NANGIA & CO LLP

Assurance Gazette

April, 2025

NANGIA & CO LLP

Contents

Foreword

“Welcome to the Assurance Gazette for April 2025

This edition dives into the latest amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, introduced on March 27, 2025. These changes mark a significant step in strengthening corporate governance, enhancing transparency, and ensuring robust regulatory compliance. By analysing key revisions, their implications, and best practices for implementation, this edition aims to equip stakeholders with the insights needed to navigate the evolving regulatory landscape.

Also, we are pleased to bring you the Expert Advisory Committee’s opinion in this edition on an important and nuanced matter: Erroneously Recognised Interest Income from Fixed Deposits Created from Surplus Funds in Prior Periods under the AS Framework.

The opinion addresses a common yet critical issue encountered in financial reporting — the misclassification of interest income that should have been credited to corpus funds. The recommended rectification not only ensures accurate classification but also reinforces the principles of transparency and accountability in financial statements.

This edition also explores the IRDAI (Actuarial, Finance, and Investment Functions) Regulations, 2024 ("Regulation 2024"), with a focus on simplifying its implications for the health insurance sector.”

SEBI LODR Amendments in Corporate Governance for a Listed Entity which has listed its Non- Convertible Debt Securities

Introduction

The recent amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, introduced on March 27, 2025, signify a crucial step towards enhancing corporate governance, strengthening disclosure norms, and investor protection. These changes reflect SEBI's commitment to fostering transparency and ensuring that listed entities uphold the highest standards of compliance and accountability.

Key Takeaways

A new **Chapter VA** has been introduced, focusing on corporate governance for **High Value Debt Listed Entities (HVDLEs).**

Key highlights include:

1 Applicability

- Entities with **only non-convertible debt securities listed and outstanding value of ₹1,000 crore or more**.
- Regulations remain applicable until the outstanding listed debt remains below ₹1000 crore for **three consecutive financial years**.
- Infrastructure and Real Estate Investment Trusts will follow their respective SEBI regulations.
- Provisions of Companies Act, 2013 will continue to apply wherever applicable.
- **Effective Date:** These provisions apply from **April 1, 2025**.

2 Board of Directors

- **Composition:** At least **50% non-executive directors**, with **one woman director**.
- **Directorship Limits:**
  - Max **7 listed entities** per individual.
  - Max **7 independent directorships** per individual.
  - Whole-time/Managing Directors can be independent directors in max **3 listed entities**.

3 Mandatory Committees to be established

- Audit Committee
- Nomination & Remuneration Committee
- Stakeholder Relationship Committee
- Risk Management Committee

4 Related Party Transactions (RPTs)

- A **policy on materiality** of RPTs must be formulated and reviewed every **3 years**.
- **Material RPT threshold:** Transactions exceeding **5% of annual consolidated turnover**.
- **Approval Process:**
  - Prior **Audit Committee approval** for all RPTs and modifications.
  - **Debenture Trustee No-Objection Certificate** required for material RPTs.
  - **Shareholder approval** after debenture holders' consent.
  - **Disclosure Requirements:** RPTs must be disclosed to stock exchanges **semi-annually**.

5 Corporate Governance for Unlisted Material Subsidiaries (UMS)

- **At least 1 Independent Director** required on the Board of UMS.
- **Audit Committee** must review financials and investments of UMS.
- **Board Oversight:**
  - Minutes of subsidiary board meetings to be reviewed by HVDLEs board.
  - Management must report significant transactions.
- **Restrictions on Shareholding:** HVDLEs **cannot reduce stake below 50%** or relinquish control **without a special resolution in its general meeting**.

6 Secretarial Compliance

- **Secretarial Audit** mandatory for HVDLEs and their **material unlisted subsidiaries incorporated in India** and attach the secretarial report, signed by the company secretary, to the listed entity's annual report.
- **Secretarial Compliance Report** must be submitted to stock exchanges **within 60 days of financial year-end**.

Also, the table below summarises the key changes noted in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:

