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Editorial

Ind AS 103, *Business Combination* provides guidance on accounting for business combinations under the acquisition method. Business combinations are transactions or events in which a reporting entity (acquirer) obtains control of one or more businesses (the acquiree). The date of acquisition is the date on which acquirer obtains control of the acquiree. Ind AS 103 provides the acquirer a time frame, referred to as the 'measurement period', after the acquisition date to finalise its initial accounting of the business combination. An acquirer in a business combination is required to report provisional amounts when the measurements are incomplete at the end of the reporting period covering the business combination. This edition of Accounting and Auditing Update (AAU) includes an article to discuss the key aspects of the measurement period in a business combination. It discusses the use of provisional amounts, the accounting implications of adjustments made within this period, and the required disclosures in such situations.

The IFRS Sustainability Disclosure Standards IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2, *Climate-related Disclosures* issued by the International Sustainability Standards Board (ISSB) form the global baseline for sustainability-related disclosures. The standards require companies to provide a complete and balanced explanation of sustainability-related risks and opportunities. Companies disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect an entity's cash flows, its access to finance or its cost of capital over the short, medium, or long term. To support the implementation of IFRS Sustainability Disclosure Standards, in November 2024, the ISSB issued an education material 'Sustainability-related risks and opportunities and the disclosure of material information'. The educational material provides guidance to help identify and disclose material information about sustainability-related risks and opportunities that are likely to affect an entity's prospects. The article on this topic summarises the education material and discusses guidance related to identification and disclosure of material information.

There have been various regulatory developments in India and internationally during the month. Recently, the Securities and Exchange Board of India (SEBI) various notifications such as a consultation paper to review aspects relating to secretarial compliance report, appointment of auditors and Related Party Transactions (RPT). Additionally, SEBI issued a circular to provide Industry Standards Forum (ISF) to introduce standards for minimum information to be provided by listed entities for review by audit committee and shareholders for approval of RPTs. Subsequently, ISF introduced 'Industry Standards on minimum information to be provided for review of the audit committee and shareholders for approval of RPT'. The Reserve Bank of India (RBI) issued revised guidelines for Asset Reconstruction Companies (ARCs) to provide a structured and detailed framework for the settlement of dues by ARCs. Recently, the Institute of Chartered Accountants of India (ICAI) released its publication 'Guidance on Non-Compliances Observed by Quality Review Board (QRB)' to highlight common non-compliances identified by the QRB and provides essential guidance to address these issues effectively. Our regulatory updates section covers these and other important regulatory developments.

We would be delighted to receive feedback/suggestions from you on the topics we should cover in the forthcoming editions of AAU.

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CHAPTER 1

The measurement period in business combination

This article aims to:

- Discuss the key aspects around measurement period in a business combination.

CHAPTER 2

Sustainability reporting – Disclosure of material information

This article aims to:

Discuss the guidance on disclosure of material information related to sustainability related risks and opportunities.

CHAPTER 3

Regulatory updates

CHAPTER 1

The measurement period in business combination

This article aims to:

- Discuss the key aspects around measurement period in a business combination.

Ind AS 103, *Business Combination* provides guidance on accounting for business combinations under the acquisition method. Business combinations are transactions or events in which a reporting entity (acquirer) obtains control of one or more businesses (the acquiree).

Business combinations are generally complex transactions and amongst the many challenges in accounting of these transactions, determining the fair values of acquiree's assets liabilities and non-controlling interest are particularly challenging when the business combination occurs shortly before the reporting period end or in situations where terms of business combination agreement are complex. Ind AS 103 provides an acquirer a time frame, referred to as the 'measurement period', to finalise its initial accounting of the business combination. In such situations, the acquirer is required to report provisional amounts for the items for which the accounting is incomplete, in its financial statements prepared during the measurement period.

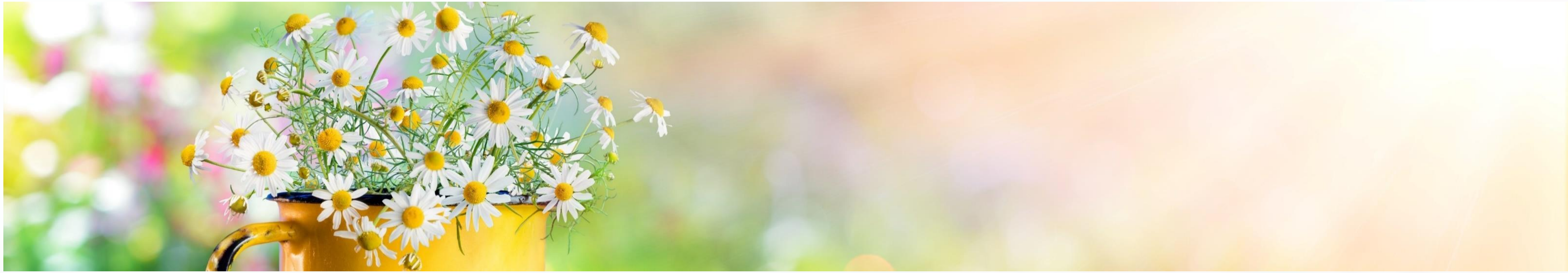
This article discusses the key aspects of measurement period, use of provisional amounts, accounting implications of adjustments made within the measurement period and the disclosures required.

What is measurement period?

Measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for the business combination. Measurement period provides entities with a reasonable period of time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of Ind AS 103:

