareholders and the terms and conditions of the RPT are not unfavourable to the listed entity compared to the terms and conditions, had similar transactions been entered into with an unrelated party.

02 Provide comments against each piece of information where it is sought in the format specified in Para 4 of these Industry Standards against transaction-based information.

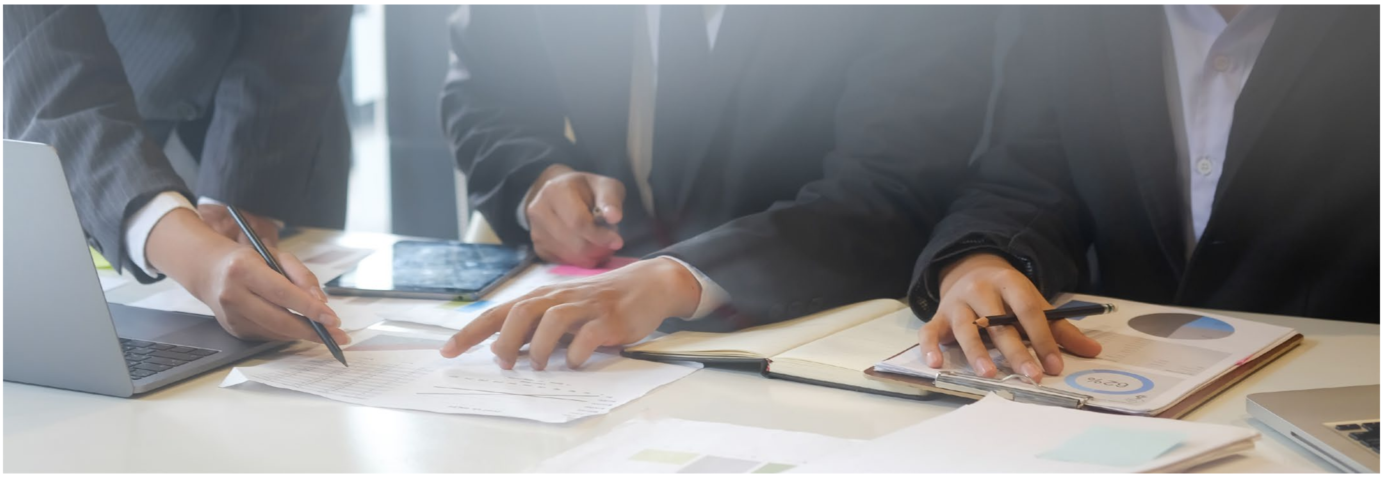
03 The information provided in the standardised format shall be incorporated into the agenda of the Audit Committee meeting.

04 The comments of the Audit Committee should be recorded in the minutes of the meeting.

05 In case of transactions involving the payment of royalty, management fees, service fees, etc., if any, they should be explicitly bifurcated and disclosed.

06 Comparison of royalty payments with at least three peers. In cases where fewer than three industry peers are available, the listed entity will disclose that only one or two peers are available for comparison.

07 If audited financial statements of the related party, as required to be submitted to the Audit Committee, are not available for any financial year, the financial details should be certified by the related party.



C. Key highlights from the format prescribed by the Industry Standards for providing information to the Audit Committee/shareholders:

01 | Depending on whether the transactions affect the balance sheet items, profit and loss items, or both and the thresholds specified in the industry standards, companies are required to provide necessary disclosures, whether comprehensive, limited, or minimum.

02 | Details are to be provided separately for each type of proposed transaction, in case where multiple type of transactions are proposed.

03 | Whether the RPTs proposed to be entered into are going to be carried out on the same terms and conditions as would be applicable to any party that is not a related party.

04 | Details of the promoter(s)/ director(s) / key managerial personnel of the listed entity who have an interest in the transaction, whether directly or indirectly.

05 | The rate of interest at which the related party is borrowing from its bankers or the rate at which the related party may be able to borrow, given its credit rating or credit score and its standing and financial position.

06 | The rate of interest at which the listed entity or its subsidiary is borrowing from its bankers or the rate at which the listed entity may be able to borrow, given its credit rating or credit score and its standing and financial position.

07 | Details of shareholding (more than 2%) of the director(s) / key managerial personnel/ partner(s) of the related party, directly or indirectly, in the listed entity.

08 | Provide a clear justification for entering the RPT, demonstrating how the proposed RPT serves the best interests of the listed entity and its public shareholders.

09 | Additional details for proposed transactions relating to the sale, purchase or supply of goods or services or any other similar business transaction.

10 | Additional details for proposed transactions relating to any guarantee (excluding performance guarantee), surety, indemnity or comfort letter, by whatever name called, made or given by the listed entity or its subsidiary.

11 | Additional details for proposed transactions relating to the sale, lease or disposal of assets of subsidiaries or of the unit, division or undertaking of the listed entity, or disposal of shares of subsidiaries or associates.

12 | The total amount of all the transactions undertaken by the listed entity or subsidiary with the related party during the current financial year (till the date of approval of the Audit Committee/shareholders).

D. Additional points for consideration for information to be provided to the shareholders for consideration of RPTs:

01 Disclose the fact that the Audit Committee has reviewed the certificate provided by the CEO or CFO or any other KMP, as well as the certificate provided by the promoter directors of the listed entity, to the effect as mentioned in Point 2 above.

02 The Audit Committee certification that redacted disclosures, if any, still provide all the necessary information to shareholders for informed decision-making.

03 Statement of assessment by the Audit Committee that promoter(s) will not benefit from the RPT at the expense of public shareholders.

04 In the case of sale, purchase, or supply of goods or services, if the Audit Committee has reviewed the terms and conditions of bids from unrelated parties, then such fact should be stated. Further, if there is no bid invited, such fact should be disclosed along with the justification thereof.

05 Comments of the Board/Audit Committee of the listed entity, if any.

06 For RPTs, information as prescribed in these Industry Standards will be included in the explanatory statement to the notice sent to shareholders.

These standards were initially effective from 1 April 2025. However, based on feedback from various stakeholders requesting an extension of the timeline with respect to the RPTs entered by the listed entity, SEBI has extended the applicability to 1 July 2025.

Further, regarding the applicability of the aforesaid industry standards, frequently asked questions (FAQs) have been issued and hosted on the exchanges' websites.

Click here and here to access the circular and the Industry Standards, respectively.

Click here to access the applicability FAQs issued.

2. Industry Standards on Regulation 30 of SEBI LODR Regulations

SEBI, vide a circular dated 25 February 2025, has published an industry standards note on Regulation 30 of the SEBI LODR Regulations for effective and consistent implementation of the requirement to disclose material events or information under Regulation 30, read with Schedule III of the SEBI LODR Regulations and circulars referred thereunder.

Key clarifications covered include:

A. Interpretation of "value or the expected impact in terms of value" for determining the materiality of events/information under Regulation 30(4)(i)(c):

When computing the "expected impact in terms of value" of an event/information, a listed entity must consider the impact over four ensuing quarters. Below are clarificatory examples for such requirement:

a) **Event within the first 60 days of a quarter:** If the event occurs within the first 60 days (e.g., 29 May 2025), the assessment should include the ongoing quarter and the next three quarters. In this example, the period to be considered would be from 1 April 2025 to 31 March 2026.

b) **Event after the first 60 days of a quarter:** If the event occurs beyond the first 60 days (e.g., 1 June 2025), the ongoing quarter should be excluded. The assessment period will begin from the following quarter and cover four quarters (i.e., 1 July 2025, to 30 June 2026).

B. Interpretation of "last audited consolidated financial statements" for determining the materiality of events/information under Regulation 30(4)(i)(c):

This regulation refers to the last audited consolidated financial statements as the annual audited consolidated financial statements of the listed entity.

C. Interpretation of 'cumulative basis' for disclosure of pending litigations or disputes under Regulation 30(4) read with Para B (8) of Part A of Schedule III:

1. Listed entities must disclose litigations or disputes with similar legal or factual aspects if the cumulative amount involved exceeds the materiality threshold. However, aggregation is not required solely because:
   a) The same opposite party is involved in multiple matters, or
   b) The litigation involves the listed entity and its subsidiaries.

2. For tax matters, if proceedings initiated by tax authorities across different financial years or states involve similar facts and legal issues, and a negative outcome in one case is likely to lead to similar outcomes in others, such matters should be aggregated. However, aggregation is not required if:
   a) Cases involving tax authorities involve different facts and unrelated outcomes, even if the tax authority is the common opposing party.
   b) Cases initiated by or against the listed entity and its subsidiary involve a common opposing party but have different facts and unrelated outcomes.

D. Disclosure of show cause notices under (i) Para A (20) of Part A of the Schedule III and (ii) Para B (8) of Part A of Schedule III:

Receipt of a show cause notice would not trigger a disclosure requirement under Para A (20) of Part A of Schedule III. However, the receipt of a show cause notice from any regulatory, statutory, enforcement authority would come under Para B (8) of Part A of the Schedule III and require disclosure upon application of the guidelines for materiality, as specified in Regulation 30(4).

E. Compliance of timelines for disclosure under Regulation 30(6):

Listed entities should set up systems for prompt internal reporting of events and conduct regular training sessions to ensure compliance with Regulation 30 of the SEBI LODR Regulations. The timeline for disclosures to stock exchanges begins once an officer, as defined under Section 2(59) of the Act, becomes aware of the event/information through credible and verifiable communication channels.

