



THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

TOMORROW'S INDIA

ADVANCING **SUSTAINABILITY**, DRIVING **GROWTH**





**CHARTERED ACCOUNTANTS'
BENEVOLENT FUND [CABF]**
The Institute of Chartered
Accountants of India
(Set up by an Act of Parliament)

JOIN HANDS TO STRENGTHEN CABF : SPECIAL DRIVE

The Chartered Accountants' Benevolent Fund (CABF) was established in December, 1962 with the main objective to provide financial assistance for maintenance, and other similar purposes to needy members of the Institute, their wives, widows, children and dependent parent(s).

A dedicated CABF Portal (cabf.icai.org) is functioning as One Stop solution for making CABF Contribution and grant of Financial Assistance.

During Covid pandemic, hundreds of ICAI members had lost their battle and many others were struggling hard to pass through that difficult time. The impact was deep and had certainly shattered their dreams. The Institute through the CABF had tried to help the members or their dependents in distress.

With an objective to augment funds to provide requisite support to members, it has been decided to launch special drive and to recognise the contributors. Details of the same are given below.

The Financial Assistance disbursed along with number of beneficiaries during the last five financial years has been produced below:-

S No.	Particulars (Years)	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
1.	Number of beneficiaries	111	88	280	877	221
2.	Financial assistance disbursed (in ₹)	1.12 Crore	0.94 Crore	3.97 Crore	11.92 Crore	3.67 Crore

The Contribution is eligible for tax exemption under Section 80G of the Income Tax Act

Link for Contribution as Life Member:
<https://cabf.icai.org/lifeMember>

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Name of A/C : Chartered Accountants Benevolent Fund

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SPECIAL DRIVE FOR CONTRIBUTION TO THE CHARTERED ACCOUNTANTS BENEVOLENT FUND (CABF)

The contributions/donations are accepted from the following:



Members of ICAI



CA Firms

The donors will be recognized as under: (All contributors exceeding ₹10,000 to receive congratulatory letter from the President, ICAI)

Category of Contribution	Amount Not Less Than	Acknowledgement/Recognition
CABF-Bronze	₹ 1 Lakh	Special Bronze Shield – Along with Congratulatory Letter from the President to be sent by Post/Courier
CABF-Silver	₹ 5 Lakh	Special Silver plated Shield – Along with Congratulatory Letter from the President to be handed over by Regional Chairman in Regional Council Meeting (Acknowledgement to be published in Regional Newsletter and quarterly list to be published in ICAI Journal)
CABF-Gold	₹11 Lakh	Special Gold plated Shield – Along with Congratulatory Letter from the President to be handed over at ICAI Head Office. (Acknowledgement to be published in ICAI Journal)
CABF-Platinum	₹51 Lakh	Special Platinum plated Shield – Along with Congratulatory Letter from the President to be handed over by President & Vice President at ICAI Council Meeting. (Acknowledgement to be published in ICAI Journal with photograph taken during Council Meeting)

LET'S BE A PART OF THIS NOBLE MISSION FOR EXTENDING HELPING HAND TO MORE AND MORE PROFESSIONAL COLLEAGUES DURING UNFORTUNATE CIRCUMSTANCES

The Evolution of Sustainability Reporting: A Turning Point for Chartered Accountants

As the global financial landscape continues to shift towards sustainability, the role of Chartered Accountants is undergoing a transformation, with far-reaching implications for the profession. Sustainability reporting is no longer a peripheral concern but has become a core aspect of corporate governance, with regulatory bodies in the UK, EU, and beyond taking decisive action to integrate environmental, social, and governance (ESG) considerations into financial reporting. This movement represents both a challenge and an opportunity for Chartered Accountants.

The UK and EU have taken a lead role in this sustainability reporting revolution. With the implementation of comprehensive ESG frameworks, these jurisdictions are setting new standards for transparency and accountability. The UK's commitment to mandatory climate risk disclosures and the EU's Corporate Sustainability Reporting Directive (CSRD) signal a new era where sustainability is firmly embedded in corporate reporting structures. For Chartered Accountants, this means adapting to new compliance requirements, mastering the intricacies of ESG data, and guiding clients through this evolving landscape.

Embracing the global shift towards sustainability, the IFAC's International Panel of Accountancy Education (IPAE) has released exposure drafts proposing revisions to the International Education Standards (IES) 2, 3, and 4. These revisions emphasize building sustainability-related skills, reflecting the growing need to equip future accountants with the knowledge and expertise required to address sustainability challenges. Public comments have been sought on these drafts, signaling a transparent and inclusive approach to the integration of sustainability into the educational curriculum for accountants. This initiative underscores the need for sustainability to be woven into the fabric of the profession from the ground up.

However, sustainability reporting is not merely about compliance with regulations. It's also about the real commitment of companies to drive change. Research from the academic sector highlights that the effectiveness of sustainability reporting depends heavily on the sincerity of companies' sustainability initiatives. Companies that view sustainability as a core strategy rather than a box-ticking

exercise is more likely to drive real change. Chartered Accountants have a critical role to play in bridging the gap between reporting requirements and genuine corporate responsibility, ensuring that companies are not just reporting for compliance but actively contributing to sustainable development.

In India, the Securities and Exchange Board of India (SEBI) is making strides with its Business Responsibility and Sustainability Reporting (BRSR) framework. The BRSR framework aims to facilitate ease of doing business while ensuring robust sustainability reporting practices. Chartered Accountants will be integral to implement this framework, providing assurance of the accuracy and transparency of BRSR reports. This is part of a larger global push to align sustainability with corporate responsibility and reporting, reinforcing the critical role that Chartered Accountants will play in ensuring sustainability is not only reported but actively pursued.

The road ahead for Chartered Accountants is one of opportunity. As sustainability reporting becomes a key component of corporate governance, Chartered Accountants are uniquely positioned to lead this change. By leveraging their expertise in financial reporting, risk management, and governance, they can guide companies through the complex landscape of sustainability. Beyond compliance, the profession has the chance to drive meaningful change, ensuring that the pursuit of profit is balanced with a commitment to social and environmental responsibility.

As regulatory frameworks evolve and the demand for sustainability expertise grows, Chartered Accountants must embrace this new reality. The future of the profession is intrinsically linked to the global movement towards sustainability and the time to act is now. Through continued education, active participation in regulatory developments, and a commitment to ethical practices, Chartered Accountants can not only adapt to these changes but thrive in this new era of responsible business.

-Editorial Board ICAI:

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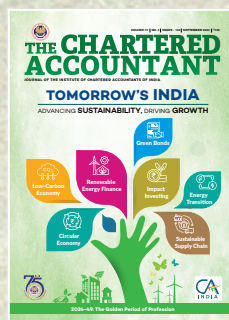
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From the President



CA. Ranjeet Kumar Agarwal
President, ICAI

Dear Professional Colleagues,

The global economy is at crossroads of unprecedented global challenges, emanating from climate change and the accounting profession has a pivotal role to play in shaping a sustainable future.

As we steer towards the pursuit of sustainable development, issues like climate change and environmental degradation needs to be dealt with more consciousness taking into account a sustainable tomorrow. This journey towards sustainable development is long and arduous requiring collective efforts of all stakeholders i.e. Government, Industry and Public. Most importantly this journey, requires global collaboration, commitment and diverse set of resources including finance to take constructive and corrective measures to have a much-desired impact.

The Imperative of Sustainable Finance

COP28 marked the first time that nearly 200 countries agreed on the need to transition away from fossil fuels in energy systems – with action accelerating in this critical decade to achieve net zero emissions by 2050. Further keeping within the reach the Paris Agreement target of limiting global warming to 1.5°. This marked the beginning of a new era in sustainability.

Recent developments in sustainable finance reflect this momentum. There is a growing focus on scaling up green finance, with new instruments such as sustainability-linked bonds and transition finance gaining traction. Additionally, the rise of digital financial technologies, like blockchain and AI, is revolutionizing the way sustainable finance is managed, offering new ways to track and verify the impact of

investments. The upcoming COP29 is expected to further shape the global agenda for sustainable development. Areas of focus may include nature-based solutions, climate adaptation finance, and just transition strategies.

As per International Monetary Fund (IMF), global investments of at least \$1 trillion in energy infrastructure by 2030 and \$3 - \$6 trillion across all sectors per year by 2050 is required to mitigate climate change by substantially reducing greenhouse gas emissions. At this juncture it is essential that private financing be attracted to finance the climate fight.

As accounting professionals, we are the fulcrum of economic activity and being able to work with both policymaker and industry. Our role in promoting sustainable finance becomes critical in enhancing trust, credence and transparency by adopting global standards which would ensure fair and standardized information to investors and foster innovation through policy making in crafting financial investment instruments.

Global Standard Framework in Sustainability Reporting

The sustainable development projects are long and complex in nature and require long-term investments. To attract large investment higher level of trust and transparency is required. Therefore, it's paramount to develop robust global standards and relevant frameworks for the financial markets to attract sustainable investments as well as realigning businesses towards adopting sustainable and environment friendly practices.

With the rise of ESG considerations in the financial reporting, sustainability reporting has also gained prominence. The International Standard setting institutions and regulatory bodies are enhancing transparency, accountability and comparability in various sustainability reports and ESG disclosures by formulating global standards. The International Sustainability Standards Board (ISSB) set up by the IFRS Foundation in 2021, has set global baseline standards with IFRS S1 and S2 for general requirements for Disclosure of Sustainability-related Financial Information and climate-related disclosures. One of the most widely used framework 'Global Reporting Initiative' (GRI), set up as a collaboration between United Nations Environment Programme (UNEP) and the Coalition for Environmentally Responsible Economies (CERES) offers comprehensive guidelines for reporting diverse ESG issues, while the Sustainability Accounting Standards Board (SASB) focuses on industry-specific, financially material information. The Task Force on Climate-related Financial Disclosures (TCFD) provides recommendations for climate-related financial risk disclosures. Additionally, the European Sustainability Reporting Standards (ESRS), developed under the EU's Corporate Sustainability Reporting Directive (CSRD), enhance and standardize ESG reporting in Europe. Incorporating frameworks like the Carbon Disclosure Project (CDP) further enriches the sustainability

reporting ecosystem, providing a platform for disclosing environmental impacts and enhancing transparency. Together, these standards improve quality reporting, comparability and transparency, facilitating informed investment decisions and promoting responsible business practices as well as addressing the concerns arising from Greenwashing and other prevalent malpractices.

Climate Change & India

Climate change is one of the most pressing challenges of present time. India too has witnessed an increase in the frequency and intensity of extreme weather events, such as floods, droughts, and cyclones. As per World Bank estimates, the economic implications of climate change could cost India 2.8% of its GDP by 2050.

India at COP26 has announced its **Panchamrit** - Plan for Climate change and is set to achieve its short-term and long-term targets on global climate action like- reaching a non-fossil fuel energy capacity of 500 GW by 2030; fulfilling at least half of its energy requirements via renewable energy by 2030; reducing CO₂ emissions by 1 billion tons by 2030; reducing carbon intensity below 45 percent by 2030; and finally pave the way for achieving a Net-Zero emission target by 2070. The nation has achieved its 2030 target of sourcing 40% electricity capacity from non-fossil sources much ahead than targeted. India is leading the climate change movement fostering global cooperation amongst the G-20 nations to fight Climate change.

Over the last few years, India is already moving ahead to build an enabling sustainability reporting framework through various regulatory measures like NGRBC (National Guidelines on Responsible Business Conduct), issued by the Ministry of Corporate Affairs (MCA), in 2019, which outlined principles for responsible business conduct that Indian companies are expected to follow for sustainable and inclusive development. Securities and Exchange Board of India (SEBI) has mandated the top 1,000 listed companies by market capitalization to disclose Business Responsibility and Sustainability Reporting (BRSR) from FY 2022-23 onwards. Recently, India introduced the BRSR Core framework to enhance assurance and ESG disclosures across the value chain as well.

As per union budget 2024-25, Government will be coming out with Climate Finance Taxonomy for enhancing capital availability for Climate adaption and mitigation related measures for strengthening the sustainability ecosystem.

To drive its growth while advancing the sustainability agenda, India needs to play a pivotal role in promoting climate financing. By encouraging regulated entities to adopt robust risk mitigation frameworks, we can facilitate access to both domestic and international capital. This approach will provide the necessary financial support for green projects, supporting sustainable development and economic growth.

Accounting Profession & Sustainability

The accounting profession in India is uniquely positioned to lead the transition towards a sustainable economy. Our expertise in financial analysis, reporting, and assurance makes us essential partner in the journey towards sustainability. To address the complexities of sustainable finance, climate change, and ESG disclosures, the Institute is committed to providing its members with the resources and training needed to stay ahead of emerging trends. We must embrace new tools and methodologies that enable us to analyse and report on ESG factors with the same rigor and precision as traditional financial information.

As professionals, we must be vigilant in ensuring that ESG practices are not merely a box-ticking exercise but a genuine commitment to sustainability. Also, we must ensure that financial and non-financial information is presented meaningfully and that the impact of business activities on society and the environment are accurately disclosed.

The demand for ESG and climate-related information is driving innovation in reporting practices. As Professional Accountants, we must be at the forefront of these innovations, developing new reporting frameworks and assurance methodologies that meet the needs of a rapidly changing world. This includes exploring the use of technology, such as blockchain and data analytics, to enhance the transparency and reliability of ESG data.

The transition to a sustainable economy requires supportive policies and regulations. The accounting profession with its insights across segments has a voice in shaping these frameworks. We must advocate for policies that encourage sustainable finance, such as carbon pricing, green finance incentives and mandatory ESG disclosures. By engaging with policymakers, we can help create an environment where sustainable business practices are not only encouraged but required.

ICAI Initiatives for Sustainability

The Institute of Chartered Accountants of India (ICAI) has always demonstrated a strong commitment to sustainability through establishing its Sustainability Reporting Standards Board (SRSB) in 2020 much ahead of the formation of ISSB in 2021. The ICAI through SRSB has been pivotal in developing and promoting standards and guidelines that enable professionals to effectively report on sustainability practices. ICAI has developed the "Sustainability Reporting Maturity Model" to help organizations assess and improve their sustainability reporting practices. Similarly, since 2021, the ICAI is organizing Sustainability Reporting awards both at national and international level to recognize best practices and inspire entities to adopt the sustainability framework.

The ICAI formulated Standards on Assurance Engagements, SAE 3000, *Assurance Engagements on Sustainability Information* and SAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, which are key frameworks that guide professionals in providing assurance on sustainability reporting. The United Nations Conference on Trade and Development (UNCTAD) recognized and awarded the ISAR Honours 2023 to ICAI for its initiative Sustainability Reporting Standards Board (SRSB).

As ICAI marked its 75th anniversary, a **Green Mahotsav** initiative was launched by ICAI as our commitment to the nation in a crucial area of environmental sustainability, where we are gearing up to green the earth by planting 100,000 plants and trees. This initiative also resonates with our national leadership's campaign 'Ek Ped Ma Ke Naam', which encourages every citizen to plant a tree in the name of their mother. Till now 23 Branches have planted around 8000 plants and 323 members have planted around 1330 plants all over India. Besides Sustainability Literacy Drive for masses, the ICAI is organising Certificate Course of Sustainability and BRSR for knowledge enrichment and capacity building of members.