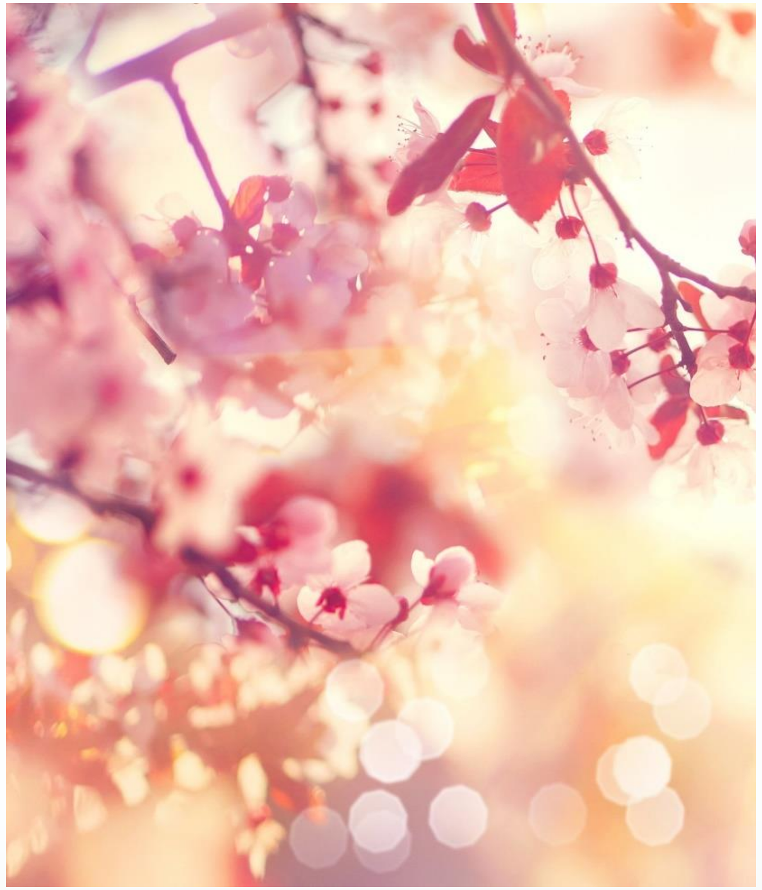
- The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree.
- The consideration transferred for the acquiree (or other amount used in measuring goodwill)
- The equity interest in the acquiree previously held by the acquirer if the business combination is achieved in stages
- The resulting goodwill or gain on a bargain purchase

(Source: KPMG in India analysis, 2025 based on Ind AS 103)



Is measurement period an open period?

Ind AS 103 states that the measurement period ends as soon as the acquirer receives the information that it needs or learns that more information is not obtainable and such period cannot exceed one year from the acquisition date.



What are provisional amounts?

Ind AS 103 does not provide specific guidance on determining provisional amounts. These amounts are determined based on the available information at the date of acquisition, consistent with the recognition and measurement requirements of the standard. Entities would be expected to make a reasonable effort to determine provisional amounts, and it would not be appropriate to assign only nominal amounts, or no amounts, solely because the acquirer anticipates it is likely to receive additional information about facts and circumstances that existed at the date of acquisition.

Ind AS 103 requires the acquirer to consider all pertinent factors in determining whether information obtained after the acquisition date would result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the acquisition date. Some of the pertinent factors are:

- Date when additional information is obtained
- Whether the acquirer can identify a reason for a change to provisional amounts.

Information obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than the information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value measured at that date is likely to indicate an error in the provisional amount.

Thus, whether an event should be recognised as an adjustment to a provisional amount or as a post-combination event may involve significant judgement.

An example where an entity may report in its financial statements using provisional amounts during the measurement period would be when an entity has not obtained the final valuation report required to account for the assets acquired and liabilities assumed in an acquisition by the time it issues its financial statements for the first reporting period following the business combination.

Measurement period adjustments may affect not only the measurement of assets and liabilities but also their recognition. There could also be situations where new information is obtained about facts and circumstances that existed at the date of acquisition that may result in recognition of additional assets or liabilities that were not recognised at the acquisition date In other words, new information might be obtained about facts and circumstances that existed at the acquisition date, but that were unknown at that date. This may indicate additional assets or liabilities (including those arising from contingencies) not recognised in the initial accounting for an acquisition should be recognised as part of the accounting for the business combination.

Disclosures required during the measurement period

Until the accounting for a business combination is complete, the acquirer is required to disclose the following in its annual financial statements and in any interim financial statements:

- The reasons why the initial accounting for the business combination is incomplete
- The assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete, and
- The nature and amount of any measurement-period adjustments recognised during the period.

Adjustment to provisional amounts

Measurement-period adjustments are analogous to adjusting events after the reporting date under Ind AS 10, *Events after the Reporting Period* i.e. events that occur after the reporting date but before the financial statements are authorised for issue and that provide evidence of a condition that existed at the reporting date .

Similarly, the effects of information that first becomes available during the measurement period and that provides evidence of conditions or circumstances that existed at the date of acquisition are reflected in the accounting at the date of acquisition – i.e. the adjustments are recognised retrospectively as if the accounting was completed at the date of acquisition.

The acquirer revises its comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other effects on comprehensive income that arise as a result of the adjustments.

After the measurement period ends, the acquisition accounting is adjusted only to correct an error in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

These concepts are discussed by way of the following case studies:

Case Study 1

- Company A acquires Company B on 28 February 2024. Company A seeks an independent valuation for an item of Property, Plant and Equipment (PPE) acquired in the business combination.
- The valuation for the said PPE was not complete by the time Company A issued its financial statements for the year ended 31 March 2024(*).
- In its financial statements for the year ended 31 March 2024, Company A recognised provisional fair value for such PPE, based upon information available, as INR30 crore.
- At the acquisition date, the said PPE had a remaining useful life of five years.
- Five months after the acquisition date, Company A received the independent valuation, which estimated the asset's acquisition-date fair value as INR40 crore.

Evaluation of the measurement period adjustment in the financial statements for year ended 31 March 2025:

In the year ended 31 March 2025,

a) Company A would determine the measurement period adjustment of INR9.83 crore at the acquisition date as follows:
   - Fair value of INR40 crore less provisional value of INR30 crore i.e. INR10 crore less the additional depreciation that would have been recognised if the PPE was accounted at INR40 crore at the acquisition date (INR16.83 lakh for depreciation for a month).

b) Company A would retrospectively adjust the prior year information related to the acquisition of Company B as follows:
   - The carrying amount of PPE as at 31 March 2024 will increase by INR9.83 crore
   - The carrying amount of goodwill as at 31 March 2024 will decrease by INR10 crore
   - Depreciation expense for the year ended 31 March 2024 will increase by INR16.83 lakh.

c) In accordance with **paragraph B67(a) of Ind AS 103**, Company A would disclose that the comparative information for the year ended 31 March 2024 is adjusted retrospectively to increase the fair value of the item of PPE at the acquisition date by INR9.83 crore, with a corresponding decrease in goodwill of INR10 crore and an increase in depreciation expense of INR16.83 lakh.

*It is pertinent to note that Company A in its financial statements for the year ended 31 March 2024 would disclose the reasons of why the initial accounting for PPE acquired in the business combination is incomplete.