F. Disclosure of fraud or default under Regulation 30 read with Para A (6) of Part A of Schedule III:

1. **Fraud related to the listed company:**
   a) Disclosure timelines are triggered either after a prima facie assessment of fraud is completed or four weeks after the company becomes aware of the alleged fraud, whichever is earlier.
   b) Further, the final disclosure is required once the investigation concludes.

2. **Fraud not related to the listed company:**

If the fraud pertains to promoters, directors, key managerial personnel, senior management or subsidiaries, disclosure is required when an officer of the listed company becomes aware of the fraud through credible and verifiable communication channels.

G. Disclosure of guarantees and indemnity under Regulation 30(4) read with Para B (11) of Part A of Schedule III:

1. Listed entities can exclude indemnity, guarantee or surety for wholly owned subsidiaries consolidated in their financial statements but must disclose them if the subsidiary is no longer wholly owned.
2. Contractual performance guarantees given in the normal course of business by listed entities do not require disclosure unless they are invoked.
3. Guarantees, indemnities or surety bonds given by listed banking or insurance companies in their normal course of business do not require disclosure unless invoked.

H. Applicability of numerical thresholds to certain companies for Para A (1) of Part A of Schedule III:

For insurance companies and non-banking financial companies (NBFCs), including core investment companies registered with the RBI, the guidelines in Explanation (1)(ii)(c) to Para A (1) of Part A of Schedule III for the purpose of determining whether disclosure of an acquisition is required, it is clarified that:

1. **Acquisitions of listed/convertible/debt securities:** Disclosure is needed only if the acquisition cost exceeds 2% of the investor's net worth (as per the last audited consolidated financial statements). Other materiality thresholds under Regulation 30(4)(i)(c) are not applicable here.
2. **Other types of acquisitions:** All prescribed materiality thresholds under Regulation 30(4)(i)(c) must be applied to determine if disclosure is required.

I. Guidance on the appropriate parameter (profit / net worth / turnover) to be considered for determination of materiality for different types of events under Part B of Part A of Schedule III of LODR Regulations:

Regulation 30(4)(i)(c) of the SEBI LODR Regulations specifies criteria for determining the materiality of events/information, based on the lower of:

1. **2% of turnover** (last audited consolidated financial statements),
2. **2% of net worth** (last audited consolidated financial statements, unless net worth is negative),
3. **5% of average PAT** (absolute value from the last three audited consolidated financial statements).

However, in certain instances, all of the three parameters specified under Regulation 30(4)(i)(c) (viz, profit / net worth / turnover) may not be relevant to an event. Since there are separate thresholds of 2% of turnover, 2% of net worth and 5% of average PAT, each of such values can be applied individually, and a particular threshold would be relevant and applicable depending on the nature of the event / information being assessed.

For instance, any event that has an impact on the turnover or profits of the company can be considered material by comparing the value of such event / information with 2% of the consolidated turnover or 5% of the average PAT, respectively.

Click here and here to access circular and the industry standards, respectively.

3. Industry Standards on Key Performance Indicators' Disclosures in the draft Offer Documents and Offer Document

SEBI, vide a circular dated 28 February 2025, has introduced "Industry Standards on Key Performance Indicators (KPIs) Disclosures in the draft Offer Document and Offer Document" as per the SEBI ICDR Regulations (hereinafter referred to as 'the KPI Industry Standards'). The KPI Industry Standards are applicable to issuer companies whose securities are listed or proposed to be listed, and to merchant bankers.

KPIs are key numerical measures of an issuer company's historical financial and/or operational performance, which the management evaluates and tracks to monitor the company's performance and provide information to investors to make an informed decision about the company's valuation.

The key areas covered in the KPI Industry Standards are with respect to the identification of KPIs, approval of KPIs by the Audit Committee and certification of the KPI information by certified professionals, as further discussed below:

A. Identification of KPIs

- **Criteria for inclusion:** All KPIs should be measurable and expressible in numbers. Subjective or qualitative aspects shall not be included as KPIs.
- **Data collection and compilation:** Management of the issuer company should collate the following information:
  1. GAAP/ non-GAAP financial measures that are required to be mandatorily disclosed in the offer document.
  2. Key financial or operational information shared with any investor or included in private placement offer or any rights issue offer letter, etc.
  3. KPIs that are regularly presented/discussed at board meetings.
  4. KPIs that have been considered by the management of the issuer company to arrive at the basis for the issue price.
  5. The issuer company's performance during the three years prior to the date of filing the offer document.
- **Identification of KPI for industry peers**: The following criteria should be considered to select industry peers:
  1. Industry peers should be of comparable size, in the same industry, and operating in a similar line of business or business model.
  2. The issuer company should strive to compare its KPIs with a minimum of three industry peers.
  3. If there are fewer than three available peers, management should disclose this fact, and if no suitable industry peers are available, management should explain the uniqueness of the business model or line of business.

- **Shortlisting of KPIs:** KPIs shall be shortlisted, considering the following factors:
  1. Projections should be excluded.
  2. Selected data that cannot be verified, certified or audited should be excluded, with the management of the issuer company providing a rationale for the same in the audit committee note.
  3. Selected data that are no longer relevant or do not reflect the current business situation due to changes in the business model, acquisitions, divestitures, etc., should be excluded.
  4. Selected data that is subsumed within the KPIs proposed for disclosure or data that represents a further breakdown of the KPI to be disclosed may be excluded. However, if such data is routinely disclosed by industry peers, it shall not be excluded. Further, any subsumed selected data that the issuer company considers as a KPI should be disclosed separately.
  5. Selected data that is confidential or business-sensitive and could impact the issuer company's competitiveness, if disclosed publicly, should be excluded, and the management of the issuer company should provide a rationale for this exclusion in the audit committee note. However, if such confidential or business-sensitive selected data is routinely disclosed by the industry peers, then it shall not be excluded.

B. **Approval by the Audit Committee:** The audit committee of the issuer company should approve the KPIs identified/certified by the management of the issuer company to be disclosed in the offer document.

C. **Certification:** The KPIs identified/certified by the management of the issuer company, to be disclosed in the offer documents, should be certified by the statutory auditor(s) or chartered accountants or a firm of chartered accountants holding a valid certificate issued by the Peer Review Board.

Click here and here to access the circular and the industry standards respectively.

4. Amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

SEBI, on 27 March 2025, notified the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2025, to further amend the SEBI LODR Regulations, with an aim to enhance corporate governance, transparency, and accountability for listed entities, especially for High-Value Debt Listed Entities (HVDLEs), while increasing the threshold for such classification.

The key amendments are as follows:

A. Threshold for classification as HVDLEs:

- The threshold for classifying an entity as HVDLE, with respect to its outstanding listed non-convertible debt securities (NCDs), has been increased to INR 1,000 crore from INR 500 crore.
- The threshold for classifying an entity as HVDLE, with respect to its outstanding listed non-convertible debt securities (NCDs), has been increased to INR 1,000 crore from INR 500 crore.
- In case the value of outstanding listed NCDs becomes equal to or greater than INR 1,000 crore during the course of the year, the HVDLE should ensure compliance with these provisions within six months from the date of such trigger.
- Disclosures regarding compliance with provisions for HVDLEs would be required in the corporate governance compliance report for the third quarter following the date of the trigger of the entity being classified as HVDLE.
- Further, a new proviso has been added pursuant to which once the Regulations 15 to 27 of SEBI LODR Regulations become applicable to a HVDLE. These regulations shall continue to apply till the value of the outstanding listed NCDs as of 31 March in a year reduces and remains below the specified threshold for a period of three consecutive financial years.

B. Introduction of Chapter VA, Regulations 62B through 62Q: New corporate governance norms for listed entities, which have listed its NCDs:

A new Chapter VA has been introduced, addressing corporate governance norms for HVDLEs that have listed only their NCDs, with an outstanding value of INR 1,000 crore, and do not have any listed specified securities as of 31 March 2025.

These corporate governance norms are similar to those already established for HVDLEs with listed specified securities.

The chapter covers the provisions for the composition of the board of directors, the maximum number of directorships, the constitution of the audit committee, the nomination and remuneration committee, the stakeholders' relationship committee, and the risk management committee. Additionally, it covers related party transactions and the obligations of independent directors, senior management, key managerial personnel, directors, and promoters.

C. Maximum number of directorships (Regulation 17A of SEBI LODR Regulations):

- Directorships held in HVDLEs shall also be considered when calculating the maximum number of directorships a person can hold as a director or independent director. Earlier, only directorships held by a person in an entity whose equity shares are listed on a stock exchange were considered.

- Further, this amendment for the inclusion of HVDLE for maximum directorships shall come into effect after a period of six months from the date of publication of these amendments in the Official Gazette, being 28 March 2025, or the date of the Annual General Meeting, whichever is later.

D. Regulation 23 of SEBI LODR Regulations (RPTs):

With effect from 1 April 2025, the provisions of Regulation 23 is applicable in respect of a listed entity that has listed its specified securities on the SME Exchange, and which has either paid up equity share capital exceeding INR 10 crore or net worth exceeding INR 25 crore, as on the last day of the previous financial year.