Recognizing the growing importance of social sector, the ICAI played significant role in promoting and developing social audit in India by institutionalising Institute of Social Auditors of India (ISAI). Further ICAI has formulated 16 Social Audit Standards, along with guidelines and frameworks for conducting social audits. Through these efforts, ICAI is fostering greater transparency, accountability, and ethical practices in

■ FROM THE PRESIDENT ■ THE CHARTERED ACCOUNTANT

organizations, contributing to the broader goal of sustainable and socially responsible development in India.

Importance of Non - Financial Reporting

Non-financial reporting is increasingly becoming important as it provides stakeholders with a comprehensive view of an organization's performance beyond traditional financial metrics. Non-financial information helps assess the long-term sustainability, ethical practices, and overall impact of a company on society and the environment. It enhances transparency, builds trust, and supports informed decision-making by revealing risks and opportunities that may not be apparent through financial data alone. As global emphasis on sustainability grows, non-financial reporting is going to play a vital role in shaping the future of business and societal well-being.

Artificial Intelligence in Reporting

Artificial Intelligence (AI) is transforming financial and sustainability reporting by enhancing accuracy, efficiency, and compliance with standards and disclosure requirements. AI-powered tools can automate the collection, analysis, and presentation of financial and non-financial data, reducing errors and streamlining the reporting process. In auditing, AI is enabling real-time analysis and continuous monitoring, improving the detection of anomalies and ensuring adherence to regulatory standards. In sustainability reporting, it can help organizations track and report on environmental, social, and governance (ESG) metrics, aligning with evolving disclosure requirements. As AI technology advances, its integration is poised to further elevate the quality, transparency, and timeliness of reporting.

The Path Forward

The challenges of shaping a sustainable future (Sustainable finance, Sustainability reporting and assurance) are numerous, but they also present opportunities for our profession to make meaningful impact and remain relevant in the 21st century. As Professional Accountants, we have the skills, knowledge, and ethical foundation needed to drive meaningful change in how businesses operate and how they impact the world around them.

In conclusion, the accounting profession stands at the forefront of a global movement towards sustainability. As the expectations of stakeholders continue to evolve, the accounting profession must rise to the occasion, providing the expertise, assurance, and ethical leadership to support transition to a more sustainable and resilient global economy.

Developments of Profession's Interest

ICAI Elections 2024

The quadrennial election to the Twenty-Sixth Council and Twenty-Fifth Regional Councils are scheduled to be held on 6th and 7th December, 2024 in cities qualifying for two days' voting and on 7th December, 2024 at all other places in terms of the provisions of the Chartered Accountants (Election to the Council) Rules, 2006 as specified by the Central Government. The details of relevant notification in this regard are covered in this journal.

Standard on Auditing for Less Complex Entities

The Institute is in process of coming out with Standard on Auditing for Less Complex Entities (LCEs). The Exposure Draft for public comments has been issued, with a submission deadline of September 9, 2024. This standard is tailored to meet the specific

needs of LCEs while ensuring high-quality audits. It assumes that audit firms follow relevant quality management standards and emphasizes the importance of careful planning, professional judgment, and skepticism. Members are requested to share their comments on the Exposure draft with AASB.

Accounting Standard and Standard on Auditing for LLPs

As per section 34A of the Limited Liability Partnership Act 2008, recommendations of the ICAI regarding Accounting Standards for Limited Liability Partnerships (LLPs) have been considered by the NFRA and it has been decided that Accounting Standards notified as Companies (Accounting Standards) Rules 2021 will be applicable to LLPs. For the purpose of applicability of Accounting Standards LLPs will be Classified into two categories viz. Large LLPs (Turnover above ₹ 250 Cr and Borrowings above ₹ 50 Cr) and Small & Medium-sized LLPs – (Turnover below ₹ 250 Cr and Borrowings below ₹ 50 Cr). Exemptions/relaxations which are currently applicable to Level III and Level IV non-company entities will be applicable to all Small & Medium-sized LLPs with the exception of exemption from AS 18 and AS 28 to LLPs with Turnover below ₹ 50 Cr and Borrowings below ₹ 10 Cr. These recommendations have been sent to MCA for their consideration.

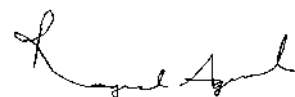
For non-company entities to whom Accounting Standards issued by the ICAI apply, Similar changes with regard to classification and relaxations/exemptions are being made.

Further, the Institute has recommended that the Standards on Auditing (SAs), should also apply *mutatis mutandis* to the audit of Limited Liability Partnerships (LLPs). In line with this recommendation, ICAI submitted its proposal on Auditing Standards under Section 34A of the Limited Liability Partnership Act, 2008. This submission underscores ICAI's commitment to ensuring consistency and rigor in auditing practices across different types of business entities, thereby enhancing the quality and reliability of financial reporting for LLPs in line with established standards for companies.

Teacher's Day

On upcoming Teacher's Day, our deepest gratitude to the educators and mentors who lay the foundation for the future of the accounting profession. Let's continue to empower our future leaders to build a stronger, more prosperous India, shaping minds that will drive the nation's growth and innovation.

On this occasion I conclude with the words of Dr. APJ Abdul Kalam "If a country is to be corruption free and become a nation of beautiful minds, I strongly feel there are three key societal members who can make a difference. They are the father, the mother, and the teacher."



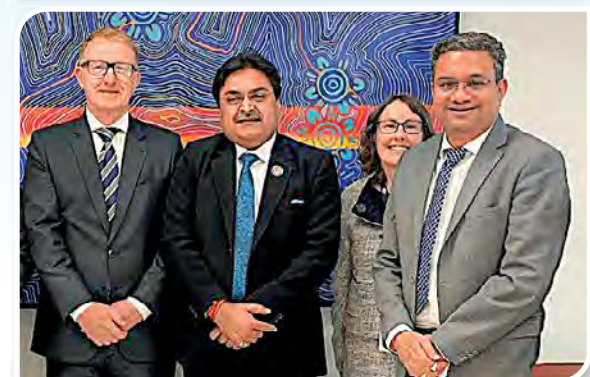
CA. Ranjeet Kumar Agarwal
President, ICAI
New Delhi, 31st August, 2024

1. Visit to Singapore



CA. Ranjeet Kumar Agarwal, President, ICAI recently visited Singapore and had a meeting with Ms. Fann Kor, CEO, and Mr. Teo Ser Luck, President, Institute of Singapore Chartered Accountants (ISCA); Mr. Evan Law, Assistant Chief Executive, Accounting and Corporate Regulatory Authority (ACRA), and Mr. Lie Kok Keong, Council Chairperson, Institute of Valuers and Appraisers, Singapore. During the meeting matters of mutual interest for development of profession were discussed. (August 1, 2024)

2. IFSCA Roundtable Interaction with Accounts Institute, UHNIs/HNIs on IFSC Opportunities in Sydney



CA. Ranjeet Kumar Agarwal, President, ICAI along with CA. Aniket Sunil Talati, Immediate Past President, ICAI & Shri K. Rajaraman, Chairperson, IFSCA at Roundtable interaction with Accounts Institute, UHNIs/HNIs on IFSC Opportunities. During the visit the ICAI leadership also met Mr. Gerard Fitzpatrick, Senior Executive Specialist, International, ASIC in Sydney. (August 5, 2024)

3. WIRC Regional Conference



CA. Ranjeet Kumar Agarwal, President, ICAI along with Shri C.P. Radhakrishnan, Hon'ble Governor, Maharashtra at Inaugural Ceremony of 38th Regional Conference of Western India Regional Council of ICAI held in Mumbai. (August 24, 2024)

4. EIRC Regional Conference



CA. Ranjeet Kumar Agarwal, President, ICAI along with Padma Shri Harshavardhan Neotia, Chairman Ambuja Neotia Group at the Inaugural Ceremony of 49th Regional Conference of Eastern India Regional Council organised in Kolkata. On the occasion EIRC donated Rs. 35 lakh for CABF. (August 23, 2024)

5. SIRC Regional Conference



CA. Ranjeet Kumar Agarwal, President, ICAI at the Inaugural Ceremony of 56th Regional Conference of SIRC in Bengaluru. On the occasion Vizag Branch also donated Rs. 1 crore for CABF. (August 9, 2024)

6. National Conference – DISHA, Guwahati



CA. Ranjeet Kumar Agarwal, President, ICAI along with CA.(Dr.) Debashis Mitra, Past President, ICAI Central Council Member shared his thoughts with the Member Fraternity at the National Conference - DISHA held in Guwahati. (August 10, 2024)



7. 433rd Council Meeting



CA. Ranjeet Kumar Agarwal, President, ICAI along with Swami Ramdevji at the 433rd Council Meeting held in Rishikesh. (August 14, 2024)

8. Inauguration of Darbhanga Branch of CIRC of ICAI

Newly formed 176th Darbhanga Branch of CIRC of ICAI was inaugurated by CA. Ranjeet



Kumar Agarwal, President, ICAI along with Central Council Members, CIRC & Branch Management Committee Members in Darbhanga (Bihar). (August 16, 2024)

9. Inauguration of Muzaffarpur Branch of CIRC of ICAI



Newly formed 177th Muzaffarpur Branch of CIRC of ICAI was inaugurated by CA. Ranjeet Kumar Agarwal, President, ICAI along with Dr. Rajbhusan Choudhary, Hon'ble Minister of State, Government of India in Muzaffarpur (Bihar). (August 16, 2024)

10. Inauguration of Raigarh Branch of CIRC of ICAI



The newly formed Raigarh Branch of CIRC of ICAI was inaugurated by Shri O.P Choudhary, Hon'ble Minister of Finance, Government of Chhattisgarh & CA. Ranjeet Kumar Agarwal, President, ICAI Raigarh (C.G.). (August 11, 2024).



11. Foundation Stone Laying Ceremony of Chengalpattu District Branch of ICAI

CA. Ranjeet Kumar Agarwal, President, ICAI at the Foundation Stone Laying Ceremony of Chengalpattu District Branch of SIRC of ICAI. (August 22, 2024)



12. Inauguration of newly formed Neemuch Branch of CIRC of ICAI



CA. Ranjeet Kumar Agarwal, President, ICAI along with Central Council Members, CIRC & Branch Management Committee Members inaugurated the 178th newly formed Neemuch Branch of CIRC of ICAI. (August 26, 2024)



13. Seminar on Direct Tax and Indirect Tax, Patna



CA. Ranjeet Kumar Agarwal, President, ICAI addressed the Member Fraternity at the Seminar on Direct Tax and Indirect Tax organized by CPE of ICAI in Patna. (August 17, 2024)

14. Members Meet



CA. Ranjeet Kumar Agarwal, President, ICAI shared his Vision with Member Fraternity in Members Meet held in Raipur. (August 18, 2024)

15. National Conference-AI & Beyond

CA. Ranjeet Kumar Agarwal, President, ICAI along with Prof. Rajiv Prakash, Director-IIT Bhilai & Branch Management Committee Members shared his Vision with Member Fraternity at National Conference-AI & Beyond organized by AI in ICAI Committee & Members Meet held in Bhilai. (August 18, 2024)



16. Inauguration of CPE Study Circle, Vijayawada



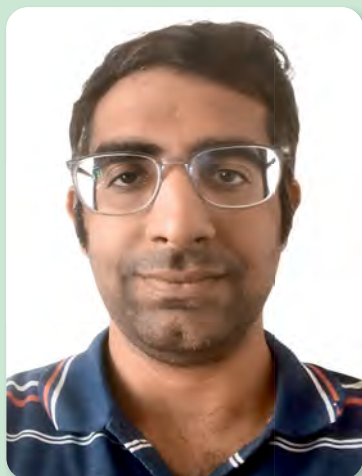
CA. Ranjeet Kumar Agarwal, President, ICAI inaugurated the Rama Nagar CPE Study Circle of Vijayawada Branch of SIRC of ICAI in Vijayawada. (August 27, 2024)

17. International Research Journal



The International Research Journal 'ICAI Garuda', with its inaugural theme 'Audit-360°', was released by CA. Ranjeet Kumar Agarwal, President, ICAI during the 433rd Council Meeting held in Rishikesh. It will serve as a pivotal reference for future researchers and a valuable trove of knowledge. (August 15, 2024)

How Climate Change can impact your Financial Reporting



CA. Amrit Bhojwani
Member of the Institute

When it comes to standardizing accounting policies and practices, India follows the Indian Accounting Standards issued under the supervision and control of the Accounting Standards Board constituted by ICAI. USA follows the US GAAP, whereas 144 countries around the world follow IFRS (International Financial Reporting Standards) with minor tweaks from some countries.

IASB (International Accounting Standard Board) was established in 2001 for developing IFRS and promoting the use and application of these standards.

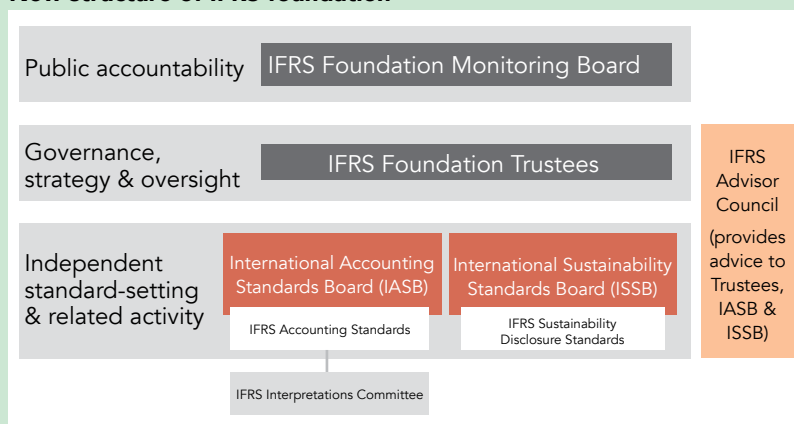
At the UN Climate Change Conference (COP26) held in November 2021, the IFRS Foundation Trustees announced the creation of the ISSB, a new standard-setting board within the IFRS Foundation. Just as IFRS has ensured high quality reporting by businesses, the ISSB's role is to develop a comprehensive global baseline of high-quality sustainable and climate related disclosures for businesses. The new board operates

alongside IASB and reports to the IFRS Foundation Committee.

What's New in the World of reporting?

The International Sustainability Standards Board (ISSB) issued two brand-new sustainability standards on June 26, 2023, which came into effect on January 1, 2024. These standards have been developed based on the recommendations of

New structure of IFRS foundation



(Source: <https://www.ifrs.org/about-us/our-structure/>)

the Task Force on Climate-Related Financial Disclosures (TCFD) which was created on request by the members of the G20 committee, the Sustainability Accounting Standards Board (SASB) and other bodies with an aim to improve sustainability disclosures in financial statements.

These standards consist of:



IFRS S1: General Requirements for the Disclosure of Sustainability-related Financial Information;

IFRS S2: Climate-Related Disclosures.

Why is Sustainability such a Hot Topic of Conversation in Businesses Today?

A substantial shift has occurred among global investors who now wish to fund businesses that operate with environmental responsibility over those that prioritize short-term profits at the expense of the environment. While such businesses may yield short and medium-term success, the pushback from customers, society, and governments eventually hinders their sustainable long-term growth.

