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Reporting Insights

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Contents

Rethinking transparency: Revised Industry Standards for disclosure of RPT information

The Companies Act 2013 (as amended) as well as the *SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015* (as amended) (hereinafter referred to as the 'Regulations' or the 'LODR Regulations') prescribe specific requirements for identification of related parties, related party transactions (RPTs) and their approval. In accordance with the LODR Regulations, all RPTs proposed to be entered into by a listed entity or its subsidiary as well as any subsequent modification thereto require prior approval of the Audit Committee where only independent directors can vote. In addition, all material RPTs and any material modification thereto need to be approved by the shareholders and no related party can vote to approve such transactions. The purpose of the above requirements is to ensure that all RPTs are conducted transparently, fairly and in the best interests of the listed entity and its public shareholders.

To facilitate informed decision-making, the SEBI Master Circular dated 11 November 2024 mandates listed entities to provide specific information on RPTs for review and approval by the Audit Committee and shareholders. The Master Circular requires basic information for the proposed RPT to be provided to the Audit Committee and shareholders.

To facilitate a uniform approach, help listed entities in improving compliance with RPT approval requirements and provide more relevant information to the Audit Committee as well as shareholders for decision making, the Industry Standards Forum (ISF) (comprising representatives from three industry associations, viz., ASSOCHAM, CII and FICCI), in consultation with the SEBI, in the month of February 2025, had issued "Industry Standards on '*Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of Related Party Transaction (RPT)*.'" The SEBI, vide its circular dated 14 February 2025, had prescribed that from 1 April 2025, listed entities will comply with the requirements of the said Industry Standard for providing information to the Audit Committee/ shareholders and these requirements will replace the disclosure requirements of the Master Circular.

Post issuance of the Industry Standard, the SEBI received feedback from various stakeholders requesting extension of timeline for applicability of the Industry Standards. Accordingly, the SEBI decided to defer the effective date of the Circular to 1 July 2025. The SEBI also decided that the ISF will consider the feedback received for simplification of the Industry Standards and release the same in a time-bound manner.

On 26 June 2025, the ISF issued a revised Industry Standards on "*Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions*" (hereinafter referred to as the "RPT Industry Standard"). The revised RPT Industry Standard has significantly amended/ simplified disclosure requirements on

information that needs to be provided to the Audit Committee and shareholders, for approval of RPTs. Many disclosures which were required under the earlier RPT Industry Standard are not required under the revised RPT Industry Standard. For example, the revised RPT Industry Standard does not require disclosures such as Total number of bidders/ suppliers/ vendors, etc. from whom bids/ quotations have been received for RPT with details of process followed to obtain bids, Best bid/ quotation received, Potential loss in RPT compared to the best bid and justification thereof, which were required under the earlier RPT Industry Standard. Despite simplification and removal of information requirements which were considered to be more onerous from the revised RPT Industry Standard, the revised RPT Industry Standard still requires detailed information to be provided to the Audit Committee and the shareholders for informed decision making. This information required is significantly higher vis-à-vis those currently required and provided under the SEBI Master Circular.

Applicability

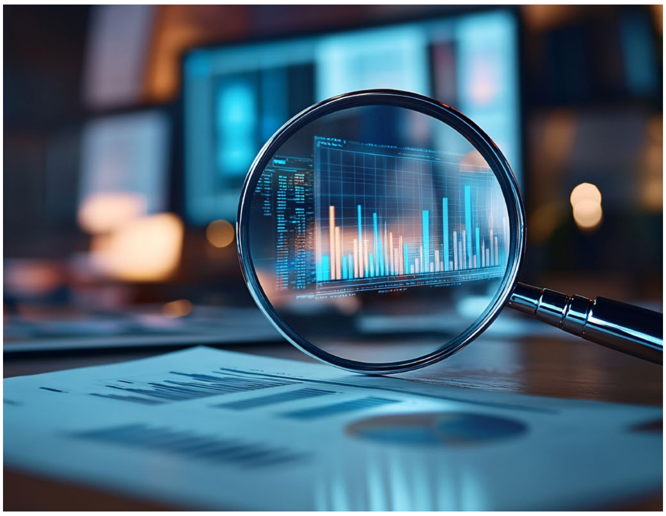
The SEBI Circular dated 26 June 2025 provides that the revised RPT Industry Standard will apply from 1 September 2025 onward. The Circular also provides that from the applicability date, the disclosure requirements of the Master Circular dated 11 November 2024 will not apply.

The revised RPT Industry Standard will apply to all RPTs requiring review/ approval by the Audit Committee and/or shareholders, in accordance with LODR Regulations. However, it will not apply in the following cases:

- Transaction(s) with a related party to be entered into individually or taken together with previous transactions during a financial year do not exceed INR1 crore
- RPTs exempt from approval requirements under the LODR Regulations such as transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with the holding company, or transactions entered into between two wholly-owned subsidiaries of the listed holding company

The revised RPT Industry Standard is applicable for provision of information to the Audit Committee for review of transactions at the time of approval and not for subsequent quarterly review of transactions by the Audit Committee.

The requirements of the revised RPT Industry Standard are significantly different from the previous RPT Industry Standard, which was issued in February 2025. From an applicability perspective, the listed entities will move directly from information requirements of the Master Circular to the revised RPT Industry Standard. This article provides an overview of key requirements under the revised RPT Industry Standard considering the applicability and transition from Master Circular perspective.



Overview of minimum information to be provided to the Audit Committee

The management is responsible for providing information in accordance with the revised RPT Industry Standard. The information required to be provided to the Audit Committee is divided into three broad parts:

a. Minimum information to be provided for all types of related party transactions such as basic details of the related party, relationship and ownership of the related party, details of previous transactions with the related party, amount of the proposed transaction(s) and basic details of the proposed transaction

b. Information to be provided only if a specific type of RPT is proposed to be undertaken. This part covers separate information requirements for various types of RPTs such as sale/ purchase of goods or services or similar transactions and trade advances, loans and advances/ inter-corporate deposits given, investment made, guarantee (including performance guarantee) given /contractual commitment made, borrowings taken and royalty payment entered into by listed entities and/ or their subsidiaries. Such information needs to be provided for material as well as immaterial transactions.

c. Additional information to be provided only if a specific type of RPT is proposed to be undertaken and RPT is a material RPT in accordance with the LODR Regulations. This part also provides separate information requirements for various types of transactions.

Some of the information requirements are relatively straightforward and/ or were required under the earlier Master Circular also. Other information requirements are new and considered relevant for informed decision making. Given below is an overview of some relevant additional disclosures required:

Information required in all cases

a) Default, if any, committed by the related party in meeting its obligation under transactions or arrangements entered into in the last financial year.

b) Proposed transaction value as a percentage of the related party's turnover and details of financial performance (comprising turnover, profit after tax, and net worth) of the related party for the preceding financial year. This needs to be accompanied by audited financial statements of the related party for the preceding financial year. If such audited financial statements of the related party are not available, the entity will provide the financial extracts of the relevant / minimum information, duly certified by the related party.

c) Justification as to why the proposed RPT is in the best interests of the listed entity. The listed entity also needs to provide a certificate from the Chief Executive Officer (CEO)/ Managing Director/ Whole Time Director/ Manager and Chief Financial Officer (CFO) confirming that the terms of RPTs proposed to be entered into are in interest of the listed entity.

d) Details of promoters, directors, or key managerial personnel having a direct or indirect interest in the transaction, including names and their shareholding in the related party.

e) A copy of the valuation or external report, if any, shall be provided to the Audit Committee.

Information required for specific transactions

Nature of transaction	Information required irrespective of materiality	Information required for material transactions
Sale/ purchase of goods or services, etc.	▪ Bidding or selection process, if any, for choosing the party ▪ Basis of determination of price	
Loans and advances/ inter-corporate deposits given	▪ Source of funds for the proposed transaction. ▪ If funded through indebtedness, give nature of indebtedness, borrowing cost and tenure, etc. ▪ Interest rate on borrowings taken by the entity and proposed interest rate to be charged. ▪ Purpose for which the related party (RP) will utilize the funds. Similar details are required for RPT involving investments made.	▪ Latest credit rating of RP. ▪ Defaults on borrowing, if any, incurred by RP in the past three years. ▪ Whether RP has been classified as non-performing asset (NPA) or 'willful defaulter' by any banker. ▪ Similar details are required for RPT involving investments made.
Guarantee (including performance guarantee) given/ contractual commitment made	▪ Rationale for providing guarantee and whether it creates a legally binding obligation on the entity. ▪ Value of obligation undertaken ▪ Whether any provision is being made in the books of account. ▪ Material covenants of the proposed transaction, including commission to be received from RP and how the entity recovers money if the guarantee is invoked.	▪ Latest credit rating of RP, if guarantee is issued for RP's borrowing. ▪ Details of solvency and going concern status of RP for the last three years. ▪ Defaults on borrowing, if any, incurred by RP in the past three years. ▪ Whether RP has been classified as NPA or 'willful defaulter' by any banker.
Borrowings taken	▪ Material covenants of the proposed transaction ▪ Interest rate and other costs associated with borrowing ▪ Maturity/ due date including repayment schedule & terms ▪ Purpose for which funds will be utilized	Debt-to-equity ratio and debt service coverage ratio of the entity based on the last audited financial statements both before and after the proposed transaction

Nature of transaction	Information required irrespective of materiality	Information required for material transactions
Sale, lease or disposal of assets	■ Bidding or other process, if any, applied for choosing the counterparty ■ Basis of determination of price ■ Reasons for undertaking the transaction ■ Expected impact of the transaction on the consolidated turnover, net worth, and net profit of the entity.	■ Details of earlier similar transaction, if any, involving the same subsidiary/ unit entered into with RP in the past twelve months. ■ Does the transaction entail issuance of securities or non-cash consideration to RP? If yes, provide relevant details. ■ Would the transaction result in eliminating a segment reporting by the entity? ■ Does transactions involve transfer of intangible assets or customers critical to the ongoing business? ■ Are there any significant non-financial reasons for the proposed transaction?

Payment of royalty	■ Purpose such as use of brand name or transfer of technology for which royalty is proposed to be paid
	■ Whether the parent charges royalty at a uniform rate to all group companies. If not, provide minimum and maximum rate of royalty charged by the parent with the corresponding absolute amounts.
		■ Details of royalty paid in the last three financial years:
		  ■ Gross amount
		  ■ Purpose
		  ■ % of Net profit, and
		  ■ Rate of increase compared with growth rate of turnover and profit after tax
		■ Peer comparison including whether any industry peer pays royalty for the same purpose

Key information to be provided to the shareholders

Given below is an overview of key information to be provided to the shareholders:

1) Information placed before the Audit Committee for the purpose of seeking approval of RPTs. However, the Audit Committee and Board of Directors can approve the redaction of commercial secrets and other information which would affect the competitive position of the listed entity. However, in case of redaction, the Audit Committee and Board of Directors will confirm that the redacted disclosures still provide all necessary information to the public shareholders for informed decision making.
2) Justification as to why the proposed transaction is in the interest of the listed entity, basis for determination of price and other material terms of the RPT.
3) Confirmation that the material RPT or any material modification thereto has been approved by the Audit Committee and the Board of Directors recommends the proposed transaction to the shareholders for approval.
4) Provide a weblink and QR code for shareholders to access the valuation report and other external reports considered by the Audit Committee for the RPT.
5) Any other information that may be relevant

Transitional provisions

As stated above, the revised RPT Industry Standard is applicable from 1 September 2025. Information as per the Standard will need to be provided wherever the Audit Committee approval of new transactions or material modification to previously approved transaction is sought on or after 1 September 2025. The revised RPT Industry Standard will not apply in the following cases:

a) The Audit Committee and/or shareholders have granted approval before 1 September 2025 for RPTs to be executed on or after 1 September 2025.

b) The omnibus approval has been granted before 1 September 2025 for RPTs for the financial year 2025-26.

c) A material RPT is approved by the Audit Committee before 1 September 2025 and it will be approved by the shareholders on or after 1 September 2025. It also includes cases where the notice to shareholders is sent or on or after 1 September 2025.

