



3rd INTERNATIONAL CONFERENCE **FINANCIAL REPORTING & CONTROL:** **RECENT DEVELOPMENTS AND CHALLENGES**

JULY 2023



CONTENTS

FOREWORD FROM SECRETARY GENERAL, ASSOCHAM _____	3
FOREWORD FROM COUNCIL CHAIRPERSON, ASSOCHAM _____	4
FOREWORD FROM DEPUTY MANAGING PARTNER, BDO IN INDIA _____	5
RECENT AMENDMENTS IN INDIAN ACCOUNTING STANDARDS _____	6
NON-FINANCIAL REPORTING & DISCLOSURES: RECENT TRENDS & AMENDMENTS _____	9
IMPACT ON COMPANIES W.R.T RECENT AMENDMENTS IN COMPANIES ACT 2013 AND ITS RULES RELATING TO ACCOUNTING SOFTWARE AND AUDIT TRAIL _____	12
IMPACT ON COMPANIES W.R.T RECENT KEY AMENDMENTS IN SEBI REGULATIONS - MAINLY (LODR) REGULATIONS AND (ICDR) REGULATIONS _____	13
ECL-BASED PROVISIONING FOR BANKS - ARE WE NOT READY? _____	15
RELATED PARTIES TRANSACTION AND DISCLOSURES _____	17
HOW IS AI IMPACTING BUSINESS & BUSINESS REPORTING? _____	19
LEVERAGING FINANCIAL REPORTING FOR DIGITAL LENDING _____	20
CRYPTO ASSETS - AN EMERGING CHALLENGE IN FINANCIAL REPORTING & CONTROL	22
THE FUTURE OF XBRL _____	24
COMPLIANCE VS EASE OF DOING BUSINESS _____	26
ABOUT ASSOCHAM _____	27
ABOUT BDO _____	28

FOREWORD FROM SECRETARY GENERAL, ASSOCHAM

A financial report is a touchstone used to gauge corporate performance and provide a glimpse of the past, present as well as future sustainability of an organization. The financial disclosures available to external stakeholders not only help improve transparency in decision-making but also leads to improved corporate governance.

India has a well-regulated mechanism for financial reporting which is in line with International Financial Reporting Standards (IFRS) as well as for Business Responsibility and Sustainability Reporting (BRSR) that is already in practice for compliance in a standardized disclosure framework, and there is a significant development on the part of the government and regulators towards standardization of the frameworks for non-financial disclosures such as- ESG related reporting. This will foster effective communication among those involved in the process of allocating resources to monitoring activities to investors and to adhering to ethical standards being fundamental tenants to long-term sustenance and growth of the economy.

The present edition of the ASSOCHAM-BDO Report on “Financial Reporting & Control: Recent Developments and Challenges” is an opportunity to uncover the latest developments in this sector. It will also help stakeholders get clarity on topical issues on the subject as well as on emerging benchmark practices. I acknowledge the efforts of the teams at BDO and the ASSOCHAM National Council for Corporate Affairs, Company Law and Corporate Governance towards bringing out this publication.

We hope that this publication adds value to the debate on this topical subject.



DEEPAK SOOD
Secretary General
ASSOCHAM

FOREWORD FROM COUNCIL CHAIRPERSON, ASSOCHAM

In the post pandemic era, the corporates are exposed to a new world order where businesses need to look at the sustainability of not only the organizations within but also the sustainability of the society and environment in which they operate. The extended requirements of disclosures due to changing regulatory landscapes in the backdrop of evolving standardization of ESG disclosures needs to be balanced together with financial reporting. The technology used for recording, reporting and compliance is reshaping the businesses as artificial intelligence, blockchain, and data analytics are revolutionizing how organizations process, analyze, and report financial data with improved accuracy, and reduced risk of errors.

Organizations must embrace the challenges of integrating non-financial metrics into their reporting frameworks towards demonstrating their commitment to sustainable practices and responsible business conduct. Prioritizing data security, privacy, and the need of skilled professionals for internal audit and risk management towards harnessing the potential of these technologies is extremely important.

ASSOCHAM National Council for Corporate Affairs, Company Law and Corporate Governance has been at the forefront of impactful policy advocacy and is enhancing awareness about subjects that are pertinent to overall corporate governance. In the series, the 3rd edition of the International Conference on “Financial Reporting & Control” aims to discuss, deliberate, and update the knowhow about emerging developments, challenges, and solutions with respect to recent regulatory frameworks in India as well as global best practices.

I convey my best wishes to the teams of BDO and ASSOCHAM for bringing out this publication and trust that the same would add to the know-how of the readers!



PREETI MALHOTRA

Chairperson, ASSOCHAM National Council for Corporate Affairs,
Company Law and Corporate Governance,
Chairman, Smart Bharat Group & Past President, ICSI

FOREWORD FROM DEPUTY MANAGING PARTNER, BDO IN INDIA

We are thrilled to be back yet again, as knowledge partners for the third consecutive year at ASSOCHAM's International Conference on Financial Reporting & Control - Recent Developments & Challenges and hope to meet everyone on 21st July in New Delhi.

The landscape of financial reporting and controls is continually evolving, influenced by a wide array of factors such as changing regulatory frameworks, technological advancements, global economic conditions, and emerging business trends. There is growing emphasis on transparency, accuracy, and accountability. These changes have been driven by a need to enhance investor confidence, promote fair and reliable financial information, and align reporting practices with the complexities of today's business environment.

As we navigate this evolving landscape, we must also be cognizant of the broader environmental, social, and governance (ESG) considerations that impact financial reporting. Stakeholders increasingly demand transparency and accountability in areas such as sustainability reporting, climate risk management, and social impact measurement. Organizations must align their reporting frameworks and controls with these evolving expectations to remain competitive and maintain stakeholder trust.

Keeping pace with these developments and effectively addressing the associated challenges has become more crucial than ever for organizations across the globe. This conference provides a unique platform for us to come together and delve into the latest advancements and emerging trends in financial reporting and controls. It is an opportunity to share knowledge, experiences, and insights, and to engage in meaningful discussions that can shape the future of our industry.

As the Knowledge Partner, I extend my warmest wishes for a productive and engaging conference. May this gathering contribute to your professional development and bring forth valuable insights that will shape the future of financial reporting and controls.



YOGESH SHARMA
Deputy Managing Partner
BDO in India

RECENT AMENDMENTS IN INDIAN ACCOUNTING STANDARDS



I. Ind AS -1 “Presentation to financial statements

(i) in paragraph 7, before the definition of “General purpose financial statements”, the following shall be inserted, namely:-

“Accounting policies are defined in paragraph 5 of Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors, and the term is used in this Standard with the same meaning.”;

(ii) in paragraph 10, in item (e), for the words “significant accounting policies”, the words “material accounting policy information”, shall be substituted.;

(iii) in paragraph 114, in item (c), for sub-item (ii), the following sub-item shall be substituted, namely:-

“(ii) material accounting policy information (see paragraph 117);”;

(iv) for paragraph 117, the following paragraph shall be substituted, namely:-

“Disclosure of accounting policy information

117 An entity shall disclose material accounting policy information (see paragraph 7).

Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.”

Analysis:

The key amendment in Ind AS 1 lays that the Companies should disclose their material accounting policy information rather than their significant accounting policies. Further, it clarifies that accounting policies related to immaterial transactions, other events or conditions which are themselves immaterial are not required to be disclosed. Companies need to clarify that not all accounting policies relate to transactions that are material to the Company's financial statements.

Further, the consequential amendment has been made to Ind AS 107 ‘Financial Instruments (Disclosure) and Ind AS 34 ‘Interim Financial Reporting’.

Effective Date: This Amendment is applicable from April 01, 2023

II. Ind AS 12 'Income Taxes'

The following shall be inserted, after paragraph 98 I, namely:-

An entity shall apply Deferred Tax related to Assets and Liabilities arising from a Single Transaction to transactions that occur on or after the beginning of the earliest comparative period presented.