ESG (Environmental, Social and Governance) -themed investments have gained significant traction in India as well, exemplified by funds such as the ICICI Prudential ESG Fund with an Asset Under Management (AUM) of ₹ 1,300 crores and Axis ESG Equity Fund with an AUM of ₹ 1,370 crores.

Greenwashing and the Need for Regulation

A study conducted for the European Commission in 2020 discovered that over half (53%) of the environmental claims made by companies in EU about their products and services were vague, misleading, or baseless.

Greenwashing, a deceptive tactic used by companies to exaggerate their environmental efforts, has drawn the attention of the European Union (EU) and the UK. These deceptive practices not only hinder genuine climate recovery but also disrupt the path toward a sustainable economy. The EU has proposed the Green Claims Directive, which mandates independent verification and scientific support for any green claims made by companies. Verification processes are applied to domestic and international companies targeting EU consumers with green claims. On 30th March 2022, the Commission submitted the green claims proposal to the European Parliament to approve the bill through the EU legislative procedure. Member countries will then have 18 months to integrate the directive into their national law.

The real-world impact of climate change remains undisputable

In May 2022, the Bank of England conducted a financial stress test on UK-based banks, revealing that banks and insurers could face £340 billion worth of climate-related losses by 2050. This test aimed to evaluate the repercussions of climate change on businesses sensitive to climate change and funded by these banks. The test scenarios included impact on businesses due to physical environmental risks such as fires and floods on account of temperature changes, risks from transitioning to a more climate-friendly business that could bring sudden changes in asset values, and the price of carbon credit businesses have to pay to compensate for their carbon emissions. Similar tests have been conducted by other countries as well.

Impact of climate change on Banks



A man walks past construction vehicles submerged in debris caused by flash floods after a lake burst in Rangpo, India, in October 2023.

Waiving off farmers loans due to adverse climatic conditions is a problem around the world for governments and banks.

Similarly, there is little a bank can do when a secured loan productive asset is destroyed due to a natural calamity or a business operation next to a disaster-prone area is impacted. Bank of England estimates that not taking into consideration such adverse environmental scenarios can impact the bank and insurer's annual profits by 10-15% annually.

Impact of climate change on world trade

More than 3 percent of world trade passes through the nearly 110-year-old Panama Canal in central America, which relies on freshwater to operate its locks. It is experiencing one of the worst droughts on its record which has resulted in the Panama Canal authorities

cutting down on the number of ships that can cross each day from an average of 36 to 31 ships. In response to worsening conditions, the authorities announced that they would further limit crossings to 25 bookings a day and gradually reduce it to 18 over the coming months.



Killer heatwaves endanger India's development

A G20 climate risk report on India reveals that a high-emissions pathway will lead to disastrous impact for India. By 2050, it is predicted that heatwaves would damage rice and grain by approximately ₹7 trillion (15% of farmers' income), increase water demand by 29% due to drinkable water supplies getting evaporated and reduced fish catches by around 17% due to ocean acidification. With more than 64 million people residing in low-lying coastal regions, extreme river and flooding events could cause over ₹6 trillion in infrastructure damages.

A study published in April by the University of Cambridge says that heatwaves can result in a 15% decrease in outdoor working capacity by 2050. A reduced working capacity of 310-480 million people would substantially reduce economic growth, stimulate inflation and reduce people's standard of living.

Accelerating the adoption of low-carbon policies in India can mitigate the cascading effects of climate impact, reducing the adverse cost of climate change to just 2% of India's GDP by 2050, rather than costing

the GDP growth by 5.21% forecast for 2050 and 9.9% for 2100.

The Sustainability Disclosure Standards

Recognizing the substantial risks posed by climate change to the economy and businesses, IFRS requested the ISSB board to develop disclosure standards. These standards are designed to guide management to disclose information about a company's sustainability-related risks and opportunities to enable investors to make informed decisions.

The impact of the implementation of these standards:

- a. The government, investors, and businesses around the world become aware of how much waste and greenhouses gases the business operation generate directly and indirectly.
- b. Investors and consumers become more inclined towards promoting those businesses which are more mindful in reducing waste and emissions than those which are not so environmentally conscious.
- c. Since the standard requires the company to evaluate climate related risks and opportunities to the business, it helps analysts and company management to better forecast their future financials and performance based on this report.
- d. Better disclosures help the government in building a better taxation system and developing laws to promote a low carbon economy.
- e. Investors, financial institutions, and banks study climate resilience strategy disclosures of all businesses and assess its impact of the climate related risks and opportunities before providing finance to businesses.
- f. Higher interest rates for businesses which are not focused on reducing waste and emissions.

Key features of these reporting standards include

- a. The aim of these reporting standards is to create a global baseline and consistency of disclosures on how sustainability factors affect their performance and prospects.

The following items in your balance sheet can also be impacted besides forecasted revenue and expenses

Standard	Potential accounting considerations
IAS 2 Inventories	Inventories become more costly (due to carbon offsetting charges, product conversion/redesign costs to become eco-friendly, to meet customer demand or regulatory requirements)

Standard	Potential accounting considerations
IAS 41 Agriculture	<p>a. Increased fair valuation of biological assets and agricultural produce due to higher cost of production due to environmental changes</p> <p>b. risk of events related to climatic, disease and other natural risks that can give rise to a material item of income or expense</p>
IFRS 15 Revenue from Contracts with Customers / IFRS 9- Financial Instruments	<p>a. Higher expected credit loss provisioning on receivables from climate sensitive customers</p> <p>b. Delay in recognizing revenue due to uncertainty in realizing receivables due to climate-related risks</p> <p>c. Climate-related developments can lead to modifications of contracts with customers (e.g., switching to goods or services with a smaller carbon footprint or change in variable consideration)</p> <p>d. Climate-related developments can affect anticipated revenue contracts (e.g., renewals), such that contract cost assets may need to be impaired</p>
IFRS 16 Leases, IAS 16 PPE	<p>a. Whether lease term would be reduced for leased environment polluting assets</p> <p>b. Possibility of increased decommissioning liability to meet environmental risks</p>
IAS 36- Impairment of assets, IFRS 9- Financial instruments	<p>a. Goodwill impairment of investments when forecasts of such businesses are sensitively impacted by the climate</p> <p>b. Higher provisioning for investments in climate sensitive businesses</p>
IFRS 17 Insurance Contracts	Does the entity's risk assumptions appropriately reflect climate-related developments (e.g., increased frequency or magnitude of insured events)

- b. Presentation of sustainability-related information alongside financial statements in the same reporting package.
- c. Applicability to more than 140 jurisdictions worldwide.
- d. Initially, requirements are limited to large and listed companies and public interest entities, with annual reports required from 2025.
- e. Small and medium enterprises may adopt these standards later, with requirements determined by each country's accounting regulatory body.

Key Terms for a Deeper Understanding

1. **Climate-related transition risks:** Risks associated with transitioning to a low-carbon economy.
2. **Climate-related physical risks:** Risks such as storms, floods, and wildfire damage.
3. **Scope 1 emissions:** Direct greenhouse gas emissions generated by a company due to its operations, such as those from running boilers, generators, and vehicles.
4. **Scope 2 emissions:** Indirect emissions, stemming from the electricity or energy purchased for heating and cooling buildings.
5. **Scope 3 emissions:** Emissions associated indirectly with a company, including those originating from

suppliers, product usage, and along the value chain. Scope 3 emissions typically have the most significant environmental impact.

What to disclose?

IFRS S2 adheres to a materiality concept, aiming to provide users of financial reports with a clear understanding of how climate-related risks and opportunities impact an organization's strategy and decision-making. This standard obligates entities to disclose only those risks and opportunities that could reasonably affect their cash flows, access to finance, or cost of capital over the short, medium, or long term.

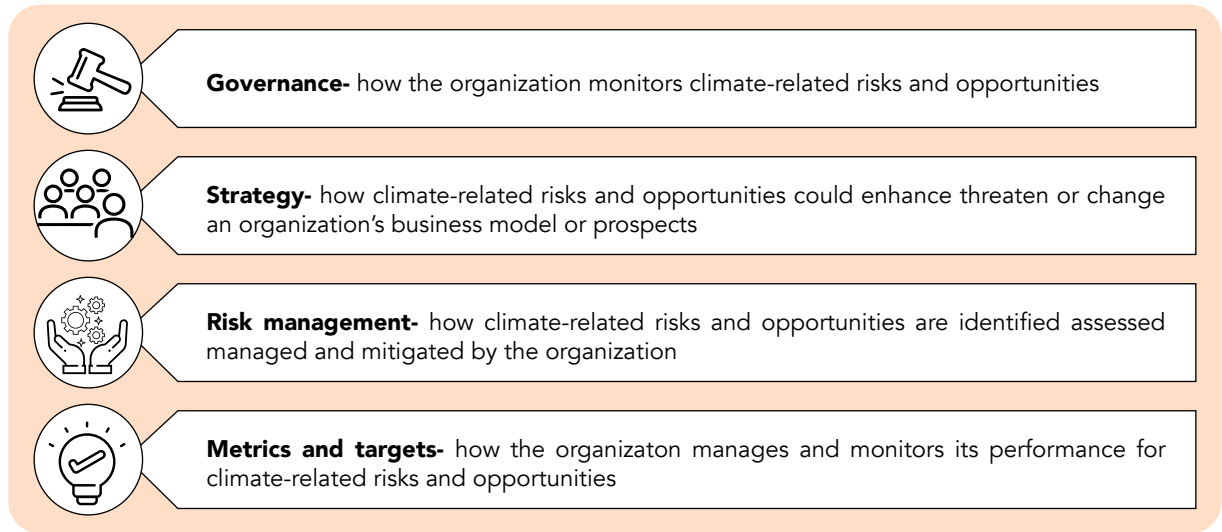
Transition Reliefs- Companies are not mandatorily required to

- Provide comparative information for any period before the date of initial application or
- Disclose scope 3 emission matrix until FY25

1. Governance

Entities are required to disclose information about:

- a. The governing body(s) or individual(s) responsible for overseeing climate-related risks and opportunities. This disclosure should include:
 - (i) Responsibilities and roles regarding climate-related risks and opportunities.

IFRS S2 reporting requirement covers the following four areas-


- (ii) Evaluation of the governing body's skills and competencies in overseeing climate strategies.
 - (iii) Frequency of informing the governing body about climate-related risks and opportunities.
 - (iv) Consideration of climate-related factors in strategy, major decisions, and risk management.
 - (v) Oversight of setting and monitoring targets related to climate-related risks and opportunities.
- b. The role of management in governing processes, controls, and procedures for monitoring, managing, and overseeing climate-related risks and opportunities.

2. Strategy

Entities are obligated to disclose:

- (a) The current and expected impact of climate-related risks and opportunities on the entity's prospects, business model, value chain, strategy, and decision-making, including their climate-related transition plan.
- (b) The effects of these climate-related risks and opportunities on the entity's financial position, financial performance, and cash flows for the reporting period, as well as their expected impact over the short, medium, and long term.
- (c) The climate resilience of the entity's strategy and business model to climate-related changes, uncertainties, and associated risks and opportunities.

3. Risk Management

Entities must provide information about:

- (a) Processes and policies used to identify, assess, prioritize, and monitor climate-related risks, including details about:
 - (i) Data sources and operational scope
 - (ii) Utilization of climate-related scenario analysis for risk identification
 - (iii) Methods for assessing risk nature, likelihood, and magnitude (for example, whether the entity considers qualitative factors, quantitative thresholds, or other criteria)
 - (iv) Prioritization of climate-related risks compared to other risks
 - (v) Monitoring of climate-related risks
 - (vi) Changes in processes from the previous reporting period
- (b) Processes used to identify, assess, prioritize, and monitor climate-related opportunities, including the use of climate-related scenario analysis.

A substantial shift has occurred among global investors who now wish to fund businesses that operate with environmental responsibility over those that prioritize short-term profits at the expense of the environment.

- (c) The extent and integration of processes for managing climate-related risks and opportunities into the overall risk management framework.

4. Metrics and Targets

Entities are required to disclose:

- (a) Industry-based metrics relevant to their business models.
- (b) Targets set by the entity, as well as those mandated by law or regulations, to mitigate or adapt to climate-related risks, along with metrics for measuring progress toward these targets.

An entity shall provide comprehensive information pertinent to the cross-industry metric categories, encompassing:

(a) Greenhouse Gas Emissions

The entity is required to divulge its absolute gross greenhouse gas emissions incurred during the reporting period, articulated as metric tons of CO₂ equivalent. This disclosure should be classified into:

- (i) Scope 1 greenhouse gas emissions,
- (ii) Scope 2 greenhouse gas emissions, and
- (iii) Scope 3 greenhouse gas emissions.

(b) Climate-Related Transition Risks

This necessitates the disclosure of both the numerical extent and the proportional share of assets or business operations susceptible to climate-related transition risks.

(c) Climate-Related Physical Risks

The entity must report the quantifiable magnitude and proportion of assets or business activities exposed to climate-related physical risks.

(d) Climate-Related Opportunities

Disclosing the quantifiable extent and the corresponding percentage of assets or business activities in alignment with climate-related opportunities is mandated.

(e) Capital Deployment

The report should include the aggregate capital outlay, financing, or investments committed toward addressing climate-related risks and capitalizing on opportunities.

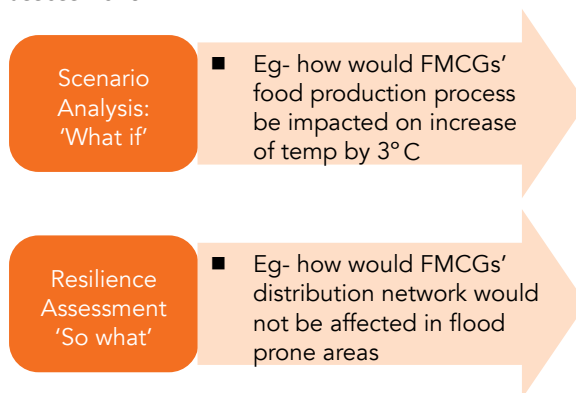
(f) Internal Carbon Pricing, if applicable:

For entities where applicable, the disclosure should encompass:

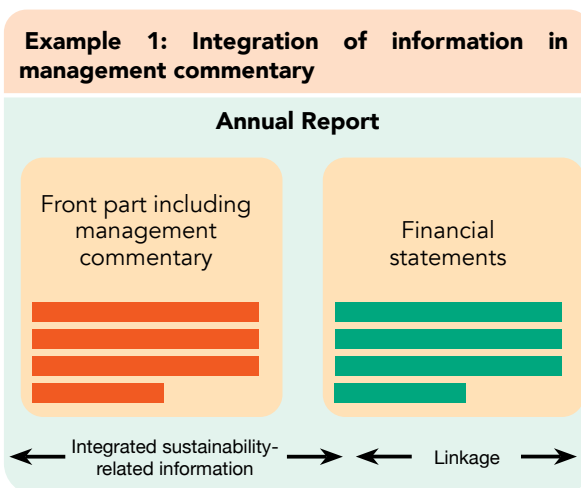
- (i) An elucidation of whether and how the entity applies a carbon pricing mechanism in its decision-making processes, which may include aspects like investment decisions, transfer pricing, and scenario analysis.
- (ii) The specific price per metric ton of greenhouse gas emissions employed by the entity to evaluate the financial implications of its greenhouse gas emissions.