E. Option to select between "assessment" or "assurance" for BRSR core and value chain ESG disclosures read with SEBI circular:

- As per Regulation 34(2)(f) of SEBI LODR Regulations, for the top 1000 listed entities by market capitalisation, annual report should contain a Business Responsibility and Sustainability Report (BRSR) on the environmental, social and governance disclosures (ESG) and also assurance of the BRSR core should be obtained, with effect from and in the manner as may be specified by the SEBI from time to time. Pursuant to amended Regulation 3 (provisions relating to 'applicability of the SEBI LODR regulations'), the word 'assurance' has been replaced with 'assessment or assurance of specified parameters', i.e., an option has been given to select between "assessment" or "assurance" for BRSR core and value chain ESG disclosures, with the "assessment" to be undertaken as per the Industry Standards Forum (ISF) guidelines.

- Further, SEBI has issued a circular dated 28 March 2025 on the revision of various provisions regarding ESG disclosures based on the recommendations of the Expert Committee for Facilitating Ease of Doing Business and pursuant to public consultation. Key matters discussed in this circular are as follows:

  a) **Assessment or assurance disclosure:** In order to facilitate the ease of doing business and decrease cost and effort for listed entities and their value chain partners for verifications of sustainability reporting, listed companies now have the option to select between "assessment" or "assurance" for BRSR Core and value chain ESG disclosures.

The ISF, in collaboration with SEBI, will develop "assessment" standards. The timeline for mandatory assessment or assurance of BRSR Core have been introduced in a phased manner, which began with the top 150 listed entities in FY 2023-24 and expanding to the top 1000 listed entities by FY 2026-27.

b) ESG disclosures for value chain:

The disclosure requirement for value chain partners, individually, is set at 2% or more of the listed entity's purchases and sales (by value) respectively. However, the listed entity may limit the disclosure of the value chain to cover 75% of its purchases and sales (by value) respectively.

These disclosures have been deferred by one year, with the applicability of voluntary disclosures beginning from FY 2025-26 to the top 250 listed entities (by market capitalisation). Further, the assessment or assurance of the value chain ESG disclosures shall be applicable on a voluntary basis from FY 2026-27.

For the first year of reporting ESG disclosures for the value chain, reporting of previous year numbers has been made voluntary. For example, for value chain disclosures of FY 2025-26, reporting of previous year data (i.e., data for FY 2024-25) is voluntary.

Also, if a listed entity provides ESG disclosures for the value chain, it shall disclose the percentage of total sales and purchases covered by the value chain partners, respectively, for which ESG disclosures are provided.

c) Green credits disclosure:

SEBI has introduced green credit disclosures within the BRSR from FY 2024-25 onwards. Such disclosures shall include green credits purchased or procured by the:

- Listed entity
- Top ten value chain partners (in terms of value of purchases and sales, respectively)

Click here to access the SEBI circular dated 28 March 2025 on ESG.

The SEBI LODR Regulation amendments become effective on 28 March 2025, the date of their publication in the Official Gazette.

Click here to access the SEBI notification.

5. Amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (SEBI ICDR Regulations) has been amended vide SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2025, to enhance transparency, streamline initial public offer (IPO) norms and improve corporate governance.

The amendments pertain to revisions to the IPO framework and corresponding disclosures, the requirements in relation to rights issues, aspects relating to SME IPOs, and alignment of various provisions in the SEBI ICDR Regulations with the SEBI LODR Regulations.

Key amendments include:

A. Proforma financial statements

1. Where acquisition or divestment, including deemed disposal, have been made after the latest period for which the financial information is disclosed in the offer document but before the date of filing the offer document

A company may voluntarily choose to provide proforma financial statements of acquisitions/divestments in the following cases:

- When such acquisitions/divestments are below the materiality thresholds specified in the SEBI ICDR Regulations (i.e. 20% or more of the turnover, net worth or profit before tax of the latest consolidated financial statements of the company), or
- If the acquisitions/divestments have been completed prior to the latest period for which the financial information is disclosed in the draft offer document or the offer document (This option for voluntarily disclosure of proforma financial statements has now been newly added).

2. Where proceeds, fully or partly, directly or indirectly, are to be used for the acquisition of one or more material businesses or entities.

The existing regulations require that in case the proposed acquisition of business or subsidiaries is material (if it will make 20% or more contribution in aggregate to either turnover or net worth or profit before tax in the latest annual consolidated financial statements), then the offer document should include the audited financial statements for the latest three years, including stub period (if available) of the target company. Further, the issuer may voluntarily choose to include audited financial statements even if the proposed acquisition is below the materiality thresholds.

The amendment now allows the issuer company to voluntarily provide proforma financial statements to disclose the impact of such acquisition, for such financial periods as determined by the issuer company.

B. Disclosure of financial statements of business/subsidiaries acquired or divested

SEBI has now allowed issuers to voluntarily include financial statements of a business or subsidiary acquired/divested, provided such financial statements are certified by the auditor of the business or subsidiary acquired/divested, or chartered accountants that hold a valid certificate issued by the Peer Review Board of the ICAI.

C. Relaxations for right issues

1. The threshold for applicability of the SEBI ICDR Regulations for rights issued by a listed issuer where the aggregate value of the issue is INR 50 crore or more under Regulation 3 and Regulation 60 of the SEBI ICDR Regulations has now been omitted. Therefore, the SEBI ICDR Regulations are now uniformly applicable for all rights issue regardless of the issue size.

2. Reduced timelines and faster approval processes for rights issues by a listed issuer have been introduced. As per the amendment, the draft letter of offer is not required to be filed with SEBI but can instead be directly filed with stock exchanges.

3. The amendment also allows the promoters or promoter groups to renounce their rights entitlements in favour of specific investors.

D. Relaxations in eligibility requirement of IPO – allowing outstanding Stock Appreciation Rights (SARs) till RHP

The Stock Appreciation Rights (SARs) are now introduced as valid dilutive instruments, which must be fully exercised prior to the filing of the Red Herring Prospectus (RHP). This is in addition to the existing provisions for Employee Stock Option Plans (ESOPs) and compulsory convertible securities, which are also required to be converted before the RHP filing for an IPO by the entity. As per the amendment, relevant disclosures pertaining to SARs should be made in the draft offer document and offer documents accordingly.

Furthermore, the amendments stipulate that for determining the minimum promoters' contribution, the post-IPO capital will now consider the exercise of any SARs that are outstanding and which would be converted prior to the filing of the RHP.

E. Eligibility requirement for IPO &and lock-in period for promoters

1. A new requirement has been added, which states that an issuer may make an IPO only if the issuer had minimum operating profits (earnings before interest, depreciation and tax) of INR 1 crore from operations for at least 2 out of the 3 previous financial years.

2. In cases where there is a complete change of promoter of the issuer or there are new promoter(s) of the issuer who has acquired more than 50% of the shareholding of the issuer, the issuer shall file the draft offer document only after a period of one year from the date of such final change(s).

3. Furthermore, 50% of the promoters' holding in excess of the minimum promoters' contribution will be locked in for two years from the date of allotment in the initial public offer *(such lock-in period was one year in the erstwhile regulations)*.

F. Reporting of transactions of the promoters and promoter group and other pre-IPO transactions

In addition to the existing requirement to notify all transactions in securities by the promoter and promoter group between the date of filing of the draft offer document or offer document, as the case may be and the date of closure of the issue, to the stock exchanges within 24 hours of such transactions, SEBI has now mandated that any proposed pre-IPO placement disclosed in the draft offer document must be reported to the stock exchanges within 24 hours of such pre-IPO transactions, whether in part or in entirety.

G. Reporting of transactions of the promoters and promoter group and other pre-IPO transactions

Earlier, the company was required to obtain a certificate from its statutory audit certifying the utilisation of proceeds of the loan for the purpose it has been availed, where one of the objects of the IPO included repayment of the loan.

As per the amendments, SEBI has allowed for such a certificate to be obtained from a chartered accountant holding a valid certificate issued by the Peer Review Board of the ICAI in respect of the following:

1. Periods not audited by the current statutory auditor, or

2. Where the loan that is proposed to be repaid was availed by a subsidiary and the current statutory auditor of the company is not the statutory auditor of the subsidiary.

H. Compliance officer to be a company secretary

It has now been stated that a company's compliance officer must be a person qualified to be a company secretary. This is aligned with the existing requirement in the SEBI LODR Regulations.

I. Computation of thresholds for participation in the offer-for-sale component of an IPO

As per the existing requirements, in respect of the draft offer documents filed under Regulation 6(2) of the SEBI ICDR Regulations: (i) Shareholders with over 20% of the pre-IPO shareholding on a fully-diluted basis cannot offer more than 50% of their pre-IPO shareholding on a fully-diluted basis in the IPO, and (ii) Shareholders with less than 20% of the pre-IPO shareholding on a fully-diluted basis cannot offer more than 10% of the pre-IPO shareholding of the company on a fully-diluted basis in the IPO.

Through amendments, SEBI clarified that the limits set out under (i) and (ii) above are required to be calculated with reference to the shareholding as of the date of the draft offer document and will apply cumulatively to the total number of shares offered for sale to the public, as well as any secondary sale transactions prior to the IPO as per the amendment.