However, any subsequent material modification or renewal occurring after 1 September 2025 will require provision of information as per the RPT Industry Standard.

How we see it

We complement the SEBI and the ISF for issuing the new RPT Industry Standard, considering feedback received from various stakeholders for simplification of the earlier RPT Industry Standards and removing information requirements that were considered to be more onerous. We expect that the revised RPT Industry Standard will be able to address genuine concerns raised by the listed entities on the earlier Standard and, at the same time, ensure that the Audit Committees and shareholders receive all the relevant information for making informed decisions with regard to approval of the RPTs.

From listed entities' perspective, it may be noted that the revised RPT Industry Standard requires significant additional information to be provided vis-à-vis those required under the SEBI Master Circular. Considering some of the information indicated in the revised RPT Industry Standard, it is possible that the Audit Committees and/ or shareholders may require additional information from the entity before approving the RPTs. For example, in case of sale/ purchase of goods or services, the revised RPT Industry Standard requires management to mention bidding or other process, if any, applied for choosing the counterparty. It does not require the bidding process to be followed. However, it is possible that certain Audit Committee members/ shareholders may have specific requirements for the bidding process to approve the RPTs. It is imperative that the listed entity/ its subsidiaries align any such expectations with the Audit Committee/ shareholders upfront, to be duly compliant.

Further, for effective compliance and to provide information as per the RPT Industry Standard, listed entities must update their internal processes, enhance personnel training and integrate advanced document-sharing tools such as QR codes or links. They may also need to review and update their RPT policy disclosed on the website and/ or set up new internal controls or strengthen existing controls.

The revised RPT Industry Standard is applicable in cases where the Audit Committee approval of RPT with regard to FY 2025-26 is required on or after 1 September 2025. This may enable listed entities to plan Audit Committee approval with regard to RPTs for the financial year 2025-26 in advance. However, the entities will need to provide information as per the revised RPT Industry Standard for seeking approval of transactions for FY 2026-27. Also, they will need to provide information as per the revised RPT Industry Standard for seeking approval of any subsequent material modification to RPT for FY 2025-26. We believe these transitional provisions may provide listed entities with time to prepare for compliance with the new requirement. It is imperative that listed entities use such time effectively to prepare for the new information requirement.

2

Shifting gears in financial reporting framework applicable to REIT and InvIT: Are you ready?

SEBI (Real Estate Investment Trusts) Regulations, 2014 (as amended) and the *SEBI (Infrastructure Investment Trusts) Regulations, 2014* (as amended) (collectively referred to as the 'BT Regulations') and the Master Circulars dated 15 May 2024 issued under those regulations prescribed the financial reporting framework applicable to Real Estate Investment Trusts (REIT) and Infrastructure Investment Trusts (InvIT) [collectively referred to as 'Business Trust' or 'BT'], respectively. Now, the SEBI has issued two circulars both dated 7 May 2025[1] applicable to REIT and InvIT, to modify its earlier Master Circulars dated 15 May 2024. These two circulars bring significant changes in the financial reporting framework applicable to Business Trusts at various stages of their life, i.e., financial reporting framework applicable at the time of Initial Public Offer (IPO), follow-on offer (FPO) and also continuous disclosures applicable to BTs. In this article, we look at key changes brought by these circulars. In most cases, the financial reporting framework as well as changes applicable to InvITs and REITs are similar. Hence, these changes are covered together, and major differences, if any, are highlighted at relevant places.

The BT Regulations as well as the Master Circulars dated 15 May 2024 prescribed financial reporting requirements applicable to the Business Trusts. The Circulars dated 7 May 2025 have made changes in the requirements prescribed in the Master Circulars. There are no changes in the requirements of the BT Regulations.

Some key principles which have not changed

- BTs need to prepare their financial statements as per Indian Accounting Standards (Ind AS) notified under the *Companies (Indian Accounting Standards) Rules, 2015* (as amended) to the extent not contrary to the BT Regulations.
- BTs need to prepare combined financial statements at the time of IPO. Also, there are no material changes to principles for preparation of combined financial statements.
- Overall principles for preparation of annual financial statements continue to be the same. However, there are changes regarding format of financial statements and certain other requirements which are discussed later in this Article.

1. On 11 July 2025, the SEBI issued updated Master Circulars applicable to InvIT and REIT, after incorporating changes brought through the Circulars dated 7 May 2025. For ease of reference, this Article uses the term 'Master Circular' or 'Master Circulars' in the context of the earlier Master Circulars dated 15 May 2024. The Circulars dated 7 May 2025 have been referred to as such or as the new Circulars.

Changes applicable throughout life cycle

Classification of Unit Capital

Ind AS 32 *Financial Instruments: Presentation* deals with the equity or financial liability classification of various financial instruments issued by an entity. Among other requirements, Ind AS 32 states that an instrument will be classified as equity only if (i) the entity has an unconditional right to avoid paying cash or other financial assets to the holder, and (ii) if there is conversion involved, the instrument is convertible into a fixed number of equity shares. In the case of BTs, the regulations require a minimum proportion (currently, 90%) of Net Distributable Cash Flows (NDCF) to be distributed to the unitholders and such distribution will continue in perpetuity during the lifecycle of the BT. This implies that BTs do not have an unconditional right to avoid paying cash or transferring other financial assets against unit capital. Consequently, for all Business Trusts, unit capital is either a financial liability in entirety or it contains a financial liability component under Ind AS 32.

Though unit capital is or contains a financial liability component under Ind AS 32, certain provisions in the BT Regulations and/or the Master Circulars indicated that Unit Capital should be classified as equity. Accordingly, BTs were using legal override and classifying unit capital as equity. To avoid any ambiguity and further clarify this aspect, the Circulars dated 7 May 2025 specifically state that for the purpose of preparation of financial information under the BT Regulations, Unit Capital will be considered as Equity.

> Unit Capital is now explicitly required to be classified as equity in the financial information. This clarification removes any ambiguity which may have existed on the matter. Since this presentation is not in accordance with Ind AS 32 principles, BTs may need to bring the same fact specifically in the financial information.

Applicability of Schedule III of the Companies Act, 2013

Earlier, the Master Circulars did not prescribe any specific format for the preparation of financial statements/ financial information of BTs; rather, they prescribed certain minimum information which needs to be disclosed. Going forward, pursuant to amendment made through the Circulars dated 7 May 2025, BTs will be required to follow *Division II of Schedule III of the Companies Act, 2013* ('Ind AS Schedule III' or 'Schedule III'), for preparation of the financial statements.

However, considering peculiarities of Business Trusts, certain specific exceptions and modifications have been made to Schedule III requirements. Give below are examples of exceptions and modifications:

a) The expression "promoters" will be read as "sponsors" as defined in the BT Regulations.

b) Disclosures such as loans or advances granted to promoters and directors, registration of charges or satisfaction with the Registrar of Companies, compliance with number of layers of companies and compliance with the approved Scheme(s) of Arrangements, required under Schedule III, will not apply.

c) In the Statement of Profit and Loss, the breakup of Other Income and Other Expenses will be given in the notes clearly indicating the nature and amount of each item. Further, amount pertaining to valuation expenses, audit fees, insurance & security expenses, project management fees (including fees paid to project manager), investment management fees (including fees paid to manager/ investment manager – collectively called as 'manager'), trustee fees, custodian fees, registration fees, repairs and maintenance in case of real estate assets/ infrastructure assets and profit/loss on sale of assets/investments, will be disclosed separately in the notes.

d) There is no requirement to make separate disclosure for 'Corporate Social Responsibility' expenses.

e) In the 'Statement of Changes in Unit Holders' Equity', changes in unit holders' equity resulting from aggregate amount of investments by the unit holders and dividends / other distributions by BT to unit holders will be disclosed separately.

f) Headings, line items, sub-line items and sub-totals may be presented as an addition or substitution on the face of the financial statements when such presentation is relevant to an understanding of the Business Trust's financial position or performance or to cater to industry/sector-specific disclosure requirements.

g) Appropriate terminology changes are made such as using the term 'Board of Director/ Governing Body of the Manager/ Investment Manager' instead of 'Board of directors,' 'Directors of the Manager/ Investment Manager' instead of 'Directors of the company' and 'Earnings Per Unit' in place of 'Earnings Per Share.'

> Going forward, business trusts will be required to follow *Division II of Schedule III of the Companies Act, 2013* (Schedule III), for preparation of financial statements. Considering peculiarities of Business Trusts, certain exceptions and modifications have been made to Schedule III requirements.

Statement of Cash Flows

Ind AS 7 *Statement of Cash Flows* gives entities an option to report cash flows from operating activities using either:

a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed, or

b) The indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The Circulars dated 7 May 2025 require BTs to present the Statement of Cash Flows under the 'indirect method' only. This is in line with the requirement applicable to equity listed entities as well as practice commonly followed for the preparation and presentation of the Statement of Cash Flows.

Statement of Net Assets at Fair Value/ Statement of Total Returns at Fair Value

There is no change in the requirement for or frequency of fair valuation of BT assets. Nor there are any changes in the frequency of disclosing such fair valuation to the stock exchanges. However, going forward, BTs will be required to include the 'Statement of Net Assets at Fair Value' and the 'Statement of Total Returns at Fair Value' as part of financial statements/ results on a half yearly basis, instead of inclusion only on an annual basis.

The fair valuation of InvIT and REIT Assets and periodic disclosure of such valuation to the investors is one critical requirement of the BT Regulations. Apparently, the fair valuation provides decision useful information to the investors. The BT Regulations typically require both InvIT and REIT to have fair valuation done of their assets on half yearly basis, i.e., as at 30 September and 31 March of each financial year. However, the privately placed InvIT is required to have such fair valuation done only on yearly basis. i.e., as at 31 March each year. Highly leveraged InvIT[2] is required to have fair valuation done on a quarterly basis. The Circulars dated 7 May 2025 do not change the requirements for or frequency of fair valuation.

On the lines of the existing Master Circulars, the Circulars dated 7 May 2025 also require the 'Statement of Net Assets at Fair Value' as well as the 'Statement of Total Returns at Fair Value' should be disclosed as part of the annual financial statements. However, changes made in the placement indicate that while preparing combined financial statements, the Statement of Net Assets at Fair Value as well as the Statement of Total Returns at Fair Value will not be primary statement; rather, they will form part of notes to the financial statements. Nevertheless, in preparation of half-yearly and annual financial results as part of post listing disclosure requirements, the wording used is such that one may argue that both these Statements are primary financial statements.

The following additional requirements/clarifications are provided in the circulars dated 7 May 2025:

a) Pre-amendment, the fair valuation was disclosed to stock exchanges on the same periodicity as it was required to be done. There is no change in this requirement. However, with regard to disclosure of the 'Statement of Net Assets at Fair Value' and the 'Statement of Total Returns at Fair Value' as part of financial statements/ results, it appears that such inclusion was required in the annual results/ annual financial statements only. Going forward, as per the Circulars dated 7 May 2025, BTs will now be required to include these statements as part of financial statements/ results on a half yearly basis.

b) Fair value of assets will be determined based on the valuation report of the valuer appointed under the Regulations.

c) Property-wise/ project-wise breakup of fair value of the assets will be given in the notes. Also, a property-wise/ project-wise reconciliation statement will be given in the notes, showing adjustments made to the valuation arrived at by the independent valuer to compute the fair value of assets presented.

d) Fair value of liabilities considered for computing the NAV equals the book value of such liabilities, except in cases where the outflow arising out of the liabilities have already been considered by the valuer while computing the fair value of assets or netted off with the corresponding assets.

e) The formats for both the Statement of Net Assets at Fair Value and the Statement of Total Returns at Fair Value were prescribed in the earlier Master circulars. The circulars dated 7 May 2025 have made changes and provided further clarity on presenting the Statement of Net Assets at Fair Value. Among other matters, it is clarified that Non-Controlling Interest will be recomputed considering fair values for reporting under the fair value column of the Statement of Net Assets at Fair Value.