Case Study 2

- Company A acquires Company B on 28 February 2024
- In its financial statements for the year ended 31 March 2024, Company A accounted for the assets acquired and liabilities assumed at provisional fair values
- In April 2025, Company A obtained new information about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of an additional liability at that date.

Evaluation of the measurement period adjustment in the financial statements for year ended 31 March 2025:

- In this case, the measurement period ended on 28 February 2025 i.e. one year from the acquisition date
- Management obtained the new information about facts and circumstances that existed as at the acquisition date in April 2025 i.e. after the end of measurement period, and concluded that such adjustment is not resulting from an error in the business combination accounting
- In this case, because the measurement period has ended and the adjustment resulting from the new information is not due to an error, Company A would not adjust the business combination accounting
- Instead, Company A would treat the new information as a subsequent event with respect to its financial statements for the year ended 31 March 2025. Accordingly, the financial statements for the year ended 31 March 2025 would reflect the effect of the adjustment resulting from the new information in financial statements for the year ended 31 March 2025 by recognising the additional liability through a charge to Statement of profit and loss.

The bottom line

Distinguishing between new information about conditions that existed at the date of acquisition from Information that result from events that occur after the date of acquisition could have a significant impact on accounting of business combination. This assessment involves exercise of significant judgement. It is pertinent to note that measurement period does not provide an open one-year period following the acquisition date to complete the acquisition accounting. This is only to provide reasonable time to the acquirer to deal with accounting of complex business combination transaction and ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not available. In no circumstances should the measurement period exceed one year from the acquisition date.

As the standards do not provide elaborate guidance to determine provisional amounts, this requires companies to make reasonable efforts and significant judgement to determine these amounts appropriately based upon information available as at the acquisition date. Further, the entities should provide comprehensive disclosures about the items for which the business combination accounting has not been completed along with reasons and the nature and amount of any measurement-period adjustments recognised during the period.

CHAPTER 2

Sustainability reporting – Disclosure of material information

This article aims to:

- Discuss the guidance on disclosure of material information related to sustainability related risks and opportunities.

In continuation of our previous article in January 2025 edition, this article aims to discuss the guidance related to identification and disclosing of material information.

With an aim to support the implementation of first two IFRS Sustainability Disclosure Standards (the ISSB standards):

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

In November 2024, the ISSB issued an education material ‘Sustainability-related risks and opportunities and the disclosure of material information’. The standards require companies to disclose material information about the sustainability-related risks and opportunities that could reasonably be expected to affect entity’s prospects. The educational material explains the requirements related to identifying and disclosing material information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s prospects.

The educational material is structured into three sections:

- **Chapter 1: The definition of material information and its application in ISSB standards**: Discusses the main components of the definition of ‘material information’ to enable an understanding of the use of this term and how to make materiality judgements in that context.
- **Chapter 2: Sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s prospects and its application in ISSB standards:** Discusses what sustainability-related risks and opportunities are and how they could reasonably be expected to affect an entity’s prospects to enable an understanding of how this concept is used in ISSB standards.
- **Chapter 3: Identifying and disclosing material information:** Discusses the requirements associated with identifying and disclosing material information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity’s prospects.

In our previous edition of Accounting and Auditing Update January 2025, we have discussed the guidance related to identification of sustainability-related risks and opportunities. The subsequent section discusses guidance related to identification and disclosing of material information.

The definition of material information

The standard requires entities to provide material information about an entity's sustainability-related risks and opportunities to help meet the information needs of primary users. The information is considered material when omitting, misstating or obscuring that information could reasonably be expected to influence primary users' decisions. However, the distinct scope of the reported information including differences in relevant time horizons and the types of information required to meet the respective objectives of sustainability-related financial disclosures and the related financial statements requires that distinct materiality judgements should be used for those disclosures and for the related financial statements.

In relation to definition of 'material information', the education material provides following guidance relating to main components of the definition:

- **Information needs of primary users and the decisions they make based on general purpose financial reports:** Materiality judgements involve considerations relating to both who the primary users are and what decisions they make based on general purpose financial reports. General purpose financial reports do not, and cannot, provide all the information that all primary users need. Therefore, an entity should meet the common information needs of primary users. Additionally, an entity assesses whether information is material based on whether that information could reasonably be expected to influence decisions of primary users. Although the entity itself makes this assessment, it is based on the perspective of primary users and their information needs. The materiality assessment requires an entity to consider the characteristics of primary users (such as, potential investors), while also considering the entity's own circumstances (for example, the entity's own industry).
- **In the context of sustainability-related financial disclosures:** Sustainability-related financial disclosures provide information about an entity's sustainability related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions about providing resources to the entity. Although the definition of 'material information' in ISSB Standards is aligned with the definition of the same term in IFRS Accounting Standards, however, the information required to meet the objective of the respective general purpose financial reports is distinct. The materiality judgements an entity makes in preparing its sustainability-related financial disclosures will be distinct from those it makes in preparing its financial statements.
- **Meaning of 'omitting, misstating or obscuring' information:** In assessing whether information is material, an entity considers the effect of omitting, misstating or obscuring that information on primary users' decisions. An entity is required to identify its sustainability-related financial disclosures clearly and distinguish them from other information the entity provides. Therefore, an entity should ensure that sustainability-related financial disclosures are clearly identifiable and not obscured by additional information.

Identifying and disclosing material information

The previous sections discusses definition of material information and guidance related to identification of sustainability-related risks and opportunities. The subsequent section discusses the requirements in ISSB Standards to identify and disclose material information about sustainability-related risks and opportunities.

The following chart lists down the four-step process as an example approach to assess whether information is material when preparing its sustainability-related financial disclosures.