An entity applying Deferred Tax related to Assets and Liabilities arising from a Single Transaction shall also, at the beginning of the earliest comparative period presented:

(a) recognise a deferred tax asset—to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised—and a deferred tax liability for all deductible and taxable temporary differences associated with:

(i) right-of-use assets and lease liabilities; and

(ii) decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset; and

(b) recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.”;

Analysis:

The amendments provide clarification on how companies should handle deferred tax in relation to specific transactions, such as leases and decommissioning, restoration and similar liabilities.

The amendments limit the scope of the initial recognition exemption, stating that it no longer applies to transactions that result in equal and offsetting temporary differences, such as leases and decommissioning provisions. Therefore, companies are required to recognize both a deferred tax asset and a deferred tax liability for temporary differences arising from such transactions at the time of initial recognition.

Consequential amendment has been carried to Ind-AS 101 “First Time Adoption of Indian Accounting Standards”

Effective Date: This Amendment is applicable from April 01, 2023



III. Ind AS 8: Accounting policies, Changes in accounting estimates and errors

(i) in paragraph 5, for the definition of change in accounting estimate starting with the words “A change in” and ending with the words “corrections of errors”, the following shall be substituted, namely:-

“Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.”;

(ii) for paragraph 32 and its heading, the following shall be substituted, namely:-

“Accounting Estimates”

An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of accounting estimates include:

- (a) a loss allowance for expected credit losses, applying Ind AS 109, Financial Instruments;
- (b) the net realisable value of an item of inventory, applying Ind AS 2 Inventories;
- (c) the fair value of an asset or liability, applying Ind AS 113, Fair Value Measurement;
- (d) the depreciation expense for an item of property, plant, and equipment, applying Ind AS 16; and
- (e) a provision for warranty obligations, applying Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

32A An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques (for example, techniques used to measure a loss allowance for expected credit losses applying Ind AS 109) and valuation techniques (for example, techniques used to measure the fair value of an asset or liability applying Ind AS 113).

(iii) for paragraph 34, the following shall be substituted, namely:-

“Change in Accounting Estimates”

34 An entity may need to change an accounting estimate if changes occur in the circumstances on which

the accounting estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an accounting estimate does not relate to prior periods and is not

34A The effects on an accounting estimate of a change in an input or a change in a measurement technique

are changes in accounting estimates unless they result from the correction of prior period errors.”; the correction of an error.

Analysis:

- The 2023 amendments replace the definition of 'change in accounting estimate' with the definition of 'accounting estimates. The definition of accounting estimates states “Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.”
- The amendments clarify the relationship between accounting policies and accounting estimates. An accounting estimate is developed to achieve the objectives set out by the accounting policies.
- Developing an accounting estimate includes the use of both measurement techniques and inputs.
- Measurement techniques include the selection of estimation techniques (e.g. techniques used to measure a loss allowance for expected credit losses) or valuation techniques (e.g. techniques used to measure the fair value of an asset or liability).
- The effects of changes in such inputs or measurement techniques are changes in accounting estimates unless they result from the correction of prior period errors.

Effective Date: This Amendment is applicable from April 01, 2023

NON-FINANCIAL REPORTING & DISCLOSURES: RECENT TRENDS & AMENDMENTS

Internal controls are crucial in ensuring the validity of sustainability claims and combating greenwashing in business. By implementing robust controls, companies can mitigate risks, promote transparency, and avoid reputational and legal consequences associated with misleading greenwashing practices. This is achieved through the monitoring, auditing, and validation of sustainability data, enabling accurate reporting, and fostering trust.

The global trend of sustainability reporting is gaining momentum as companies prioritize disclosing their Environmental, Social, and Governance (ESG) performance. Transparent reporting frameworks like the Global Reporting Initiative (GRI) and Sustainable Development Goals (SDGs) facilitate global reporting efforts, aligning with ESG factors in investments, stakeholder engagement, and regulatory compliance. This emphasis on sustainability reporting promotes transparency, accountability, and effective management of sustainability-related risks.

Sustainability reporting provides companies with a competitive advantage in today's business landscape. By demonstrating responsibility through comprehensive disclosure, companies enhance transparency, trust, and reputation. This attracts socially conscious investors, improves risk management, drives innovation, optimizes resource utilization, and fosters stakeholder engagement. Such positioning allows companies to achieve sustainable growth and long-term success.

Establishing a dedicated core group for sustainability reporting brings various benefits, including integrated and coordinated processes. This group collects, analyses, and reports sustainability data, sets goals, engages stakeholders, and stays informed about emerging trends and best practices. By fostering a sustainable culture, enhancing reputation, and effectively communicating sustainability efforts, this core group boosts competitiveness and drives positive change.

The International Sustainability Standards Board (ISSB) has introduced International Financial Reporting Standards (IFRS) S1 and S2 to enhance global sustainability disclosures. IFRS S1 focuses on governance, strategy, risk management, metrics, and targets, providing comprehensive guidance for sustainability reporting. IFRS S2 specifically addresses climate-related risks and opportunities, considering their impact on cash flows, finance, and the cost of capital in the short, medium, and long term.

Different sustainability reporting standards serve distinct purposes. GRI is a flexible framework applicable worldwide, covering various topics. In contrast, the Business Responsibility and Sustainability Reporting (BRSR) standard is specific to Indian companies, aligning with local priorities and regulations. BRSR focuses on environmental, social, and governance aspects, ensuring consistency and comparability among Indian businesses in their sustainability reporting.

Integrating financial data within the BRSR framework is crucial, as it reveals the financial implications of sustainability practices. This inclusion of financial insights allows stakeholders to align their actions with long-term value goals, enhancing transparency, credibility, risk management, and providing a comprehensive view of performance and value creation potential.

The BRSR mandate has significantly impacted businesses by raising accountability and transparency standards. Comprehensive disclosures throughout the value chain foster sustainable operations and compliance, enhancing reputation, investor confidence, and overall market value for companies adhering to the BRSR guidelines.

The Reserve Bank of India's (RBI) circular on green deposits has had a significant influence on the banking sector, promoting sustainable financing practices. Encouraging banks to offer green deposits and providing incentives for funding environmentally friendly projects, this circular mobilizes funds for sustainable initiatives, raises awareness of sustainable finance, and integrates environmental responsibility into banking practices. Ultimately, it fosters a more sustainable financial system in India.

ROLE OF FINANCIAL INSTITUTIONS IN SUSTAINABILITY REPORTING

Financial institutions have taken on a critical role in actively participating in sustainability reporting to evaluate and disclose their sustainable practices. This transparent approach provides stakeholders with comprehensive insights into their environmental impact, social responsibility, and corporate governance efforts, promoting sustainable business practices and contributing to a more accountable global economy. The advantages of sustainability reporting for financial institutions are considerable and varied. By divulging their ESG initiatives, institutions attract responsible investors and reduce capital costs, gaining access to sustainable funding sources like green bonds or loans. Proactively managing ESG risks through reporting helps prevent financial losses and legal liabilities. Furthermore, sustainability efforts enhance customer loyalty, retention, and brand reputation, bolstering long-term profitability. Implementing resource-efficient practices identified through reporting leads to cost savings, while compliance ensures adherence to regulations and minimizes potential fines. Embracing sustainability reporting empowers financial institutions to protect their business while establishing themselves as responsible and resilient leaders in an increasingly ESG-conscious market. Through transparency and seamless integration of ESG principles, they pave the way toward building a sustainable future for both current and future generations.

BRSR REPORTING - NEW SEBI REGULATIONS AND ASSURANCE

SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework has introduced new rules for ESG data. Listed companies now must undergo 'reasonable assurance' audits, where third parties verify their data to ensure it's credible. This brings compliance and cost implications for businesses. In response, listed companies are creating sustainable supply chain plans to meet the required ESG disclosures. They work with their value chain partners to promote sustainability and net-zero efforts. The concept of 'double materiality' acknowledges how a company's actions impact the environment, society, and governance, affecting financial risks and opportunities. Value chain considerations become crucial in ESG disclosures, supported by SEBI's efforts to drive comprehensive sustainability. Additionally, the BRSR framework includes intensity ratios based on revenue adjusted for Purchasing Power Parity (PPP) to compare companies globally. From FY 2023-24, the top 1000 listed entities must disclose ESG information related to their value chain according to the BRSR Core guidelines. The value chain includes the top partners in the buying and selling processes, making up 75% of purchases or sales (by value), with Key Performance Indicators reported separately or together as needed.