J. Disclosures on outstanding litigations in offer documents

1. Material 'civil' litigations

In line with the SEBI LODR Regulations, with respect to the disclosures relating to outstanding civil litigation in the IPO offer documents, the amendments provide that outstanding civil litigation must be disclosed based on the lower of the following **:**

a) The materiality policy determined by the board of directors and disclosed in the IPO offer documents, or

b) Where the value or expected impact in terms of value of such litigation exceeds the lower of the following:

   1. Around 2% of the turnover, as per the latest annual restated consolidated financial statements of the company; or

   2. About 2% of net worth, as per the latest annual restated consolidated financial statements of the company, except where the arithmetic value of the net worth is negative; or

   3. Around 5% of the average absolute value of profit or loss after tax, as per the last three annual restated consolidated financial statements of the company

Earlier, the issuer was required to disclose material civil litigation in its IPO offer documents based on only the materiality policy adopted by its board of directors.

2. Disclosure of certain litigations relating to KMPs and senior management:

The amendments now require the disclosure of all criminal proceedings involving KMPs and senior management and also actions by regulatory and statutory authorities against such KMPs and senior management in the IPO offer documents.

K. Amendments in advertisement related requirements

1. **Amendment in timeline for publishing DRHP filing advertisement:** The existing requirement of making a public announcement within 2 days of filing the Draft Red Herring Prospectus (DRHP) has now been amended to 2 working days. Further, the requirement to keep the DRHP open for public for 21 days from the date of its filing has been amended to 21 days from the date of publication of the public announcement on filing of the DRHP.

2. **Pre-issue and price band advertisement combined:** The former pre-issue advertisement and the price band advertisement have now been combined into a single pre-issue and price band advertisement, which shall be made after filing the RHP and at least 2 working days before the opening of the issue, in the same newspapers in which the DRHP filing advertisement is made. A format of such pre-issue and price band advertisements has also been prescribed.

Click here for SEBI notification.

6. Amendments to SEBI (Prohibition of Insider Trading) Regulations, 2015

SEBI, on 11 March 2025, notified the SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2025, to further amend the SEBI (Prohibition of Insider Trading) Regulations, 2015 ('SEBI PIT Regulations').

Key amendments include:

A. Increase in scope of UPSI

Under Regulation 2(1)(n) of the SEBI PIT Regulations, unpublished price sensitive information (UPSI) refers to any information relating to a company or its securities that is not generally available, which, if made public, could materially affect the price of the securities. This provision provides a non-exhaustive list of items (such as dividends, financial results, etc.) that are considered UPSI.

SEBI noted that companies were categorising only the events expressly mentioned in Regulation 2(1)(n) of the SEBI PIT Regulations, thus not complying with the law in spirit. Hence, steps were taken to align the definition of UPSI with the events in Para A and Para B of Part A of Schedule III and Regulation 30 of the SEBI LODR Regulations.

Accordingly, new events have been added to the UPSI definition by including sub-clauses (vi) to (xvi) in Regulation 2(1)(n) SEBI PIT Regulations. UPSI will now include information relating to

1. Upward/downward revision in ratings excluding ESG ratings
2. Decision regarding fund-raising proposed to be undertaken
3. Agreements that may impact the management or control of the company
4. Fraud or defaults by the company, its promoter, director, KMP, or subsidiary or arrest of these individuals, whether occurring within India or abroad;
5. Resolution plan/restructuring or one-time settlement in relation to loans/borrowings from banks/financial institutions.
6. banks/financial institutions. The admission of winding-up petition filed by any party/creditors and admission of application by the Tribunal filed by the corporate applicant or financial creditors for initiation of corporate insolvency resolution process (CIRP) against the company as a corporate debtor, approval of resolution plan or rejection thereof under the Insolvency and Bankruptcy Code, 2016 (IBC).
7. The initiation of a forensic audit, by whatever name called, by the company or any other entity for detecting misstatements in financials, misappropriation/siphoning or diversion of funds and receipt of the final forensic audit report.
8. Actions initiated or orders passed within India or abroad by any regulatory, statutory, enforcement authority or judicial body against the company or its directors, KMP, promoter or subsidiary in relation to the company.
9. Outcome of any litigation or dispute that may have an impact on the company.
10. Giving guarantees or indemnity or becoming a surety, by whatever name called, for any third party, by the company not in the normal course of business.
11. Granting, withdrawal, surrender, cancellation or suspension of key licenses or regulatory approvals.

B. Revision in timeline for updating the structured digital databases of UPSI

A structured digital database is a mandatory digital record maintained by companies to track the sharing of the UPSI. It includes details such as the name and PAN numbers of persons with whom the UPSI information is shared. SEBI has provided the flexibility to make entries in the structured digital database on a deferred basis within two calendar days from its receipt in relation to external information that does not emanate from within the organisation.

C. Removal of restriction on trading window closure:

As per SEBI PIT Regulations, the trading window must be closed if the designated persons possess UPSI to prevent insider trading. SEBI has clarified that trading window closure may not necessarily be closed for the UPSI originating from outside the listed entity.

These amendments will become effective on 10 June 2025, 90 days from the date of notification in the Gazette.

Click here to access the amendment.

7. Faster 'Rights Issue' with flexibility of allotment to specific investors

SEBI has introduced a new framework for the right issue process with an amendment to Regulation 85 of the SEBI ICDR Regulations, which expedites the process and allows for flexibility in allotment to specific investors.

Under the revised framework, the rights issue should be completed within 23 working days from the date of approval by the Board of Directors of the Issuer. Further, the issue of rights should be kept open for subscription for a minimum period of 7 days and for a maximum period of 30 days.

Stock exchanges and depositories have also been instructed to develop a system for automated application validation within six months from the date this circular becomes applicable.

The above amendment is effective from 7 April 2025 and applies to the right issues that are being approved by the Issuer's Board of Directors from this date onwards.

Click here to access the SEBI circular.

8. Circular on facilitating ease of doing business relating to the framework on “Alignment of interest of the Designated Employees of the Asset Management Company (AMC) with the interest of the unitholders”

SEBI has issued a circular to facilitate the ease of doing business for mutual funds. Accordingly, amendments have been made to SEBI (Mutual Funds) Regulations, 1996 (MF Regulations), to relax the regulatory framework relating to ‘Alignment of interest of the Designated Employees of the AMCs with the interest of the unitholders’.

The following are the key highlights of amendments:

A. Minimum percentage of the gross annual CTC to be invested in the scheme:

The amendment has specified that the minimum percentage of gross annual cost to company (CTC) (salary, perks, bonus, and non-cash compensation) net of income tax and any statutory contributions (i.e. provident fund and national pension scheme) of the designated employees of the AMCs should be mandatorily invested in the units of mutual fund schemes in which they have a role/oversight. The manner of such investments will be in accordance with the slabs based on gross annual CTC as provided in the SEBI circular.

B. New requirement for designated employees managing the liquid fund scheme:

For the designated employees managing liquid fund schemes, up to 75% of the minimum investment amount that is required to be invested in liquid fund schemes may be allowed to be invested in schemes, with equivalent or higher risk as compared to liquid schemes, of the same mutual fund to reduce the impact on asset allocation.

This provision is applicable to both designated employees exclusively handling liquid fund schemes and to those associated with other schemes in addition to liquid funds, only with respect to the quantum required to be invested in liquid fund schemes.

For the purpose of determining the risk value, the risk-o-meter of the immediately preceding month should be considered.

C. Modification in lock-in period in case of retirement/ resignation:

Once an employee resigns or retires from any AMC before attaining the age of superannuation as defined in the AMC service rules, the requirement of the lock-in period for the investment is reduced from 3 years to 1 year from the end of the employment or completion date of the 3 years lock-in period, whichever is earlier.

D. Amendment with respect to open-ended schemes:

Subsequent to the expiry of the mandatory lock-in period, the designated employees can redeem their units in open-ended schemes, subject to compliance with SEBI PIT Regulations. These redemption transactions will also be subject to the restriction on trade in the closure period and the requirement of pre-clearance from the compliance officer when the closure period is not applicable, in terms of SEBI PIT Regulations.

E. Requirement with respect to violation of the code of conduct:

In the event of a violation of the code of conduct under the MF Regulations, fraud, or gross negligence by the designated employees, the Nomination and Remuneration Committee (NRC) of AMC is empowered to do the preliminary examination and provide recommendations to SEBI for consideration, post approval from the trustees. If AMCs have not constituted NRC, an equivalent body under the Board of AMC shall undertake the preliminary examination and provide recommendations to SEBI for consideration, post approval of the trustees.

F. Requirement with respect to disclosure on the website of stock exchanges:

Every scheme should disclose the aggregate compensation mandatorily invested in units for the designated employees on the website of stock exchanges. The disclosure is required to be made at the quarterly aggregate level, showing the total investment across all relevant employees in a specific scheme. The disclosure should be made within 15 calendar days from the end of each quarter.

The circular is effective from 1 April 2025.

Click here to access the SEBI circular.

9. Launch of 'Bond Central' - centralised database portal for corporate bonds

On 27 February 2025, SEBI launched 'Bond Central' - a centralised database portal for corporate bonds with the objective to create a single, authentic source of information on corporate bonds issued in India for the public at large.

The portal has been developed by the Online Bond Platform Providers Association (OBPP Association) in collaboration with Market Infrastructure Institutions (MIIs-Stock Exchanges and Depositories). This database is expected to enhance transparency and facilitate informed decision-making amongst investors and other market participants.