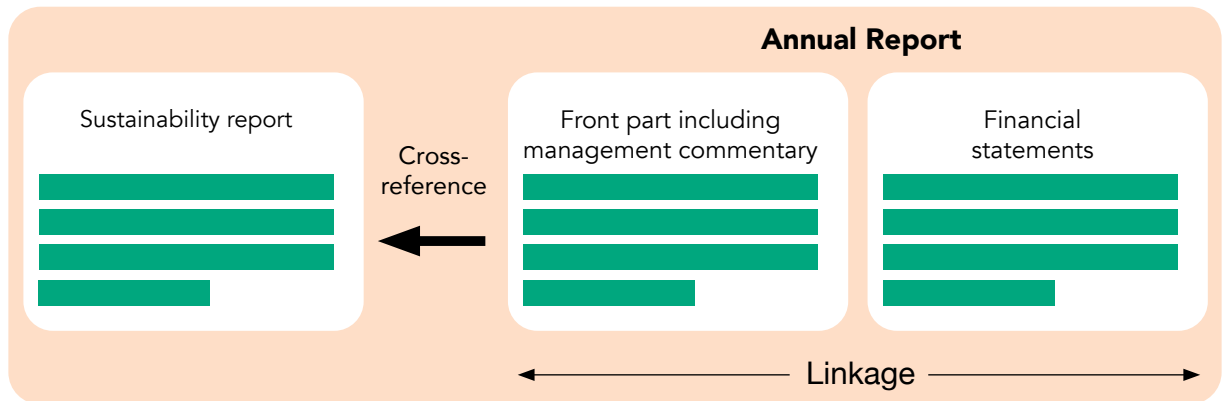
(g) Percentage of Management Remuneration Linked to Climate

Examples of scenario analysis and resilience assessment



Where should this information be disclosed?



Example 2: Separate report providing sustainability-related information, cross referenced to and available at the same time and on the same terms as management commentary


Note: Assurance requirements are not within the ISSB's remit. Regulators may choose to require assurance.

How does the Business Responsibility Sustainability Report (BRSR) required to be disclosed by top 1000 listed companies in India compare to IFRS S2?

The BRSR, while not as comprehensive as IFRS S2, addresses vital aspects of energy and resource conservation programs. It covers the following disclosures related to climate change:

- Details of projects initiated to reduce greenhouse gas emissions.
- National and international codes, certifications, labels, and standards (e.g. SA 8000, OHSAS, ISO, BIS) adopted by the entities like Forest Stewardship Council, Fairtrade, Rainforest Alliance, Trustea.
- Total energy consumption and energy intensity.
- Sustainability sourcing procedures and the percentage of sustainably sourced inputs.
- Extended Producer Responsibility (EPR) is applicable to the entity's activities (Yes / No). If yes, whether the waste collection plan is in line with the Extended Producer Responsibility (EPR) plan submitted to Pollution Control Boards?

Only time will tell whether SEBI would like to make BRSR as comprehensive as IFRS S1 and S2.

Opportunities for Chartered Accountants (CAs) in implementing IFRS S2

Chartered Accountants have a unique opportunity to provide value to their clients, including:

- Assistance in practical application of the standard for companies.

- Audit and assurance services.
- Integration of sustainability assessment and metrics into investment appraisal matrix.
- Reviewing and advising on risk management, strategy processes, and metrics/targets.
- Collaborating with environmental specialists to enhance processes to make it more sustainably acceptable for the Company.

References

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- Etmoney.com as on 30th Sep 2023
- Environmental claims in the EU: Inventory and reliability assessment Final report, European Commission 2020 available at https://ec.europa.eu/environment/eusds/mgp/pdf/2020_Greenclaims_inventory.zip
- <https://www.reuters.com/business/sustainable-business/bank-england-tells-banks-take-climate-action-now-or-face-profit-hit-2022-05-24/>
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EU Taxonomy, Assurance Requirements, and its Implication on India and Indian Chartered Accountants



CA. (Dr.) Chethan Jayantha
Member of the Institute

Over the past couple of years, we have been hearing the terms EU Taxonomy, Green taxonomy, Sustainability reporting, and ESG (Environmental, Social, and Governance) reporting and other related terminologies. It is now evident that these reporting are part of the Financial reports and as a Chartered Accountant, we are responsible for the assurance of these reported numbers.

In this article, we will briefly discuss the EU taxonomy since the EU Taxonomy reporting has already been started by large companies in the European Union. The Statutory Auditors of these companies are responsible for Limited assurance for these reports. We will understand the background for implementing EU Taxonomy, Objectives, CSRD, SFDR, Reporting requirements, Keywords, and KPIs of EU taxonomy. We will understand the applicability of these reporting and Assurance requirements from the Statutory Auditors. We will continue the discussion with India's efforts towards green taxonomy and what to expect in the upcoming years. It is also worth mentioning that the Indian Government is also working on a policy similar to the Green Taxonomy pioneered by the European Union (EU).

EU Taxonomy - Introduction

One of the greatest challenges that our generation and our upcoming generation will be facing is the impact of climate change. It is now our responsibility to manage and utilize the environment and resources to benefit both the current and future generations so that we have a sustainable future. With this view, almost all the countries entered into an international treaty on climate change in 2015 named as "Paris Agreement". The aims of this agreement are

Temperature Goal: The aim is to keep the rise in global average temperature significantly below 2°C compared to pre-industrial levels. Efforts should be made to limit it even further, to 1.5°C. Achieving this would significantly reduce the risks and impacts of climate change.

Adaptation and Resilience: We need to enhance our ability to adapt to climate change's adverse effects. This includes fostering climate resilience and promoting low greenhouse gas emissions development. Importantly, these efforts should not jeopardize food production.

Finance Alignment: Financial flows should align with a pathway toward low greenhouse gas emissions and climate-resilient development. This ensures that investments support sustainable practices and contribute to climate goals.

Owing to the Paris Agreement, the European Union became the pioneer in implementing European Green Deal initiatives and EU Taxonomy.

Objectives of EU Taxonomy

The main aim of the European Green Deal is to prevent greenwashing and also help investors make informed decisions related to sustainable investments. Hence there is a need for a reliable tool that would support companies in their transition to climate neutrality and a sustainable economy. This is fulfilled by EU Taxonomy and related legislation by translating climate and environmental objectives into clear criteria, it creates a common language around green activity. This framework serves as a reference point for investors and companies, aiding them in planning and financing their transition. Additionally, it combats market fragmentation, prevents greenwashing, and accelerates financing for sustainable projects.

EU sustainable finance framework

To achieve the above objective the European Union has created an EU Sustainable Finance Framework which incorporates three-dimensional corporate sustainability disclosure regimes namely the Corporate Sustainability Reporting Directive (CSRD), the Sustainable Finance Disclosure Regulation (SFDR), and EU taxonomy. These

are interconnected components of the EU’s sustainable finance framework.

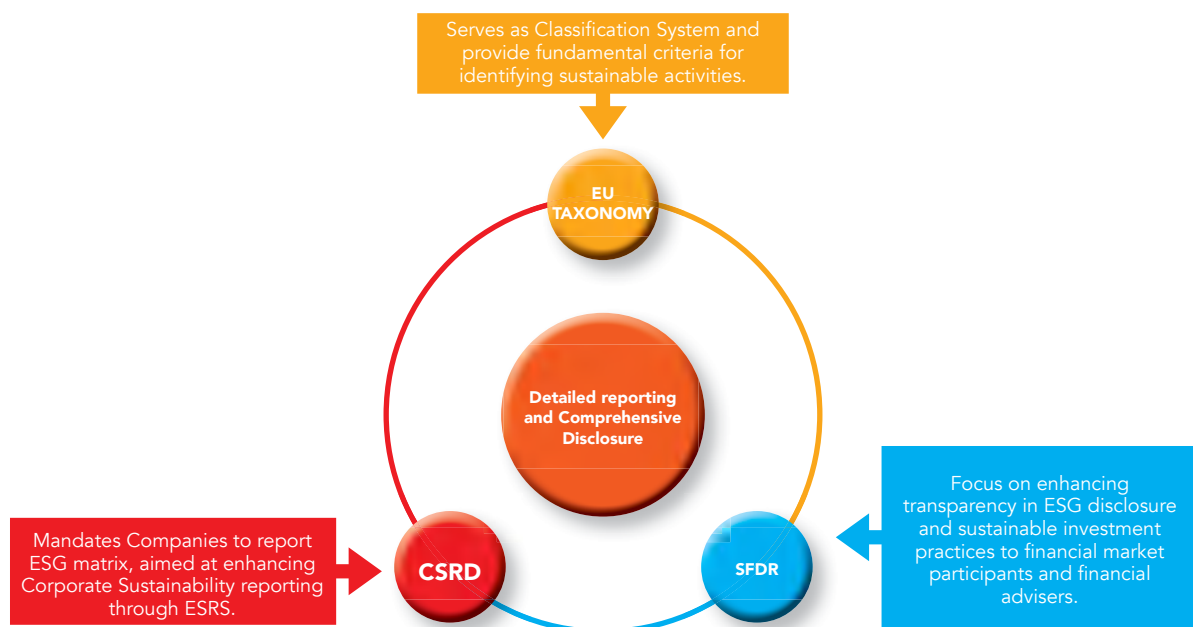
Corporate Sustainability Reporting Directive (CSRD)

CSRD gives the legislative backing for attaining the European Green Deal objective. CSRD is a European Union legislation aimed at enhancing and standardizing the reporting of non-financial information. The CSRD seeks to improve the consistency, quality, and transparency of sustainability information disclosed by companies. This helps investors, civil society organizations, consumers, and other stakeholders evaluate the sustainability performance of companies.

The CSRD has also introduced a reporting standard namely the **European Sustainability Reporting Standards (ESRS)**. The ESRS aims to provide specific guidelines and standards for Environment, Social, and Governance (ESG) reporting under the CSRD. Companies will need to start applying the new rules for the 2024 financial year, with reports published in 2025. In other words, CSRD gives the framework for the reporting requirements of the Companies.

Sustainable Finance Disclosure Regulation (SFDR)

SFDR is also a European Union regulation aimed at increasing transparency in the financial markets regarding sustainability. It applies to financial market participants and financial advisers namely Insurance Undertaking, Portfolio Management Firms, and Fund



Managers, among others. The main aim is to channel capital into more sustainable investment avenues by providing investors with transparent, standardized information to investors.

The SFDR came into effect in 2021, with the phased implementation of its requirements. SFDR categorizes investment funds into three types based on their focus on environmental objectives:

- **Dark Green Funds (Article 9):** These funds have sustainable investment as their primary objective.
- **Light Green Funds (Article 8):** These funds promote environmental and social characteristics but may not have sustainability as their central goal.
- **Grey Funds (Article 6):** These funds neither prioritize nor promote environmental or social characteristics.

EU Taxonomy

EU Taxonomy provides a classification system for environmentally sustainable economic activities. It sets the criteria for what qualifies as sustainable, serving as the foundation for both CSRD and SFDR. By providing clear criteria, it helps investors, companies, and policymakers to identify which activities are environmentally sustainable.

Let us now understand the classification, reporting, and assurance requirements under the EU taxonomy.

Reporting of Taxonomy KPIs

The organizations are required to report Taxonomy Key Performance Indicators (KPIs) which measure the performance of the entity's "sustainable economic activities". The Taxonomy KPIs are different based on the type of entities.

- For Financial undertaking, the KPI is the Green Asset Ratio (GAR). It is the ratio expressed as a percentage of a Financial undertaking's assets which finances and are invested in EU Taxonomy-aligned economic activities over the total covered assets.
 - i. Whereas for the non-financial entities, the Taxonomy KPIs include reporting of Eligibility and Alignment of the following parameters.
 - ii. Turnover,
 - iii. Capital Expenditure (Capex), and
 - iv. Operational Expenditure (Opex)

Now let's understand Eligibility and Alignment as it is the key to reporting the Taxonomy KPIs.

- **Eligibility:** Any Activity becomes Taxonomy Eligible if the same is listed in the EU taxonomy regardless of whether it meets the specific conditions. In other

words, A 'Taxonomy-eligible economic activity' is an activity that could make a potential contribution to one or more of the following six environmental objectives in line with the EU Taxonomy's list of economic activities.

- i. Climate change mitigation
- ii. Climate change adaptation
- iii. Sustainable use and protection of water and marine resources
- iv. Transition to a circular economy.
- v. Pollution prevention and control
- vi. Protection and restoration of biodiversity and ecosystems.

- **Alignment:** Alignment refers to economically eligible activities that meet all relevant sustainability performance and compliance criteria simultaneously. A 'Taxonomy-aligned economic activity' is considered to be environmentally sustainable if it meets the relevant technical screening criteria included in the EU Taxonomy. An eligible activity becomes taxonomy-aligned when it satisfies three key criteria.

- i. **Substantial Contribution:** a substantial contribution to one of the six environmental objectives outlined below.
- ii. **Do No Significant Harm (DNSH):** Does not significantly harm any of these six environmental objectives.
- iii. **Minimum Social Safeguards (MSS):** complying with minimum social safeguards.

Applicability

The timeline for the application of reporting requirements for the undertaking in European Union Countries is as follows: (European Commission, FAQs: How should financial and non-financial undertakings report Taxonomy-eligible economic activities and assets in accordance with the Taxonomy Regulation Article 8 Disclosures Delegated Act, 2022?)

EU Taxonomy Regulation is also applicable to the following Non-EU entities:

- Non-EU companies offering financial products in the EU.
- EU subsidiaries of non-EU companies (if within the scope of NFRD/CSRD).
- Non-EU subsidiaries of EU parent companies.
- Non-EU companies that are listed in the EU-regulated market.

Assurance Requirements

The assurance requirements are being implemented in a phased manner.

Current Requirement

As enumerated in para 60 of the Corporate Sustainability Reporting Directive (CSRD) of the EU, all companies within its scope are required to seek limited assurance over the following:

- i. Compliance of the KPI reported with the sustainability reporting Standard.
- ii. The process followed by the undertaking to arrive at the information/KPI reported according to the sustainability reporting standards.

It should be noted that Limited assurance is required to be obtained from the first year of reporting for the entities under scope.

This assurance may be provided by the **company's statutory auditor**. The assurance provider needs to report the conclusion as to whether the organization has disclosed the Sustainability information in accordance with the above-mentioned criteria.

Future Assurance Standards

The European Commission (EC) will evaluate the feasibility of transitioning from limited to reasonable assurance for both auditors and companies. Assurance standards for limited assurance are planned to be adopted not later than October 2026, and further for reasonable assurance, not later than October 2028.

India's efforts towards green taxonomy

Even though India's Green Taxonomy is still in the infancy stage, India's financial sector regulators, including

Assurance standards for limited assurance are planned to be adopted not later than October 2026, and further for reasonable assurance, not later than October 2028. (CSRD)

SEBI, RBI, and IFSCA, have made significant progress in promoting green finance. In 2017, SEBI formalized disclosure requirements for green debt securities, defining areas like renewable energy and clean transportation. These guidelines were later incorporated into the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, which expanded the definition to include blue bonds, yellow bonds, and transition bonds.