NEED OF ASSURANCE ON NON-FINANCIAL REPORTS

The importance of assuring non-financial information has grown significantly in today's business landscape. As companies increasingly disclose their environmental, social, and governance (ESG) performance, stakeholders seek assurance to validate the accuracy, reliability, and credibility of these disclosures. Assurance involves an independent examination of non-financial information, which instills confidence among stakeholders and fosters transparency in sustainability reporting.

There are several reasons for the need for assurance. First, stakeholders, such as investors, customers, employees, and regulatory bodies, rely on non-financial information to make well-informed decisions. Assurance of this information adds credibility and ensures that it has undergone rigorous scrutiny, reducing the risk of misleading or inaccurate disclosures. This is especially crucial considering that sustainability issues significantly impact a company's reputation, brand image, and long-term value.

Second, assurance helps companies manage the risks associated with non-financial reporting. As sustainability matters become more intricate, there is an increased potential for misinterpretation or manipulation of data. Assurance processes, such as independent audits and verification, systematically evaluate the data, guaranteeing its accuracy and identifying any gaps or inconsistencies. By uncovering weaknesses and areas for improvement, assurance enables companies to enhance the quality and reliability of their non-financial information, mitigating the risk of reputational damage or legal consequences.

Third, assurance of non-financial information enhances comparability and consistency across companies. With the proliferation of various reporting frameworks and standards, stakeholders often encounter difficulties when comparing and benchmarking ESG performance among organizations. Assurance aligns

reporting practices, ensuring that disclosures adhere to recognized standards and methodologies. This allows stakeholders to make meaningful comparisons and assessments, facilitating more informed decision-making.

Fourth, assurance fosters accountability and trust. By subjecting non-financial information to independent verification, companies demonstrate their commitment to transparency and responsible business practices. This builds trust among stakeholders, including investors who increasingly consider ESG factors in their investment decisions. Assurance provides assurance that the company's sustainability claims are based on reliable data and processes, bolstering the company's reputation and credibility.

Fifth, assurance of non-financial information encourages continuous improvement. Through the assurance process, companies gain insights into the strengths and weaknesses of their sustainability practices. Assurance providers often offer recommendations and best practices to enhance performance and reporting. This feedback loop enables companies to refine their sustainability strategies, set more ambitious goals, and drive positive change.

As the importance of non-financial information continues to grow, assurance mechanisms are evolving to meet the changing needs of stakeholders. Various assurance approaches, such as independent audits, limited assurance engagements, and reasonable assurance engagements, provide different levels of assurance depending on the nature of the information and stakeholder requirements. These approaches offer flexibility while ensuring the rigor and credibility of the assurance process.

In conclusion, the need for assuring non-financial information stems from the demand for reliable, credible, and transparent sustainability reporting. Assurance instills confidence among stakeholders, mitigates risks, enhances comparability, promotes accountability and trust, and encourages continuous improvement. As companies strive to meet the expectations of a sustainable and responsible business environment, assurance plays a vital role in validating non-financial disclosures and ensuring the integrity of ESG performance information.



IMPACT ON COMPANIES W.R.T RECENT AMENDMENTS IN COMPANIES ACT 2013 AND ITS RULES RELATING TO ACCOUNTING SOFTWARE AND AUDIT TRAIL

Ministry of Corporate Affairs (MCA) introduced the concept of “Audit Trail” by issuing a notification dated March 24, 2021, with respect to Companies (Accounts) Rules 2014, requiring every company that uses accounting software to maintain its books of account to use only such accounting software that has the following features:

- Recording an Audit Trail of each and every transaction.
- Creating an edit log of each change made in books of account along with the date when such changes were made; and
- Ensuring that the audit trail cannot be disabled.

The MCA later announced that the above amendments will take effect on April 1, 2023, which suggests that accounting software used by businesses will have to comply with these rules, beginning from and during the financial year 2023-24.

The audit trail can be understood as the chronological record of all changes made to the data enabling one to trace information contained in statements/reports generated by the accounting system back to the original input source.

Management has a crucial role to play in establishing an effective audit trail system by selecting appropriate accounting software for ensuring compliance with these laws and regulations. Further, it is now imperative that Companies invest appropriate time and resources to ensure the following:

- Identifying the records and transactions that constitute books of accounts under section 2(13) of the Companies Act, 2013 (the Act);
- Identifying the software and other applications and databases which are used for the creation and maintenance of books of accounts;
- Identifying if servers of such software are located outside India and how the audit trail feature can be ensured with respect to the same;
- Implementing appropriate controls over maintenance and monitoring of audit trails specifically including controls to ensure that access to audit trails (and backups) is restricted;
- Communicating with the service providers (if employed to maintain books of account). Reset the expectations from them and modify contracts with respect to outsourced processes; and
- Ensuring that there are sufficient resources to save and back up voluminous data that may generate on account of maintenance of the audit trail.

Further, MCA vide notification dated August 05, 2022, amended the Companies (Accounts) Rules 2014, regarding the availability of books of account and other relevant books and papers maintained in electronic mode at all times and also details of the person in control, if the service provider is located outside India.

As per the amendment effective from August 11, 2022, the Companies are now required to maintain a backup of books of accounts on a daily basis as compared to the earlier requirement of doing so on a periodic basis. Further, access to books of accounts and relevant books and records maintained in electronic mode are now required to remain accessible in India at all times.

Management should proactively discuss the approach for compliance with these MCA requirements with the Board/ Audit Committee and the statutory auditors. This will help in performing the timely assessment of implications on both financial statements and in the auditor’s report since the statutory auditor will also report on the above requirements under 143(3) of the Act.

In this increasingly complex and interconnected business environment, maintaining an audit trail and daily backup of books of accounts will enable organizations to maintain more transparency and accountability. It will help in preventing and detecting fraud, maintaining the integrity of data, and complying with laws and regulations. This will provide auditors and regulators with more reliable data and information and in turn, lead to better governance.

IMPACT ON COMPANIES W.R.T RECENT KEY AMENDMENTS IN SEBI REGULATIONS - MAINLY (LODR) REGULATIONS AND (ICDR) REGULATIONS

During the year, we saw several amendments to the SEBI Listing Obligations and Disclosure Requirements Regulations, 2015 ("SEBI LODR") in line with consultation papers released by SEBI over the last year.

These amendments have been introduced to promote better governance and compliance among listed entities with a focus to increase disclosures and ensure timeliness as well.

Below are some of the major amendments during the year. The amendments below in SEBI LODR are largely effective from July 14, 2023.

1. **Related parties (RPs) and Related Party Transactions (RPTs):** The key changes include a revised definition of related parties, the requirement for prior approval of the Audit Committee for all RPTs, a materiality threshold for transactions exceeding INR 1000 crores or 10% of the annual turnover, and the need for Audit Committee approval if previously approved RPTs exceed the revised materiality threshold. (Applicable w.e.f April 1, 2023)
2. **Materiality of Disclosures:** Listed entities must now also determine the materiality of events or information based on objective criteria for reporting to Stock Exchange. The thresholds include 2% of turnover, 2% of net worth (except for negative net worth), and 5% of the average of profit or loss after tax of the previous 3 years. Continuing events or information that become material due to the amendments should be disclosed within 30 days.
3. **Vacancy in Key Positions:** Vacant positions for Compliance Officer and Key Managerial Personnel (KMP) must be filled within three months.
4. **Disclosure of Agreements Binding Listed Entities:** Shareholders, promoters, related parties, directors, KMPs, and employees of listed entities must disclose agreements entered into by them that impact management or control, create restrictions, or impose liabilities on a listed entity. The listed entity must disclose the agreements and details in its annual report.
5. **Verification of Market Rumors:** The top 100 listed entities (from October 1, 2023) and subsequently the top 250 listed entities (from April 1, 2024) must promptly confirm, deny, or clarify reported events or information in mainstream media within 24 hours.
6. **Disclosure of Communications from Authorities:** Listed entities must disclose communications received from regulatory, statutory, enforcement, or judicial authorities regarding material events or information.
7. **Disclosure of Cybersecurity Incidents:** Details of cybersecurity incidents, breaches, or loss of data or documents must now be disclosed in the quarterly corporate governance report.
8. **Public Shareholder Approval for Business Transfer Agreements:** The sale, lease, or disposal of a listed entity's undertaking outside of a scheme of arrangement mechanism now requires prior approval by shareholders.