Key features of Bond Central:

A. **Comprehensive bond listings** – A unified view of corporate bonds across exchanges and issuers ensuring transparency and comparison.

B. **Price comparison** – Investors can compare corporate bond prices with government securities (G-Secs) and other fixed-income indices for better decision-making.

C. **Investor-centric information**—Investors have access to detailed risk assessments, corporate bond documents, and disclosures, enabling them to evaluate opportunities effectively.

D. **Enhanced transparency** – The platform standardises corporate bond-related data, reducing information asymmetry and thereby improving trust in the market.

Click here for the SEBI press release.

10. Timelines for deployment of funds collected by AMC in New Fund Offer

SEBI has issued a circular dated 25 February 2025 ('the Circular') stipulating timelines for the deployment of funds collected by AMCs in New Fund Offers (NFO) as per the asset allocation of the scheme.

The key aspects covered by the circular include:

A. **Timelines and fund allocation:** The AMC should specify achievable timelines in the Scheme Information Document (SID) of a scheme regarding the deployment of the funds as per the specified asset allocation of the scheme and garner funds during the NFO accordingly.

B. **Deployment of funds:** The AMC should deploy the funds garnered in an NFO within 30 business days from the date of allotment of units.

C. **Exceptions and reporting:** If the AMC is not able to deploy the funds in 30 business days, reasons in writing, including details of efforts taken to deploy the funds should be placed before the AMC's Investment Committee. The Investment Committee may extend the timeline by another 30 business days.

D. **Trustee monitoring:** Trustees should monitor the deployment of funds collected in the NFO and ensure that the funds are deployed within a reasonable timeframe.

E. **Consequence of non-compliance:** If the funds are not deployed as per the asset allocation mentioned in SID within 60 days (including extended timelines of 30 days as mentioned above), the AMC will:

- Not be permitted to receive fresh flows in the same scheme until the funds are deployed as per asset allocation in the SID.
- Not be permitted to levy exit load on investors exiting such scheme after 60 business days of non-compliance with respect to the asset allocation of the scheme.
- Inform all NFO investors about the option of exiting the scheme without exit load via email, SMS, or other communication modes.
- Report any deviations to trustees at each stage.

F. **Managing fund flows:** To effectively manage the fund flows in the NFO, the fund manager may extend or shorten the NFO period (except for Equity Linked Savings Scheme schemes), based on his view of the market dynamics, availability of assets and his ability to deploy funds collected in the NFO.

G. **Distribution commission:** In order to discourage misselling of mutual funds schemes by mutual fund distributors, in terms of Regulation 52 (4A) of the MF Regulations, in case of switch transaction to the NFO of a regular plan of a mutual fund scheme from an existing scheme managed by the same AMC, the AMC shall ensure that the distribution commission paid is lower of the commissions offered under the two schemes of switch transaction. The detailed guidelines in this regard will be specified by the Association of Mutual Funds in India (AMFI), in consultation with SEBI.

This circular has come into effect from 1 April 2025.

Click here to access the circular.

11. Regulatory framework for Specialised Investment Funds

SEBI, vide an amendment notification dated 16 December 2024, had amended MF Regulations to introduce the broad regulatory framework for the new investment product – Specialised Investment Fund (SIF). Accordingly, SEBI has now issued a comprehensive regulatory framework vide its circular dated 27 February 2025.

Some of the key aspects are as follows:

A. Eligibility Criteria for SIF: A registered mutual fund may establish SIF, provided they meet the eligibility criteria under one of the following routes:

Route 1 - Sound track record: The mutual fund should have been in operation for a minimum period of 3 years and has maintained an average Asset Under Management (AUM) of not less than INR 10,000 crores in the immediately preceding 3 years.

Route 2- Alternate route: The mutual fund should meet the conditions below:

- The AMC must have appointed a Chief Investment Officer (CIO) for the SIF with an experience in fund management of at least 10 years and who has managed an average AUM of not less than INR 5,000 crore; and
- Additionally, the AMC must have appointed an additional Fund Manager for the SIF with at least 3 years of experience in fund management and who has managed an average AUM of not less than INR 500 crore.

For both the above routes, no action should have been initiated or taken against the sponsor or AMC under Sections 11, 11B, and/or 24 of the SEBI Act, 1992 during the last 3 years for it to be eligible to establish SIF.

B. Investment strategies:

According to Regulation 49Y (1) of the MF Regulations, investment strategies under the SIF must follow the same procedures as mutual fund schemes. The SIF may also launch investment strategies in a manner specified by SEBI from time to time. In consultation with the MF industry, it has been decided that the following investment strategies shall be permitted to be launched under SIF:

1. Equity-oriented investment strategies:

a) Equity Long Short Fund:

- Minimum investment in equity and equity-related instruments: 80%
- Maximum short exposure through unhedged derivative positions: 25%

b) Equity Ex Top 100 Long-Short Fund:

- Minimum investment in equity and equity-related instruments of stocks excluding top 100 stocks by market capitalisation: 65%
- Maximum short exposure through unhedged derivative positions in equity and equity-related instruments of non-large-cap stocks: 25%

c) **Sector Rotation Long-Short Fund:**

- Minimum investment in equity and equity-related instruments of a maximum of four sectors: 80%
- Maximum short exposure through unhedged derivative positions: 25% (applies at the sector level for all stocks within that sector)

2. **Debt-oriented investment strategies:**

a) **Debt Long Short Fund:** Investment in debt instruments across various durations, including unhedged short exposure through exchange-traded debt derivative instruments.

b) **Sectoral Debt Long Short Fund:**

- Investment in debt instruments of at least two sectors, with a maximum of 75% in a single sector.
- Maximum short exposure through unhedged derivative positions in debt instruments: 25% (applies across the sector for all instruments within that sector).

3. **Hybrid investment strategies**

a) **Active Asset Allocator Long-Short Fund:**

- Dynamic investment across asset classes: equity, debt, equity and debt derivatives, REITs/InVITs and commodity derivatives.
- Maximum short exposure through unhedged derivative positions in equity and debt instruments: 25%

b) **Hybrid Long-Short Fund:**

- Minimum investment in equity and equity-related instruments: 25%
- Minimum investment in debt instruments: 25%
- Maximum short exposure through unhedged derivative positions in equity and debt instruments: 25%

C. **Minimum investment threshold:** The AMC shall ensure that an investor's aggregate investment across all investment strategies offered by the SIF, at the Permanent Account Number (PAN) level, is not less than INR 10 lakh.

D. **Restriction on investments:** Investment strategies under the SIF must adhere to the following limits on investments in **debt and money market securities:**

1. **Single issuer limits:**

- Maximum of 20% of Net Asset Value (NAV) in AAA-rated securities.
- Maximum of 16% in AA-rated securities.
- Maximum of 12% in A-rated and below securities.
- These limits can be extended by up to 5% of NAV with prior approval from the mutual fund trustees and the AMC board.

2. **Sector limits:** No more than 25% of NAV in debt and money market securities of a particular sector.

E. **Investment in derivatives:** The investment strategies under the SIF may take exposure of up to 25% of the net assets in permissible exchange-traded derivative instruments, in addition to derivative exposure undertaken for hedging and portfolio rebalancing purposes.

Click here for the SEBI circular.

12. Amendment in SARFAESI Act for specifying NBFCs and HFCs as qualified buyers

A 'qualified institutional buyer' under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, currently includes below:

a) Systemically important non-deposit-taking NBFCs with an asset size of INR 100 crore or more; and

b) Other non-deposit-taking NBFCs with an asset size of INR 50 crore or more and a CRAR of 10%, as per the last audited balance sheet.

Now, SEBI has issued a notification dated 28 February 2025 amending the SARFAESI Act, to include all NBFCs, including housing finance companies (HFCs) regulated by the RBI, as 'qualified institutional buyer' for the purpose of the SARFAESI Act, 2002, subject to the following conditions:

a) Such NBFCs and HFCs should ensure that defaulting promoters or their related parties do not directly or indirectly gain access to the secured assets through security receipts.

b) Such NBFCs and HFCs shall comply with such other conditions as the RBI may specify from time to time.

Click here for the SEBI notification.

RBI updates

1. Guidelines on settlement of dues of borrowers by ARCs

The RBI, vide its circular dated 20 January 2025, has revised the guidelines in respect of settlement of dues payable by the borrowers of asset reconstruction companies (ARCs) by amending Paragraph 15 of the Master Direction – Reserve Bank of India (Asset Reconstruction Companies) Directions, 2024 (Master Directions).

Key revisions include:

1. **Board-approved policy for settlement of dues -** Every ARC should frame a board-approved policy for the settlement of dues payable by the borrowers. This policy should, inter alia, cover aspects such as the cut-off date for one-time settlement eligibility, permissible sacrifice for various categories of exposures while arriving at the settlement amount, and the methodology for arriving at the realisable value of the security.