However, the absence of a green taxonomy for assets financed through green bonds and the risk of greenwashing was highlighted in SEBI's consultation paper. Bankers, lenders, and issuers faced challenges due to the lack of domestic green assessment criteria. SEBI also introduced the Business Responsibility and Sustainability Reporting Framework in 2021, enhancing sustainability reporting for top-listed companies.

The RBI echoed the need for a green taxonomy in its 2022 Discussion Paper on Climate Risk and Sustainable Finance. It provided guidance for recalibrating governance and risk management structures to address climate risks. The RBI's recent Framework for Acceptance of Green Deposits mandates regulated entities to formulate green deposit policies, following a similar approach to SEBI until an official green taxonomy is established.

It is evident from the above that even though financial sector regulators are making efforts to define 'green', the approach by far has led to fragmentation and lack of standardization. To solve this white spot, the Department of Economic Affairs is believed to have set up a Task Force on Sustainable Finance in 2021 and the same has submitted a draft taxonomy. However, in the

Year	Applicability
2022	Large undertakings (entities having an average number of 500 or more employees during the financial year) must report the proportion of their activities that are eligible or non-eligible. Financial and non-financial undertakings disclose qualitative information. * Entities are not required to assess Taxonomy alignment in 2022; they only report activities contributing to climate objectives based on the EU Climate Delegated Act.
2023	Large non-financial undertakings need to report activities aligned with the EU Taxonomy
2024	Large financial institutions need to disclose both the Taxonomy-eligible and aligned activities.
2026	Credit institutions would need to report Taxonomy alignment for their trading books along with the fees and commissions for non-banking activities.

public domain, there is limited information available on the current status of finalizing this taxonomy. (Khanna M., 2023)

Implications on India

Similar to IND AS which aimed to make financial reporting by Indian companies aligned with IFRS and make it globally accessible, it is believed that in developing a green taxonomy, policymakers in India could adopt a more pragmatic approach similar to that of the EU taxonomy to mitigate the risk of fragmentation and inconsistency. (Khanna S. H., 2023). While India is free to frame its own rules, it will feel the influence of the EU taxonomy. It would be Indirectly Influenced by globally integrated capital markets and supply chains, and India's financial decisions will be impacted by the EU's taxonomy. Furthermore, as investors and businesses operate across borders, alignment with international standards becomes crucial.

Hence it is more likely that in India also we would have similar KPI reporting and Assurance requirements by the Statutory auditor. That day would not be extremely far as India would be at risk of losing the substantial investment of Foreign Investment in Green Capital if there was a delay in formulating and Implementing a green taxonomy.

Additionally, as required by EU taxonomy, non-EU Indian subsidiaries of EU parent companies have already started providing required information to their EU parent.

Conclusion

It can be observed that many Indian-listed companies have already started voluntarily reporting the Taxonomy KPIs. As Indian companies operate in globally integrated markets, aligning with international standards is crucial. Adding to it Reporting EU Taxonomy KPIs enhances transparency and attracts sustainable financing. Without delay, Indian policymakers should expedite green growth across sectors by developing a locally tailored green taxonomy that carefully balances economic objectives with environmental responsibilities.

Chartered Accountants would play a crucial role in implementing the Green Taxonomy within Indian companies. Chartered Accountants can contribute not only through technical expertise but also by fostering a culture of sustainability within organizations. Their expertise would be needed not only to implement the Green Taxonomy but also to provide assurance for the Taxonomy KPI's reporting.

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ESG Integration for Sustainable Development: A Pathway to Viksit Bharat



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The study evaluates the pivotal role of technology in advancing ESG (Environmental, Social, and Governance) principles, particularly through renewable energy solutions, waste management systems, and smart city initiatives. Additionally, it scrutinizes the economic implications of environmental sustainability initiatives, underscoring their potential to drive employment, investment, and economic growth. Furthermore, the study analyzes future trends and challenges, offering recommendations for policymakers and stakeholders to navigate toward a more sustainable and resilient future. This study offers important insights into India's journey towards environmental sustainability and efficient governance by thoroughly examining these topics.



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India, with its burgeoning population, rapid industrialization, and diverse ecosystems, stands at the crossroads of environmental sustainability and governance. In recent years, the nation has made significant strides in recognizing the importance of preserving its natural resources while grappling with the challenges of economic development. This study undertakes a comprehensive examination of India's journey toward environmental sustainability and effective governance, encompassing the intricate interplay of legal frameworks, technological advancements, stakeholder engagements, and economic implications.

The article explores the transformative role of technology in advancing ESG principles, focusing on renewable energy, waste management, and smart cities. Stakeholder roles, including

government, NGOs, communities, and businesses, are analyzed for their contributions towards sustainability. Economic implications, such as job creation and investment attraction, are emphasized. The study concludes with forward-looking insights on emerging trends, challenges, and recommendations for India's sustainable future. It provides a comprehensive exploration of India's journey toward environmental sustainability and effective governance, integrating legal, technological, social, economic, and environmental aspects.

Overview

Technological Contribution towards Achieving ESG Goals

The use of technology, including renewable energy solutions, waste management systems, and smart city initiatives, plays a crucial role in advancing Environmental, Social,

and Governance (ESG) principles. Here's an evaluation of how these technologies contribute to ESG:

Renewable Energy Solutions

- **Environmental Impact:** Renewable energy solutions such as solar, wind, and hydroelectric power contribute to reduce greenhouse gas emissions, mitigating climate change, improving air quality, and conservation of water resources. By displacing fossil fuels, renewable energy helps to decrease dependence on non-renewable resources and minimize environmental degradation associated with conventional energy production.
- **Social Impact:** Access to clean and affordable energy improves energy security and resilience, particularly in underserved communities. Equitable access and distribution of renewable energy can provide electricity to remote areas without access to the grid, empowering local communities and improving their livelihoods. Renewable energy projects also create job opportunities and stimulate economic development, contributes to social equity and inclusion.
- **Governance Impact:** Governments and regulatory authorities play a crucial role in incentivizing renewable energy deployment through supportive policies, incentives, and regulatory frameworks. By promoting renewable energy adoption and phasing out subsidies for fossil fuels through policies and incentives, policymakers can align energy policies with climate objectives, enhance energy governance and energy security, and foster sustainable development.

Waste Management System

- **Environmental Impact:** Effective waste management systems help to reduce pollution, conserve natural resources, and minimize environmental contamination. Recycling and waste-to-energy technologies divert waste from landfills, reduce greenhouse gas emissions, and promote principles of circular economy. Advanced organic waste treatment technologies such as composting, and anaerobic decomposition can recover valuable resources and generate renewable energy from organic waste.
- **Social Impact:** Proper waste management protects public health, improves sanitation, and enhances the quality of life in communities. Recycling initiatives create employment opportunities in waste collection, sorting, and processing industries, particularly for marginalized populations. Public awareness campaigns and community engagement programs promote responsible waste disposal behaviors and



encourage citizen participation in making efforts to reduce waste.

- **Governance Impact:** Governments and local authorities are responsible for implementing waste management policies, regulations, and infrastructure investments. Integrated waste management planning, decentralized waste processing facilities, and public-private partnerships can improve governance effectiveness, enhance service delivery, and ensure compliance with environmental standards and targets. By engaging in public education and awareness campaigns, the government can encourage citizen participation and foster a sense of community ownership over the issue, strengthening the government-public relationship

Smart City Initiatives

- **Environmental Impact:** Smart city initiatives leverage technology to effectively optimize use of resources, reduce energy consumption, and minimize environmental impacts. Smart infrastructure solutions such as energy-efficient buildings, intelligent transportation systems, and green spaces enhance urban sustainability and resilience. Continuous tracking of demand and supply of energy are made possible by smart grids and energy management systems, which also make it easier to integrate renewable energy sources and reduce greenhouse gas emissions.
- **Social Impact:** Smart city technologies improve urban livability, safety, and inclusivity by enhancing access to essential services, public transportation, and digital connectivity. Smart mobility solutions promote efficient and equitable transportation options, reducing congestion, air pollution, and traffic accidents. Digital inclusion initiatives ensure

that smart city benefits are accessible to all residents, regardless of income or location.

■ **Governance Impact:** Smart city governance models emphasize data-driven decision-making, citizen engagement, and collaborative governance structures. Open data platforms, citizen feedback mechanisms, and participatory budgeting processes enhance transparency, accountability, and responsiveness of urban governance. Public-private partnerships, innovation ecosystems, and regulatory sandboxes foster collaboration and innovation in smart city development, enabling governments to address complex urban challenges more effectively.

Role of Stakeholders in Promoting ESG Principles

Different stakeholders, including government agencies, NGOs, local communities, and businesses, play distinct but interconnected roles in promoting ESG principles. Here's an investigation into the roles of each stakeholder:

Government Agencies

- **Policy Development:** Government agencies formulate and implement policies, regulations, and standards related to environmental protection, social welfare, and corporate governance. They establish legal frameworks and incentives to encourage businesses to adopt ESG practices and comply with sustainable requirements.
- **Enforcement and Oversight:** Government agencies enforce environmental laws, monitor compliance with regulatory standards, and impose penalties for violations. They conduct inspections, audits, and assessments to ensure that businesses adhere to environmental, social, and governance regulations.



- **Capacity Building:** Government agencies provide technical assistance, training programs, and funding support to enhance the capacity of businesses, NGOs, and local communities to implement ESG initiatives effectively. They facilitate knowledge sharing, best practices dissemination, and collaboration among stakeholders to address sustainability challenges.
- **Lead by setting examples:** Government agencies can act as models for ESG implementation. This can include integrating ESG considerations into their own operations, like using sustainable energy sources or implementing diversity and inclusion policies.

NGOs (Non-Governmental Organizations)

- **Advocacy and Awareness:** NGOs advocate for environmental conservation, social justice, and corporate responsibility through public campaigns, research, and education initiatives. They raise awareness about ESG issues, mobilize public opinion, and engage in policy-making to promote sustainable practices and hold businesses accountable.
- **Monitoring and Reporting:** NGOs monitor corporate behavior, conduct independent assessments, and publish reports on companies' environmental and social performance and highlight greenwashing acts. They provide stakeholders with objective information and transparency regarding ESG practices, enabling informed decision-making and accountability.
- **Partnerships and Collaboration:** NGOs collaborate with businesses, government agencies, and local communities to develop innovative solutions, implement ESG projects, and address complex sustainability challenges. They facilitate multi-stakeholder dialogues, coalitions, and partnerships to foster collective action and promote sustainable development.

Local Communities

- **Community Engagement:** Local communities are directly impacted by business activities and are vested in promoting ESG practices. They engage with businesses to voice concerns, provide feedback, and participate in decision-making processes related to environmental, social, and governance issues.
- **Social Impact Assessment:** Local communities conduct social impact assessments to evaluate the potential effects of business projects on community well-being, livelihoods, and cultural heritage. They advocate for measures to mitigate negative impacts and ensure that development projects benefit residents.
- **Community Development:** Local communities collaborate with businesses and NGOs to implement

community development projects, including infrastructure development, education programs, healthcare services, and income-generating activities. Communities monitor and engage with their local government to ensure they are making decisions that consider ESG factors. They contribute local knowledge, resources, and labor for ESG initiatives that address community needs and priorities.

Business

- **ESG Integration:** Businesses integrate environmental, social, and governance considerations into their core business strategies, operations, and decision-making processes. They adopt sustainable practices, set ESG goals, and measure performance to create long-term value for shareholders and stakeholders.
- **Stakeholder Engagement:** Companies interact with stakeholders to learn about their ESG priorities, demands, and issues. Stakeholders include investors, customers, employees, suppliers, and neighborhoods. They work with stakeholders to deal with issues related to sustainability and co-create value by fostering communication, establishing trust, and cooperation.
- **Innovation and Leadership:** Businesses drive innovation and leadership in ESG by developing new technologies, business models, and sustainability solutions. They invest in research and development, implement best practices, and share lessons learned to inspire industry-wide change and drive collective action toward a more sustainable future.

Economic Implications of Environmental Sustainability Initiatives

Environmental sustainability initiatives can have significant economic implications, affecting employment, investment, and economic growth in various ways.

Employment

- **Green Jobs Creation:** Environmental sustainability initiatives often lead to the creation of new employment openings in sectors such as renewable energy, energy efficiency, waste management, and

Policymakers should prioritize climate change adaptation and mitigation measures, including investments in climate-resilient infrastructure, sustainable agriculture practices, renewable energy deployment, and disaster risk reduction strategies.

conservation. Jobs in these sectors include engineers, technicians, researchers, project managers, and skilled laborers involved in designing, implementing, and operating sustainable technologies and practices.

- **Transitioning Workforce:** However, the transition towards environmental sustainability may also result in the displacement of workers in traditional industries such as fossil fuel extraction, coal mining, and manufacturing with high environmental

footprints. Governments and businesses need to invest in retraining programs, education, and skill development to ensure a smooth transition for affected workers and facilitate their transition to new green jobs.

- **Social Inclusion:** Environmental sustainability initiatives can promote social inclusion by creating job opportunities for marginalized communities, women, and youth who may face barriers to employment in conventional industries. By prioritizing workforce diversity, equity, and inclusion, businesses can harness the full potential of a diverse workforce and drive inclusive economic growth.

Investment

- **Attracting Capital:** Environmental sustainability initiatives attract investment from a wide range of sources, including government funding, private sector investment, venture capital, and therefore, create an impact on investors. Investments in renewable energy projects, energy efficiency retrofits, sustainable infrastructure, and green technologies offer attractive returns while contributing to environmental objectives.
- **Risks Mitigation:** Businesses that adopt environmental sustainability practices and integrate ESG considerations into their operations are perceived as less risky by investors. Strong ESG performance could lead to easier availability of money, cheaper borrowing costs, and greater value for numerous companies as investors start to give sustainability factors more weightage while making investment choices.

- **Innovation and Competitiveness:** Environmental sustainability initiatives drive innovation, technological advancement, and market competitiveness. Investments in clean technologies, sustainable products, and eco-friendly processes foster innovation ecosystems, stimulate economic

growth, and enhance global competitiveness by positioning businesses at the forefront of sustainable development trends.

Economic Growth

- **Long-term Resilience:** Environmental sustainability initiatives contribute to long-term economic resilience and stability by reducing vulnerability to resource scarcity, environmental degradation, and impacts of climate change. Sustainable development practices promote resource efficiency, diversification, and principle of circular economy, enhancing economic productivity and competitiveness and reducing risks associated with environmental degradation in the long run.
- **Cost Savings:** While there may be upfront costs accompanying with implementation of environmental sustainability initiatives, such as investing in renewable energy infrastructure or upgrading manufacturing processes, these investments often yield significant cost savings over time. Energy-efficient technologies, waste reduction measures, and sustainable practices can lower operating costs, improve resource utilization, and enhance profitability for businesses. Additionally, due to enhanced public health, there is a significant reduction in public health expenditure.
- **Quality of Life:** Environmental sustainability initiatives improve quality of life by reducing pollution, enhancing public health, and preserving natural ecosystems and biodiversity. Healthy environments attract talent, tourism, and investment, driving local economic development and enhancing the overall well-being of communities.