During the year, SEBI also introduced (Issue of Capital and Disclosure Requirements) (Second Amendment) Regulations 2023 ("SEBI ICDR Regulations 2023) which amends SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018 ("SEBI ICDR"), specifically concerning underwriting in initial public offerings (IPOs) and further public offerings (FPOs). Additionally, SEBI has imposed new restrictions on buy-back regulations to strengthen corporate governance and transparency.

SEBI's amendments aim to increase transparency, liquidity, and the success of IPOs by ensuring minimum subscription even when applications or bids are rejected. The changes require issuers to enter into underwriting agreements with merchant bankers or stock brokers for non-book-built IPOs and with lead managers and syndicate members for book-built IPOs. Disclosures of underwriting agreements in the prospectus or red-herring prospectus are now mandatory. Underwriters have the flexibility to fulfill their obligations by subscribing directly or procuring third-party subscriptions. Compliance includes fulfilling underwriting obligations, complying with SEBI's Master Circular for Stock Exchange and Clearing Corporations, and restricting subscriptions beyond underwriting requirements. The changes simplify

compliance procedures, ensure adequate funds in escrow accounts, and require appropriate fines or enforcement actions for non-compliance.

SEBI has also imposed additional restrictions on buy-back regulations for companies using the stock exchange route. Companies cannot purchase more than 25% of the average daily trading volume in the preceding ten trading days. Bids in the pre-open market and the first and last 30 minutes of regular trading are not allowed. The purchase order price should be within $\pm 1\%$ of the last traded price. Escrow accounts for buy-backs must include cash and may include other assets with appropriate haircuts. Merchant bankers must ensure the availability of funds in the escrow account until buy-back formalities are complete. SEBI has also emphasized the importance of compliance by companies and their appointed brokers, with the stock exchanges monitoring and imposing fines or enforcement actions for non-compliance.

CONCLUSION

SEBI's recent amendments to the SEBI LODR, SEBI ICDR and Buy-Back Regulations are aimed at strengthening underwriting frameworks, increasing transparency, and promoting compliance in Indian capital markets. These regulatory amendments are significant steps towards fostering investor confidence and efficient corporate governance in India's capital markets.



ECL-BASED PROVISIONING FOR BANKS - ARE WE NOT READY?

The Reserve Bank of India released Discussion Paper on Expected Loss based approach for loan loss provisioning by banks on January 16, 2023. The discussion paper states that a final view on ECL-based provisioning for banks shall be taken based on the feedback received as well as comprehensive data analysis.

BACKGROUND

Currently, all commercial banks in India make a provision for any diminution in the value of advances in accordance with the Prudential Norms on Income Recognition, Asset Classification, and Provisioning pertaining to Advances (IRACP norms). As per the IRACP norms, provision on advances, at a minimum, is created at a prescribed percentage depending on the category of the advances using an 'incurred loss' approach.

The incurred loss approach used to be the global standard as well till very recently. However, this meant that loan loss provisioning used to happen much later. The delay in recognizing loan losses resulted in banks having to make higher levels of provisions which ate into the capital maintained. Further, the delays in recognizing loan losses overstated the income generated by the banks which, coupled with dividend payouts, impacted the capital base of banks.

Based on the experience of global banks in the application of IFRS 9 and the application of Ind AS 109 by Non-Banking Financial Companies (NBFCs) in India RBI released a Discussion Paper on the Introduction of Expected Credit Loss (ECL) Framework for Provisioning by Banks.

TRANSITIONAL PROVISION

The guidelines also include transitional approaches that would permit the impact of an increase in the Common Equity Tier 1 (CET 1) capital to be phased out over a maximum period of five years.

KEY HIGHLIGHTS

Framework	Expected Credit Loss as IFRS 9 is widely accepted globally and also based on the experience of Ind AS 109 applicable for NBFCs.
Applicability	All scheduled commercial banks. RRBs and Cooperative Banks are not included
Scope	All financial assets measured at amortised cost. Financial assets measured at FVOCI are excluded.
Certain definitions	SICR and Default
Model	No model for calculating ECL has been prescribed.
Stage 2 provision	2 approaches, either treat stage 2 provision as general provision or treat the estimated ECL provisions as specific provision
Interest income for stage 3 assets	It is proposed that banks should not accrue interest on stage 3 assets, and instead should recognise the interest income when it is actually received.
Cooling period	Assets categorised in stage 3 cannot be directly brought to Stage 1 even after the irregularities are rectified. Banks should keep a stage 3 asset in stage 2 for a minimum period of six months after all the irregularities are rectified before the same is brought to stage 1.
Disclosures	It is proposed to prescribe a non-exhaustive list of disclosures.

Are Banks Ready?

The major challenge for the implementation of ECL is data, creating the ECL model, doing analysis on the data, past behaviors/trends, use of technology, competent manpower, etc. The major impact of ECL may be on profitability, capital adequacy, and other ratios.

Scheduled commercial banks have been submitting proforma Ind AS financial statements to the RBI, the proposed guidance in the DP should help them revisit and fine-tune several working assumptions which may have been a part of their approach to prepare financial statements as per Ind AS.

Since Indian Banks have been preparing proforma Ind AS FS, they seem to be largely ready and well placed when loan loss under ECL is mandated by the RBI.

The large public sector banks have stated that they are equipped to deal with the ECL approach and they do not foresee any major impact on the balance sheet of the banks.

Some other private banks believe that ECL provision will not much dent on profitability as the PCR is already high.

Small Finance Banks may face some more challenges as they are relatively new in the banking industry.

The rating agencies believe that there won't be any impact on the ratings of the banks post-implementation of ECL.

In India, the corporates moved to Ind AS sometime back. Large NBFCs have also moved to Ind AS. There is enough understanding of the ECL methodology and employees have sufficient capabilities and technical knowledge of ECL.

It appears that largely the banking industry is ready as they have been submitting Ind AS FS and they are quite well equipped on ECL methodology and understanding of the requirements of ECL.



RELATED PARTIES TRANSACTION AND DISCLOSURES

Related party transactions (“RPTs”) have attracted significant attention in recent years, with both regulators and stakeholders recognizing its impact in the context of corporate governance. It is crucial for an entity to thoroughly examine and address its related party relationships and transactions, with a view to ensuring their adequate disclosures in the financial statement, to attain complete transparency in financial reporting. In this article, we will explore the importance of RPTs and related disclosures in financial statements. Further, we will discuss recent regulatory changes that have heightened the focus on this area.

The overriding objective of RPTs disclosure is to draw attention to the possibility that the financial position and results of the entity may have been impacted by the existence of related parties and by transactions and outstanding balances, including commitments, with such related parties.

Related parties may enter into certain transactions with the entity, on terms different from those with unrelated parties. For example, an entity that sells goods to its parent at cost might not sell them on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties. Therefore, knowledge of an entity’s transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

To regulate transactions with related parties, several governing bodies and regulations provide a framework in respect of related party transactions. This includes SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Section 188 provisions under the Companies Act, 2013, and rules prescribed there under, Accounting Standard - 18 and Indian Accounting Standard 24, which are crucial references that outline the requirements for related party transactions and their disclosure in financial statements.