Regulation	Extant paragraph	Amended paragraph
15(1A)	The provisions of this regulation and regulation 16 to regulation 27 of this chapter shall apply to a listed entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of Rupees **Five Hundred Crore** and above:	The provisions of this regulation and regulation 16 to regulation 27 of this chapter shall apply to a listed entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of Rupees **One thousand Hundred Crore** and above:
First Proviso to 15(1A)	Provided that in case an entity that has listed its non-convertible debt securities triggers the specified threshold of Rupees **Five Hundred Crore** during the course of the year, it shall ensure compliance with these provisions within six months from the date of such trigger	Provided that in case the value of the outstanding listed non-convertible debt securities becomes equal to or greater than the specified threshold of Rupees **One Thousand Crore** during the course of the year, a high value debt listed entity shall ensure compliance with these provisions within six months from the date of such trigger, **and the disclosures of such compliance may be made in the corporate governance compliance report on and from the third quarter following the date of the trigger**
15(1AA) [New insertion]	-	Notwithstanding anything contained in sub-regulation (3) of regulation 3, once the regulation 15 to 27 become applicable to a 'high value debt listed entity', the said regulations continue to apply till value of the outstanding listed debt securities as on March 31 in a year, reduces and remains below the specified threshold for a period of three consecutive financial years.
15 (2) (b)	The compliance with the corporate governance provisions as specified in regulations 17, 61, 17A, 18, 19, 20, 21,22, 23, 24, 62, 24A, 25, 26, 27 and clauses (b) to (i) 63[and (t)] of sub regulation (2) of regulation 46 and para C , D and E of Schedule V shall not apply, in respect of – (b) listed entity which has listed its specified securities on the SME Exchange	**The compliance with the corporate governance provisions as specified in regulations 17, 61, 17A, 18, 19, 20, 21,22, 23, 24, 62, 24A, 25, 26, 27 and clauses (b) to (i) 63[and (t)] of sub regulation (2) of regulation 46 and para C, D and E of Schedule V shall not apply, in respect of –** **(b) listed entity which has listed its specified securities on the SME Exchange**

Regulation	Extant paragraph	Amended paragraph
		Provided that with effect from April 01, 2025, the provisions of regulation 23 shall be applicable in respect of a listed entity which has listed its specified securities on the SME Exchange and which has either paid up equity share capital exceeding Rupees ten crore or net worth exceeding Rupees twenty-five crore, as on the last day of the previous financial year **Provided further that where the provisions of regulation 23 become applicable at a later date to a listed entity which has listed its specified securities on the SME Exchange, it shall ensure compliance with the same within six months from such date.** **Provided further that once the provisions of regulation 23 become applicable to a listed entity which has listed its specified securities on the SME Exchange, they shall continue to remain applicable till such time the equity share capital and the net-worth of such entity reduces and remains below the specified threshold for a period of three consecutive financial years.**
Explanation 1 to 17A	For the purpose of this [regulation], the count for the number of listed entities on which a person is a director / independent director **shall be only those whose equity shares are listed on a stock exchange.**	For the purpose of this [regulation], the count for the number of listed entities on which a person is a director / independent director **shall be cumulative of those whose equity shares are listed on a stock exchange and 'high value debt listed entities'.**
Explanation 2 to 17A [New insertion]	-	For the purpose of this regulation, the directorship(s) held by a person on an ex-officio basis due to statute or applicable contractual framework in case of public sector undertakings and entities set up under a public private partnership arrangement shall not be included in calculating the maximum number of directorships:

Regulation	Extant paragraph	Amended paragraph
Proviso to 17A [New insertion]	-	Provided that nothing in this provision relating to HVDLE shall come into effect for a period of six months from the date of publication of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2025 in the Official Gazette or the date of Annual General Meeting, whichever is later.
2nd Proviso to 23(1) [New insertion]	-	Provided further that with effect from April 01, 2025, in case of a listed entity which has listed its specified securities on the SME Exchange, a transaction with a related party shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds Rupees fifty crore or ten per cent. of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

Nangia's take

The SEBI (LODR) Amendments of March 27, 2025, mark a significant shift in corporate governance, particularly for **High Value Debt Listed Entities (HVDLEs)**. The introduction of **Chapter VA** strengthens **board composition, compliance mandates, and related party transaction governance**, ensuring greater accountability and transparency. Entities must now establish key committees, comply with **directorship limits**, and adhere to enhanced **disclosure norms**. Additionally, **unlisted material subsidiaries** of HVDLEs face stricter governance oversight. **Secretarial compliance** has been reinforced, requiring annual audits and timely regulatory submissions. These changes collectively aim to fortify investor confidence, improve market discipline, and align regulatory frameworks with global best practices.