2. In this Article, the term 'Highly leveraged InvIT' is used to refer to InvIT having consolidated borrowing and deferred payment exceeding 49% of the InvIT assets.

f) Privately placed InvIT will continue to be required to get fair valuation of assets done only on yearly basis and there is no requirement for half yearly fair valuation of the assets. They may disclose the fair value of assets as per the latest available valuation report.

Highly Leveraged InvITs are required to have fair valuation done on their assets and disclose the said fair valuation to the investors on a quarterly basis. However, they are required to include the 'Statement of Net Assets at Fair Value' and the 'Statement of Total Returns at Fair Value' as part of financial results only on a half yearly basis. The Highly Leveraged InvIT may evaluate whether they should include these statements as part of quarterly results on a voluntary basis.

Format for presentation of Statement of Net Assets at Fair Value

S. No.	Particulars	Book Value	Fair Value
(A)	Total Assets	xx	xx
(B)	Total Liabilities	xx	xx
(C)	Net Assets (A-B)	xx	xx
(D)	Less: Non-Controlling Interest [Refer Note (iv)]	xx	xx
(E)	Net Assets attributable to unitholders (C-D)	xx	xx
(F)	No. of Units	xx	xx
(G)	NAV per unit (E/F)	xx	xx

Format for presentation of Statement of Total Returns at Fair Value

Particulars	Amount
Total Comprehensive Income (As per the Statement of Profit and loss/Income and Expenditure)	XX
Add/Less: Other Changes in Fair Value (e.g., in investment property, property, plant & equipment (if cost model is followed)) not recognized in Total Comprehensive Income	XX
Total Return	**XX**

Statement of NDCF

The framework for computing Net Distributable Cash Flows (NDCF) and distribution frequency, i.e., atleast once every six months, remains mostly unchanged. However, timeline for payment of distribution has been reduced from 15 days to 5 working days from the record date, per notification dated 27 November 2024. Also, the Circulars dated 7 May 2025 provide certain additional requirements/ clarifications. Given are some key additional requirements/ clarifications:

a) Distribution in the nature of repayment of capital will be shown as a negative amount on the face of the Balance Sheet as a separate line item 'Distribution – Repayment of Capital' under the sub-heading 'Equity.' The repayment of capital made in earlier periods should also be reclassified accordingly.

b) If acquisition of an SPV was funded by the external debt and surplus cash is available with such SPV, then the available cash should first be used to repay the external debt. Only after such debt repayment, remaining surplus, if any, can be used for distribution as NDCF.

c) Debt repayment at the BT/ Holding Company (HoldCo)/ SPV level will not be reduced from NDCF to the extent such debt is refinanced at some other level within the Group and proceeds from refinancing have been transferred to the debt repayment entity.

d) The period of making distribution should be followed consistently whether on a half-yearly/ quarterly/ monthly basis and the same should be part of distribution policy of the BT. Also, for each distribution, it should be ensured that cash flows from all assets, whether held by the BT or any of the underlying SPVs or HoldCo's, are being distributed together.

At present, a HoldCo is required to distribute 100% of the cash flows received from the underlying SPV(s)/ subsidiaries to the REIT/InvIT, without any adjustment of negative cash flows generated at the HoldCo level. This may be challenging if the HoldCo does not have any independent operations and, consequently, it does not generate any positive cash flows. To address this challenge, in the SEBI Board meeting dated 18 June 2025, it has been decided to make appropriate changes in the regulatory framework applicable to BTs such that the negative net distributable cash flows generated by a HoldCo on its own can be adjusted against the cash received from SPV to arrive at the cash flows for distribution by such HoldCo to the REIT/InvIT, subject to appropriate disclosures to the unitholders. Final changes in this regard are yet to be notified.

Additional disclosures required for BTs having outstanding borrowings

BTs that have issued debt securities covered under the *SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021* (as amended), will be required to comply with following continuous disclosure requirements. Some of these disclosures need to be given as part of financial results/ statements and other disclosures will be made separately:

- Clauses 50, 51, 54-61A of the LODR Regulations. It may be noted that these clauses deal with matters such as intimation to stock exchange(s), disclosure of information having impact on the performance/ operation of a listed entity and/or price sensitive information, security cover and credit rating.
- Submit to the stock exchanges along with quarterly results a statement showing material deviations in the use of issue proceeds, if any, until the funds are fully utilized. Earlier this was required to be submitted on a half-yearly basis.
- Certain ratios such as debt-equity ratio, debt service coverage ratio, interest service coverage ratio, asset cover available, total debts to total assets and current ratio. These ratios need to be computed basis the consolidated financial information will form part of the financial results in half-yearly and annual report of the REIT. For InvIT, these ratios are also required to be disclosed in the quarterly results, in addition to the half yearly results and the annual report.
- Name of lenders, in case of borrowings from Bank / NBFC / Financial Institution / any other lender, for all BT assets in the annual report. It is important to note that disclosure of lender names is not specifically required under Schedule III; hence, companies under the *Companies Act, 2013* (as amended) are not obligated to provide this information. However, BTs will be required to disclose the names of the lenders.
- Modified audit opinions affecting the ability to pay interest, redeem, or repay principal must be properly addressed by the manager's board when publishing the accounts for that period.

How we see it

It appears that disclosure related to ratios will be part of the financial results/ financial statements. All other disclosures will be made outside the financial results/ statements.

Regarding the explicit requirement for boards to address modified audit opinions, it appears to be the expectation of the SEBI that financial statements should be prepared in a manner that modified audit opinion can be avoided. However, if the same is not practical, then the boards will be required to provide clarifications/ explanations in their report. In our view, it reinforces the responsibility of REIT and InvIT managers.

Statement of Net Borrowings Ratio

The requirement to present the 'Statement of Net Borrowings Ratio' is arising for first time for BTs. InvIT need to present this Statement on quarterly basis. In contrast, the requirement is applicable to REIT on half yearly basis.

The 'Statement of Net Borrowings Ratio' will need to be disclosed as part of quarterly, half yearly and annual financial results as well as annual financial statements of the InvIT using the below format. However, for a REIT, this statement is required to be disclosed in the half yearly and annual results as well as in the annual financial statements. This statement will be prepared using consolidated financial statements of the BT.

S. No.	Particulars	Amount
(A)	Borrowings	xx
(B)	Deferred Payments	xx
(C)	Cash and Cash Equivalents	xx
(D)	Aggregate Borrowings and Deferred Payments net of Cash and Cash Equivalents (A+B-C)	xx
(E)	Value of REIT/ InvIT assets	xx
(F)	Net Borrowings Ratio (D/E)	xx

The following key clarifications are provided for computation of net borrowing ratio:

- The breakup of borrowings amount, deferred payments, cash and cash equivalents and the value of BT assets will be given as pertaining to the BT, each SPV and each Holding Company in the notes.

- Type of each borrowing, such as term loan from ABC Bank / Financial Institution, non-convertible debentures, etc., will be given in the notes. Also, in case of borrowing from Bank / NBFC / Financial Institution / any other lender, the name of lenders will also be disclosed.
- The value of BT assets will be determined based on the latest available valuation report by the valuer appointed under the Regulations. Refer to discussions under the heading 'Statement of Net Assets at Fair Value/ Statement of Total Returns at Fair Value,' for specific requirements related to frequency of fair valuation required.

Changes applicable to specific reporting requirements

Reporting at the time of IPO

Both the earlier Master Circular and the revised Circulars require that the offer document/ placement memorandum should contain audited financial statements of the Business Trust for a period of three financial years and a stub period (if applicable). The language used in the earlier Master Circular indicated that if the BT was in existence for the entire or some portion of the reporting period of three years and a stub period, if any, then consolidated financial statements of the BT for the period of existence will be given and the combined financial statements showing combined financial performance of all the proposed BT assets will be for the period when the BT was not in existence. This may have created practical challenges if the BT was in existence for the entire or some portion of the reporting period; however, it was not owning all the proposed BT assets to reflect the same in the consolidated financial statements. Also, it was possible that one single set of consolidated or combined financial statements does not reflect the financial position and financial performance of all the proposed BT assets for a period of three financial years and a stub period (if applicable), for example, if all or some of the assets were acquired at a later date.

To avoid ambiguity, the Circulars dated 7 May 2025 have clarified that in the case of an initial public offer, audited combined financial statements of the BT will be disclosed in the offer document / placement memorandum, for a period of three financial years and a stub period (if applicable). We believe this change is clarificatory in nature since it appears that most BTs were preparing combined financial statements at the time of IPO, irrespective of whether BT was in existence.

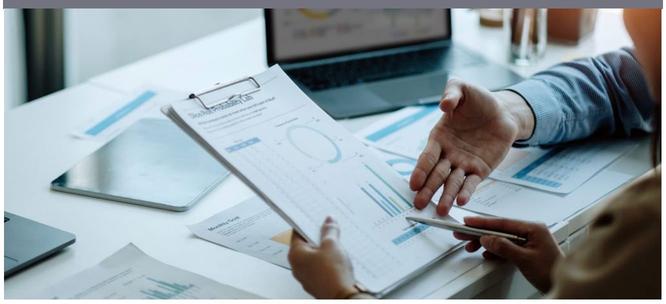
Interim financial results

Going forward, all Business Trusts will need to submit quarterly financial results to the stock exchanges. Earlier, this requirement was applicable only to the Highly Leveraged InvIT.

Pre-modification, the BT Regulations together with the Master Circulars required BTs to submit half-yearly results, i.e., results for the first six months of the financial year, within 45 days of the period-end to the stock exchanges and annual results were required to be submitted within 60 days of the financial year-end. In addition, highly leveraged InvITs were required to submit quarterly financial results for the first and third quarter of the financial year within 30 days from the end of the quarter, half yearly results within 45 days from the of the period-end and annual results within 60 days from the period end to the stock exchanges. Hence, in the pre-amendment scenario, there was no specific requirement to submit quarterly financial results for BTs, other than highly leveraged InvITs. Despite this, it is understood that many BTs were reporting quarterly financial information on a voluntary basis.

The Circulars dated 7 May 2025 mandate all business trusts to file their quarterly results for the first three quarters of the financial year within 45 days from the end of each quarter and annual results within 60 days of the year-end.

It may be noted that whilst the Circulars dated 7 May 2025 give all business trusts a time period of 45 days from the end of the period for submission of financial results for the first three quarters. However, the BT Regulations require highly leveraged InvIT to submit quarterly financial results for the first and third quarter of the financial year within 30 days from the end of the quarter. Apparently, there is no change in these Regulations. It may be appropriate for the SEBI to clarify this aspect. Till the time, the SEBI provides an appropriate clarification, one may argue that the stringent requirement will apply and highly leveraged InvIT will continue to follow time limit prescribed in the BT Regulations for submission of the Results.



The Circulars dated 7 May 2025 also require the following with regard to interim financial results:

a) The BTs will submit financial results in respect of the last quarter along with the results for the entire financial year, with a note stating that the figures of the last quarter are the balancing figures between audited figures in respect of the full financial year and the published year-to-date figures up to the third quarter of the current financial year.

b) The financial information will be disclosed on both separate as well as a consolidated basis, unless otherwise specified. However, the regulations currently do not provide any such exception.

c) The following financial information needs to be provided in the financial results.