Auditors, now have a greater responsibility to ensure that corporates identify, assess, and respond to the risks of material misstatement arising from the entity’s failure to appropriately record or disclose related party relationships, transactions, or balances.

In recent years, related party transactions have gained significant attention and it is expected that adequate disclosures in this regard are made by the entities to ensure transparency & good corporate governance, which allows users to make informed decisions. Reports on instances of non-compliance or defaults in relation to related party transactions have led to increased scrutiny by the regulators. National Financial Reporting Authority (NFRA) is strongly focusing on related party transactions and its adequate disclosures in financial statements during its inspections. Further, the SEBI has imposed financial penalties and issued stern warnings to defaulters, prompting listed entities to pay closer attention to related party transactions and its adequate disclosures in the financial statements.

In response to the growing concerns, SEBI has made significant amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, specifically addressing the identification of related parties and the approval of related party transactions. Some of the notable changes include:

1. Revised definitions of related parties, including persons part of the promoter or promoter group of a listed entity and individuals holding 20% of equity shares (from April 1, 2022) or 10% (from April 1, 2023).
2. Mandatory prior approval of the Audit Committee for all related party transactions, including subsequent material modifications, and for transactions with subsidiaries of listed entities exceeding 10% of the annual consolidated turnover of the listed entity (from April 1, 2022) or 10% of the annual standalone turnover of the subsidiary (from April 1, 2023).
3. Introduction of materiality thresholds, where transactions during the year exceeding INR 1000 crores or 10% of the consolidated annual turnover of the entity (whichever is lower) require prior approval from shareholders.
4. Previously approved related party transactions that exceed the revised materiality threshold also require approval from the Audit Committee.



In light of these regulatory changes, the management of the companies is required to take appropriate actions to ensure compliance in respect of related party transactions, which includes determining new related parties and related party transactions based on the revised definitions, mapping existing transactions, and identifying any modifications in terms & conditions and mapping transactions of related companies. Additionally, setting up internal controls and processes to identify overseas related party transactions and understanding approval requirements is crucial. Audit committees should define "material modification" and shall include it in the policy and determine additional disclosures, establish guidelines for independent directors approving related party transactions, and ensure periodic disclosures to stock exchanges.

From the above, it can be concluded that related party transactions and their disclosure is a critical aspects of financial reporting and corporate governance.



HOW IS AI IMPACTING BUSINESS & BUSINESS REPORTING?

Artificial Intelligence (AI) is the latest buzzword gaining popularity in all aspects of life. AI is revolutionizing customer experience, business operations, risk management, and more. From process automation to personalized recommendations to fraud detection to complex data analytics & pattern detection, numerous AI use cases have been successfully implemented by businesses across industries to generate additional value. Business reporting is also impacted by AI significantly as the management needs the latest insights to handle the dynamic business environment, regulators are insisting on timely compliance and the cost of mistakes has increased dramatically over the last decade. AI can help with business reporting by improving the efficiency of the data collection process, increasing the accuracy of data, and enabling better insights.

AI'S IMPACT ON BUSINESSES

Customer Experience: From hassle-free onboarding for new products & services to getting a personalized dashboard with the latest information to getting relevant 'next best offer' recommendations, to resolving issues with a few clicks on a BOT, customer experience has been transformed by the AI. Early adopters of AI technologies (e.g. social media platforms, eCommerce, etc.) have increased customer expectations from digital technologies and customers have started demanding similar seamless experiences from traditional businesses as well.

Process Automation: Robotic process automation (RPA) integrated with AI technologies like computer vision or machine learning have made it very easy to automate various business processes. Documents verification, invoice processing, report creation, email responses, and many more RPA use cases have been successfully implemented by different businesses resulting in an increase in accuracy and efficiency and a reduction in operational costs.

Risk Management: AI technologies are actively helping businesses in identifying fraud and manage risks. From analyzing video feeds from work locations in real-time to identify anomalies in transaction patterns to accurately predicting demand-supply situations to identifying suspicious behaviors, AI is helping manage various business and operational risks and helping organizations generate a higher return on capital.

AI'S IMPACT ON BUSINESS REPORTING

Timely Reporting: AI is helping businesses streamline the reporting process. AI technologies are helping extract the right data from relevant sources, fixing data quality issues, and enriching the data to ensure that the right metrics are available for reporting in a timely fashion.

Better Insights: Modern technologies have the ability to process large datasets. With AI, businesses can cross-reference multiple market, competitor, and operational metrics to identify patterns and more accurately forecast future months & quarters. AI technologies enable organizations to gain a deeper understanding of their customers, and operations, and help improve the overall performance.

Increased Cost of Mistakes: With the regulators, competitors, and even customers using AI technologies, the cost of wrong data being reported is increasing exponentially. Businesses are already facing the brunt of missing filing timelines or penalties due to incorrect data and hence adoption of AI technologies is becoming all the more pertinent.

AI is transforming the way businesses operate and report. Businesses who are embracing AI, are better able to navigate the dynamic business environment and gain a competitive advantage. As the technologies continue to evolve, businesses must adopt the changes with agility to gain the maximum return on AI investment.

LEVERAGING FINANCIAL REPORTING FOR DIGITAL LENDING



DIGITAL LENDING - AN OVERVIEW

A remote and automated lending process, majorly by use of seamless digital technologies in customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service. During the post-global financial crisis, financial markets around the world have undergone a significant transformation driven by technological innovation. In the credit segment, P2P (Person-to-Person) lending platforms have emerged as a new category of intermediaries, which are either providing direct access to credit or facilitating access to credit through online platforms. Besides, there are companies primarily engaged in the technology business that has also ventured into lending either directly or in partnership with financial institutions. Such companies include 'BigTechs', e-commerce platforms, telecommunication service providers, etc. In the digital lending space, we have global examples of Person-to-Person (P2P), Person-to-Business (P2B), Business-to-Person (B2P), and Business-to-Business (B2B) lending models. In India, the digital lending ecosystem is still evolving and presents a patchy picture. While banks have been increasingly adopting innovative approaches in digital processes, NBFCs (non-banking Financial Companies) have been at the forefront of partnered digital lending.

IMPORTANCE OF DIGITAL LENDING TO INDIAN ECONOMY

It benefits in creating financial inclusion. It enables to meet the unmet credit need, in the microenterprise and low-income consumer segment in India. It helps to reduce borrowing from informal channels and also simplifies the process of borrowing. Digital lending platforms have also been known to cut overhead costs by 30-50%.

INITIATIVES BY THE GOVERNMENT OF INDIA

- Collaboration with Fintechs by various banks to curb the issues in digital lending and for better customer service.
- Unified Payments Interface, Jan Dhan Yojana, Aadhaar-enabled Payment System and others have created a healthier digital environment, following the demonetization.
- RBI has also mandated the disclosure of the name of the Bank or NBFC to the customers in case of digital lending platforms are being used on behalf of Banks and NBFCs
- Before the loan agreement is signed the lending apps would need to issue a sanction letter to the borrower on the letterhead of the bank/ NBFC

The Hon'ble FM announced in the Union budget 2022-23 for setting up of 75 Digital Banking Units (DBUs) in 75 districts of the country to commemorate the 75 years of independence of our country (Azadi ka Amrit Mahotsav) with an objective to ensure benefits of digital banking reach every nook and corner of the country. RBI has also released guidelines on digital banking units. As per the guidelines, the DBUs of the banks will be treated as Banking Outlets and each DBU needs to be housed distinctly, with the separate

entry and exit provisions. Further, banks have the option to engage digital business facilitators/business correspondents in conformance with relevant regulations to expand the virtual footprint of DBUs.

How can we leverage digital technology for financial inclusion?