	Step		Output
1	**Identify** information about sustainability-related risks and opportunities that has the potential to be material	→	A set of potentially material information
2	**Assess** whether the potentially material information identified in Step One is, in fact, material	→	A preliminary set of material information
3	**Organise** the information within the draft sustainability-related financial disclosures	→	Draft sustainability-related financial disclosures
4	**Review** the draft sustainability-related financial disclosures	→	Final sustainability-related financial disclosures

(Source: ISSB's Education material: Sustainability-related risks and opportunities and the disclosure of material information, November 2024)

Step 1: Identify information about sustainability-related risks and opportunities that has the potential to be material

Considering the requirements of ISSB standards, the education material states that as first step an entity should identify information about its sustainability-related risks and opportunities that primary users might need to understand to make decisions relating to providing resources to the entity. Once the entity has identified a sustainability-related risk or opportunity, an entity should apply the ISSB Standard requirements that specifically applies to identified sustainability-related risk or opportunity. Further, an entity should apply IFRS S2 in combination with IFRS S1, for example, if an entity identifies a climate-related risk or opportunity then in determining the required level of disaggregation of climate-related information to provide, an entity should refer to the relevant requirements in IFRS S1.

The education material also highlights that the disclosure requirements in ISSB Standards specify items of information that an entity is required to provide if that information is material in the entity's circumstances. The information to be provided should be useful to primary users in making decisions about providing resources to the entity. If an entity determines that information required by an ISSB Standard is not material, the entity need not disclose that information. In case, ISSB standard does not provide disclosure requirements relating to an entity's identified sustainability-related risk or opportunity, in such scenarios IFRS S1 requires that an entity apply judgement to identify information that is:

- Relevant to primary users' decision-making; and
- Faithfully represents the sustainability-related risk or opportunity.

In applying such judgement, an entity needs to assess what information is useful to primary users. Further, to help an entity in assessing whether the information is relevant and faithfully represents the identified risk or opportunity, IFRS S1 specifies sources of guidance for the identification of relevant and hence, potentially material information.

The output of Step 1 is a set of potentially material information.

Step 2: Assess whether the potentially material information identified in Step 1 is material

The education material highlights that in Step 2, an entity assesses whether the potentially material information identified in Step 1 is, in fact, material. Considering that materiality judgements are specific to the entity, ISSB Standards do not specify any thresholds for material information or predetermine what information would be material in a particular situation.

When making materiality judgements, an entity considers whether the item of information could reasonably be expected to affect primary users' assessment of the amount, timing and uncertainty of future net cash inflows to the entity and their assessment of stewardship of the entity's economic resources sufficiently to influence their decisions. The education material highlights that following points should be considered when making materiality judgements:

- **Consideration of quantitative and qualitative factors:** An entity should assess the materiality of information by considering both quantitative and qualitative factors, it would not be appropriate to rely on purely numerical guidelines or to apply a uniform quantitative threshold for all materiality judgements. Below are some of the considerations:
  - *Quantitative factors*: An entity ordinarily assesses whether information is quantitatively material by considering the size of the effect of the sustainability-related risk or opportunity against other related measures. Examples of quantitative factors might include impact on cash flows, amount of resource consumption, return on investment or market share. A quantitative factor can be used to assess both the materiality of quantitative information, such as GHG emissions, and also qualitative information, such as qualitative information about an entity's resilience to a specific sustainability-related risk.
  - *Qualitative factors*: Qualitative factors, on other hand, are factors that an entity considers in making materiality judgements related to characteristic of the entity, such as its governance, and its interactions with its stakeholders, society, the economy and the natural environment throughout the entity's value chain, that ultimately give rise to sustainability-related risks or opportunities. The ISSB standards highlights that existence of qualitative factor more likely to influence the decisions of primary users. Therefore, when making materiality judgements, an entity should consider both entity-specific and external qualitative factors. The table on next column discusses some examples of both entity-specific and external qualitative factors qualitative factors.

Entity-specific qualitative factors	External qualitative factors
• The nature of the risk or opportunity • The extent to which the entity's business model and strategy depend on particular resources or relationships—for example, relationships with important suppliers or customers • Unexpected variation or change in trends.	• The entity's geographical location • The entity's industry or sector • The state of the economy or economies in which the entity operates.

(Source: ISSB's Education material: Sustainability-related risks and opportunities and the disclosure of material information, November 2024)

While determining whether information is material, an entity considers both quantitative and qualitative factors, however. the presence of a qualitative factor is likely to lower the threshold for a quantitative assessment. The more significant the qualitative factors, the more likely it is that lower quantitative thresholds will apply. While, in some circumstances a quantitative threshold could be reduced to zero and the information would still be material as it is expected to influence primary users' decisions. Thus, an entity needs to identify information as material based on one or more quantitative or qualitative factors.

- **Consideration of possible future events with uncertain outcomes:** When assessing whether information about events is material, IFRS S1 requires an entity to consider the range of possible outcomes and the likelihood of the possible outcomes. When considering possible outcomes, an entity is required to consider all pertinent facts and circumstances. An entity is more likely to conclude that information about a possible future event is material if the potential effects are significant and the event is likely to occur. Information about a possible future event that is expected to affect an entity's cash flows many years in the future is less likely to be material than information about a possible future event with similar effects that has the possibility of occurring sooner.

- **Consideration of changed circumstances and assumptions:** An entity should make new, and reassess old, materiality judgements at each reporting date, considering changed circumstances and assumptions. Such changes can relate to changes in the entity's individual circumstances or in the external environment. Changed circumstances and assumptions might impact materiality of the information included in sustainability-related financial disclosures. An entity is required to reassess its materiality judgements at each reporting date to consider any changes in circumstances and assumptions. If an entity is exposed to a sustainability-related risk or opportunity that might have consequences in the long term, the entity should disclose the material information about this sustainability-related risk or opportunity.

The output of Step 2 is a preliminary set of material information.

Step 3: Organise the information within the draft sustainability-related financial disclosures

An entity should organise a preliminary set of material information in the draft sustainability-related financial disclosures in a way that communicates information clearly and concisely to primary users. An entity needs to exercise judgement while organising material information, including those related to:

- **Aggregating and disaggregating information**: An entity is required to consider all facts and circumstances and decide how to aggregate and disaggregate information in its sustainability-related financial disclosures. While aggregating an entity should consider that aggregating would not obscure information that is material and aggregated items only if information has shared characteristics. Further, the entity might need to disaggregate information about sustainability-related risks and opportunities.
- **Obscuring information**: IFRS S1 requires an entity to clearly identify its sustainability-related financial disclosures and distinguish these disclosures from other information so it cannot obscure material information.
- **Disclosing material information**: If an entity concludes that information that is necessary to enable primary users to understand the effects of a sustainability-related risk or opportunity on the entity's prospects is material, then an entity should disclose such information, regardless of whether it is specifically required by an ISSB Standard. An entity makes judgements about whether this information is material in the same way it makes judgements about other types of information that is, based on the expectation of whether the information could reasonably be expected to influence primary users' decisions.