Revised regulations	Previous regulations

Quarterly results – First and third quarter of the financial years
▪ Statement of Profit and Loss using Schedule III format, excluding notes and sub-classification
▪ Segment information to be prepared using the format prescribed under Ind AS 34 *Interim Financial Reporting*
▪ Statement of NDCF
  ▪ REIT - Only if it declares distribution
  ▪ InvIT – Disclosure seems to be required in all cases in the quarterly results.
▪ Statement of Net Borrowings Ratio - Disclosure in quarterly results is mandatory for InvIT. However, REIT is not required to include such statement in the quarterly results.
The regulations also provided BTs an option to present quarterly and half yearly financial information in the form of condensed financial statements. If opted, such financial information should comply with the minimum requirements for condensed financial statements as described in Ind AS 34.
	No requirement to present quarterly financial results except for highly leveraged InvIT. For highly leveraged InvIT also, no specific format was prescribed. It appears that such InvIT were preparing condensed financial statements as per Ind AS 34 *Interim Financial Reporting*.

Half-yearly results, i.e., results for first six months of the years ▪ Statement of Profit and Loss using Schedule III format, excluding notes and sub-classification ▪ Statement of Assets and Liabilities using Schedule III format, excluding notes and sub-classification ▪ Statement of Changes in Unitholders' Equity ▪ Statement of Cash Flows ▪ Statement of NDCF ▪ Statement of Net Assets at Fair Value ▪ Statement of Total Returns at Fair Value ▪ Statement of Net Borrowings Ratio ▪ Segment information to be prepared using the format prescribed under Ind AS 34 The regulations also provided BTs an option to present quarterly and half yearly financial information in the form of condensed financial statements. If opted, such financial information should comply with the minimum requirements for condensed financial statements as described in Ind AS 34.	**Half-yearly results** ▪ Statement of Profit and Loss ▪ Statement of NDCF ▪ Explanatory Notes forming part of the above statements The regulations also provided BTs an option to present financial information in the form of condensed financial statements. If opted, such financial information should comply with the minimum requirements for condensed financial statements as described in Ind AS 34.

Revised regulations	Previous regulations
Annual results ■ Statement of Profit and Loss using Schedule III format, excluding notes and sub-classification ■ Statement of Assets and Liabilities using Schedule III format, excluding notes and sub-classification ■ Statement of Changes in Unitholders' Equity ■ Statement of Cash Flows ■ Statement of NDCF ■ Statement of Net Assets at Fair Value ■ Statement of Total Returns at Fair Value ■ Statement of Net Borrowings Ratio ■ Segment information to be prepared using the format prescribed under Ind AS 34	**Annual results** ■ Balance Sheet ■ Statement of Profit and Loss ■ Statement of Changes in Unit holders' Equity ■ Statement of Cash Flows ■ Statement of NDCF ■ Statement of Net Assets at Fair Value ■ Statement of Total Returns at Fair Value ■ Explanatory notes forming part of the statements referred above

The BT Regulations together with the Circulars dated 7 May 2025 give BTs an option to present quarterly and half yearly financial information in the form of condensed financial statements and comply with minimum requirements as described in Ind AS 34. It may be noted that Ind AS 34 does not require statements such as Statement of NDCF, Statement of Net Assets at Fair Value, Statement of Total Returns at Fair Value and Statement of Net Borrowings Ratio, to be included in the condensed financial statements. Also, minimum columns to be included in the condensed financial statements lesser, e.g., Ind AS 34 does not require information/ column for the immediately the preceding period.

We believe it may be appropriate for the SEBI to clarify whether such information is needed if the BT is using Ind AS 34 format. Till the time such clarification is provided, one may argue that the SEBI has prescribed additional requirements considering peculiarities of Business Trusts and such information is required for economic decision making of the users. Hence, such information need to be given even if the BT is presenting condensed financial statements using Ind AS 34 format.

- Columns to be given in interim results have been specified and are broadly aligned to those required by listed entities under the LODR regulations.
- The financial information, other than the annual financial information, submitted to the stock exchanges may be either audited or unaudited. If the BT opts to submit unaudited financial information, it will be subject to limited review and will be accompanied with limited review report. However, if the BT opts to submit audited financial information, it will be accompanied with audit report. The annual financial information must be audited and accompanied by the audit report. These requirements are broadly aligned with those applicable to listed entities under the LODR regulations.
- BTs must ensure that 100% of consolidated revenue, assets, and profits are covered by audit (for audited results) or limited review (for unaudited results) in quarterly and year-to-date consolidated financial information.

How we see it

Whilst most of the financial reporting requirements applicable to InvIT and REIT are aligned, there are certain differences, e.g., an InvIT is required to disclose the Statement of NDCF irrespective of distribution declaration, and the Statement of Net Borrowings Ratio in the quarterly results whereas a similar requirement for quarterly disclosure does not exist for a REIT and REIT needs to disclose this information on half yearly basis.. The SEBI may evaluate whether these differences should continue or the requirements can be aligned on a go-forward basis.

Timeline for submission of financial information immediately post listing

The BT, subsequent to its listing, will be required to submit to the stock exchange financial information for the quarter or the financial year immediately succeeding the period for which the financial statements were disclosed in the offer document. Such submission is required to be submitted within 45 days from the end of the quarter or within 60 days from the end of the financial year, as the case may be, or within 21 days from the date of its listing, whichever is later.

Proforma financial statements

The Master Circulars as well as the revised Circulars require/ allow proforma financial information in the case of follow-on offers, including preferential issues, institutional placements and rights issue of units by BT. The requirement states that if the BT has undertaken any acquisition or divestment of any material assets after the latest period for which the financial information is disclosed in the placement document but before the date of filing of the placement document, the certified proforma financial statements will be disclosed for at least the period covering the last completed financial year and the stub period, if any. While this requirement existed earlier, the revised Circulars provide the following additional guidance/ requirements:

- The acquisition / divestment would be considered material if the acquired / divested business or SPV or Holding Company in aggregate contributes 20% or more to turnover, net worth or profit before tax in the latest annual consolidated financial statements of the BT.
- The proforma financial information will be prepared in accordance with any guidance note, standard on assurance engagement or guidelines issued by the ICAI from time to time and certified by the statutory auditor of the BT or chartered accountants, who hold a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India (ICAI).
- Summary of audited financial statements of the assets being acquired will be given for the previous three years and the stub period (if available). If general purpose financial statements of the assets being acquired are not available, combined / carved-out financial statements for those assets will be prepared in accordance with the Guidance Note issued by the ICAI from time to time. The combined / carved-out financial statements will be audited by the auditor of the seller in accordance with the applicable framework. If the BT has been in existence for a period less than the last three completed financial years, then this disclosure may be provided for such financial years for which the BT has been in existence and for the stub period (if applicable).

The revised Circulars also provide the following options and related clarifications:

- BT may voluntarily choose to provide proforma financial statements of acquisitions or divestments (i) even if they are below the materiality thresholds prescribed, or (ii) if the acquisitions or divestments have been completed prior to the latest period(s) for which financial information is disclosed in the offer document. Also, the proforma financial statements may be disclosed for such financial periods as determined by the manager. In the case of one or more acquisitions or divestments, a combined set of proforma financial statements should be presented.
- BT may also voluntarily provide proforma financial statements to disclose the impact of the acquisition, if the proceeds of the issue are to be used for acquisition of one or more businesses or entities. The proforma financial statements may be disclosed for such financial periods as determined by the manager.
- Proforma financial statements will be prepared in accordance with any guidance note, standard on assurance engagement or guidelines issued by the ICAI from time to time and certified by the statutory auditor of the InvIT or chartered accountants, who hold a valid certificate issued by the Peer Review Board of the ICAI.
- BT may also voluntarily include financial statements of the business acquired or divested, provided that such financial statements are certified by the auditor (of the asset acquired or divested) or chartered accountants, who hold a valid certificate issued by the Peer Review Board of the ICAI.
- Where the businesses acquired / divested do not represent a separate entity, general purpose financial statements may not be available for such business. In such cases, combined / carved-out financial statements for such business will be prepared in accordance with any guidance note, standard on assurance engagement or guidelines issued by the ICAI from time to time.

Applicability date

The requirements related to disclosure of financial information in the offer document are applicable from the date of issuance of the Circular, viz., 7 May 2025. The changes related to continuous disclosures and compliances by business trusts including changes related to quarterly, half yearly and annual financial results/ statements are applicable for the period beginning on or after 1 April 2025.

How we see it

The revised Circulars represent a significant shift towards more frequent, transparent and granular financial reporting. The new Circulars bring more clarity, reduce interpretational issues, and align regulatory landscape more closely with those applicable to other listed entities under the LODR Regulations. This should help the stakeholders, especially investors, in better economic decision making.

From the business trusts perspective, it may be noted that the new requirements are applicable with immediate effect. They may need to upgrade their financial reporting systems, valuation procedures, and internal financial controls to meet the new requirements smoothly.

3

Navigating the revised criteria for Micro, Small and Medium Enterprise (MSME) classification

As part of its strategy to promote growth and resilience of the Micro, Small and Medium Enterprises (MSMEs), the Government of India (GOI) has introduced two key regulatory changes impacting entities that purchase goods or services from the MSMEs (the buyer). These changes relate to:

i. Revised criteria for classification of MSMEs

ii. Half yearly reporting under MSME-1 of overdue MSME payments to the Ministry of Corporate Affairs (MCA)

Revised criteria for classification of MSMEs

The *Micro, Small and Medium Enterprises Development Act, 2006* (MSME Act) prescribes investment and turnover criteria for classification of MSMEs. It requires that for an entity to be classified as MSME, both investment in plant and machinery as well as turnover should be within the prescribed thresholds, i.e., both criteria must be satisfied concurrently. If the entity fails to meet even one criterion, it will be disqualified from the MSME classification.

Pursuant to the notification dated 21 March 2025 issued by the Ministry of Micro, Small and Medium Enterprises, Government of India, the investment and turnover criteria for classification of MSMEs as prescribed under the MSME Act have been changed. Given below are the changes made in the criteria:

Enterprise category	Investment in plant & machinery/ equipment		Turnover	
	Amount in crore (INR)		Amount in crore (INR)	
	Pre-revised	Revised	Pre-revised	Revised
Micro Enterprise	Up to 1	Up to 2.5	Up to 5	Up to 10
Small Enterprise	1 to 10	2.5 to 25	5 to 50	10 to 100
Medium Enterprise	10 to 50	25 to 125	50 to 250	100 to 500

Hence, pursuant to the amendment, both the investment in plant & machinery as well as turnover thresholds have significantly increased implying that a relatively higher number of entities will now be classified as MSMEs.

The notification enhancing the limits comes into force with effect from 1 April 2025 (subject to practical challenges discussed below).

Reporting of overdue MSME payments to the Ministry of Corporate Affairs

The Government of India, vide its notification dated 25 March 2025, has directed all companies, that purchase goods or services from micro or small enterprises and whose payments get delayed 45 days from the date of acceptance/ deemed acceptance of goods or services, to submit a half yearly return (MSME-1) to the Ministry of Corporate Affairs (MCA) stating the following:

a) The amounts of payments due, and

b) The reasons for the delay.

As this appears to be a reiteration of an existing requirement under notification dated 2 November 2018, no separate effective date has been specified in the recent notification.

Relevance of the above changes for entities dealing with MSMEs

Among other matters, the MSME Act requires the following:

a) The entity that purchases goods or services from MSMEs (the buyer) must make payment for the goods or services on or before the date agreed between the parties in writing. In case no specified date is agreed, then the payment needs to be made before the appointed day. The appointed day means the day after the expiry of 15 days from the date of acceptance or deemed acceptance of goods or services by the buyer.

b) In any case, the agreed payment period between the seller and the buyer cannot exceed 45 days from the date of acceptance or deemed acceptance of goods or services. Hence, the MSME Act requires the buyer to make payment to the MSME supplier within a maximum period of 45 days.

c) If the buyer fails to make payment to the supplier within the prescribed period, the buyer will be liable to pay non-tax deductible compounded interest to the supplier for the period of delay at the rate which will be three times of the bank rate notified by the Reserve Bank of India.