Environmental Sustainability and Governance – Trends, Challenges and Recommendations

In the context of environmental sustainability and governance in India, several potential future trends and challenges are likely to emerge. These include:

Climate Change Adaptation and Mitigation

- **Trend:** India will face increasing challenges related to climate change, including sea level rise, unpredictable precipitation patterns, higher temperatures, and catastrophic weather occurrences.
- **Challenge:** Climate change impacts will exacerbate existing environmental and socio-economic vulnerabilities, affecting agriculture, water resources, public health, and infrastructure.
- **Recommendation:** Policymakers should prioritize climate change adaptation and mitigation measures, including investments in climate-resilient infrastructure, sustainable agriculture practices, renewable energy deployment, and disaster risk reduction strategies.

Air and Water Pollution Control

- **Trend:** Urbanization, industrialization, and population growth will continue to increase air and water pollution levels in India's cities and industrial hubs.
- **Challenge:** Poor air quality and water contamination pose significant health risks, environmental degradation, and increasing economic costs, impacting human well-being and ecosystem integrity.
- **Recommendation:** Strengthen enforcement of pollution control regulations, invest in pollution monitoring and enforcement mechanisms, promote clean technologies and renewable energy adoption, and encourage public participation in pollution prevention and control efforts.

Natural Resource Management

- **Trend:** Rapid urbanization, industrial expansion, and infrastructure development will lead to increased pressure on natural resources such as land, forests, water, and minerals.
- **Challenge:** Unsustainable resource extraction, deforestation, land degradation, and biodiversity loss threaten ecosystems, biodiversity, and ecosystem services critical for human survival and well-being.
- **Recommendation:** Adopt sustainable planning of land-use pattern, forest conservation measures, water

resource management strategies, and biodiversity conservation efforts. Promote sustainable tourism, eco-friendly practices, and community-based natural resource management initiatives.

Waste Management and Circular Economy

- **Trend:** Urbanization, increased per-capita consumption, and changes in rural consumption patterns will generate growing volumes of solid waste, electronic waste, and hazardous waste, exacerbating waste management challenges.
- **Challenge:** Inadequate waste collection, disposal, and recycling infrastructure contribute to pollution, environmental degradation, and public health risks.
- **Recommendation:** Implement integrated waste management systems, including source segregation, recycling, composting, and waste-to-energy facilities. Promote extended producer responsibility (EPR), circular economy principles, and sustainable consumption patterns. Encourage public awareness and behavior change campaigns to reduce waste generation and promote recycling and reuse.

Green Finance and Sustainable Investments

- **Trend:** Increasing awareness of ESG factors among investors, businesses, and financial institutions will drive demand for green finance and sustainable investments.
- **Challenge:** Limited availability of green financing options, lack of standardized ESG disclosure and rating frameworks, and regulatory gaps hinder the mainstreaming of sustainable finance and introduce the possibility of greenwashing.
- **Recommendation:** Develop regulatory frameworks and incentives to promote green finance, including green bonds, sustainable loans, etc. Strengthen ESG disclosure requirements for listed companies and financial institutions. Encourage capacity-building and knowledge-sharing initiatives to enhance understanding of ESG risks and opportunities among investors and financial institutions.

Policy Coherence and Governance Reform

- **Trend:** Policy coherence and governance reform will be essential to address cross-cutting environmental challenges and achieve sustainable development goals.
- **Challenge:** Fragmented policy frameworks, weak institutional capacities, and regulatory gaps hamper the effective implementation of environmental laws and regulations.

- **Recommendation:** Enhance coordination among government agencies, streamline regulatory processes, and strengthen institutional capacities for environmental governance. Promote multi-stakeholder partnerships, citizen engagement, and participatory decision-making processes to enhance transparency, accountability, and effectiveness of environmental governance.

Conclusion

In India, strides have been made towards environmental sustainability and effective governance, yet challenges persist. Despite robust legal frameworks, implementation gaps hinder long-term goals. Technology, including renewable energy and smart city initiatives, offers promising solutions. Collaboration among stakeholders is key to leveraging technology for impactful change. Environmental initiatives not only affect the economy but also offer opportunities for job creation and investment. Embracing sustainability can drive innovation and competitiveness. Moving forward requires a holistic approach emphasizing policy coherence, stakeholder engagement, and innovation, focusing on governance reform, pollution reduction, resource management, and climate action.

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Sustainable Finance and Financial Institutions



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The Earth's climate has irrefutably fluctuated over time due to natural forces; nevertheless, various independent investigations have increasingly indicated that human activities have significantly worsened the process of climate change since the industrial era. The United Nations Intergovernmental Panel on Climate Change's Report from August 9, 2021, highlights that human-induced greenhouse gas emissions are accountable for approximately **1.1°C** of warming since the pre-industrial period. Despite the seemingly minor increase, current temperatures have been unparalleled in the last **12,000 Years**, impacting living conditions in numerous regions globally. The impact of climate change on a business can be classified into Physical Risks or Transition Risks. 'Physical Risks' stem from the tangible consequences of climate change, including Alterations in Temperature, Precipitation Patterns, Extreme Weather Occurrences, and Water Availability. 'Transition Risks' emerge when society undertakes measures to reduce the effects of climate change and transition to a low-carbon economy. For instance, the implementation of a new Climate Policy or a shift in consumer preferences towards environmentally friendly products are two scenarios that businesses must adjust.

Mr. Kofi Annan, the former Secretary-General of the United Nations, expressed during the Paris Climate Agreement that the global community is approaching a critical juncture where climate change may become irreversible, potentially depriving current and future generations of a healthy and sustainable planet, a scenario with dire consequences for humanity as a whole. These sentiments resonate more strongly today than ever.

Achieving the goal of limiting global warming to around 1.5°C or 2°C above pre-industrial levels

is deemed practically unattainable without urgent, substantial, and widespread reductions in greenhouse gas emissions. Such a scenario could have profound adverse repercussions on ecosystems, health, infrastructure, and the economy. A recent study suggests that a temperature rise of 1.5°C - 2°C could reduce Global GDP by approximately 8% to 13% by the year 2100. The Global Risks Report 2022, released by the World Economic Forum, presents insights from the latest Global Risks Perception Survey (GRPS) regarding significant risks stemming from current economic, societal,

environmental, and technological developments.

The survey participants anticipate societal and environmental risks to be the primary concerns in the upcoming five years, with environmental risks identified as the most critical threats over the next decade, posing substantial risks to both people and the planet.

Notably, Climate Action Failure, Extreme Weather and Biodiversity Loss rank as the Top 'Three Severe Risks'.

With the escalating threat of climate change and the resultant physical harm, shifts in market attitudes, and the shift towards eco-friendly products and services, the influence of climate change on Renewable Energies (REs) is unavoidable. REs also play a crucial role in funding the transition towards an environmentally sustainable economy. Consequently, it is imperative for REs to establish robust climate-related financial risk management policies and procedures to effectively mitigate the impact of climate-related financial risks.

Climate Risk-Relevance in Financial Sector

Climate change is advancing at an increasing rate, leading to a rise in both the frequency and financial impact of climate-induced natural catastrophes. The evident economic consequences of such occurrences are tangible. Annually, events such as hurricanes, wildfires, droughts, and floods exact a considerable monetary burden on both households and business enterprises. The tangible impacts of climate change, coupled with the accompanying costs of transitioning, present notable hazards within the realm of the Economy and Financial System.

Physical Risk: Physical Risk pertains to the potential harm to individuals and assets resulting from discrete climate-related incidents like hurricanes, wildfires, and heatwaves, in addition to longer-term phenomena such as alterations in precipitation patterns, rising sea levels, and increased average temperatures.

Transition Risk: Transition Risk, on the other hand, denotes the strain on organizations or sectors due to actions aimed at transitioning to a less carbon-intensive economy, encompassing responses to policy adjustments, adoption of novel technologies, and adaptation to changing consumer and investor preferences, potentially leading to elevated expenses and significant shifts in asset valuations. An abrupt and

The repercussions of economic and financial disturbances stemming from both physical and transition risks have the potential to influence the credit institutions / banking sector across various aspects.

tumultuous occurrence of these changes could have immediate and disruptive impacts on individuals, business enterprises, communities, and financial establishments.

The repercussions of economic and financial disturbances stemming from both physical and transition risks have the potential to influence the credit institutions / banking sector across various aspects. Climate-related physical and transition risks often materialize as

conventional financial risks, including:

- Credit,
- Liquidity,
- Market, and
- Operational Risks.

Climate-related Financial Risk Examples

- a) Disturbances in Economic Operations resulting from climate-triggered weather events like floods or wildfires might impact household earnings and their capacity to meet financial obligations / repayment of debts. The destruction of property associated with such incidents could influence residential property values and the mortgages supported by them. Similar risks are posed to commercial real estate-backed businesses and mortgages. The policy and technological transformations necessary to reduce the environmental repercussions of human actions and progress toward a less carbon-intensive economy could produce diverse consequences on the economy, enterprises, consumers, and consequently credit institutions / financial Institutions.



- b) The shift in consumer preferences from gas-fuelled vehicles to electric and hybrid ones may affect the collateral value of automobiles. Initiatives to curtail greenhouse gas emissions might necessitate substantial adaptations in sectors with high greenhouse gas emissions, such as energy, transportation, manufacturing, and agriculture, potentially opening up new business prospects like the production of biodiesel items. households, enterprises, and credit institutions linked directly or indirectly to these sectors would experience repercussions.
- c) Therefore, any deficiencies in how a Credit Institution / Financial Institution identifies, assesses, supervises, and alleviates physical and transition risks could negatively impact the institution's stability and strength. Credit Institutions / Financial Institutions must contemplate climate-related financial risks and their potential implications on their members and overall performance. The composition of a Credit Institution's / Financial Institution's customer base is frequently tangled with a specific industry or locality etc. To strengthen their resilience and sustain the ability to furnish secure, equitable, and economical financial services to their customers, Credit Institutions might need to anticipate modifications to their customer base portfolio and the array of loan products they provide.
- d) Low-income and minority communities, due to their socioeconomic status, exhibit a heightened susceptibility to financial risks stemming from climate-related factors. Incidents such as climate-related catastrophes have the potential to result

To safeguard financial institutions' business and position it for success, it is crucial to proactively address climate risks and capitalize on the business opportunities inherent in addressing them.

in property destruction as well as job displacement, thus applying a negative impact on economic productivity. This, in turn, serves to further reduce the already constrained financial resources and assets of households within these communities, consequently limiting their access to financial resources. Moreover, in the absence of any proactive interventions, modifications in governmental policies, initiatives, or standards aimed at facilitating the transition

towards a less carbon-intensive economic model might inadvertently escalate the expenses associated with property ownership within these vulnerable areas. Assuming their dangerous financial standing, households and communities that are financially fragile are the least equipped to absorb the financial burdens arising from the climate-related calamities. As a result, these individuals may encounter heightened challenges in adjusting to alterations in governmental regulations and the natural surroundings.

- e) Insurers and reinsurers face significant physical risks on their asset side, with additional risks stemming from the liability side due to insurance policies leading to claims with higher frequency and severity than anticipated initially. Consequently, the cost of insurance is expected to escalate, and coverage may even become scarce in high-risk regions globally. Climate change has the potential to reduce diversification for banks, insurers, and reinsurers by elevating the probability or impact of events previously perceived as unrelated, such as droughts and floods. Financial institutions encounter transition risks within their assets, potentially resulting in losses from exposure to Companies not aligning their strategies with low carbon emission principles. Companies heavily reliant on fossil fuels may face challenges as the global economy shifts towards a low-carbon model, with some reserves becoming unfeasible for extraction. The repercussions could include dwindling profits, operational disruptions, and heightened funding expenses due to regulatory measures, technological advancements, and evolving demands from consumers and investors for sustainability in combating climate change.
- f) Notably, coal producers are already contending with emerging regulations aimed at reducing carbon footprints, with several major banks committing to refrain from funding new coal projects. Risks may be evident at a broader economic level, particularly if the transition to a low-carbon economy happens



abruptly due to historical inaction, inadequate planning, or challenges in global coordination, potentially disrupting international trade flows.

- g) Central Banks / Financial Regulators are increasingly recognizing the financial stability implications of climate change. The significant shifts in asset prices and potential catastrophic weather-related losses attributed to climate change necessitate the adaptation of prudential policies to acknowledge systemic climate risk. This can be achieved, for instance, by mandating financial institutions to include climate risk scenarios in their stress tests. Properly assessing climate risk entails evaluating it over extended time horizons and employing innovative methodological approaches to ensure that prudential frameworks adequately capture genuine risks. It is imperative to guarantee that initiatives aimed at addressing climate risk strengthen prudential regulation rather than undermine it.
- h) Consequently, there is a justification for adjusting monetary policy to confront these new challenges, while adhering to the mandates of central banks. Central banks should reevaluate the frameworks governing their refinancing operations to integrate climate risk analytics, potentially imposing larger haircuts on assets significantly exposed to physical or transition risks.

Risk Scenarios in Agricultural Finance

Situation-1: A farm that Financial Institutions fund fails to adapt its crop rotation to cope with reduced annual rainfall, leading to more frequent instances of low Crop Yields. Consequently, this Tightens the Farm's Financial Inflows, resulting in a Default.

Financial Institutions' business experiences a decline in cash flow, revenue, and profits due to the borrower's failure to repay a portion of the loan's interest and the principal. The reduction in cash flows amplifies if numerous farmers in the financial institution area have not adjusted to the evolving rainfall patterns. Conversely, financial institutions that capitalize on the opportunity to introduce financial and advisory services aiding farmers in transitioning to climate-resilient crop rotations may witness an expansion in market share and a relatively reduced impact from climate-related risks.

Situation-2: Financial Institutions' business neglects to evaluate the potential repercussions of a shift in consumer demand away from food items that are perceived to contribute significantly to greenhouse gas emissions. Consequently, financial institutions borrower experiences an unexpected drop in sales because the crops or livestock are not produced using low greenhouse gas emission technologies, which are becoming increasingly desirable to buyers.

The decline in sales diminishes financial institution borrower's revenue and profits, constraining cash flows. As a result, the borrower is incapable of repaying the loan, leaving the institution's business with lower cash inflows, revenue, and profits. Once again, an opportunity arises to proactively assist borrowers in adapting to shift markets, while other lenders meet this demand.

To safeguard financial institutions' business and position it for success, it is crucial to proactively address climate risks and capitalize on the business opportunities inherent in addressing them.

Terminology utilized and yet to be defined in **legislations in India in financial sector** such as:

- The Reserve Bank of India Act, 1934.
- The Banking Regulation Act, 1949.
- The National Housing Bank Act, 1987, and
- The Companies Act, 2013.

Viz.,

- The term "**Climate-related Financial Risks**" refers to potential risks associated with climate change or measures taken to address climate change, encompassing their consequences on the economy and finance.
- "**Climate Resilience**" denotes the ability of a Renewable Energy (RE) entity to adapt to climate variations, developments, or uncertainties, encompassing the capacity to manage risks associated with climate and leverage opportunities presented by climate, inclusive of the capability to react and adjust to climate-induced physical and transitional risks. It encompasses both the strategic and operational resilience of RE entities towards





climate-related fluctuations, developments, or uncertainties.