The below four developments in digital technologies as particularly can be relevant for financial inclusion:

- **Disaggregation of the Value Chain:** New players, including non-banks and non-MNOs (mobile network operators), increasingly offer financial products and services directly to customers or offer services such as data analytics, credit scoring, and payment mechanisms to financial service providers.
- **Opening of Platforms and Application Programming Interfaces (APIs):** APIs enable new applications to be built on top of pre-existing products, thereby capitalizing on the product's existing customer base. Open platforms and open APIs, which are still relatively rare, hold the potential to facilitate access to a broad range of products and services, and thus enhance financial inclusion.
- **Use of Alternative Information:** Digitally collected data, including e-commerce and mobile transaction histories, can complement or substitute traditional methods of client identification and credit risk assessment. Biometric data, such as fingerprints and iris scans, allows providers to meet due diligence requirements for customers with insufficient traditional forms of identification.
- **Customization:** Better data collection and analytics inform more accurate customer segmentation and human-centered product design, such as clearer user interfaces or targeted alerts and notices to consumers.

Factors that can lead to the growth of digital lending.

- Collation of financial information pertaining to a borrower in one place for ease of evaluation of creditworthiness
- In order to reduce processing time and make recurring payments more efficient, NPCI introduced E-mandate services.
- CKYC allows investors to undergo the KYC process only once by acting as a centralized repository of KYC records of investors in the financial sector.
- Video-based KYC enables users to complete remote KYC from anywhere via a video call
- Digital signature has enabled digitized loan agreements.

ESTABLISHMENT OF DIGITAL BANKING UNITS (DBUS)

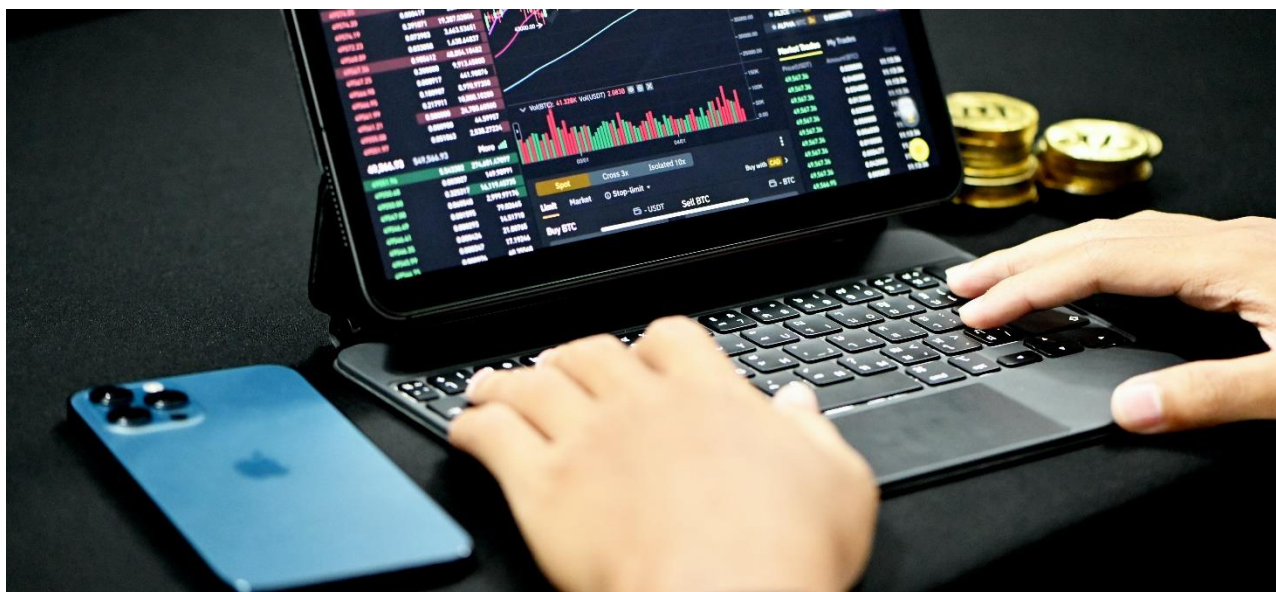
Digital banking has emerged as the preferred banking service delivery channel in the country along with 'brick and mortar' banking outlets. Reserve Bank has been taking progressive measures to improve the availability of digital infrastructure for banking services. In furtherance of this objective and as a part of efforts to accelerate and widen the reach of digital banking services, the concept of "Digital Banking Units" (DBUs) is being introduced by the Reserve Bank.

RBI has also released guidelines on digital banking units. As per the guidelines, the DBUs of the banks will be treated as Banking Outlets and each DBU needs to be housed distinctly, with separate entry and exit provisions. Further, banks have the option to engage digital business facilitators/business correspondents in conformance with relevant regulations to expand the virtual footprint of DBUs.

REPORTING REQUIREMENTS

Banks shall report the Digital Banking Segment as a sub-segment within the existing "Retail Banking Segment" in the format as specified under paragraph 4 of Annexure II (Part B) of the Reserve Bank of India (Financial Statements - Presentation and Disclosures) Directions, 2021.

CRYPTO ASSETS - AN EMERGING CHALLENGE IN FINANCIAL REPORTING & CONTROL



The growing interest in cryptocurrency has regularly grabbed news headlines in recent times for the volatile highs and lows in value. Crypto assets mark a significant departure from traditional forms of investment such as stocks, bank deposits, bonds, etc.

These assets present unique challenges for regulators, standard setters, and the finance community at large. These are digital assets that are intangible in nature and use a sophisticated type of encryption called cryptography to secure and verify transactions. Crypto assets, are independent of any financial institution or central banks and are generally traded on crypto exchanges. Worldwide, regulations governing the functioning of crypto exchanges and the use of cryptocurrency, laws related to taxation of such transactions, and accounting guidance on how to account for such assets are still relatively nascent.

CHALLENGES IN ACCOUNTING AND FINANCIAL REPORTING

There is no explicit accounting guidance under Ind AS or IFRS that deals with accounting for cryptocurrencies.

In common usage, cryptocurrency may be perceived as a digital form of cash, however as per the accounting standards under IFRS/Ind AS these do not meet the test of cash and cash equivalents. Cryptocurrency is not a legal tender and is not readily convertible to known amounts of cash as it is subject to high volatility in prices.

If not cash and cash equivalents, can holdings in cryptocurrency be accounted for as financial assets measured at Fair Value Through Profit or Loss ('FVTPL')? While this may look intuitive, given that such assets are subject to fluctuation in value, it needs to be determined whether cryptocurrency can be considered financial assets under relevant standards.

Financial assets are defined under IFRS/Ind AS standards as either cash, investments in equity instruments of other entities or contracts to be settled in own equity instruments of the entity holding such assets, or assets which give a contractual right to the holder to receive cash or other financial asset. As noted earlier, such assets do not constitute cash, neither does the holder have any contractual right to receive cash or other financial assets, nor are these assets settleable in equity instruments of another entity or in the holder's own equity. Therefore, classification as a financial asset, will not be appropriate.

Classification as an intangible asset, however, seems to fit the bill. Intangible assets are defined under IFRS/Ind AS standards as identifiable non-monetary assets without physical substance. Cryptocurrency is digital in form thus without physical substance, the holdings of such assets can be traded on an exchange or transferred in peer-to-peer transactions, these are also non-monetary in nature as due to volatility in value, the holder of cryptocurrency cannot be said to have a contractual right to receive fixed or determinable amounts of currency. Once classified as an intangible asset, cryptocurrency may be carried

at cost less accumulated amortisation and any impairment losses or under the revaluation method, where the assets are carried at revalued amounts less accumulated amortisation and subsequent impairment losses if any as permitted under IFRS/Ind AS. If carried at cost, typically the useful life would be taken as indefinite and such assets would be subject to annual impairment testing. An entity may choose the revaluation method if there is an active market available. Principles of fair value measurement as given in IFRS/Ind AS standards dealing with fair value measurement would apply in determining the fair value. Revaluation gains and losses require recognition in other comprehensive income or profit and loss as per the provisions of the standards.

In certain cases, where entities hold such assets for sale in the ordinary course of doing business, then cryptocurrency could be considered as inventory. Ind AS/IFRS standards require inventory to be measured at cost or net realisable value whichever is less. However, in case such inventory is held by broker-dealers, then inventory is measured at fair value less costs to sell. Consideration thus needs to be given to the business model under which such assets are held to determine the appropriate treatment.