Further, Section 43B(h) of the *Income-tax Act, 1961* (as amended by *Finance Act, 2023*) triggers disallowance if payments to a "micro" or "small" enterprise are delayed beyond the time limit specified under the MSME Act and allows it in the year of actual payment. Unlike other items covered by Section 43B, the extended date of actual payment until the due date of filing the return is not available for payments to "micro" or "small" enterprises. The enhancement of turnover/investment limits for enterprises to qualify as "micro" or "small" under the MSME Act has a consequential impact of expanding the scope of disallowance under Income-tax Act to more vendors.

Way forward for companies dealing with MSMEs

Considering the above, it is clear that entities purchasing goods or services from MSMEs (the buyer) have the responsibility for ensuring compliance with the specific requirements of the MSME Act. Any non-compliance with the 45-day payment requirement may have financial and tax implications, trigger reporting to the MCA and may also potentially expose entities to regulatory scrutiny and reputational risks. Hence, it is imperative that entities prepare themselves for dealing with the requirements of the MSME Act and requirements for reporting information to the MCA, considering the revised thresholds notified under the MSME Act. Toward this, the entities should consider the following actions:

a) Pursuant to the revised thresholds, many current suppliers may get classified as MSMEs. Entities should initiate confirmations with their vendor base to identify suppliers that will get covered under the MSME Act, pursuant to the revised thresholds.

b) A one-time exercise may be required to collect updated/ revised MSME declarations and to make system changes to track and highlight MSME status basis the revised thresholds.

c) Entities may need to revisit their contracts with newly classified MSMEs, to ensure that they comply with the MSME Act requirements. Particularly, clauses related to payment and interest in case of delay may need to be revisited.

Practical challenges

The application of the above notification also gives rise to certain practical challenges. Given below is an overview of these challenges and our perspective. Since these matters involve legal interpretation, it is imperative that entities clarify these matters with legal professionals:

a) It is stated that the notification related to the revised criteria for classification of MSMEs is applicable from 1 April 2025. However, it is not clear whether the revision will apply only to amounts payable to the MSMEs arising from new purchase/ sale transactions entered into after the effective date or if it will also apply to amounts payable to the MSMEs arising from purchase/ sale transactions entered into before the effective date and having an outstanding balance at the reporting date

   While the matter has not been specifically clarified, one may argue that payment terms are negotiated and agreed upon at the time of entering into the transaction. Assume that a supplier was non-MSME at the time of entering into purchase/ sale transaction and, consequently, it agreed to payment terms which are longer than 45 days. Since the supplier entered into this transaction being a non-MSME entity, it may be argued that its payment terms should not be impacted by subsequent change in the status of the MSME entity at a later date. Hence, the revision will apply only to amounts payable to the MSMEs arising from new purchase/ sale transactions entered into after the effective date. We recommend that this matter involves legal interpretation and entities should confirm view with legal professionals.

b) Attention is invited to the notification dated 26 June 2020 issued by the Ministry of Micro, Small and Medium Enterprises (the 'old notification'). The old notification has not been withdrawn and is, therefore, still in force. Paragraph 8(6) of the old notification states that "In case of reverse-graduation of an enterprise, whether as a result of reclassification or due to actual changes in investment in plant and machinery or equipment or turnover or both, and whether the enterprise is registered under the MSME Act or not, the enterprise will continue in its present category till the closure of the financial year and it will be given the benefit of the changed status only with effect from 1st April of the financial year following the year in which such change took place." Considering the old notification read with the notification dated 21 March 2025, an issue arises whether the effective date of change in classification should be 1 April 2025 or 1 April 2026 under the MSME Act 2006?

   To support a change in classification from 1 April 2025, one may argue that the phrase 'following the year in which such change took place' in paragraph 8(6) of the old notification does not refer to the effective date of the new notification (i.e., 1 April 2025); rather, it refers to the year in which the new notification was issued (i.e., 21 March 2025). Thus, on application of paragraph 8(6) of the old notification, the revised limits take effect from 1 April 2025. To support this one may also argue that since a specific application date is prescribed in the new notification, the old notification is not even relevant. Thus, the revised classification criteria apply from 1 April 2025

   To support a change in classification from 1 April 2026, one may argue that the phrase 'following the year in which such change took place' refers to the effective date of the new notification (1 April 2025). On application of paragraph 8(6) of the old notification, the revised limits will take effect from 1 April 2026. This view is further supported by the Delhi High Court decision in case of *The Mining and Engineering Corporation v Union of India [W.P.(C) 5612/2020]*, wherein the Delhi High Court held that the earlier notification dated 1 June 2020 was superseded by the old notification dated 26 June 2020 and the benefit of revised classification is available from 1 April 2021 only.

   We recommend that the Ministry of Micro, Small and Medium Enterprises may consider clarifying this matter. Until the matter is clarified, the entities should consult their legal professionals to arrive at an appropriate legal position.

c) With regard to the notification requiring reporting of overdue MSME payments to the Ministry of Corporate Affairs, no application date has been specified. It may be noted that in the past also a similar notification[3] was issued for filing half-yearly returns under MSME-1 for outstanding MSME dues, without mention of an effective date. This seems to suggest that these requirements are applicable with immediate effect. The reporting will be required for entities covered under the MSME classification based on the criteria applicable at each reporting date.

How we see it

We believe that the government's revised MSME classification criteria and new reporting requirement are part of its broader push to drive payment discipline and strengthen financial health of the MSME sector. The entities involved or likely involved in purchase of goods or services from MSMEs should evaluate legal/ interpretation issues and prepare themselves for complying with the new requirements. This will require a one-time as well as ongoing effort, including updates to the systems and processes.

We also recommend that the Ministry of Micro, Small and Medium Enterprises may consider providing appropriate clarification on issues involved so that better consistency can be ensured in the implementation.

3. Notification No. F.NoA/3(1)/2018.P&G/Policy) dated 02 November 2018

4

Amendments to Ind AS 21: Lack of exchangeability

Indian Accounting Standard (Ind AS) 21, *The Effects of Changes in Foreign Exchange Rates,* among other matters, prescribes principles to determine exchange rates for recording foreign currency transactions in an entity's functional currency and for translating the financial statements of a foreign operation into a different presentation currency. Generally, it requires entities to use the spot exchange rate for this purpose.

In most cases determining an exchange rate is a relatively straightforward exercise, but this is not always the case, particularly where there are restrictions on entities wishing to exchange one currency for another, typically a local currency for a foreign currency. For example:

- Legal restrictions might permit sales of local currency only at an official rate rather than a rate that reflects more fully market participants' views of the currency's relative value or its underlying economics. Those official rates might or might not be pegged to another country's currency, for example the US Dollar (USD).
- Exchange rates set by governments might vary according to the nature of the underlying transaction.
- The volume of currency that can be exchanged through official mechanisms may be limited by formal or informal restrictions imposed by the government, often designed to help manage the government's sometimes scarce foreign exchange reserves.

These situations are often encountered in countries that have more of a closed economy and which may be experiencing a degree of economic strain. High inflation or even hyperinflation and devaluations can be indicators of these situations as can the development of a so called 'black market' in foreign currencies, the use of which could to some extent be unlawful. Determining an appropriate exchange rate to use in these circumstances can be difficult.

Until recently, Ind AS 21 set out the exchange rate to be used when exchangeability between two currencies is temporarily lacking, It stated that if exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made. However, it did not state what should be done when lack of exchangeability is not temporary.

To address the above issue, the Ministry of Corporate Affairs (MCA), on 7 May 2025, notified an amendment to Ind AS 21. The amendment will add requirements to Ind AS 21 that help entities determine whether a currency is exchangeable into another currency, and the spot exchange rate to use when it is not.

The amendment applies to a financial year beginning on or after 1 April 2025.

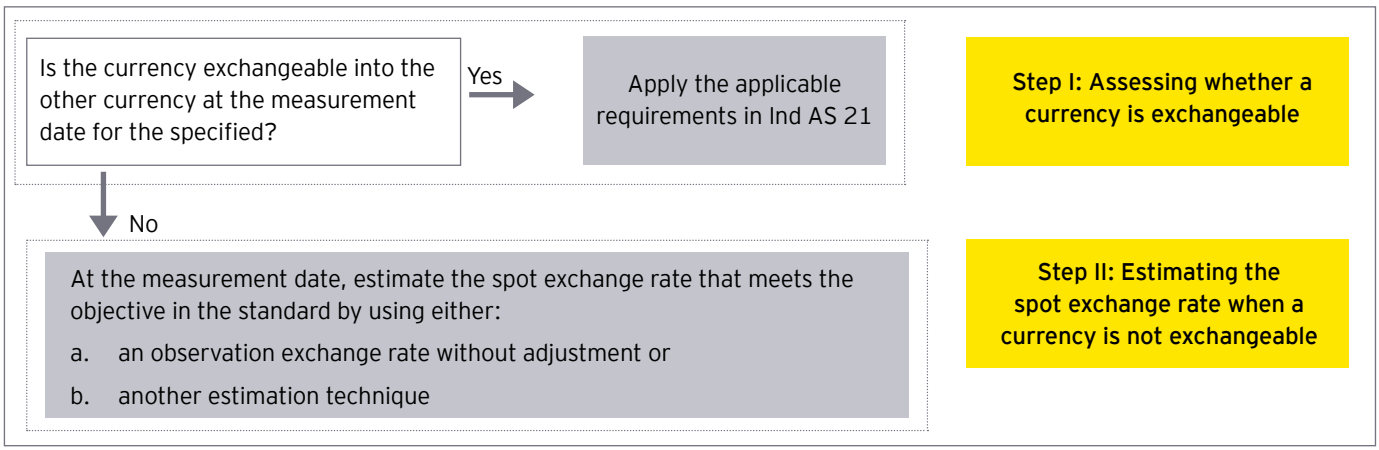
Amendment to Ind AS 21

This amendment clarifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.

Two-step approach

The amendment provides a two-step approach to determine the exchange rate to be applied when translating a foreign currency transaction, as illustrated below:

Assessing exchangeability and estimating a spot exchange rate



Step 1: Assessing whether a currency is exchangeable

Under the amendment, a currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency:

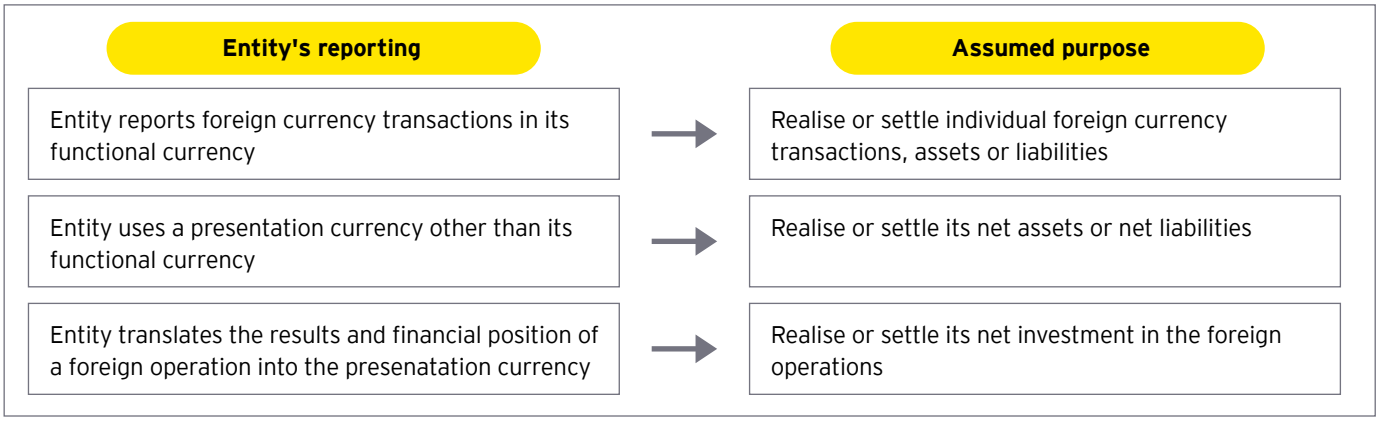
- Within a timeframe that allows for a normal administrative delay, and
- Through a market or exchange mechanism in which the transaction would create enforceable rights and obligations.

An exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays, but such normal administrative delays do not preclude a currency from being exchangeable into the other currency. What constitutes a normal administrative delay will depend on facts and circumstances. Thus, when an entity cannot obtain a specified currency immediately, it will need to assess the time period required in the context of the customary provisions in the market or country to determine whether it can be considered 'normal'. In making this assessment, an entity may also consider past precedents, if any. For example, in some countries, the relevant authority may require an administrative process to be completed before making a particular currency available. If the authority typically takes a fixed number of days to complete this administrative step, one may argue that this period of time is a normal administrative delay.

An entity assesses whether a currency is exchangeable into another currency at a measurement date and for a specified purpose. In making that assessment, an entity must consider its ability to obtain the other currency, rather than its intention or decision to do so. A currency is not exchangeable into the other currency if the entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purposes. Furthermore, in making the assessment, an entity only considers markets or exchange mechanisms in which a transaction to exchange the currency for the other currency would create enforceable rights and obligations, meaning that so-called unofficial, parallel or black markets would not be considered. Enforceability is a matter of law and depends on facts and circumstances.

The amendment notes that different exchange rates may be available for different uses of a currency (e.g., imports of specific goods and distribution of dividends). Therefore, an entity is required to assess whether a currency is exchangeable into another currency separately for each particular purpose. In assessing exchangeability:

- When an entity reports foreign currency transactions in its functional currency, the entity is required to assume its purpose in obtaining the other currency is to realize or settle individual foreign currency transactions, assets or liabilities.
- When an entity uses a presentation currency other than its functional currency, the entity assumes its purpose in obtaining the other currency is to realize or settle its net assets or net liabilities.
- When an entity translates the results and financial position of a foreign operation into the presentation currency, the entity assumes its purpose in obtaining the other currency is to realize or settle its net investment in the foreign operation.



This assessment of whether a currency is exchangeable into another currency is required to be performed separately for each of the three purposes specified above. For example, an entity assesses exchangeability for the purpose of reporting foreign currency transactions in its functional currency separately from exchangeability for the purpose of translating the results and financial position of a foreign operation.

If it is determined that a currency is exchangeable into another currency, the existing principles outlined in Ind AS 21 should be applied to translate the foreign currency transaction. However, if a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date (move to Step 2).

Step 2: Estimating the spot exchange rate when a currency is not exchangeable

The objective of estimating the spot exchange rate at a measurement date is to determine the rate at which an orderly exchange transaction would take place at that date between market participants under prevailing economic conditions. The amendment does not specify how an entity estimates the spot exchange rate to meet the objective, but it notes that an entity can use an ***observable exchange rate without adjustment or another estimation technique.*** Judgement is required to determine the most appropriate method to meet the objective of the requirements.

Using an observable exchange rate without adjustment

An entity can use an observable rate if that rate satisfies the estimation objective, i.e., the rate reflects the price at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

Examples of observable rates that might be used as an estimate of the spot exchange rate are:

- ***Using an observable exchange rate for another purpose:*** A currency that is not exchangeable into another currency for one purpose might be exchangeable into that currency for another purpose. For example, an entity might be able to obtain a currency to import specific goods but not to pay dividends. In such situations, the entity might conclude that an observable exchange rate for another purpose meets the objective in the standard. If the rate meets that objective, an entity may use that rate as the estimated spot exchange rate. In assessing whether such a rate meets the objective above, an entity is required to consider factors such as:

  a. *Whether multiple observable exchange rates exist* – The existence of more than one observable exchange rate might indicate that exchange rates are set to encourage, or deter, entities from obtaining the other currency for particular purposes. These observable exchange rates might include an 'incentive' or 'penalty' and therefore might not reflect the prevailing economic conditions.

  b. *The purpose for which the currency is exchangeable* – If an entity is able to obtain the other currency only for limited purposes (such as to import emergency supplies), the observable exchange rate might not reflect the prevailing economic conditions.

  c. *The nature of the exchange rate* – A free-floating exchange rate is more likely to reflect prevailing economic conditions than one set through regular interventions from the governing authorities.

  d. *The frequency of updates to the exchange rates* – If an observable exchange rate remains unchanged over a period of time, it is less likely to reflect prevailing economic conditions than one that is updated regularly.

- ***Using the first subsequent exchange rate:*** A currency that is not exchangeable into another currency at the measurement date for a specified purpose might subsequently become exchangeable into that currency for

that purpose. In such situations, an entity might conclude that the first subsequent exchange rate meets the objective in the standard. If the rate meets that objective, an entity may use that rate as the estimated spot exchange rate. In assessing whether such a rate meets the objective above, an entity is required to consider factors such as:

a. ***The period of time between the measurement date and the date that exchangeability is restored*** – The longer this period, the less likely the first subsequent rate reflects the economic conditions at the measurement date.

b. ***Inflation*** – When an economy is subject to high inflation, including when an economy is hyperinflationary, prices often change quickly, perhaps several times a day. Accordingly, the first subsequent exchange rate for a currency of such an economy might not reflect the prevailing economic conditions.

Using another estimation technique

An entity using another estimation technique may use any observable exchange rate, including rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations, and adjust that rate, as necessary, to meet the objective stated above. In other words, in contrast to the position in Step 1, entities are not prohibited from considering many so-called unofficial, parallel or black markets in Step 2.

If both exchange rates and inflation rates are required to be estimated for a currency that is hyperinflationary, consistent assumptions should be used in making both estimates.

Disclosure requirements

When an entity estimates a spot exchange rate because a currency is not exchangeable into another currency, it discloses information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows. To meet this objective, an entity is required to disclose information about:

- The nature and financial effects of the currency not being exchangeable into the other currency
- The spot exchange rate(s) used
- The estimation process, and
- The risks to which the entity is exposed because of the currency not being exchangeable into the other currency.

An entity is required to consider how much detail is necessary to satisfy the above disclosure objective. The amendments also specify minimum disclosures to be made including when a foreign operation's functional currency is not exchangeable into the presentation currency and *vice versa*.

Effective date and transition

The amendment is effective for the financial year beginning on or after 1 April 2025. The date of initial application is the beginning of the annual reporting period in which an entity first applies the amendment. When an entity first applies the amendment, it is not permitted to restate comparative information. Instead, the entity is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings (if between foreign and functional currency) or to the reserve for cumulative translation differences (if between functional and presentation currency).

How we see it

A lack of exchangeability might arise when a government imposes currency controls in response to macro-economic instability and balance-of-payments problems. In addition, the currencies of hyperinflationary economies often experience a lack of exchangeability. The amendments provide helpful guidance on accounting for a lack of exchangeability and are expected to reduce the existing diversity in practice.

The application of the amendments requires a significant degree of judgement and a good understanding of the facts and circumstances regarding the currencies that suffer from a lack of exchangeability. In addition, the amendments introduce detailed new disclosure requirements. Therefore, it is important for entities to start evaluating the potential impact of these amendments in a timely manner.

5

Presentation of impairment/ expected credit losses on financial asset and reversals on impairment

Facts

In Year 1, the entity recognized a provision for doubtful debts amounting to INR100 crore on receivables measured at amortized cost. In the current financial year, the entity recovered INR 20 crores from the customer as full and final settlement of the receivable.

How should the entity present (a) the expected credit loss (previously referred to as "provision for doubtful debts"), (b) the reversal of such loss due to subsequent recovery, and (c) any resulting gain or loss on derecognition or settlement, in the Statement of Profit and Loss (P&L) prepared in accordance with Indian Accounting Standards (Ind AS)?

Response

Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines the term 'provision' as "a liability of uncertain timing or amount." Accordingly, the term 'provision' should generally be used in a similar context. The phrase 'Provision for doubtful debts' is therefore not appropriate when referring to expected credit losses (ECL) recognized on receivables under Ind AS 109 *Financial Instruments*. Instead, the correct terminology under Ind AS 109, and also as reflected in *Division II of Schedule III (Ind AS Schedule III) to the Companies Act, 2013*, is Expected Credit Losses (ECL) on financial assets.

Presentation in the Statement of Profit and Loss

Paragraph 82 of Ind AS 1 *Presentation of Financial Statements*, requires that the following line items be presented separately on the face of the Statement of Profit and Loss:

"a. Gains and losses arising from the derecognition of financial assets measured at amortized cost

b. Impairment losses (including reversals of impairment losses or gains) determined in accordance with Ind AS 109"

The prescribed format of the Statement of Profit & Loss under Ind AS Schedule III also requires similar line items to be presented separately on its face. Furthermore, paragraph 113(b) of Ind AS 115 *Revenue from Contracts with Customers* requires entities to disclose, among other matters, the amount of impairment losses recognized under Ind AS 109 on receivables or contract assets, unless such amounts are already presented separately in the P&L in accordance with other standards.

In view of the above requirements, particularly Ind AS 1 and Schedule III, impairment losses on receivables and their subsequent reversal must be presented as separate line items on the face of the Statement of Profit and Loss. These should not be included under headings such as 'Other Expenses' or 'Other Income.'

Similarly, any gain or loss arising from the derecognition of financial assets/ receivables measured at the amortized cost should also be presented separately on the face of the Statement of Profit and Loss. Such gain/ loss is determined as the difference between-

i. the net carrying amount of the receivable at the date of derecognition (i.e., gross amount less expected credit loss allowance); and

ii. the consideration received.

In this case:

- The gross carrying value of receivables was INR 100 crore
- An ECL allowance of INR100 crore had been recognized, resulting in a net carrying amount of INR **NIL.**

The entity recovered INR20 crore as full and final settlement.

As a result, a settlement gain of INR20 crore should be recognized in the current year and presented separately on the face of the Statement of Profit and Loss as *"Gain on derecognition of financial assets measured at amortized cost"*.

It may also be noted that a recent opinion issued by the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India, on the subject *"Classification of 'Provision for doubtful debts no longer required written back' as 'Other Income' or 'Other Operating Revenue',"* supports the above position and emphasizes the need for appropriate terminology and presentation in line with Ind AS 109 and Ind AS 1.

6

Regulatory updates

Securities and Exchange Board of India (SEBI) updates

Measures to facilitate ease of doing business relating to Business Responsibility and Sustainability Reporting (BRSR) and BRSR Core

The SEBI, vide its earlier circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 dated 12 July 2023, required the following in relation to the BRSR Core[4] and reasonable assurance thereupon:

- Listed entities will mandatorily undertake reasonable assurance of BRSR Core as per the glide path specified in the said circular. The Circular required the top 150 listed companies by market capitalization to obtain reasonable assurance of BRSR Core from FY 2023-24 onward and the said coverage will increase to the top 1,000 listed companies by market capitalization from FY 2026-27 onward.
- From FY 2024-25 onward, top 250 listed entities are required to provide ESG disclosures for value chain partners (VCPs) as per the BRSR Core on a 'comply-or-explain basis.'
- From FY 2025-26 onward, top 250 listed entities by market capitalization will be required to obtain limited assurance of the ESG disclosures for VCP on a 'comply-or-explain basis.'