- The term **“CO₂ Equivalent”** represents the standardized unit of measurement utilized to indicate the global warming potential of individual greenhouse gases, expressed concerning the global warming potential of one unit of carbon dioxide. This unit serves as a metric to assess the release (or avoidance of release) of various greenhouse gases on a standardized basis.
- **“Financed Emissions”** refer to the percentage of total greenhouse gas emissions of a recipient or counterparty that can be attributed to the financial support provided by an RE to the said recipient or counterparty.
- **“Greenhouse Gases (GHGs)”** are gaseous components present in the atmosphere, both natural and anthropogenic, possessing the capacity to absorb and emit radiation at specific wavelengths within the thermal infrared radiation spectrum emitted by the earth’s surface, the atmosphere itself, and clouds, leading to the greenhouse effect. The primary greenhouse gases in the earth’s atmosphere are carbon dioxide (CO₂), methane (CH₄), and nitrous oxide (N₂O).
- The term **“Material Risk Takers”** carries the same interpretation as defined in the Guidelines on Compensation of Whole Time Directors / Chief Executive Officers / Material Risk Takers and Control Function Staff dated 4th November 2019.
- **“Physical Risk”** indicates the financial losses and economic implications arising from the heightened frequency and severity of:
 - i. Acute physical risks related to extreme weather events linked to climate change like floods, heatwaves, storms, landslides, and wildfires;
 - ii. Chronic physical risks arising from gradual climate shifts such as alterations in precipitation patterns, extreme weather variations, rising sea levels, ocean acidification, and increasing average temperatures;
 - iii. And the secondary impacts of climate change such as the depletion of ecosystem services (e.g., water scarcity, soil quality degradation, or disruptions in marine ecosystems).
- **“Scenario Analysis”** serves as a tool aimed at enriching critical strategic analysis. An essential aspect of scenario analysis involves exploring potential scenarios that could significantly deviate from the assumptions underlying “Business-as-Usual” practices, thereby necessitating a challenge to conventional foresight regarding the future.
- **“Scope-1 Greenhouse Gas Emissions”** refers to direct emissions of greenhouse gases originating from sources under the ownership or control of the respective entity.
- On the other hand, **“Scope-2 Greenhouse Gas Emissions”** pertain to indirect emissions resulting from the production of purchased or obtained electricity, steam, heating, or cooling utilized by said entity. The electricity purchased or obtained is integrated within the entity’s operational boundaries, with these emissions being physically located at the generation site of the electricity.
- Moving on, **“Scope-3 Greenhouse Gas Emissions”** encompass indirect emissions (excluded from Scope-2) occurring throughout the value chain of an organization, encompassing both upstream and downstream emissions.
- Lastly, **“Transition Risk”** denotes the risks associated with the adjustment process towards a low-carbon economy, encompassing shifts in climate-related policies and regulations, the emergence of new technologies, as well as changes in customer preferences and behaviors.

IFRS Climate-related Disclosures

Given their potential impacts on businesses, climate risks are increasingly becoming an important part of various corporate sustainability disclosure standards globally, such as the IFRS S2 Climate-related Disclosures.

The objective of IFRS S2 is to mandate entities to disclose information regarding their climate-related risks and opportunities. This disclosure aims to provide users of general-purpose financial reports with useful insights for decision-making related to allocating resources to the entity.

IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance, or cost of capital over the short, medium, or long Term (collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S2 Applies to:

- a. climate-related risks to which the entity is exposed, which are:
 - i. climate-related physical risks; and
 - ii. climate-related transition risks; and
- b. climate-related opportunities available to the entity.

In particular, IFRS S2 requires an entity to disclose information that enables users of general-purpose financial reports to understand:

- a. the governance processes, controls, and procedures the entity uses to monitor, manage, and oversee climate-related risks and opportunities;
- b. the entity's strategy for managing climate-related risks and opportunities;
- c. the processes, the entity uses to identify, assess, prioritize and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and
- d. the entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

Conclusion

Climate Change is an existing reality. The intensification of cyclones and prolonged droughts lead to infrastructure damage, and disruption of livelihoods,

and contribute to mass migration. Efforts to address increasing temperatures, although insufficient thus far, have the potential to induce shifts in the corporate sector as major fossil fuel companies acknowledge the necessity of renewable energy sources and car manufacturers hasten their investments in cleaner vehicles.

Policymakers and investors are progressively acknowledging the significant implications of climate change for the financial sector. The financial system is impacted by climate change through two primary channels. The initial channel involves physical risks, stemming from harm to assets, infrastructure, and land. The second channel, transition risk, arises from alterations in climate regulations, technology, consumer behavior, and market sentiment during the transition to a low-carbon economy. Exposure levels can significantly differ from one country to another. Lower- and middle-income economies tend to be more susceptible to physical risks. Financial institutions can face direct manifestations of physical risks through their connections to businesses, households, and nations experiencing climate-related shocks, or indirectly through the repercussions of climate change on the broader economy and interconnected effects within the financial system. These exposures are evident through increased default risks in loan portfolios or reduced asset values. Corporate credit portfolios are also susceptible to risks that could lead to insolvency.

Abbreviations Used

CO₂ = Carbon Dioxide.

CH₄ = Methane.

GHGs = Greenhouse Gases.

GRPS = Global Risks Perception Survey.

N₂O = Nitrous Oxide.

REs = Renewable Energies.

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Enhancing Environmental Sustainability: A Comprehensive Review of Carbon Credit Mechanisms and Global Efforts



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Carbon emissions pose a significant global challenge due to their detrimental impact on the environment, as highlighted by the Intergovernmental Panel on Climate Change (IPCC) report, which underscores the urgency of limiting global warming to 1.5°C. The carbon credit market provides a pivotal avenue for reduction, enabling companies to trade emission allowances and offset their carbon dioxide emissions. This market evolution reflects a worldwide commitment to reducing carbon footprints and fostering eco-friendly practices. As companies globally adopt carbon credit initiatives, we move closer to aligning responsible practices with environmental well-being. This paper delves into India's carbon credit market dynamics from 1990 to 2023, examining its current status and challenges through a comprehensive literature review, relying on secondary information. Emphasizing theoretical and descriptive analysis, it aims to uncover the evolving trends, significance, and hurdles within the carbon credit market.



Dr. Akhil Mishra
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The study highlights that the carbon credit market offers a cost-effective pathway for emission reduction and environmental responsibility in India and globally. However, despite challenges such as excess credits, price fluctuations, and regulatory disparities, the market holds promise for driving investments in renewable energy, job creation, and economic growth while supporting Sustainable Development Goals. Enhancing international collaboration in carbon credit initiatives and addressing market challenges is imperative to unlock its full potential in fostering environmental sustainability.

Introduction

Global warming has intensified in recent times due to human activities, leading to a rise in average global temperatures. A major contributor to this phenomenon is carbon dioxide, which has compelled governments worldwide to develop strategies aimed at curtailing emissions within specified limits. The

rising demand for environmental sustainability emphasizes the need for urgent global action. To tackle environmental challenges, organizations focus on the three R's (reduce, reuse, recycle), adopt low-pollution green technologies, and promote community engagement through environmental awareness programs.



Figure:- 1. Carbon Credit Market

Source:- National Indian Carbon Coalition

The pursuit of a “net zero” target, aiming to minimize atmospheric carbon emissions, is a central objective. This target can be achieved through implementing carbon credit mechanisms. A carbon credit represents ownership of one metric ton of CO₂, tradable in the market, while carbon offsetting generates credits by reducing atmospheric CO₂ levels. Companies earn credits through environmental projects like reforestation or renewable energy, trading them in the carbon market to offset carbon dioxide emissions. The adoption of carbon credit initiatives holds promise for mitigating the threat of global warming (Rahul Pandey, 2019). The Intergovernmental Panel on Climate Change (IPCC) report underlines the necessity of addressing climate change and minimizing global warming. In this light, it becomes apparent that the carbon credit market is a vital tool for reducing emissions and promoting environmental sustainability. As companies around the globe embrace carbon credit programs as part of their efforts to reduce carbon emissions, it is crucial to understand the intricacies, importance, and hurdles of this evolving market. India, a major participant and ranked second in the global carbon credit trade, necessitates a thorough investigation of the dynamics within its carbon credit market. This paper highlights the importance of the carbon credit market for environmental sustainability by investigating India’s Carbon Credit Trading Scheme of 2023. It examines its dynamics, challenges, and future implications, structured with an introduction, literature review, methodology, key findings, and a conclusive summary.

Literature Review

In the pursuit of curbing the collective carbon footprint, carbon credits and markets emerge as key players. These mechanisms grant companies the authority to emit a specified amount of greenhouse gases into the atmosphere, which can then be traded as valuable financial assets, yielding annual revenue (Rana et al., 2024). Concurrently, the Clean Development Mechanism (CDM) endeavours to foster sustainable development by encouraging investments from developed nations into

emission reduction projects in developing countries, allowing for credits toward emission reduction targets (Chanda et al., 2021). However, a recent study examining carbon credit revenue within the Indian corporate sector unveils a concerning trend: despite diverse efforts, there’s a notable decline in carbon credit revenue, suggesting challenges in generating substantial income (Bhanawat et al., 2015).

As global greenhouse gas emissions continue to rise, nations under the Paris Agreement pledge to move towards a sustainable future India, a prominent player in this arena, leverages carbon trading to generate revenue (Nandi & Banerjee, 2023). Additionally, carbon pricing mechanisms like carbon taxes ensure emissions accountability by imposing fees for carbon release, driving environmental responsibility in developed nations. The imposition of such taxes significantly impacts profit margins for greenhouse gas-emitting companies, urging active efforts to reduce emissions in production processes (Bhardwaj et al., 2021).

In tandem, carbon credits are instrumental in facilitating carbon offsetting, allowing polluters to acquire credits that authorize a predetermined carbon emission level, already offset. Many organizations prioritize carbon offsetting to reduce their carbon footprints within sustainability initiatives (Jones et al., 2024). Various regions have implemented carbon pricing mechanisms to address the negative impacts of greenhouse gas emissions, with emissions trading systems (ETS), or cap-and-trade systems, being a common strategy. ETS regulate GHG emissions by allocating specific carbon credits (CCs), enabling holders to emit an equivalent volume of GHGs in their economic activities (Anjos et al., 2022).

Climate finance is gaining popularity in India. The Reserve Bank of India (RBI) has approved green deposits in all banks starting June 2023. India has allocated approximately USD2.40 billion for low-carbon transformation in the Union Budget 2023-24 with green carbon pricing (Sen et al., 2024). Furthermore, the carbon tax offers a more streamlined and transparent approach to carbon pricing, making it easier to administer and monitor compliance across India’s diverse economic landscape. Unlike an ETS, a carbon tax does not require the complex infrastructure of cap-setting, allowance allocation, and trading mechanisms, simplifying the implementation process and reducing associated costs. Moreover, a carbon tax can be applied broadly across sectors, capturing a wider range of emissions sources and driving economy-wide decarbonization efforts more effectively than targeted feebate schemes (Dabla-Norris et al., 2021).

In a bid to further promote carbon credit initiatives, the World Bank collaborates with the Infrastructure

Development Financial Bank (IDFB), offering initial aid of \$10 million through world-managed carbon finance to fund projects under the Clean Development Mechanism. Moreover, estimates from the UNFCCC underline the necessity for industrialized nations to purchase project-based emissions from developing countries like India to stimulate growth in the CDM market, potentially reaching significant scales annually.

Objectives of the study

- To understand the current scenario, significance, and challenges related to the carbon credit market in India.
- To study the future implications of the carbon market in India.

Research Methodology

This study delves into the current state and challenges of the carbon credit market in India through a comprehensive literature review, relying solely on secondary information. Emphasizing theoretical and descriptive analysis, it aims to uncover evolving trends, significance, and hurdles within the carbon credit market. Utilizing existing academic research, scholarly articles, and reports from reputable sources like Google Scholar, Scopus, and Web of Science, the study seeks to identify gaps and future directions. Focused on the period from 1990 to 2023, the paper is divided into three parts: an assessment of current practices, an exploration of the importance and challenges of the Indian Carbon Market, and a speculative glimpse into its future trajectory.

Carbon Credit Practices in India

i. Carbon Credit Definition and Significance

Human activities like industrial emissions and deforestation contribute to global warming. It's crucial to monitor and reduce carbon emissions. As Peter Drucker said, "If we track something we can control it better". Monitoring CO₂ emissions helps us understand energy use, save money, and make companies work more efficiently. Carbon credits have emerged as a vital tool for accurately measuring industrial carbon emissions. Functioning as permits allowing companies to emit specific amounts of CO₂, each credit represents one ton of CO₂ either removed from or prevented from entering the atmosphere. They play a pivotal role in national and international emission trading schemes, fostering environmental protection and revenue generation for developing nations.

As companies around the globe embrace carbon credit programs as part of their efforts to reduce carbon emissions, it is crucial to understand the intricacies, importance, and hurdles of this evolving market.

Issued by governments, the funds from carbon credit sales are often invested in green projects, particularly forest conservation. Governments set emission caps to regulate carbon output, penalizing excess emissions while allowing companies to trade unused credits through cap-and-trade systems. This mechanism not only incentivizes emission reduction but also creates a new economic avenue by enabling investors to profit from surplus credits. Overall,

carbon credits contribute significantly to mitigating climate change while stimulating economic growth.

ii. Evolution of the Carbon Credit Market in India

India's journey in the carbon credit market has progressed gradually. Initially, its participation was motivated by engagement in international initiatives like the Clean Development Mechanism (CDM) under the Kyoto Protocol. This international agreement aimed to reduce emissions, preserve the ozone layer, and promote environmental cleanliness. Through this program, developed nations incentivized developing countries to implement projects that reduce greenhouse gases, while earning Carbon Emission Reduction (CER) credits. India focused on sectors like renewable energy, energy efficiency, and afforestation to earn these credits. Despite early involvement, the domestic carbon market remained relatively undeveloped. However, with increasing awareness of climate change and sustainable development, India began exploring domestic carbon pricing mechanisms. The introduction of the National Action Plan on Climate Change in 2008 and its commitment to Nationally Determined Contributions (NDCs) further catalyzed efforts to build a robust carbon market framework. Today, India is committed to enhancing transparency, incentivizing emission reductions, and promoting carbon neutrality through legislative and initiative-driven approaches to foster a dynamic carbon credit market.

iii. Current State of Carbon Credit Practices in India

The current state of carbon credit practices in India reflects a dynamic landscape influenced by evolving environmental policies, market dynamics, and corporate engagement. In 2023, India's carbon emissions surged by a notable 8.2%. Reports from the Joint Research Centre offer detailed insights into sector-wise greenhouse gas emissions from 1990 to 2022 as shown in Figure 2.