2. **Settlement procedure -** The criteria for settlement of dues are now divided into three categories:

a) **Cases where the outstanding principal amount is more than INR 1 crore:** This involves forming an Independent Advisory Committee (IAC) consisting of professionals having technical/ finance/ legal backgrounds. Settlement proposals should be subject to examination by the IAC, which should assess the financial position, recovery timelines, and projected cash flows of the borrower. The board of directors, including at least two independent directors, is required to deliberate on IAC recommendations before finalising any settlement decisions.

b) **Cases where outstanding principal amount is INR 1 crore or below:** Settlement of accounts must follow the criteria prescribed by the ARC in a board-approved policy. Officials involved in the acquisition of the financial asset cannot participate in its settlement. A quarterly report on these resolutions must be presented to the board of directors or a qualified committee, covering trends in account numbers and amounts, details of fraud or willful default cases, and breakdowns by amount, acquisition authority, and asset class, along with recovery timelines.

c) **Dues from borrowers classified as fraud/ wilful defaulter:** Settlement of accounts must follow the criteria prescribed by the ARC in a board-approved policy. Officials involved in the acquisition of the financial asset cannot participate in its settlement.

A quarterly report on these resolutions must be presented to the board of directors or a qualified committee, covering trends in account numbers and amounts, details of fraud or willful default cases, and breakdowns by amount, acquisition authority, and asset class, along with recovery timelines.

3. **Other legal provisions:** The compromise settlements with the borrowers under the above framework shall be without prejudice to the provisions of any other statute in force. Further, wherever ARCs had commenced recovery proceedings under a judicial forum and the same is pending before such judicial forum, any settlement arrived at with the borrower shall be subject to obtaining a consent decree from the concerned judicial authorities.

These guidelines are effective from 20 January 2025.

Click here for the RBI guidelines.

2. Revised guidelines on private placement of NCDs with a maturity period of more than one year by HFCs

The RBI, through its notification dated 29 January 2025, has revised the guidelines on raising money through the private placement of NCDs (with maturity of more than one year) by NBFCs, as outlined in Paragraph 58 and Annexure XV of the Master Direction—RBI (NBFC—Scale Based Regulation) Directions, 2023, which shall now apply, mutatis mutandis, to HFCs.

Accordingly, the existing guidelines under Chapter XI of Master Direction -NBFC – HFC (Reserve Bank) Directions, 2021, are repealed.

The revised guidelines shall be applicable to all fresh private placements of NCDs (with maturity of more than one year) by HFCs from the date of this circular.

Click here for the RBI notification and here for the Master Directions – RBI (NBFC-Scale Based Regulation) Directions, 2023.

3. Clarifications on presentation and disclosures for banking companies

The RBI has provided clarifications on the Financial Statements (Presentation and Disclosures) Directions, 2021, following the queries received from banks and the Indian Banks' Association (IBA). These clarifications address disclosures in the notes to accounts to financial statements and notes and instructions for compilation of balance sheet.

The instructions apply to all commercial and cooperative banks for preparing financial statements for the FY ended 31 March 2025 and onwards.

Refer below for the clarifications:

Sr. No.	Queries / Suggestions	Clarification
1	Classification in the balance sheet, of margin money received in the form of deposits, where lien is marked by banks in the ordinary course of business.	The RBI has clarified that lien-marked deposits shall be classified under Schedule 3: Deposits with suitable disclosures.
2	Advances guaranteed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) should be disclosed under 'Advances covered by Bank/Government Guarantees' or under 'Unsecured Advances'.	The RBI has clarified that it shall be disclosed under Schedule 9 'Advances covered by Bank/Government Guarantee'.
3	Whether the market value of repo and reverse repo transactions would better reflect the financials of banks instead of face value in terms of disclosures required in the financial statements.	The RBI has clarified that disclosures on repo/reverse repo transactions shall be done in market value terms, as well as face value terms.

Click here to access the RBI notification.

4. Clarification on treatment of Right-of-Use asset for Regulatory Capital purposes

The RBI has issued a circular, following queries received from various NBFCs (in their capacity as lessees) on the treatment of Right-of-Use (ROU) assets for the calculation of regulatory capital/owned fund.

In this regard, the RBI has clarified that regulated entities will not be required to deduct ROU assets (created in terms of Ind AS 116, Leases) from owned fund/CET 1 capital/ Tier 1 capital (as the case may be), provided the underlying asset taken on lease is a tangible asset.

The circular is applicable with immediate effect, to all NBFCs (including HFCs) and asset reconstruction companies, which follow the Companies (Indian Accounting Standards) Rules, 2015.

Click here to access the RBI circular.

5. Revised norms for government guaranteed security receipts

The RBI has issued a circular to revise the prudential treatment for the transfer of loans by the eligible transferors to ARCs under the Master Direction on Transfer of Loan Exposures (MD-TLE), 2021. The provisions of MD-TLE applies to all the Security Receipts (SRs), including those with a sovereign guarantee.

The new guidelines introduce a differentiated approach to valuing SRs guaranteed by the Government of India as under:

a) If a loan is transferred to an ARC for a value exceeding its net book value, the excess provision should be reversed to the Profit and Loss Account in the year of transfer, provided the sale consideration includes only cash and government-guaranteed SRs. However, the non-cash component in the form of SRs must be deducted from the Common Equity Tier 1 (CET 1) capital, and no dividends can be paid from it.

b) Additionally, periodic valuation of these SRs will be based on the net asset value (NAV) determined by the ARCs, considering recovery ratings received for such instruments. Unrealised gains from fair valuation will also be deducted from CET 1 capital, with no dividend distribution allowed from such gains.

c) Any SRs outstanding after the final settlement of the government guarantee or its expiry, whichever is earlier, will be valued at INR 1.

d) If SRs are converted into other financial instruments as part of a resolution, their valuation and provisioning will be governed by the provisions of the RBI's Prudential Framework for Resolution of Stressed Assets.

The circular is effective from 29 March 2025 and is valid for all the existing and subsequent investments involving SRs guaranteed by the Government of India, during the validity of said guarantee by the government on the concerned SRs.

Click here to access the RBI circular.

NFRA updates

Guidance issued by NFRA

Background:

The National Financial Reporting Authority (NFRA) has released three publications titled "Auditor-Audit Committee Interactions" with the objective of reinforcing communication between statutory auditors and audit committees to enhance audit quality and promote awareness.

It is pertinent to note that these publications are only to create awareness of auditing and accounting standards and audit quality as part of the NFRA's education, training, seminar and advocacy initiatives and it is not to be considered as a policy, standard or even a recommendation or statement from NFRA or the Government, and is not issued as a substitute for any obligations of auditors, management, Those Charged with Governance (TCWG), including audit committees, as are provided in law, rules, and regulations.

Below are some brief summaries of the various series issued by the NFRA as mentioned above:

1. Series 1 - Part 1: Audit of Accounting Estimates and Judgments for Expected Credit Losses- Ind AS 109

The NFRA has issued the first publication of the aforementioned series on 10 January 2025, titled 'Auditor-Audit Committee Interaction Series 1 - Audit of Accounting Estimates and Judgements - Part 1 - Expected Credit Losses - Ind AS 109'.

The NFRA Series 1 – Part 1 has been put together to give a brief overview of the requirements relating to the Expected Credit Loss (ECL) for financial assets and other items as required by Ind AS 109, and through this publication, the NFRA has put forth an illustrative list of questions which a company's audit committee or management may pose to the auditors in respect of the ECL requirements under Ind AS 109.

Click here to access Series 1- Part 1 issued by NFRA.

2. Series 1- Part 2: Audit of Accounting Estimates and Judgments for Income Taxes - Ind AS 12

The NFRA issued the second publication in the same series titled 'Auditor-Audit Committee Interaction Series 1 - Audit of Accounting Estimates and Judgements - Part 2 – Income Taxes - Ind AS 12'.

This NFRA publication has been put together to give a brief overview of the requirements relating to income taxes, in particular, deferred tax assets (DTA) and deferred tax liabilities (DTL) as required by Ind AS 12. Through this publication, the NFRA has provided an illustrative list of potential questions that auditors may expect from the audit committees in respect of income taxes-related estimates and judgements under Ind AS 12.

Click here to access Series 1- Part 2 issued by NFRA.

3. Series 2 - Audit strategy and planning

The NFRA has issued Series 2 on 28 March 2025, titled, 'Auditor - Audit Committee Interactions Series 2 - Audit Strategy and Audit Plan – SA 300, etc' (Series 2).

Series 2 has summarised the importance of developing an effective audit strategy and audit plan as the starting point of an audit of financial statements. Timely preparation, communication with the TCWG/audit committee, and appropriate revisions during the audit process enhance the effectiveness and efficiency of financial statement audits.

The audit strategy sets the overall scope, timing, and direction of the audit, guiding the preparation of a detailed audit plan.

Series 2 also covers key standards on auditing, such as SA 300, Planning an Audit of Financial Statements and SA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment, which provide essential guidance on audit planning, risk assessment, and execution.

The NFRA draws the attention of the auditors to the potential questions the audit committees/Board of Directors may ask them in respect of their audit strategy and audit plan.

Click here to access the Series 2 issued by NFRA.

4. Series 3 - Related parties

The NFRA has issued Series 3 publication also on 28 March 205, titled 'Audit Committee - Auditor Interactions Series 3, dealing with the audit of related parties – Ind AS 24, AS 18 & SA 550' (Series 3).

The NFRA has noted that related party relationships and transactions have been a source of major frauds in corporate history and some of the modus operandi continues to be seen in recent corporate frauds as well.

Major related party transactions may be classified into:

- Loans and advances.
- Investments.
- Supplying/availing goods and services; and
- Remuneration of key management personnel, etc.