In accordance with the said circular, VCP for the above-mentioned purpose encompasses the top upstream and downstream partners of the listed entity, cumulatively comprising 75% of its purchases/ sales (by value) respectively.

The SEBI vide its circular No. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2025/42 dated 28 March 2025 has amended the *SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015* ('SEBI LODR' or 'LODR Regulations' or the 'Regulations') and relaxed the abovementioned requirements. The following key relaxations have been introduced:

- Instead of reasonable assurance of the BRSR Core, the top 1,000 listed entities have an option to obtain assurance or assessment. The assessment refers to third-party assessment as per the standard developed by the Industry Standards Forum (ISF) in consultation with SEBI. It is pertinent to note that Industry Standard on assessment is yet to be issued and notified by the ISF.
- The threshold for disclosure of the VCP has been relaxed. Basis the amendment, VCP will encompass top upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value), respectively. However, the listed

4. The BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs)/ metrics under 9 ESG attributes.

entity may limit the disclosure of value chain to cover 75% of its purchases and sales (by value), respectively. Also, reporting of previous year numbers will be voluntary in the first year of ESG disclosures for the VCP.

- The requirement for the top 250 listed entities by market capitalization to make ESG disclosures for VCP as per the BRSR Core has been deferred by one year, i.e., these disclosures will now apply from FY 2025-26 onward, instead of FY 2024-25 onward.
- Compliance with VCP disclosures even from FY 2025-26 onward will be 'voluntary in nature,' instead of compliance on a 'comply-or-explain basis.' Also, assessment or limited assurance of the said VCP disclosures will apply on a voluntary basis from FY 2026-27 onwards.

Besides the above relaxations, the SEBI has introduced a new leadership indicator, relating to disclosures of the Green Credits, in Principle 6 ('Businesses should respect and make efforts to protect and restore the environment') of the BRSR. The following information is required to be disclosed for the new indicator in BRSR for FY 2024-25 and onward:

- Quantum of Green Credits generated or procured by the listed entity
- Quantum of Green Credits generated or procured by the top 10 (in terms of value of purchases and sales, respectively) VCP

The amendments in the circular are applicable from 28 March 2025.

How we see it

The SEBI has decided to make these changes based on the recommendations of the Expert Committee for facilitating ease of doing business, reducing cost and effort of compliance for listed entities and their value chain partners. We welcome the steps being taken by the SEBI to facilitate ease of doing business and reduce overall cost of compliance for listed entities.

From the perspective of assurance/ assessment of BRSR Core, it may be noted that the SEBI has removed the word 'reasonable' before the word 'assurance' of BRSR Core in its circular. This suggests that the top 1,000 listed entities (as per the glide path) will have an option to obtain either 'reasonable assurance' or 'limited assurance' over the BRSR Core. They will also have an option to obtain 'assessment' for BRSR Core; however, the standard for 'Assessment' is yet to be notified. Considering this, most of the listed entities covered in top 250 list will have already issued their BRSR reports along with the reasonable or limited assurance reports for the financial year 2024-25. If assessment standard is released by Industry Standards Forum, these entities may evaluate whether they will continue obtaining either reasonable or limited assurance for BRSR Core or obtain assessment report from the year 2025-26 onwards.

We believe that voluntary ESG disclosures for value chain entities, instead of compliance on a 'comply-or-explain basis,' will provide listed entities and their value chain partners additional time to develop and strengthen their systems & processes for collection as well as provision of relevant data. The additional time will also avoid unnecessary impact on small businesses in terms of cost and compliance requirements.

Corporate governance norms for High Value Debt Listed Entities (HVDLEs)

The SEBI has amended the LODR Regulations vide its Notification dated 27 March 2025 and brought key changes to the corporate governance norms applicable to listed entities that have only listed their non-convertible debt securities such as listed debentures or commercial papers. Among other changes, the SEBI, vide the said notification, has introduced a separate chapter, i.e., Chapter VA Corporate Governance Norms, in the LODR Regulations, which will apply only to 'entities which have issued high value debt listed entities' (HVDLEs). For clarification, in addition to Corporate Governance prescribed in Chapter VA, HVDLEs will continue to comply with the relevant provisions of the *Companies Act, 2013* (as amended).

The key changes enunciated in the notification are summarized below:

Key applicability changes

- The threshold amount to identify an entity, which has issued and outstanding listed non-convertible debt securities, as HVDLE has been increased from INR500 crore to INR1,000 crore. HVDLEs will be determined based on the value of principal outstanding of listed debt securities.
- In case the value of outstanding listed non-convertible debt securities becomes equal to or greater than INR1,000 crore at a subsequent date, HVDLEs will be required to comply with the applicable requirements within six months from the date of trigger, and disclosure of such compliance may be made in the corporate governance compliance report on and from the third quarter following the date of the trigger.

- In case the value of outstanding listed debt securities as on 31 March in a year reduces below the threshold of INR1,000 crore and such decline continues for three consecutive financial years, then the provisions listed in the regulations and applicable to HVDLE will cease to apply.

Exemption to Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)

- REITs and InvITs are exempted from compliance with these requirements applicable to HVDLE as they are required to comply with the governance norms specified under the *SEBI (Real Estate Investment Trust) Regulations, 2014* (as amended) and the *SEBI (Infrastructure Investment Trusts) Regulations, 2014* (as amended), respectively.

Applicability date and transitional provisions

- The amendments are effective from the date of notification in the Official Gazette, viz., 27 March 2025.
- The requirements of LODR Regulations, after considering amendments, will apply to HVDLEs on a 'comply or explain' basis until 31 March 2025 and on a mandatory basis thereafter. 'Comply or explain' basis means that the entity will endeavor to achieve full compliance with the applicable requirements. However, in case the entity is not able to achieve full compliance, it will need to explain the reasons for such non-compliance/ partial compliance and the steps initiated to achieve full compliance.

Overview of key changes

Pre-amendment, clauses 16 to 27 of the LODR Regulations were applicable to listed entities that have issued and outstanding listed non-convertible debt securities equal to or greater than the prescribed threshold. A separate chapter prescribing Corporate Governance norms for these entities has now been introduced. Given below is an overview of some key changes arising from the introduction of the separate chapter:

- Chapter VA provides an option to the Board of Directors of HVDLEs to constitute a separate Nomination and Remuneration Committee (NRC), Risk Management Committee (RMC) and Stakeholders Relationship Committee (SRC). Alternatively, the Board of Directors may choose that the functions of the NRC and the SRC may be discharged by the Board itself. Similarly, the functions of NRC may also be discharged by the audit committee.

- For the purpose of counting the maximum number of listed entities in which a person can hold directorships (director/ independent director), the directorship held in HVDLEs is also required to be included besides directorships in equity listed entities.
- For the purpose of counting the maximum number of listed entities in which a person can act as a member/ be a chairperson of a Committee, the membership/ chairpersonship held in the committees constituted by HVDLEs is also required to be counted.
- On the lines of Regulation 23, which deals with related party transactions (RPTs) for an equity listed entity, Regulation 62K of the new chapter deals with RPTs of HVDLEs. Among other matters, it requires:
  - HVDLEs must formulate a policy on the materiality of RPTs and on dealing with RPTs, including clear threshold limits. This policy needs to be approved by the board of directors and reviewed at least once every three years.
  - A transaction with a related party will be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds INR1,000 crore or 10% of the annual consolidated turnover of the HVDLE as per the last audited financial statements of the listed entity, whichever is lower.
  - All RPTs and subsequent material modifications require prior approval from the audit committee. The RPTs entered into by subsidiaries of HVDLEs also require approval from the Audit Committee of the HVDLE if they exceed prescribed limits.
  - The Audit Committee may grant omnibus approval for repetitive RPTs, subject to specific conditions, including quarterly reviews.
  - Regulation 23 of the LODR Regulations mandates stringent approval processes, including shareholder resolution requirements for material RPTs. However, it is possible that HVDLE's ownership is concentrated among related parties and non-related shareholders either hold a negligible portion of the equity or none at all. In such a scenario, the HVDLE may not be able to transact RPTs because of 'impossibility

of compliance.' To resolve this compliance hurdle, Chapter VA requires that all material RPTs and subsequent material modifications will require prior No-Objection Certificate (NOC) from the Debenture Trustee, and the Debenture Trustee will, in turn, obtain No-Objection from the debenture holders who are not related to the Issuer and hold at least 51% of the debentures in value. After obtaining the approval of the debenture holders, approval of the shareholders through resolution will be obtained.

- Regulation 34(2)(f) of the LODR Regulations mandates the top 1,000 listed entities (by market capitalization) to provide disclosures as per the BRSR. HVDLEs may on a voluntary basis publish BRSR in their annual report. HVDLEs may provide the BRSR report as per the existing regulations applicable to listed entities.
- Other key changes/ clarifications for Corporate Governance Norms applicable to HVDLEs include the following:
  - The HVDLE will formulate a vigil mechanism/ whistleblower policy for directors and employees to report genuine concerns. The vigil mechanism will provide for adequate safeguards against victimization of director(s) or employee(s) or any other person who uses the mechanism and also provide for direct access to the chairperson of the audit committee in appropriate or exceptional cases.
  - At least one independent director, on the board of directors of the HVDLE, will be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.
  - The Audit Committee of the HVDLE will also review the financial statements and in particular, the investments made by the unlisted material subsidiary.
  - The management of the unlisted material subsidiary will periodically bring to the notice of the board of directors of the HVDLE, a statement of all significant transactions and arrangements entered into by the unlisted material subsidiary.
  - Every HVDLE and its material unlisted subsidiaries incorporated in India will undertake a secretarial audit and will annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.
  - It prescribes specific obligations of Independent Directors including their tenure and appointment/ removal requirements and the number of meetings.
  - It also prescribes requirements related to the obligations of employees including senior management, KMP, directors and promoters, vacancies in respect of certain KMPs and other corporate governance requirements.

How we see it

The SEBI has issued these amendments with a view to prescribe specific corporate governance norms for HVDLEs. We believe the approach taken to prescribe specific requirements will help the SEBI to better deal with business/ operational realities of HVDLEs, facilitate ease of doing business and bring more focus on entities with higher levels of debt obligations.

The new requirements will apply on a mandatory basis instead of the "comply-or-explain" basis. This will help the regulator in providing more protection to investors' interest. At the same time, relatively smaller entities may face some operational challenges due to resource constraints and they will no longer have the option to avoid compliance by explaining the reasons. Entities with high-value debt listings should consider a comprehensive compliance review and ensure alignment with the new requirements on a priority basis. Efforts must be made to train managerial personnel on the new requirements as well as the potential implications of non-compliance.

With the inclusion of HVDLEs in the count of maximum directorships and memberships held in various committees, the amendments now bring in stricter requirements for composition of various committees and bring HVDLEs almost at par with compliances required for equity listed companies. This will help ensure that directors have adequate time to pay attention to corporate governance of HVDLEs. Also, there may be a requirement to have a re-look at their existing directorship/ chairpersonship, etc., to enable compliance with the new requirements.

Industry Standards on Regulation 30 of LODR Regulations

Regulation 30 of the LODR Regulations requires every listed entity to make disclosures of any event or information which, in the opinion of the board of directors of the listed company, is material. Events specified in paragraph A of Part A of Schedule III are deemed to be material events and listed entities are required to make disclosure of such events. The listed entity needs to make disclosure of events specified in paragraph B of Part A of Schedule III, based on application of the guidelines for materiality, prescribed in Regulation 30.