Rectification of Erroneously Recognised Interest Income from Fixed Deposits Created from Surplus Funds in Prior Periods: Accounting Treatment under the AS Framework

Background

A wholly-owned Government Company under the Ministry of Textiles, serving as the nodal agency for handloom sector schemes, received funds from the Government for two specific purposes—**Marketing Complex development** and **Mega Cluster support**. These funds were maintained in separate **Corpus Fund accounts**, with unutilized amounts kept in fixed deposits (FDs). Initially, the interest earned on these FDs was correctly credited back to the respective Corpus Funds until 2016-17. However, in 2017-18 and 2018-19, the Company **wrongly treated this interest as its own income** instead of retaining it in the Corpus Funds. This deviation was flagged by the **Comptroller and Auditor General of India (C&AG)**, which directed corrective action. From 2019-20 onwards, the Company reverted to the proper practice of crediting interest to the Corpus Funds. Now, the Company must **rectify the earlier misclassification** by adjusting the interest amounts for 2017-18 and 2018-19 back into the Corpus Funds. The matter was referred to the **ICAI's Expert Advisory Committee** for guidance on the appropriate accounting treatment.

Matter under consideration

Seeking EAC's guidance on correcting 2017-19 interest accounting.

Issues examined by the Committee

The Committee focused solely on the accounting treatment of rectifying interest earned on fixed deposits (from surplus funds meant for government schemes) that was mistakenly recorded as income in previous years. It did not consider other related matters, such as the handling of grants, interest calculation, or the nature of the relationship between the company and the government. The opinion provided is strictly from an accounting (not legal) standpoint, based on the Accounting Standards under the Companies (Accounting Standards) Rules, 2021, and not on Ind AS.

The Committee also observed that the Company functions as a facilitating/implementing agency for government schemes like the Marketing Complex Scheme and Comprehensive Handloom Cluster Development Scheme. According to government grant conditions, fund including any interest earned must be kept in a **separate bank account** and used strictly for the scheme's intended purposes (e.g., purchasing and handing over shops to handloom agencies).

Referring to accounting standards, the Committee clarified that such interest income does **not** constitute actual income for the Company, as it does not result in economic benefit or increase in equity. Therefore, this interest should not be recorded in the Company's Profit and Loss Statement.

Since the Company had mistakenly recognized such interest as income in previous years, this **error must be corrected** in the current financial year.

The Committee refers to **Accounting Standard (AS) 5**, which defines *prior period items* as income or expenses in the current period that result from errors or omissions in the financial statements of previous periods. This includes interest that was mistakenly credited to profit in earlier years and must now be corrected.

According to AS 5, **prior period** items must be clearly disclosed in the statement of profit and loss, showing their effect on current profit or loss. These items specifically refer to income or expenses arising from past errors or omissions, not to other retrospective adjustments like wage revisions decided in the current period.

Errors from past financial statement like calculation mistakes, policy misapplications, or oversights may be found in the current period. These are considered prior period items, which are usually rare and should not be confused with changes in accounting estimates. Unlike errors, estimates are approximations that can change as new information becomes available.

Prior period items are usually included in calculating the **current period's net profit or loss.** Alternatively, they can be shown separately after the net profit is determined. In both cases, the goal is to clearly show their impact on current profit or loss.

The Committee states that interest wrongly recorded as income in past years is a prior period item. It should be corrected in the current period by recording it as an expense. This correction must be clearly disclosed in the profit and loss statement, showing its impact on current profits, and must comply with AS 5 and the Companies Act, 2013.

EAC's Recommendations

The Committee concludes that:

1. The interest income wrongly recorded in prior years constitutes a 'prior-period item'
2. Correction requires:
   - Recording an equivalent expense in the current year's P&L statement
   - Clear disclosure of the adjustment's nature and amount
3. Full compliance with Accounting Standard 5 and Companies Act 2013 must be maintained

This rectification will properly reclassify the interest to corpus funds while ensuring transparent financial reporting.

Decoding: IRDAI (Actuarial, Finance and Investment functions) Regulations, 2024

Background

In May 2024, IRDAI introduced new regulations consolidating nine previous regulations into a single framework to enhance the efficiency and responsiveness of insurers' actuarial, finance, and investment functions. These regulations ensure financial stability, effective risk management, and transparency while emphasizing solvency, capital adequacy, and accurate financial disclosures. They establish a framework for actuarial reports, certifications, and governance oversight, specifying investment conditions, valuation methodology, operational procedures, and disclosure norms to ensure compliance and risk mitigation.

Key Changes

Solvency Margin requirements:

- Previously, the Required Solvency Margin (RSM) was determined based on factors such as net premiums and net incurred claims, with specific percentages applied as per the Insurance Regulatory and Development Authority of India (Assets, Liabilities, and Solvency Margin) Regulations, 2016. But the new regulation refines this approach by specifying that RSM for health insurers should be 0.75 times the higher of net premium or net incurred claims.