The output of Step 3 is the draft sustainability-related financial disclosures.

Step 4: Review the draft sustainability-related financial disclosures

As a last step, the entity ‘steps back’ and considers its sustainability-related financial disclosures as a whole to ensure that it has complied with the requirements related to connected information, such as whether primary users will understand connections between the disclosures in its sustainability-related financial disclosures and other disclosures that are part of general-purpose financial reports.

An entity assesses whether information is material both individually and in combination with other information in the context of its whole sustainability-related financial disclosures. The following chart summarises considerations an entity might make while reviewing draft sustainability-related financial disclosures:

In performing this review, the entity considers whether:	The review might lead to:
All relevant relationships between different items of information have been identified. Identifying new relationships between information might lead to that information being identified as material for the first time.	Additional information being provided in the sustainability-related financial disclosures.
Items of information that are individually immaterial, when considered together, could nevertheless reasonably be expected to influence primary users’ decisions.	Greater aggregation or disaggregation of information.
The information in the sustainability-related financial disclosures is communicated in an effective, understandable way, and organised to avoid obscuring material information.	Information that is identified as immaterial being removed from the sustainability-related financial disclosures to avoid obscuring material information.
The sustainability-related financial disclosures provide a fair presentation of the entity’s sustainability-related risks and opportunities.	Information being reorganised within the sustainability-related financial disclosures.

(Source: ISSB’s Education material: Sustainability-related risks and opportunities and the disclosure of material information, November 2024)

The review of draft sustainability disclosures might lead an entity to reconsider its assessment in and decide to reassess some information, which might conclude that information previously identified as material and remove it from its sustainability-related financial disclosures.

The output of Step 4 is the final sustainability-related financial disclosures.

The bottom line

When applying ISSB Standards, an entity is required to provide information in a manner that enables primary users to understand the connections between disclosures provided across its sustainability-related financial disclosures and its related financial statements. In addition, an entity needs to consider materiality in context of sustainability-related financial disclosures. ISSB Standards are designed to result in an entity providing information that is useful for the primary users of general-purpose financial reports.

The entities reporting in accordance with ISSB Standards should consider developing a process to identify and disclose material information about the sustainability-related risks and opportunities it has identified and to ensure that it has complied with the requirements of ISSB standards.

CHAPTER 3

Regulatory updates

SEBI proposes amendments to secretarial and related party provision of the LODR

On 7 February 2025, the Securities Exchange Board of India (SEBI) issued a consultation paper to review aspects relating to secretarial compliance report, appointment of auditors and Related Party Transactions (RPT) of a listed entity (the consultation paper). The consultation paper seeks public feedback on proposed amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) and SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 (SBEBS Regulations) and is open for comments until 28 February 2025.

The key amendments proposed are as follows:

1. **Strengthening the secretarial compliance report**: Regulation 24A(2) of the LODR Regulations requires every listed entity to submit a secretarial compliance report to stock exchanges every year in the specified format. However, to enhance secretarial compliance by listed entities, SEBI proposed following amendments relating to secretarial audit and secretarial compliance report:

   a) Disclosure of Annual Secretarial Compliance Report (ASCR) in the annual report

   b) Mandatory compliance with secretarial standards referred under Section 118(10) of the Companies Act, 2013 (2013 Act)

   c) Change in or resignation of a secretarial auditor will be deemed to be a material event requiring disclosure without application of materiality guidelines as per Schedule III of the LODR Regulations

   d) Total fees paid by listed entity and its subsidiaries to a secretarial auditor along with the fact about the resignation or removal of a secretarial auditor before end of tenure with reasons thereof to be disclosed in the annual report as per Schedule V of the LODR Regulations

   e) Removal of duplication in certifications between ASCR and requirements in other SEBI Regulations.

2. **Eligibility criteria for appointment of statutory auditor and disclosure to audit committee and board of directors:** Regulation 36(5) of the LODR Regulations outlines specific disclosure requirements for the notice to be sent to shareholders for an annual general meeting when appointing or re-appointing statutory or secretarial auditors. However, considering that the current requirement does not specify the standardised format for these disclosures and does not mandate minimum information disclosure to the Audit Committee or Board of Directors, SEBI proposed to prescribe the format for disclosure of minimum information to the Audit Committee and/or Board of Directors, shareholders of the listed entity for considering appointment or re-appointment of statutory or secretarial auditors of the listed entity.

3. **Approval of RPTs undertaken by subsidiaries of listed entity:** Regulation 23(2) of the LODR requires prescribes ‘approval requirements’ relating to RPT involving a subsidiary of a listed entity. However, to further clarify the applicability of monetary thresholds, SEBI proposed to introduce monetary thresholds of INR1,000 crore for audit committee approval of RPTs in addition to the existing percentage-based threshold (10 per cent of the annual standalone turnover) where the lower of the two thresholds (monetary or percentage-based) will be used to determine the need for audit committee approval. In case of SME listed entities, INR50 crore threshold would be applicable.

   Additionally, in case of subsidiaries which do not have financial track record i.e. published financial statements for at least one year, it is proposed to consider 10 per cent of the certified net worth on standalone basis instead of10 per cent of standalone turnover, as the threshold for audit committee approval. In cases of negative net worth, the share capital plus securities premium will be considered as the threshold instead of net worth. This threshold would be compared with INR 1,000 crore (or INR50 crore) i.e. lower of monetary threshold and percentage-based threshold, may be considered for approval of RPTs by an audit committee.

4. **Clarifications pertaining to applicability of RPT provisions:** Regulation 2(1)(zc) of the LODR Regulations defines an RPT as any transaction between a listed entity (or its subsidiaries) and a related party of the listed entity (or its subsidiaries). In this regard, SEBI received requests for clarification on how this definition applies to subsidiaries of listed entities for RPT compliance. Considering that, SEBI proposed to provide following clarifications:

   i. To determine related parties for subsidiaries - definition of RPT (Regulation 2(1)(zc)) should be read along with definition of a related party (Regulation 2(1)(zb))

   ii. The exemption under Regulation 23(5)(b) will apply only when the wholly owned subsidiary’s accounts are consolidated with a listed holding company and presented to shareholders. Further, SEBI proposes to clarify that the exemption applies only to listed holding companies.