Section 177 of the Act requires the board of directors to define the audit committee's terms of reference, including approving or modifying RPTs, reviewing financial statements and the auditor's report, monitoring audit effectiveness and evaluating internal financial controls and risk management and adding that the committee can also grant omnibus approval for RPTs, subject to such conditions as has been prescribed in the Companies (Meetings of Board and its Powers) Rules, 2014.

Further, the SEBI LODR Regulations require the board of directors to monitor and manage potential conflicts of interest, including misuse of corporate assets and abuse in RPTs.

The NFRA also outlined the auditor's role, which requires them to assess proper accounting and disclosures per financial reporting standards and ensure that the financial statements are not misleading, and auditors must obtain written representations from management and governance on disclosed RPTs and communicate significant audit findings and as per SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements. Further, SA 240 also requires the auditors to investigate the possibility of related parties and the sources of financial resources supporting the transactions for significant and unusual transactions, especially occurring near the year-end.

Through this publication, the NFRA put forth the potential questions the audit committees/Board of Directors may ask the auditors in respect of related party relationships, transactions and disclosures as required by Ind AS 24 and SA 550, Related Parties.

Click here to access the Series 3 issued by NFRA.

Other regulators updates

1. IRDAI circular on exposure on forward contracts in government securities (Bond Forwards)

The Insurance Regulatory and Development Authority of India (IRDAI) has issued a circular to permit the insurer to undertake transactions in bond forwards as users for hedging its interest rate risk. This circular came in line with the RBI's recently issued RBI (Forward Contracts in Government Securities) Directions, 2025 (RBI directions). Under the RBI directions, it is specified that any entity, eligible to be classified as a non-retail user, shall be eligible to undertake transactions in forward contracts in government securities (Bond Forwards) as a user.

As per the IRDAI's circular, the insurers are permitted to undertake only long positions in bond forwards, i.e., buying bond forwards, and bond forwards are not permitted for ULIP business. Further compliances are mandated with specific provisions of the Master Circular on the IRDAI (Actuarial, Finance, and Investment Functions of Insurers) Regulations, 2024. Additionally, insurers need to comply with the RBI directions issued for bond forwards as amended from time to time, operational guidelines issued by the Fixed Income Money Market and Derivatives Association of India (FIMMDA) and to submit quarterly transaction reports.

Click here to access the IRDAI circular.

2. IRDAI has issued guidelines on hedging through equity derivatives

The IRDAI, on 28 February 2025, has issued guidelines on hedging through equity derivatives, permitting insurers to use equity derivatives for hedging their equity exposures.

The key aspects covered in the guidelines are:

A. Permitted exchange-traded equity derivatives:

- Insurers can take short positions in stock futures and index futures, but only within the limits of their current equity holdings in the same specific fund where those equities are held.
- Insurers can act as option holders and are permitted to buy only put options on stocks and indices, provided they correspond to the underlying equities in the same specific fund where those equities are held.

B. Funds allowed to use equity derivatives:

Derivatives can be used by unit-linked funds only for new funds, life funds, pension/annuity/group funds, and investment assets of general or health insurers. Existing unit-linked funds are excluded from derivative transactions.

C. Exposure and position limits:

1. Total equity derivatives at notional value in a fund cannot exceed the market value of equities in the same fund. Passive breaches must be rectified in 15 days.
2. The aggregate number of stock futures contracts and stock put options must not exceed the quantity of the respective equities held.
3. The nominal value of hedging with index derivatives cannot exceed 20% of the market value of the unhedged portion of the same fund's equity holding. Passive breaches must also be corrected within 15 days.
4. Hedge effectiveness (80-125% offset ratio) is tested quarterly; ineffective hedges must be unwound.
5. Equity derivative positions and trading limits must comply with SEBI/stock exchange rules.

D. Accounting treatment:

1. **Recognition and measurement:** Equity derivative contracts are recognised on the balance sheet and measured at fair value.
2. **Linked business:** Unrealised gains/losses and those from 'expiry or closure of derivatives' are recorded in the revenue account of the respective Segregated Fund Identification Number (SFIN).
3. **Non-linked/ General/ Health insurance business:** Unrealised gains/losses are recorded in the 'Fair Value Change Account' and recycled to the revenue or profit and loss account upon closure. The gain or loss on expiry or closure, including accumulated changes in the fair value change account are recycled to the respective revenue account or profit and loss account, as applicable.

E. Disclosure requirements:

Financial statements must include risk management objectives for equity hedging, hedging strategy, and accounting policy.

F. Quarterly reporting to the IRDAI:

Insurers are required to provide quarterly reports to the IRDAI as per the specified format in the guidelines.

Click here and here for the IRDAI press release and IRDAI guidelines.

3. Disclosure of information relating to carry forward of losses in Information Memorandum (IM)

The Insolvency and Bankruptcy Board of India (IBBI) issued a circular to amend the IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 ('CIRP Regulations') to mandate the disclosure of carry-forward losses as per the Income Tax Act, 1961, in the Information Memorandum (IM).

This decision has come up after reviewing the recent IM, wherein the IBBI observed that the disclosure of carry forward of losses by insolvency professionals need to be more robust. Accordingly, by this circular, the IBBI has directed that all insolvency professionals shall include a dedicated section in the IM explicitly detailing the carry forward of losses under the Income Tax Act, 1961, with minimum details as specified in the circular.

This amendment has been made with the view to provide potential resolution applicants with a more comprehensive understanding of the corporate debtor's financial position, enabling them to develop more informed and viable resolution plans while considering the benefits of carry forward losses.

Click here to access the IBBI circular.

4. FAQs on Limited Liability Partnership Act, 2008 (Revised January 2025 Edition)

The ICAI revised the FAQs on the Limited Liability Partnership Act, 2008 (LLP Act), issued in January 2021, following significant reforms to the LLP Act and its rules since its initial publication.

The updated FAQs also introduce a new chapter on LLP e-filing, clarifying the online filing process.

Click here to access the publication.

5. FAQs on SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

To provide valuable insights into the SEBI LODR Regulations, the ICAI issued FAQs on SEBI LODR Regulations in February 2021. Following substantial amendments and updates to the SEBI LODR Regulations, the ICAI has revised the FAQs on SEBI LODR Regulations issued in February 2021. Part B of the publication includes a new "Compliance Calendar" chapter to assist professionals in tracking key deadlines and ensuring timely compliance with the SEBI LODR Regulations.

Click here to access the publication.

6. Companies (Prospectus and Allotment of Securities) Amendment Rules, 2025

The Ministry of Corporate Affairs (MCA) had notified the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023, which introduced a framework governing the dematerialisation of share warrants issued by public companies and the securities issued or to be issued by every private company other than a small company, as per the financial statements for the year ended 31 March 2023, within 18 months of closure of the financial year, i.e., by 30 September 2024.

The MCA, vide notification dated 12 February 2025, has amended the Companies (Prospectus and Allotment of Securities) Rules, 2014, by issuing the Companies (Prospectus and Allotment of Securities) Amendment Rules, 2025, in order to defer the aforesaid timeline to 30 June 2025.

Click here for the MCA amendment

7. Revision in threshold for MSME

The Ministry of Micro, Small and Medium Enterprises (MSME) has notified amendments in relation to the definition and criteria for classifying an entity as MSME under the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act). Accordingly, the thresholds for the dual condition of investment in plant and machinery or equipment and turnover have been revised, effective from 1 April 2025. The revised thresholds are as follows:

Entity type	Investment in plant and machinery or equipment	Turnover
Micro enterprise	Before: INR 1 crore Now: INR 2.50 crore	Before: INR 5 crore Now: INR 10 crore
Small enterprise	Before: INR 10 crore Now: INR 25 crore	Before: INR 50 crore Now: INR 100 crore
Medium enterprise	Before: INR 50 crore Now: INR 125 crore	Before: INR 250 crore Now: INR 500 crore

Click here for the notification

8. Amendment to Form No. 3CD

The Central Board of Direct Taxes (CBDT) has notified amendments in Form No. 3CD (Tax Audit Report under Section 44AB of the Income-tax Act, 1961 (IT Act)), with an aim to improve tax audit reporting and alignment with recent legislative changes.

These amendments are effective from 1 April 2025.

The changes have been made to multiple clauses, and significant changes include:

a) Insertion of new Clause 21(a): Expenditure incurred to settle proceedings initiated in relation to contravention under such law as notified by the central government in the Official Gazette in this behalf will have to be reported.