Therefore, as can be seen from the above discussion, the determination of the appropriate accounting treatment is not very intuitive and requires judgement. Where such assets are treated as intangible assets careful consideration needs to be given for the model to be adopted for initial and subsequent measurement. An entity may not be able to follow the revaluation model if there is no active market. In cases where an active market does exist, rules for recognition of increases or decreases in value are complex and may introduce volatility in the financial statements. On the flip side, recognition at cost may not be very appropriate for cryptocurrency with active markets.

In March 2023, the Financial Accounting Standards Board ('FASB') in the US, published a proposed Accounting Standard Update ('ASU') intended to improve the accounting and disclosure for certain crypto assets. The amendments in this proposed ASU would improve the accounting for certain crypto assets by requiring an entity to measure those crypto assets at fair value each reporting period with changes in fair value recognized in net income. The proposed amendments also would improve the information provided to investors about an entity's crypto asset holdings by requiring disclosure about significant holdings, restrictions, and changes in those holdings.

OTHER CONSIDERATIONS

The control and process landscape will need a refresh. The decision to add crypto assets to an entity's holdings of asset classes would require entity-wide stakeholder involvement. Key stakeholders would typically involve accounting, taxation, treasury, technology, and legal teams.

In June 2023, 'Spotlight' published by the audit regulator, 'Public Company Accounting Oversight Board or PCAOB in the US, focused on inspection observations related to public company audits involving crypto assets. In this publication, the PCAOB has discussed common audit deficiencies related to Crypto assets, observed on the examination of auditor's work papers, and reiterated that the use of crypto assets presents unique audit risks to public companies and broker-dealers and requires an appropriate risk assessment and audit response by audit firms.

The overview section of the publication notes that 'Activities associated with crypto assets may involve heightened risks to investors, public companies, and broker-dealers, including (but not limited to) high levels of volatility, lack of transparency of parties engaging in transactions and the purpose of such transactions, market manipulation, fraud, theft, scams, and significant legal uncertainties.'

'In addition, transactions associated with crypto assets have certain unique technological risks - such as lack of governance mechanisms establishing oversight of crypto asset activities and markets - and vulnerabilities related to cyber-attacks, outages, lost assets, and illicit finance. Recent bankruptcies and financial distress among crypto asset market participants, including the collapse of crypto asset trading platform FTX, have caused significant disruptions in crypto markets and exposed the structural vulnerability of some business models involving crypto assets.'

As can be seen from the observations of the PCAOB, this area will continue to be a focus for regulators and auditors alike and therefore entities will have to ensure robust financial reporting disclosures and controls for crypto transactions.

THE BOTTOM LINE

Crypto assets are here to stay and the market continues to see rapid growth and increasing investor interest. A carefully crafted crypto strategy covering all the above facets will go a long way in ensuring an entity's readiness to deal with the multiple challenges related to accounting, financial reporting and control.

THE FUTURE OF XBRL

XBRL: THE LANGUAGE OF ACCOUNTING IN A DIGITAL WORLD

XBRL or eXtensible Business Reporting Language is a software standard that was developed to improve the way in which financial data is communicated, making it easier to compile and share this data. It is the new internet language for the electronic communication of business and financial data. It aims to revolutionize business reporting around the world while enhancing efficiency and cost reduction in data creation, collection, and analysis.

XBRL was developed in 1998 with version 1.0 by the American Institute of Certified Public Accountants (AICPA). The latest version of the standards, v2.1, was formalized in the year 2003. While the v2.1 standard has remained stable since then, several XBRL modules have been developed that can be plugged in to achieve new functionality or operability.

Notably, XBRL is an implementation of XML (extensible markup language), which is a specification that is used for organizing and defining data online. It has a standardized way of transmitting financial records around the world. Instead of treating financial information as a block of text or a printed document - XBRL provides an identifying tag for each individual item of data that is computer-readable. For example, a company's net profit has its own unique tag.

XBRL IN INDIA

The government in India is working closely with regulators, stock exchanges, and software companies for the promotion of XBRL as a Standard Business Reporting Language. The XBRL phase I at the Reserve Bank of India began in the year 2008. In the XBRL system, the returns are being taken up in phases. Seven returns were implemented in Phase I. The implementation of Phase II returns started in the year 2012. Taxonomy for internal reporting by banks is also developed by the Reserve Bank of India for various internal reporting like Return on Capital Adequacy, Form-A, Gaps Positions and Balances (GPB), etc.

Ministry of Corporate Affairs (MCA) has mandated the filing of financial statements in XBRL format for the specified class of companies as follows:

- All public companies listed on the stock exchange in India and their Indian subsidiaries.
- All companies with a turnover of Rs 100 crores or more.
- All companies with a paid-up capital of Rs 5 crores or more.
- All the companies are required to prepare their financial statements in accordance with the Companies (Indian Accounting standards) rules, 2015.

However, Non-banking financial companies, Housing finance companies, and Companies engaged in the business of the Banking and Insurance sector are exempted from filing financial statements under these rules.

The Ministry of Corporate Affairs (MCA) also mandates the filing of Cost Audit reports in XBRL mode with the Registrar of Companies for the financial years commencing on or after 1st April 2014.

XBRL IN ECOSYSTEM- A PARADIGM SHIFT

XBRL can be applied to wide range of business and financial data and is highly advantageous to entire ecosystem consisting of Businesses, Banks, Authorities and Stakeholders. It offers several advantages as below and is building a strong footprint for the future to handle financial information:

Financial reporting and analysis- It allows financial information to report data in a structured and machine-readable format reducing the risk of manual errors or inconsistencies and improving accuracy and reliability. It also helps with business reporting to all types of regulators, including tax and financial authorities, central banks, and governments.

Standardization-It defines a set of tags that can be applied to data elements in financial statements, ensuring consistency and comparability across different reporting entities.

Automation-As XBRL automates the process of capturing, validating, and exchanging financial data, it improves efficiency and saves time and cost for both preparers and users of financial information.

Extraction of data- Helps to extract data in a structured way, providing granular and detailed data that enhances the data analysis and helps in better decision-making with deeper insights into the financial performance and trends.

Comparability- It helps to identify data that is genuinely alike and distinguish information that is not comparable.

Stakeholders- It enables stakeholders such as investors, analysts, regulators, and auditors to access reliable and consistent data, promoting transparency and accountability.

FUTURE OF XBRL IN INDIA

Standardized reporting is beneficial not only for the submission of information to a given institution but is also pivotal to enabling the seamless transfer of data between various financial markets. Authorities like MCA have already mandated the filing of financial statements for the identified class of companies, adoption has been further boosted with BSE and NSE accepting the XBRL to enable easier filings and to make reporting by listed entities to Stock Exchanges more accurate, faster, and efficient.

BSE was the first stock exchange in India that developed, and successfully implemented the relevant XBRL Taxonomies. The BSE now collects shareholding patterns, corporate governance reports, voting results, share capital audit reports, etc in XBRL.

With regulators stepping up their requirement for increased disclosures and tighter reporting deadlines and with the increasing need for a more frequent reporting of reliable and structured financial information by investors and creditors, the adoption of XBRL should further increase in the Country. Major banks have also begun to deploy XBRL internally to cut down on the time and expense associated with consuming information sent by the companies.

Companies can further plan to use technology to automate the creation of XBRLs and the seamless submission of the same to various authorities. Further expansion in the area of new-age technology like data science and artificial intelligence can act as a catalyst in areas like the creation and review of XBRL documents.

Further, XBRL helps to achieve the core purpose of Accounting Institutes around the world to enhance the access, quality, and breadth of financial information available to the investing public. It will also help position their members as valued knowledge providers for their clients. Businesses, large and small, are undergoing fundamental change and the underlying language of business can help organizations fit into the new digital world, solve business issues and capitalize on opportunities.