(Source: SEBI consultation paper on “Consultation Paper on aspects relating to Secretarial Compliance Report, Appointment of Auditors and Related Party Transactions of a Listed Entity” dated 7 February 2025)

SEBI introduces the Industry Standards Recognition Manual

Recently, SEBI issued the 'Industry Standards Recognition Manual' to outline guidelines for recognising industry standards to facilitate compliance with regulatory directions for various regulated entities like Market Infrastructure Institutions (MIIs), Mutual Funds, and listed companies and it provides for the creation and regulation of Industry Standards Forums (ISFs) to develop specific standards, checklists, and Standard Operating Procedures (SOPs) for implementation of the various regulatory directions.

Key points of the manual include:

- **Scope of ISF**: Formulating standards for regulatory compliance, not drafting regulations or taking regulatory actions.
- **Constitution of ISF**: Comprising members of the concerned industry or regulated entities, including small and medium-sized players, with a chairperson having at least 10 years of relevant experience.
- **Functioning of ISF**: Preparing of implementation standards in consultations with SEBI for the identified regulatory directive and/or suggest additional directives for framing of standards.
- **Recognition process**: Standards must be specific, aligned with regulatory intent, and include step-by-step implementation procedures.
- **Publishing standards**: Recognised standards would be published on SEBI and industry association websites and must be adopted by regulated entities.

The manual aims to ensure uniformity and ease of compliance while allowing SEBI to modify guidelines as needed.

(Source: SEBI advisory/guidance, "Industry Standards Recognition Manual", dated 12 February 2025)

Minimum information disclosure for RPT approval by listed entity

Regulation 23 of the SEBI LODR Regulations require Related Party Transactions (RPTs) to be approved by the audit committee and by the shareholders, if material. Additionally, Part A and Part B of Section III-B of the SEBI Master Circular dated 11 November 2024 (Master Circular) specify the information that should be placed before the audit committee and shareholders, respectively, for consideration of RPTs. Considering these requirements, SEBI on 14 February 2025 issued a circular, wherein it has provided that, the Industry Standards Forum[1] (ISF) to introduce standards for minimum information to be provided for review by an audit committee and shareholders for approval of RPTs which will enable listed entities comply with requirements of LODR Regulations and SEBI Master circular.

Considering the circular, ISF introduced 'Industry Standards on minimum information to be provided for review of the audit committee and shareholders for approval of RPT'. The standards provide a standard format for listed entities to provide minimum information to the audit committee and shareholders for RPTs entered into on or after 1 April 2025. The industry standard covers the following aspects:

1. **Applicability:** The standards are applicable to material RPTs as defined under the SEBI LODR Regulations and where the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed lower of the following:
   a) Two per cent of turnover, as per the last audited consolidated financial statements of the listed entity
   b) Two per cent 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
   c) Five per cent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed entity.
2. **Minimum information:** Specifies minimum information required for audit committee's and shareholders' review and approval of RPTs.
3. **Format for information:** Provides standardised format for presentation of information to the audit committee.

(Source: SEBI Circular SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/18, dated 14 February 2025 and ISF's "Industry Standards on "Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of Related Party Transaction (RPT)"")

1. The Industry Standards Forum (ISF) comprising of representatives from three industry associations, viz. ASSOCHAM, CII and FICCI.

SEBI eases ESG rating review timeline

In May 2024, SEBI issued a master circular for Environmental, Social, and Governance (ESG) Rating Providers (ERPs). The master circular mandates ERPs to monitor significant developments or events that could alter the ESG profile of a rated company. Such events include the publication of the Business Responsibility and Sustainability Report (BRSR) or any controversies and penalties related to ESG areas. ERPs are required to review ESG ratings immediately, but no later than 10 days after such events.

However, stakeholders have raised concerns about the feasibility of reviewing ESG ratings for numerous listed companies within the 10 days timeframe following the publication of the BRSR. Considering these challenges and aiming to facilitate ease of doing business, SEBI issued a circular on 17 January 2025 to extend the review timeline for ESG ratings following the publication of the BRSR to 45 days.

This extension is expected to provide ERPs with sufficient time to conduct thorough reviews and ensuring more accurate and reliable ESG ratings.

(Source: SEBI Circular SEBI/HO/DDHS/DDHS-PoD-3/P/CIR/2025/007, Timeline for review of ESG Rating pursuant to occurrence of 'Material events' dated 17 January 2025)

MCA extends timelines for share dematerialisation

Rule 9B of the Companies (Prospectus and Allotment of Securities) Rules, 2014 (Prospectus Rules) provides that all private companies (excluding government and small companies) to issue securities in dematerialised form and facilitate the dematerialisation of all their securities. Further, it requires that all private limited companies to comply with these requirements within 18 months of closure of financial year.

On 12 February 2025, the Ministry of Corporate Affairs (MCA) issued the Companies (Prospectus and Allotment of Securities) Amendment Rules, 2025 (amended rules) to amend Rule 9B of the Prospectus Rules. The amended rules have extended the compliance deadline for all private companies (other than producer companies) to 30 June 2025.

(Source: MCA notification, Companies (Prospectus and Allotment of Securities) Amendment Rules, 2025, dated 12 February 2025)

ICAI issued 'Guidance on non compliances observed by QRB'

The Quality Review Board (QRB) is responsible for conducting quality reviews of audit services provided by audit firms. These reviews aim to identify instances of non-compliance with various standards and regulations, including Standards on Quality Control (SQC), Standards on Auditing (SAs), audit reports, the Companies (Auditor's Report) Order (CARO), Accounting Standards (AS), Indian Accounting Standards (Ind AS), and Schedule III of the 2013 Act.

Recently, the Institute of Chartered Accountants of India (ICAI) released the third volume of its publication titled 'Guidance on Non-Compliances Observed by QRB. The publication discusses common non-compliances identified by the QRB and provides essential guidance for members to address these issues effectively.

(Source: *ICAI Announcement,* Auditing and Assurance Standards Board, *dated 24 January 2025)*

New RBI guidelines to streamline ARC's settlement procedure

Asset reconstruction companies (ARCs) play a crucial role in the financial system by taking over Non-Performing Assets (NPAs) from banks, allowing lenders to focus on core banking activities. However, ARCs often face challenges in recovering dues from borrowers, making settlements a common solution.