Accounting treatment for premium recognition in case of long-term products and Commission:

- Under the Regulation 2024, health insurance companies are required to recognize premiums for long-term policies on an annual basis, even if the full premium is collected upfront. This means that insurers should allocate and report only the portion of the premium that corresponds to each financial year. Any excess amount collected beyond the annual premium must be recorded as a "Premium Deposit" or "Advance Premium." Previously, insurers recognized the entire premium amount on the date of receipt, regardless of the policy term. This change ensures a more accurate reflection of income and liabilities over the tenure of the policy. Consequently, commission payments to agents and intermediaries will be based solely on the portion of the premium recognized as income for each financial year, rather than the total premium received at the policy's inception.

Reinsurance and Recoverable:

- Under the Regulation 2024, insurers are required to write off reinsurance receivables that remain outstanding for more than 365 days. Previously, such receivables were allowed to remain in the books indefinitely, leading to potential overstatement of assets. This change aims to present a more accurate financial position by removing aged receivables, though it may impact cash flow and increase bad debt expenses.

Investment and Valuations norms:

- Regulation 2024, require insurers to revalue their real estate investments every three years to reflect current market conditions. Debt securities are to be recorded at amortized cost, ensuring that their book value reflects the gradual recognition of any premium or discount over time. Equity shares and derivatives must be marked to market value, providing a realistic assessment of their current worth. Previously, valuation practices for these asset classes varied, potentially leading to inconsistencies in financial reporting. These standardized valuation methods aim to enhance the accuracy and comparability of insurers' financial statements.

Changes in claim accounting:

- The Regulation 2024, require insurers to include Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims, along with claims settlement costs, in their net incurred claims calculations. Previously, insurers may not have consistently accounted for these components, potentially leading to an understatement of claim expenses. Incorporating IBNR and IBNER ensures a more comprehensive assessment of an insurer's liabilities, as IBNR accounts for losses that have occurred but have not yet been reported, and IBNER addresses adjustments to reported claims that were initially underestimated. While this approach provides a more accurate financial position.

Unearned Premium Reserve:

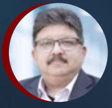
- A reserve for unearned premium shall be created as the amount representing that part of the premium written which is attributable and allocated to the succeeding accounting periods. Such Reserves shall be computed 50% of Net Written Premium during the preceding twelve months, or on the basis of proportion of the unexpired period to the total period of the respective policies. However, Insurers shall follow the method of provisioning of Unearned Premium Reserve in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Competent Authority.

Impact Assessment

The Regulation 2024 is expected to have a significant impact on the Indian Insurance Industry in the followings areas:

- **Financial Implication:** The Regulations, 2024 introduce key changes to insurers' financial reporting and accounting practices, including revised treatment of premiums and commissions on long-term products. Insurers must now recognize premiums annually, even if collected upfront, classifying unearned premiums as deferred liabilities, impacting financial statements. The regulations also mandate investment revaluation per prescribed guidelines to ensure asset valuations reflect market conditions. Additionally, a new financial statement format has been introduced to enhance transparency and consistency across the insurance industry.
- **International Financial Service Centre (IFSC City):** The Regulation 2024, provides reporting IFSC city as separate entity and disclosing separate set of Financials in U.S. dollars.
- **Actuary Assumptions:** The regulatory change provides a necessitate a thorough review and adjustment of actuarial models and assumptions to ensure compliance and maintain financial stability within the insurance sector.

Meet Our Experts



Vikas Gupta
Partner - Audit & Assurance
vikas.gupta@nangia.com

Prateek Agarwal
Partner - Audit & Assurance
prateek.agarwal@nangia.com

Vikram Pratap Singh
Partner - Audit & Assurance
vikram.pratap@nangia.com

Jaspreet Singh Bedi
Partner - Audit & Assurance
jaspreet.bedi@nangia.com

Vijaya Uppiretla
Partner - Audit & Assurance
vijaya.uppiretla@nangia.com

With inputs from

Avneet Singh
Director - Audit & Assurance
avneet.singh@nangia.com

Shalu Kedia
Director - Audit & Assurance
shalu.kedia@nangia.com

Bhavesh Jain
Associate Director - Audit & Assurance
bhavesh.jain@nangia.com

Akash Mishra
Associate Director - Audit & Assurance
akash.mishra@nangia.com

Karan Aggarwal
Associate Director - Audit & Assurance
karan.aggarwal@nangia.com

Sudipti Palgotra
Manager - Audit & Assurance
sudipti.palgotra@nangia.com

Mugdha Parulekar
Manager - Audit & Assurance
mugdha.parulekar@nangia.co.in

Angad Singh
Analyst - Audit & Assurance
angad.singh@nangia.com

Noida | Delhi | Gurugram | Mumbai | Pune | Chennai | Bengaluru | Dehradun

www.nangia.com | query@nangia.com

Follow us at :