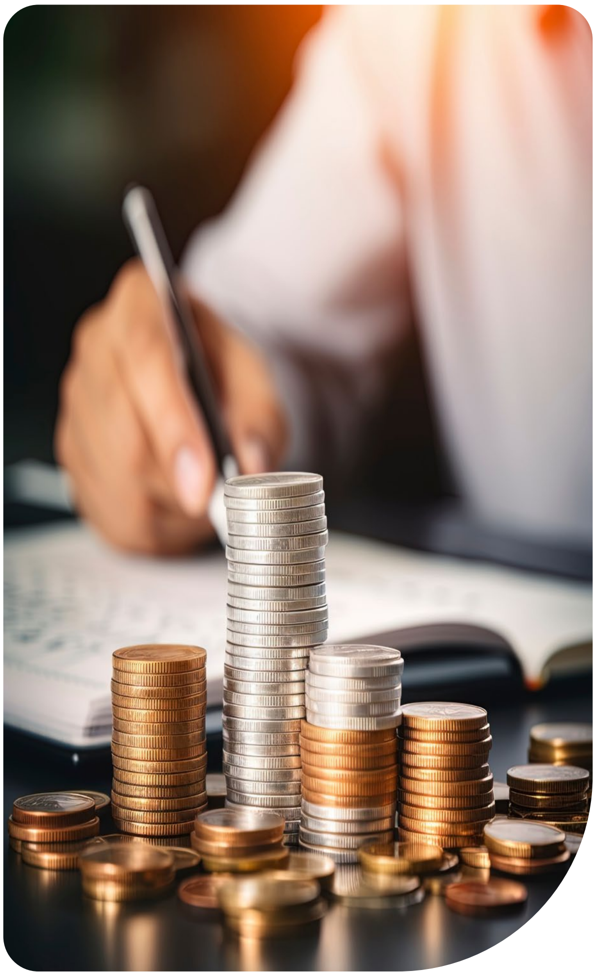
b) Insertion of new Clause 36B: Disclosure of amounts received by the assessee in case of buy-back of shares as per Section 2(22)(f) of the IT Act, along with the cost of acquisition.

c) Amendment in Clause 22 for MSME payments: Additional disclosures for the amount required to be paid to MSMEs as per the MSMED Act, along with details of the amounts paid up to the time given under the MSMED Act and not paid up to the time given under the Act, which is inadmissible under the IT Act.

Click here for the notification.

02

India updates – Proposed



A. Accounting updates

1. Exposure draft on Ind AS 118: Presentation and Disclosure in Financial Statements

The Accounting Standards Board (ASB) of the ICAI has, on 6 January 2025, issued an Exposure Draft of Ind AS 118, 'Presentation and Disclosure in Financial Statements' (Ind AS 118), which is a conversion of the newly issued IFRS Accounting Standard – IFRS 18, 'Presentation and Disclosure in Financial Statements' issued by the International Accounting Standards Board (IASB) in response to the investor's concerns about the comparability and transparency of entities performance reporting. The new requirements introduced in Ind AS 118 will help to achieve comparability of the financial performance of similar entities, especially related to how 'operating profit or loss' is defined, and new disclosures which also enhance transparency.

The key concepts introduced in Ind AS 118 (in line with IFRS 18) are:

1. Changes in the structure of the statement of profit or loss:

- The items in the statement of profit or loss will be classified into five categories: operating, investing, financing, income taxes and discontinued operations. Ind AS 118 provides general guidance for entities to classify the items among these categories.
- Specified totals and subtotals of 'Operating profit or loss', 'Profit or loss' and 'Profit or loss before financing and income taxes' shall be presented.

2. Disclosures requirements in the financial statements for certain profit or loss performance measures. Ind AS 118 defines these measures as management-defined performance measures (MPMs). Information related to these measures shall be disclosed in the financial statements in a single note, including a reconciliation between the MPM and the most similar specified subtotal listed in Ind AS 118 or subtotal specifically required by Ind ASs.
3. Disclosure of expenses by nature, for entities that present the statement of profit or loss by function. Entities shall present expenses in the operating category by nature, function or a mix of both. It is pertinent to note that the exposure draft of Ind AS 118 proposes not to carry forward the carve-out made by the ASB at the time of conversion of IAS 1, Presentation of Financial Statements into Ind AS 1, as per which the statement of profit and loss under Ind AS 1 is presented only by nature and not allowed to be presented by function in contrast to the choice given under IAS 1.

4. An enhanced guidance on the principles of aggregation and disaggregation that focus on grouping items based on their shared characteristics. These principles shall be applied across the financial statements and shall be used in defining the line items presented in the primary financial statements and the information disclosed in the notes.
5. Other limited changes to presentation and disclosure in the financial statements. For example, Ind AS 7, 'Statement of cash flows', is amended to specify 'operating profit or loss' as the starting point for reconciling cash flows from operating activities.

Ind AS 118 has been proposed to be effective for annual reporting periods beginning on or after 1 April 2027 and will apply to comparative information. It will replace the existing Ind AS 1. However, many of the other existing principles in Ind AS 1 have been retained, with limited changes.

Click here to access the Exposure Draft.

03

International updates – Effective

A. Accounting updates

1. Comprehensive criteria for reporting on stablecoins published by AICPA

The Assurance Services Executive Committee (ASEC) of the American Institute of CPAs (AICPA) has released the 'Criteria for Stablecoin Reporting: Specific to Assets-Backed Fiat-Pegged Token' ('the publication').

Stablecoins are a type of digital asset whose value is tied to the assets backing them, such as US currency. The purpose of the publication is to provide a framework for presenting and disclosing information about stablecoins to promote consistent reporting among issuers.

The publication includes the criteria for the presentation and disclosure of the redeemable tokens and redemption assets and a comparison of the two based on the token issuer's terms and disclosure of relevant information to stakeholders.

It covers three specific subject matters at a specific measurement point in time:

- Presentation and disclosure of the token issuer's redeemable tokens outstanding and related information.
- Presentation and disclosure of the redemption assets available for redeemable tokens outstanding and related information.
- Presentation and disclosure of the comparison of the redemption assets available for redeemable tokens outstanding and the token issuer's redeemable tokens outstanding, and related information of the comparison

Click here to access the document on 'Criteria for Stablecoin Reporting Document'.

2. Updates to the IFRS for SMEs Accounting Standard by IASB

The IASB has issued the third edition of the IFRS for SMEs Accounting Standard. This standard aims to balance the information needs of lenders and other users of SMEs' financial statements with the resources available to SMEs. The standard defines SMEs as entities without public accountability that prepare general purpose financial statements.

The update of this standard is the outcome of a periodic comprehensive review of the standard.

Highlights include:

- A revised model for revenue recognition.
- Bringing together the requirements for fair value measurement in a single location; and
- Updating the requirements for business combinations, consolidations and financial instruments.

The update is effective for annual periods beginning on or after 1 January 2027, with early application permitted.

Click here for IFRS for SMEs Accounting Standard.

B. Auditing updates

1. Issuance of ISSA 5000 and International Ethics Standards by IAASB and IESBA

The International Auditing and Assurance Standards Board (IAASB) has published the final version of the International Standard on Sustainability Assurance 5000 (ISSA 5000), which deals with assurance engagements on sustainability information in November 2024 and the International Ethics Standards Board for Accountants (IESBA) has published the final version of International Ethics Standards for Sustainability Assurance (including International Independence Standards (IESSA)) in January 2025, with an aim at advancing trust and transparency in sustainability reporting and assurance.

ISSA 5000 and the IESBA Code of Ethics (including IESSA), together with suitable reporting frameworks, provide the standards needed for a robust sustainability reporting and assurance ecosystem.

In jurisdictions adopting the standards, both ISSA 5000 and IESSA (except for the provisions in Sections 5405 and 5406 as applicable to assurance work performed at value chain components) are effective for periods starting on or after 15 December 2026, with early adoption permitted and encouraged.

Click here to access the ISSA 5000 and here to access IESSA.

2. Comprehensive implementation Guide for ISAs for Less Complex Entities by IAASB

The IAASB released a new first-time implementation guide for the International Standards on Auditing (ISA) for Less Complex Entities (LCE)—the standalone global auditing standard explicitly designed for the audits of financial statements of LCE. The guide provides an overview of the standard's concepts, structure, and format. It offers step-by-step insights into each part of the standard with examples and comparisons to ISAs, equipping practitioners with the tools to effectively implement the ISA for LCE.

Click here to access the IAASB notification.

04

International updates – Proposed

A. Accounting updates

1. Proposed Accounting Standards update - Codification improvements

The Financial Accounting Standards Board (FASB) has published a proposed Accounting Standards Update (Proposed ASU) that would make technical corrections and other minor improvements to the FASB Accounting Standards Codification. The proposal is part of the FASB's ongoing project to address suggestions received from stakeholders on the Accounting Standards Codification and to make other incremental improvements to the generally accepted accounting principles (GAAP).

It covers a broad range of 34 issues, including issues related to the removal of the master glossary term "amortized cost", clarifying the calculation of earnings per share when loss from continuing operations exists, clarifying the calculation of the reference amount for beneficial interests, clarifying guidance for the transfers of receivables from contracts with customers, and clarifying accounting for certain receivables by not-for-profit entities. The proposed amendments would apply to all reporting entities within the scope of the affected accounting guidance.

Click here to access the proposed ASU.

B. Other proposed updates

1. GRI consults on new sector standards for financial services

The Global Sustainability Standards Board (GSSB), being the independent standard-setting body of the Global Reporting Initiative (GRI) has initiated consultation on three new sector standards (exposure drafts) for the financial services sector.

Such proposed standards are the first of their kind to provide a comprehensive approach to assessing the impact of financial services organisations rather than focusing on a specific topic or set of topics to achieve internationally consistent sustainability reporting.

The proposed sector standards are:

- Sector standard for banking
- Sector standard for capital markets
- Sector standard for insurance

The comments can be submitted on the above exposure drafts by 31 May 2025.

Click here, here and here for the exposure draft of sector standard for banking, capital markets and insurance.

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