Considering the challenges, on 20 January 2025, the Reserve Bank of India (RBI) introduced revised guidelines to prescribe more structured and detailed framework for the settlement of dues by ARCs. Key changes include:

1. **Board approved settlement policy:** The requirement for a board-approved policy covering specific aspects of settlement, such as cut-off date for one-time settlement eligibility, methodology for arriving at the realisable value of the security, etc.
2. **Settlement procedure:** The criteria for settlement of dues are now divided into three categories:
   a) **Principal amounts exceeding INR1 crore**: Requires forming the Independent Advisory Committee (IAC) consisting of professionals having technical/finance/legal background. Borrowers with outstanding dues exceeding INR1 crore, settlement proposal is to be reviewed by IAC and recommendations of IAC to be considered by the Board of the ARC with at least two independent directors. The Board must contemplate every avenue of recovery before it allows and orders settlement.
   b) **Principal amounts are less than equal to INR1 crore**: Settlement of accounts to be done as per the criteria prescribed by the authority in the Board-approved policy, subject to specified conditions.
   c) **Dues from borrowers classified as frauds or wilful defaulters**: Settlement of accounts to be done under same procedures as settlement of accounts where principal amount exceeds INR1 crore, irrespective of value. An ARC may settle without prejudice to any criminal action that might be pending against such borrowers.
3. **Other legal provisions:** All settlements must comply with existing laws and regulations. If recovery proceedings are ongoing in a judicial forum, any settlement must obtain a consent decree from the relevant judicial authority.

(Source: RBI Circular RBI/2024-25/106 DoR.SIG.FIN.REC.56/26.03.001/2024-25, dated 20 January 2025)

Revised guidelines for HFCs on private placement of NCDs

On 29 January 2025, RBI issued a circular updating the guidelines for Housing Finance Companies (HFCs) regarding the private placement of Non-Convertible Debentures (NCDs) with maturities more than one year. The circular provides that the Guidelines on Private Placement of Non-Convertible Debentures (NCDs) (with maturity more than one year) by Non-Banking Financial Companies (NBFCs), as contained in para 58 of the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 (as amended from time to time) would be applicable, mutatis-mutandis, to Housing Finance Companies (HCFs). Accordingly, the existing guidelines under Chapter XI of Master Direction – Non-Banking Financial Company – Housing Finance Company (Reserve Bank) Directions, 2021 repealed.
The revised guidelines would be applicable to all fresh private placements of NCDs (with maturity more than one year) by HFCs from the date of this circular.

(Source: RBI Notification RBI/2024-25/107 DOR.FIN.REC.No.58/03.10.136/2024-25, dated 29 January 2025)

IRDAI introduces new regulatory framework

On 10 January 2025, the Insurance Regulatory and Development Authority of India (IRDAI) announced several regulatory updates to enhance governance, data security, and operational efficiency in the insurance sector. Key points from the notification include:

a) **Regulations on regulatory sandbox:** The IRDAI issued the Regulatory Sandbox framework to enhance innovation, flexibility, and operational efficiency in the insurance sector. The new Regulations are principle-based and detailed operational guidelines would be provided through a master circular. The sandbox's scope has been expanded to include the provisions that allow Inter-Regulatory Sandbox proposals, which span multiple financial sectors.

b) **Regulations on maintenance and sharing of information** The IRDAI issued the IRDAI (Maintenance of Information by the Regulated Entities and Sharing of Information by the Authority) Regulations, 2025 to consolidate following regulations to strengthen data governance and confidentiality:

- IRDA (Sharing of Confidential information concerning domestic or foreign entity) Regulations, 2012
- IRDAI (Maintenance of Insurance Records) Regulations, 2015
- IRDAI (Minimum Information required for Investigation and Inspection) Regulations, 2020

It mandates electronic record keeping with robust security measures and also provides guidelines for sharing confidential information. Further, it requires Regulated Entities (REs) to adopt data governance framework and implement Board approved policies for record maintenance.

c) **Amendment to meeting regulations** In order to enhance operational flexibility, governance and efficiency of conducting meetings, amendments to the following three regulations have been notified:

- IRDAI (Meetings) (Amendment) Regulations, 2025
- IRDAI (Insurance Advisory Committee) (Amendment) Regulations, 2025
- IRDAI (Re-Insurance Advisory Committee) (Amendment) Regulations, 2025.

The objective of these amended regulations is to improve operational flexibility and efficiency of the meetings of the Authority.

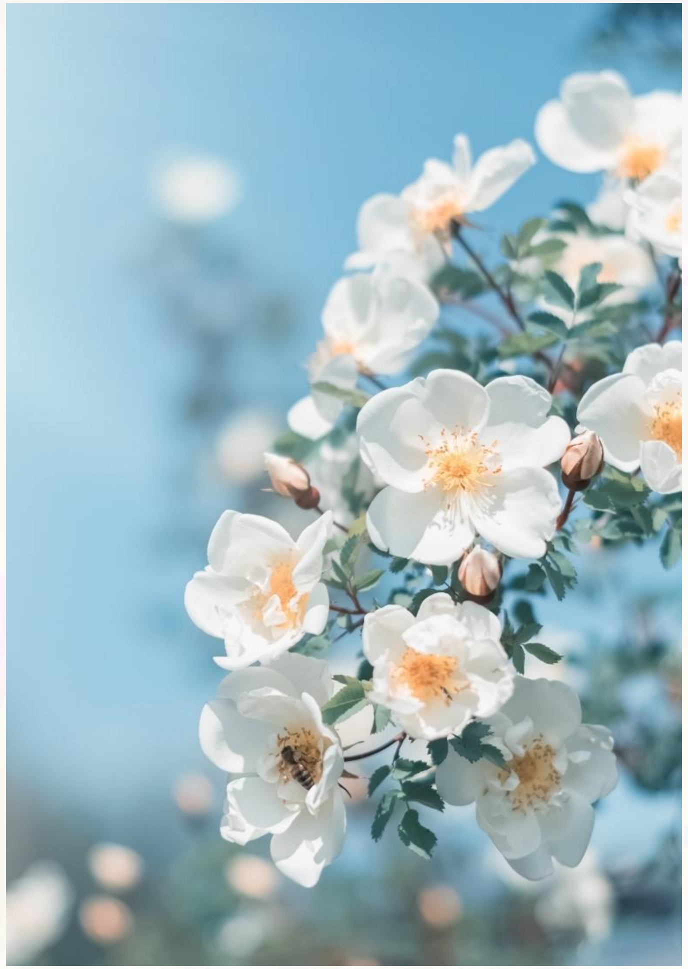
(Source: IRDAI Press release 'IRDAI further strengthens the Regulatory framework', dated 10 January 2025)

SEBI provides guidelines for use of AI/ML by regulated entities

The SEBI (Intermediaries) Regulations, 2008 provides guidelines relating to different classes of intermediaries. Recently, SEBI issued amendments to SEBI (Intermediaries) Regulations, 2008 to introduce new provisions regarding the use of Artificial Intelligence (AI) and Machine Learning (ML) by Market Infrastructure Institutions (MIIs), registered intermediaries, and other SEBI-regulated entities.