The Industry Standards Forum, in consultation with SEBI, has formulated Industry Standards on Regulation 30 of the LODR Regulations. The SEBI, vide its circular dated 25 February 2025, has issued Industry Standards Note on the said Regulation 30 to:

- Facilitate ease of doing business
- Facilitate a uniform approach and assist listed entities in complying with their obligations in respect of disclosures under Regulation 30 read with Schedule III of the LODR Regulations and circulars issued thereunder (referred to as the "Continuous Disclosure Requirements"), and
- Set out standard operating procedures for compliance with the Continuous Disclosure Requirements.

The main aspects covered under this Industry Standards Note are stated below:

- Applicability of numerical thresholds to certain companies for Para A (1) of Part A of Schedule III
- Regulation 30(4)(i)(c) specifies that an event is considered material if in case of its omission, the value or expected impact in terms of value exceeds the materiality thresholds specified therein. It provides an interpretation of the term "value or the expected impact in terms of value" wherein the expected impact in the ensuing four quarters (including the quarter in which the event occurs if the event occurs in the first 60 days of the quarter) is to be considered. An illustration has also been given to explain the application.
- Last audited consolidated financial statements to mean the annual audited consolidated financial statements of the listed entity
- Interpretation of significant market reaction as referred to in Regulation 30(4)(i)(b) – it may differ from company to company. Significant market reaction may be assessed against scrip price, as per the parameters specified by the stock exchange(s).
- For disclosure of imposition of fine or penalty, action taken or order passed by the sector regulator/other regulators/enforcement authority/other authorities of the listed entity would be required to be disclosed, if such action or order, where quantifiable, exceeds the threshold specified by SEBI. Imposition of fine or penalty below the quantifiable thresholds should be disclosed by the listed entity on a quarterly basis.
- A list of sectoral regulators/enforcement authorities relevant for disclosure of imposition of fine or penalty has been specified. Listed entities are required to amend their materiality policy to include the list of sectoral regulators.
- Listed entities, while evaluating the expected impact (and subsequently, the disclosure requirement) of pending litigation / dispute / order / action initiated or taken, may also consider whether the same is confidential in nature under any applicable law and/or requirement / direction of any regulatory, statutory, judicial or quasi-judicial authority, or any tribunal.
- Clarification relating to disclosure of fraud or default where the allegation of fraud does not involve the listed company or is not in relation to the affairs of such listed entity, but pertains to its promoter, director, key managerial personnel, senior management or subsidiary.
- Receipt of a show cause notice from any regulatory, statutory, enforcement authority would be disclosed upon application of the guidelines for materiality.
- Manner of calculation of the amount involved in litigation or disputes on a cumulative basis.

In addition, the Industry Standard also provides guidance in the Annexures on the appropriate parameter (profit / net-worth / turnover) to be considered for determination of materiality for different types of events under Para B of Part A of Schedule III of LODR Regulations. It also includes the format for disclosure of communication received from regulatory, statutory, enforcement, or judicial authorities.

No specific date has been prescribed for application of this circular, indicating that it will apply from the date of its issuance, viz., 25 February 2025.

How we see it

The Industry Standards Note has been issued to facilitate a uniform approach and assist listed entities in complying with their obligations in respect of disclosures under Regulation 30 of the SEBI LODR and sets out standard operating procedures for compliance with the Continuous Disclosure Requirements.

The listed entities should assess the impact of such clarifications on their materiality policy prepared under Regulation 30. The entities should also consider the guidance on maintenance of adequate systems to ensure compliance with the disclosure requirements within the prescribed time frame. This will also help in protecting investor interest and maintaining market integrity.

SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2025

The SEBI, vide Notification dated 03 March 2025, amended the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations). The amendments focus on enabling presentation of proforma financial information, reducing the timeline for rights issues, making SME IPOs more stringent and harmonizing ICDR with the Listing Regulations. Some key amendments include the following:

Proforma Financial Statements

The SEBI has made an amendment in the Schedule VI *(Disclosure in the Offer Document, Abridged Prospectus and Letter of Offer)* of the ICDR Regulations. Pursuant to the amendment, the issuer company may voluntarily provide proforma financial statements in the offer document/ draft offer document to disclose the impact of acquisition or divestment. This will be applicable even if:

- The thresholds mentioned in the Schedule VI (i.e., 20% or more of the turnover, net worth or profit before tax of the latest consolidated financial statements of the company) are not met.
- The acquisitions or divestments have been completed prior to the latest period for which financial information is disclosed in the draft offer document or the offer document.
- The issuer may disclose proforma for such financial periods as it deems necessary.

The proforma financial statements, if presented, should be prepared in accordance with the guidance issued by the Institute of Chartered Accountants of India (ICAI). These proforma financial statements are required to be certified by the Statutory Auditor or Chartered Accountants (CA) holding a valid certificate issued by a Peer Review Board of the ICAI.

Financial statements of business/ subsidiaries acquired/ divested

- An issuer entity may voluntarily include financial statements of a business or subsidiary acquired/ divested. Such financial statements should be certified by the auditor of the business or subsidiary acquired/ divested, or CA holding a valid certificate issued by the Peer Review Board of the ICAI.
- If the businesses acquired/ divested do not represent a separate entity, general purpose financial statements may not be available for such business. In such cases, combined/ carved-out financial statements for such businesses will be prepared in accordance with any guidance note, standard on assurance engagement or guidelines issued by the ICAI from time to time.
- In case of non-material acquisitions/divestments disclosures in relation to the fact of the acquisition/ divestment, consideration paid/ received and mode of financing will be certified by the statutory auditor of the issuer company or a CA holding a valid certificate issued by the Peer Review Board of the ICAI appointed by the issuer company.

Eligibility to make initial public offer (IPO)

Regulation 5 of the ICDR Regulation provides that an issuer is not considered eligible to make an IPO if there are any outstanding convertible securities or any other rights which would entitle any person with any option to receive equity shares of the issuer. The proviso to the said regulation provides certain exceptions to the above criteria. The recent amendments added a new exception in the list with respect to outstanding stock appreciation rights (SARs) granted to employees. However, such SARs should be fully exercised for equity shares prior to the filing of the red herring prospectus (in case of book-built issues) or the prospectus (in case of fixed price issues), as the case may be. In any case, the disclosures regarding such SARs and the scheme and the total number of equity shares resulting from the exercise of such rights are required to be made in the draft offer document and offer document.

Securities ineligible for minimum promoters' contribution

Regulation 15 of the ICDR Regulations provides for the securities that are ineligible for minimum promoters' contribution, i.e., excluded from computation toward minimum promoters' contribution. The ineligible securities include specified securities acquired by the promoters, etc., during the preceding one year at a price lower than the price at which specified securities are being offered to the public in the initial public offer. In this regard, amendments in the ICDR Regulations have added an explanation clarifying that price per share for determining securities ineligible for minimum promoters' contribution is required to be determined, after adjusting the same for corporate actions such as share split, bonus issue, etc. undertaken by the issuer.

Lock-in of specified securities held by the promoters

Regulation 16 of the ICDR Regulations stipulates the conditions for the lock-in period of specified securities held by promoters. This lock-in period is enhanced if the majority of the issue proceeds, excluding the portion of offer for sale, is proposed is to be utilized for capital expenditure. The amendment in the ICDR Regulations has included repayment of existing loans that may have been taken for purpose of capital expenditure, within the ambit of the definition of capital expenditure, i.e., if there is a loan that has been utilized for the purpose of capital expenditure and the same is to be re-paid by using the proceeds of the issue, then enhanced lock-in period will apply on the promoters' contribution.

Reporting of transactions of the promoters and promoter group

Regulation 54 of the ICDR Regulations requires the reporting of the transactions in securities by the promoters and promoter group between the date of filing of the draft offer document or offer document and the date of closure of the issue to the stock exchange within 24 hours of such transaction. The ambit of the regulation has now been increased to the reporting to the stock exchange, of any proposed pre-IPO placement disclosed in the draft offer document within 24 hours of such transaction.

Alignment of ICDR Regulations with LODR Regulations

To align the requirements of the ICDR Regulations with the LODR Regulations, the SEBI has made the following amendments:

- Among other matters, the LODR Regulations require listed entities to disclose agreements entered into by the shareholders, promoters, promoter group entities, related parties, directors, KMPs, employees of the listed entity or of its holding, subsidiary or associate company, among themselves or with the listed entity or with a third party, solely or jointly, which, either directly or indirectly or potentially or whose purpose and effect is to, impact the management or control of the listed entity or impose any restriction or create any liability upon the listed entity. Prior to these amendments, these agreements may not have been disclosed by the issuer companies in their offer documents before listing. To align with the requirements of the LODR Regulations, the ICDR Regulations now require issuer entities to disclose the details of these agreements in their offer document. The disclosures required are broadly aligned with the LODR Regulations.
- Before the amendment, there was no materiality concept for disclosing litigations in the offer document, although the LODR Regulations prescribe certain thresholds. To align the requirements, the amendments have introduced a concept of materiality in the ICDR Regulations. Further, the amendment requires issuer entities to disclose all criminal proceedings involving key managerial personnel and senior management of the issuer and actions by regulatory authorities and statutory authorities against key managerial personnel and senior management of the issuer.
- The ICDR Regulations require issuer entities to appoint a compliance officer to monitor compliance of securities laws and for redressal of investors' grievances. However, previously no specific qualifications to be a compliance officer were stipulated. The amendments align the requirements of the ICDR Regulations with the LODR Regulations by specifying that the compliance officer must be qualified to be a Company Secretary.

Amendments relating to the rights issue

- Regulation 3 of the ICDR Regulations defines the applicability of the provisions of the regulations. Earlier only those rights issues were covered where the issue size was INR50 crore or more. Now the requirement of issue size has been deleted, which makes the applicability of ICDR Regulations on any rights issue irrespective of the issue size.
- The documentation and approval process for rights issues has also been made more efficient. Issuers are no longer required to file the draft letter of offer with SEBI. Instead, the document is to be filed directly with the relevant stock exchanges.
- The SEBI has omitted the requirement to appoint one or more merchant bankers for preparing the draft letter of offer and letter of offer. Also, the requirement of due diligence has been done away with. The issuers can now prepare the letter of offer and draft letter of offer on their own.

How we see it

We believe that amendments in the ICDR Regulations are made in line with the SEBI's objective of:

- Ease of doing business
- Reducing compliance cost
- Harmonization of provisions with LODR Regulations, and
- Promoting transparency

We also believe that the amendments will support in strengthening the capital market environment by simplifying the provisions and omitting the redundant provisions.

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- Sajjadhussein Mistry

EY offices

Ahmedabad
22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind
Iskcon Temple
Off SG Highway,
Ahmedabad - 380 059
Tel: + 91 79 6608 3800

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International
Financial Centre
GIFT City SEZGandhinagar
– 382 355, Gujarat
Tel + 91 79 6608 3800

Bengaluru
12th & 13th Floor
"UB City", Canberra Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield, Bengaluru - 560 048
Tel: + 91 80 6727 5000

Bhubaneswar
8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar
Odisha – 751024
Tel: + 91 674 274 4490

Chandigarh
Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai
6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR
Aikyam, Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Haryana
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar, U.P.
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad
THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur
9th Floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur, Rajasthan - 302018

Kochi
9th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata
22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

6th floor, Sector V, Building
Omega, Bengal Intelligent Park,
Salt Lake Electronics Complex,
Bidhan Nagar, Kolkata - 700 091
Tel: + 91 33 6615 3400

Mumbai
14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301
Building No.1, Mindspace-Gigaplex
IT Park, MIDC, Plot No. IT-5
Airoli Knowledge Park
Airoli West, Navi Mumbai - 400 708
Tel: + 91 22 6192 0003

18th Floor, AltimusPandurang
Budhkar Marg Worli, Mumbai - 400
018 Tel: + 91 22 6192 0503

Pune
C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Pune - 411 045
Tel: + 91 20 4912 6800

Ernst & Young Associates LLP

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