XBRL is expected to continue playing a significant role in financial reporting. The government's emphasis on digitization and transparency, as well as the increased use of technology in various sectors, suggests that XBRL will likely remain an important tool for financial reporting and analysis in India.

COMPLIANCE VS EASE OF DOING BUSINESS

STRIKING A BALANCE - BUSINESS FRIENDLY ENVIRONMENT, YET ENSURING COMPLIANCE

The balance between compliance and promoting ease of doing business is critical for Governments worldwide. India, with its diverse economy, faces the challenge of creating a business environment that fosters growth, yet provides a regulatory framework which is easy to comply with. Striking this balance is crucial for attracting investments, promoting entrepreneurship, and driving sustainable economic development.

India's regulatory landscape is complex with multiple regulatory bodies, intricate labour laws, bureaucratic procedures, and varying State specific regulations, which poses challenges for businesses to be compliant, especially for small, and medium-sized enterprises (SMEs).

Balancing compliance and ease of doing business requires a systematic and agile approach. It involves adopting a regulatory framework that ensures transparency, protects stakeholders' interests, and promotes sustainable growth, while simultaneously simplifying processes and reducing bureaucratic hurdles for businesses to operate.

The Indian Government has been working relentlessly to reduce the compliance burden on businesses with the objective to improve the ease of doing business by simplifying, rationalizing, digitizing, and decriminalizing non-compliances.

As a result of those efforts, India made significant strides in improving its ease of doing business and was ranked 63rd in 2022 from 142nd in 2015 under World Bank's Doing Business rankings. The various ministries /departments of the Union and State Governments have reduced thousands of compliances over the decade based on suggestions from businesses and policy advocacy by industry associations like ASSOCHAM, CII, and NASSCOM among others.

Some key initiatives that have been rolled out are:

- **One Nation One Ration Card** - bringing nationwide portability of ration cards.
- **Single Window System** - a clearance system for obtaining various licenses and permits required to commence business.
- **Insolvency and Bankruptcy Code, 2016** - a consolidated framework that governs insolvency and bankruptcy proceedings to generate maximum value in a timely manner.
- **Goods and Services Tax (GST)** - a unified indirect tax structure across the country.
- **National Investment Promotion and Facilitation Agency (NIPFA)** - a dedicated investment promotion and facilitation agency.

All the above initiatives are leveraged on technology to improve governance, simplify processes, and enhance transparency. Digital platforms, such as online registration systems, e-filing portals, and digital payment gateways, are introduced to streamline compliance procedures, reduce paperwork, and minimize human intervention.

The journey of striking a balance between a business-friendly environment, yet ensuring compliance is a marathon and not a sprint therefore, Governments continue to track the progress of reforms measures initiated and further simplify procedures across the investment lifecycle for India to be not only a preferred investment destination by foreign investors but also for Indian businesses to be competitive worldwide for effective management of balance of payment, foreign exchange reserve, employment opportunities and striving to be in the top 50 countries for ease of doing business in years ahead.

ABOUT ASSOCHAM

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's oldest and most agile apex chamber, always evolving with the times ever since it was set up in 1920. The ASSOCHAM reaches out to and serves over 4.5 lakh members from trade, industry and professional services through over 400 associations, federations and regional chambers spread across the length and breadth of the country. It has built a strong presence in states, and also spread its wings in the key cities of the world.

With a rich heritage of being led by stalwarts of independent India, like JRD Tata, Nani Palkhivala, H.P. Nanda, L.M. Thapar, A.N. Haksar and Raunaq Singh, among others, the ASSOCHAM has shown the ability to transform itself to the contemporary Corporate India and of late has emerged as the 'Knowledge Chamber', leveraging the country's strength in the knowledge - led global economy. Be it education, health, manufacturing, banking-finance, international trade, energy, human resource, science and technology, entertainment or the rural landscape comprising agriculture and rural infrastructure, the ASSOCHAM has well- established National Councils in each of the segments, chaired by well-known industry leaders, academicians, economists and independent professionals. These councils deliberate extensively and share their inputs with the government.

ASSOCHAM is working hand in hand with the government, institutions of importance and national and international think tanks to contribute to the policy making process even as it shares vital feedback on implementation of decisions of far-reaching consequences. ASSOCHAM is truly an institution of eminence, ever contributing to the task of nation building.

DEPARTMENT OF CORPORATE AND LEGAL AFFAIRS

SANTOSH PARASHAR

Additional Director & Head
Department of Corporate and Legal Affairs
santosh.parashar@assocham.com

VIKASH VARDHMAN

vikash.vardhman@assocham.com

JATIN KOCHAR

jatin.kochar@assocham.com

RITIMA SINGH

ritima.singh@assocham.com

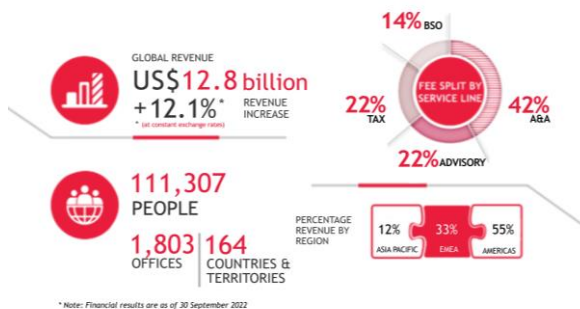
VISHAL SINGH

vishal.singh@assocham.com

ABOUT BDO

ABOUT BDO GLOBAL

BDO is a leading professional services organisation and are global leaders of the mid-tier, with a presence in 160+ countries and over 111,300 people working out of more than 1,800 offices. We endeavor to deliver an exceptional client experience through a tailored solutions approach, while partnering with our employees and clients globally.



ABOUT BDO IN INDIA

BDO in India offers Assurance, Tax, Advisory, Business Services & Outsourcing and Digital Services for both domestic and international clients across industries. The team at BDO in India consists of over 7,500 professionals led by more than 270 partners and directors operating out of 18 offices, across 12 key cities.



OUR SERVICES

ASSURANCE	TAX	ADVISORY
<ul style="list-style-type: none"> Accounting Advisory Services Financial Statement Audit and Attestation Services 	<ul style="list-style-type: none"> Corporate Tax Services Financial Services Tax Global Employer Services Incentives and ESG International Tax Services Private Client Services Tax Outsourcing Transfer Pricing Customs & International Trade Goods & Services Tax (GST) Indirect Tax Assessment & Litigation Assistance Incentives & ESG Tax Technology 	<ul style="list-style-type: none"> Forensics Government Advisory IT Risk Advisory & Assurance Management Consulting Risk Advisory Services Sustainability & ESG Business Restructuring Services Corporate Finance and Investment Banking Deal Value Creation Financial Due Diligence M&A Tax and Regulatory Strategy & Commercial Due Diligence Valuations
BUSINESS SERVICES & OUTSOURCING	BDO DIGITAL	
<ul style="list-style-type: none"> Global Outsourcing Finance and Accounting Outsourcing Human Resource Outsourcing Payroll Management and Compliance Services Secretarial Services and Compliance Management Shared Services Centre 	<ul style="list-style-type: none"> Digital Services Technology Products and Solutions 	



CONTACTS AT BDO INDIA

YOGESH SHARMA
Deputy Managing Partner
BDO in India
yogeshsharma@bdo.in

ANITA SOMANI
Partner / Audit & Assurance
BDO in India
anitasomani@bdo.in

ASGAR KHAN
Partner / Audit and Assurance
BDO in India
asgarkhan@bdo.in

SAURABH MATHUR
Partner / Audit and Assurance
BDO in India
saurabhmathur@bdo.in

MAYANK PAREKH
Associate Partner / Audit and Assurance
BDO in India
saurabhmathur@bdo.in

Disclaimer: This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO India LLP to discuss these matters in the context of your particular circumstances. BDO India LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO India LLP or any of its partners, employees or agents. BDO India LLP, a limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.
Copyright © 2023 BDO India LLP. All rights reserved. Published in India.
Visit us at www.bdo.in