These regulations mandate that any entity using AI/ML tools[2], whether developed in-house or sourced from third parties, is solely responsible for the privacy, security, and integrity of investor and stakeholders' data, the outputs generated by these tools, and compliance with applicable laws. The SEBI would take appropriate action in case of violations by the regulated entities in this matter. The amendment aims to ensure accountability and regulatory compliance in the use of AI/ML technologies in the financial sector.

(Source: IRDAI Press release 'IRDAI further strengthens the Regulatory framework', dated 10 January 2025)



2. The expression 'artificial intelligence and machine learning tools and techniques' may include any application or software program or executable system or a combination thereof, offered by the person regulated by the Board to investors/stakeholders or used internally by it to facilitate investing and trading or to disseminate investment strategies and advice or to carry out its activities including compliance requirements and the same are portrayed as part of the products offered to the public or under usage for compliance or management or other business purposes.

SEBI proposal on AIF Regulations

The SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations) provide guidelines to regulate private pools of capital in India. Recently, SEBI issued a consultation paper to review Regulation 17(a) of AIF Regulations. The paper addresses concerns about the shrinking investment opportunities in unlisted debt securities due to recent amendments in the LODR Regulations, which mandate the listing of non-convertible debt securities. The key proposals include allowing Category II AIFs to invest more than 50 per cent of their investible funds in either unlisted securities or listed debt securities with a credit rating of 'A' or below.

This aims to expand the investment universe for AIFs while maintaining their role in providing capital to industries lacking access to traditional funding sources. The consultation paper is open for comments until 28 February 2025.

(Source: SEBI “Consultation Paper on review of Regulation 17 (a) of SEBI (AIF) Regulations, 2012, with the objective of Ease of Doing Business”, dated 7 Feb 2025)

MoEFCC issues new guidelines for control of air and water pollution

The Ministry of Environment, Forest and Climate Change (MoEFCC) recently issued following guidelines

- The Control of Water Pollution (Grant, Refusal or Cancellation of Consent) Guidelines, 2025 under the Water (Prevention and Control of Pollution) Act, 1974.
- The Control of Air Pollution (Grant, Refusal or Cancellation of Consent) Guidelines, 2025 under the Air (Prevention and Control of Pollution) Act, 1981.

These guidelines aim to streamline the consent process, and it outlines the procedures and criteria for obtaining, renewing, and potentially losing consent to establish or operate industrial plants that would cause air and water pollution.

(Source: MoEFCC Notification G.S.R. 85(E)., dated 30 January 2025)

ISSB issues guide to help companies report only climate related information

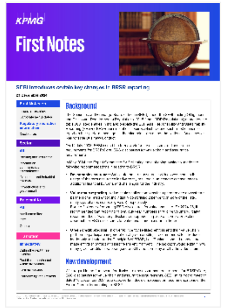
In June 2023, the International Sustainability Standards Board (ISSB) issued, IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS *S2, Climate-related Disclosures* which provide requirements related to disclosure of sustainability-related risks and opportunities, including those related to climate, for capital markets. With an aim to aid companies in implementing these standards, The IFRS Foundation has published a new guide, *Applying IFRS S1 when reporting only climate-related disclosures in accordance with IFRS S2*, which aims to help companies understand how to report only climate-related information when applicable using International Sustainability Standards Board (ISSB) Standards.

Further, in response to the concerns about data availability and readiness, the ISSB introduced transition reliefs in IFRS S1 and IFRS S2. As per ISSB standards, companies must apply both standards together, but paragraph E5 of IFRS S1 allows them to disclose only climate-related risks and opportunities in the first year, following the 'climate-first' approach.

This transition relief temporarily narrows the scope of reporting in accordance with IFRS S1 from the requirements of information about all sustainability related risks and opportunities that could reasonably be expected to affect a company's prospects to the provision of information about only climate-related risks and opportunities, giving companies time to prepare reports on all sustainability related risks and opportunities. However, this relief is optional and in case, companies have the resources to do so, they may report on all sustainability matters as well.

(Source: IFRS Foundation, News 2025, 'IFRS foundation published guide to help companies understand how to report only climate related information when applicable in accordance with ISSB standards', dated 30 January 2025)

First Notes



SEBI introduces certain key changes in BRSR reporting

The Securities and Exchange Board of India (SEBI), under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 'the LODR Regulations) mandates the top 1,000 listed entities in India to prepare the Business Responsibility and Sustainability Report (BRSR). Further, in July 2023, SEBI issued the framework for the disclosure and assurance requirements for BRSR Core, ESG disclosures for value chain and assurance requirements.

With regard to the framework for disclosure and assurance requirements for BRSR Core, ESG disclosures for value chain and assurance requirements, SEBI, at its board meeting dated 18 December 2024 approved certain decisions in relation to BRSR, for facilitating ease of doing business. Additionally, SEBI, vide a circular dated 20 December 2024, issued the Industry Standards on Reporting of BRSR Core. These standards aim to facilitate the standardisation and ease of implementation of BRSR Core disclosures.

This issue of First Notes provides an overview of the key changes introduced by SEBI in BRSR reporting.

To access the First Notes, please click here

Voices on Reporting - Quarterly updates publication

December 2024

In this publication, we have summarised important financial reporting and regulatory updates relevant for the quarter ended 31 December 2024 from the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the National Financial Reporting Authority (NFRA), the Ministry of Environment, Forestry and Climate Change and the Institute of Chartered Accountants of India (ICAI).

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