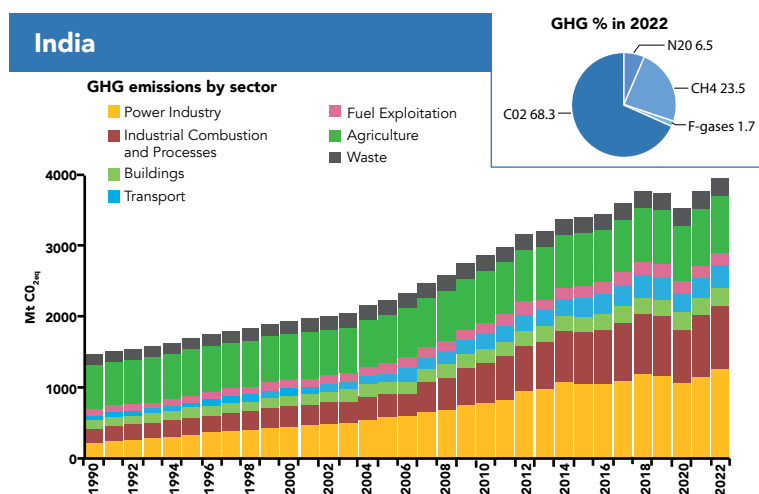


Figure:- 2. Greenhouse gas emissions from different sectors

Source:- Joint Research Centre (JRC), 2023

According to the EDGAR report, India's GHG emissions rose by 5% in 2022 compared to 2021, continuing a three-decade trend of continuous increase, now being approximately three times higher than in 1990 (Table 1). This increase is mainly due to rising CO₂ emissions from industrial combustion and power industries. India ranks as the third largest emitter globally, after China and the United States, as shown in Figure 3 (World Resources Institute, 2023)

Table:- 1. India's yearly greenhouse gas emissions.

GHG emission in India (Year-wise)				
Year	GHG emissions Mt CO ₂ eq/yr.	GHG emissions per capita t CO ₂ eq/cap/yr.	GHG emission per unit of GDP PPP t CO ₂ eq/KUSD/yr.	Population
1990	1436.581	1.651	0.907	870.133M
2005	2203.1	1.926	0.592	1.144G
2015	3389.882	2.59	0.474	1.309G
2022	3943.265	2.794	0.392	1.411G

Source:- Joint Research Centre (JRC), 2023

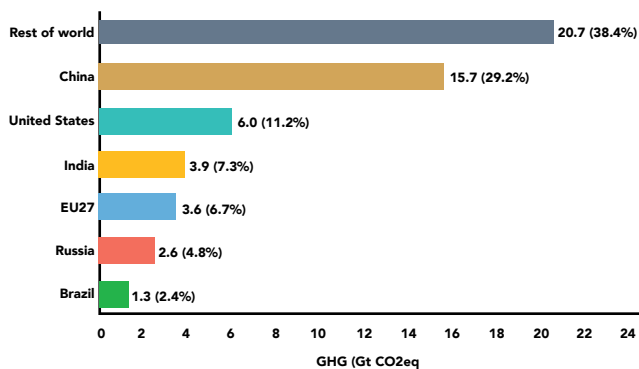


Figure:- 3. Mapping GHG emission around the Globe

Source:- Emission Database for Global Atmospheric Research (EDGAR), 2023

A study conducted by Down To Earth And the Center For Science And Environment (DTE-CSE) revealed that as of June 2023, India has enrolled 860 out of 1,451 projects in the world's leading carbon credit programs. (Table 2.). This demonstrates India's significant participation in global carbon credit initiatives, underscoring the

country's dedication to tackling climate change and curbing greenhouse gas emissions.

Table:- 2. Number of projects eligible for carbon credits in India.

Projects eligible for carbon credit in India	
Sector-wise projects	Registered projects
Agricultural	10
Chemical processes	1
Forest and land use	8
Household and community	121
Industrial & Commercial	37
Renewable Energy	675
Transport	3
Waste Management	5

Source:- Down To Earth And Center For Science And Environment (DTE-CSE), 2023

Many projects across the country are running to limit carbon emissions. Some projects supported by the carbon credit fund include Greenway Grameen Infra Pvt Ltd, headquartered in Mumbai, which subsidizes the cost of efficient cookstoves in rural areas to reduce the consumption of fuelwood and consequently reduce carbon emissions. This project has issued 67,737 carbon credits till May 2023. The focus of this project is to distribute 15,100 cookstoves across India which

will reduce approx. 86,825 tones of CO₂ annually. Another one is the Household Carbon Offset Project for clean, convenient & efficient cooking, which has set up 8,519 biogas plants across India that help to reduce 51,235 tons of CO₂ per year. Table 3, alongside these initiatives, provides a comprehensive compilation of renewable power developers, showcasing the diverse efforts aimed at promoting sustainable energy practices in the region.

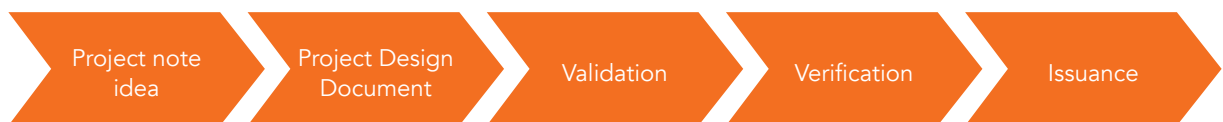
Table:- 3 Renewable power developers

Rank	Developer	Issued credits (ICO _{2e})	YOY % growth* (Credit Issuance)	No.of projects	YOY % growth* (No. of projects)
1	Wildlife Works Carbon LLC, US	98.8	55	14	0
2	Finite Carbon, US	92	0	68	6
3	South Pole Holding Ag, Switzerland	54.6	20	232	50
4	Anew Environmental LLC, US	53.9	9	119	17
5	Permian Global, UK	43.6	30	2	0
6	Infinite EARTH, Hong Kong	37.5	12	1	0
7	EnKing International, India	34.2	39	198	80
8	ACATISEMA, Colombia	29.9	19	1	0
9	CIMA, Peru	28	11	1	0
10	Jaiprakash Power Ventures, India	27.8	18	2	0
11	Terra Global Capital, US	22.5	25	12	9
12	New Forests, Australia	21.6	0	23	10
13	Himachal Baspa Power Company, India	20.1	32	1	0
14	Bosques Amazonicos, Peru	19.5	90	4	100
15	Ecosystem Services LLC, US	19.5	14	2	0

Source:- The State of the Carbon Developer Ecosystem, 2023

For generating carbon credit, project developers must go through a rigorous process to achieve a zero-carbon emission target. There are some steps for producing carbon credit :

Figure:- 4 Process for Carbon Offset Projects.



Source:- Bureau of Energy Efficiency, 2023

Earning carbon credits begins with conceiving a project idea aimed at reducing emissions and benefiting the climate. Developers then design the project, specifying anticipated emission reductions and climate benefits. An independent third party verifies the project's effectiveness in reducing carbon emissions. If the verification succeeds, the project receives carbon credits as recognition for achieving zero carbon emissions. (Bureau of Energy Efficiency, 2023).

India's Green Credit Programmes 2023 incentivizes eco-friendly actions like tree planting and water management. Credits can be traded, and regulated by the Indian Council of Forest Research and Education. The program supports India's "Net Zero commitment" by boosting the carbon credit market, emphasizing water conservation and afforestation. The green credit program faces challenges due to its novelty and limited public awareness, alongside difficulty in pricing due to diverse environmental benefits. Advancing these programs is crucial for long-term sustainability.

Significance and Challenges in India's Carbon Credit Market

The carbon credit market plays a crucial role in achieving Sustainable Development Goals (SDGs) by promoting sustainable practices.

- The carbon credit market plays a vital role for businesses in developing nations, allowing them to generate income through the sale of carbon credits and investing in advanced technologies.
- In India, the carbon market is expanding rapidly and ranks second globally, trading around 30 million carbon credits (Bansal et al., 2023).
- Regulations within the carbon credit market ensure significant reductions in emissions, supporting environmental objectives.
- Rising demand for carbon credits among businesses strengthens the market, promoting sustainability and advancing towards a cleaner future (Principles of Climate Policy after 2012, 2006).
- Environmental concerns fuel efforts to mitigate carbon emissions, potentially averting the release of 60 million tons of CO₂ annually.
- India's strategy involves planting sufficient trees and greenery to absorb 2.5 million to 3 billion tons of

Carbon pricing is another mechanism that captures the cost of greenhouse gas emissions i.e. the cost that the public pays for damages to crops, loss of property from flooding & sea level rise.

CO₂ by 2023, combating carbon emissions.

The Government of India exercises its authority through various ministries to regulate the carbon credit market in India but there are certain challenges faced by the Indian Carbon credit market.

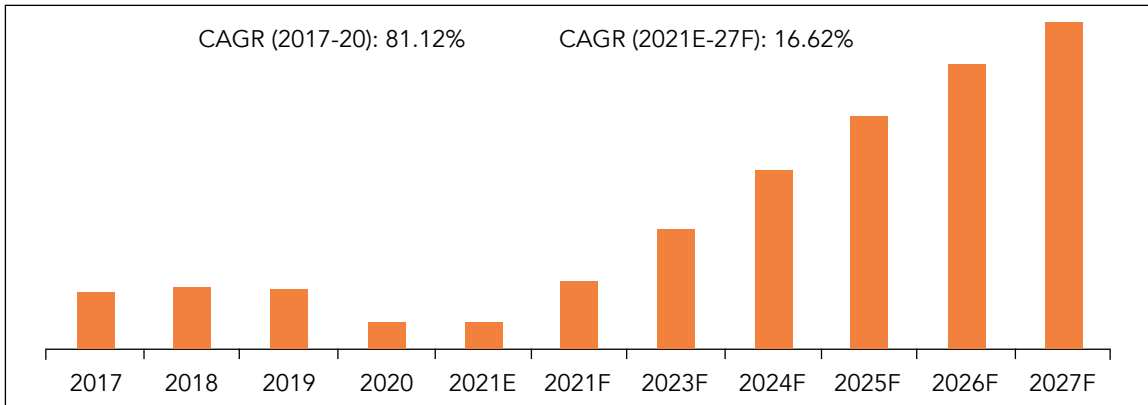
- Surplus of carbon credits (1 billion available in 2021) leads to an imbalance with more sellers than buyers.
- Fluctuations in carbon credit prices due to an imbalance in supply and demand destabilize the market.
- Varying company sizes, investments, and technologies pose challenges in establishing common emission baselines.
- Pricing instability is influenced by factors such as CO₂ emissions, crude oil prices, foreign exchange rates, demand and supply dynamics, and economic growth. Hence, it isn't easy to bring stability in pricing for carbon credit. (Gupta & Pareek, n.d.).
- Greenwashing practices deceive consumers with false eco-friendly claims, affecting carbon credit purchases.

Future Inferences of the Carbon Market in India

Carbon credit is a mechanism aimed to reduce the level of carbon emissions in the environment. To impose limits on carbon emissions, specific mechanisms such as consumption-based mechanisms and carbon pricing mechanisms are utilized. The consumption mechanism also called bitCO₂, incentivizes emitters to opt for less carbon-intensive products, earning them bitCO₂ tokens. This is achieved through the creation of a carbon market where individuals can trade their bitCO₂. It serves as a method to internalize the social cost of carbon into carbon choices, thereby promoting sustainability.

Carbon pricing is another mechanism that captures the cost of greenhouse gas emissions i.e. the cost that the public pays for damages to crops, loss of property from flooding & sea level rise. This pricing binds the cost of emissions to their source, providing an economic signal to emitters to either transform their activities or pay for their emissions, thus promoting overall environmental sustainability. It is observed from the studies that through the carbon market, it is possible to achieve the Paris Agreement goal of limiting warming up to 1.5 degrees Celsius. To confront climate change

Figure:- 5. India Voluntary carbon credit supply, 2017-2027F (\$ Million)



Source:- 6Wresearch

and its pessimistic impact on the environment, a global initiative was taken on 12 December 2015: the Paris Agreement At COP 21 in Paris, members of the UNFCCC United Nations Framework Convention on Climate Change to combat climate change to expedite & boost the investment required for a sustainable carbon future. Nowadays India's share in the carbon market is proliferating. It has generated approximately 30 million carbon credits globally, which is considered the second largest producer of carbon credit across the world. The carbon credit market offers developmental businesses investment opportunities through the purchase and sale of carbon credits. (Bansal et al., 2023).

The Indian government aims to increase the share of green energy to 50% by the end of the decade, potentially making India a net energy exporter. The carbon market not only reduces emissions but also offers cost-effective solutions, potentially saving \$35 trillion over 50 years. Drivers for the rapid growth of the Indian carbon market include corporate social responsibility, government regulations, and environmental compliance. As per the report published by 6Wresearch (Figure 5.) supply of carbon credit from the Indian market has drastically risen., it is expected to rise into the upcoming year by up to 16.62% (till 2027).

In India, companies like Infosys, Ambuja Cement, and ACC Cement are actively engaged in the carbon credit market. Ambuja Cement and ACC Cement contribute to sustainability through projects like the Mumbai Coastal Road Project, utilizing high-performance concrete to reduce CO₂ emissions. Infosys collaborates with ATP to launch a carbon tracker for tracking players' travel data, promoting conscious travel decisions. Key sectors contributing to the carbon credit market include agriculture, renewable energy, industrial manufacturing, and forestry land use, with agriculture playing a significant (role Figure 6.)

Carbon credit market will open new opportunities in developing countries like India. It is considered highly beneficial as it ensures that economic activities are carried out while considering the Sustainable Development Goals (SDGs).

Financial incentives from the carbon credit market support investments in renewable energy, promoting affordable clean energy solutions. These projects not only create

Emission contribution from various sector

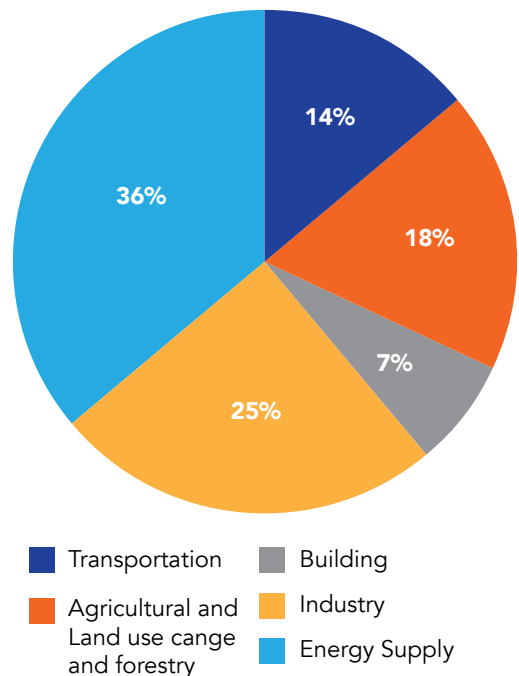


Figure:6 Emission contribution from various sectors

Source: Author's Compilation

job opportunities but also support the Sustainable Development Goal of decent work and economic growth. The obligation to cut emissions drives innovation, fostering advancements in industry and infrastructure. However, challenges persist, notably with the cap-and-trade system's varying regulations across countries, leading to policy risks and market price fluctuations. Additionally, concerns arise around market manipulation, where participants may engage in misleading transactions, potentially favoring dominant players and impeding fair competition.

Implication of the Carbon Credit Market in India

The carbon credit market has significant implications for India's effort to attain environmental sustainability and economic growth. This study analyzed the market's potential to drive investment in renewable energy projects and innovation across industries and infrastructure that promotes sustainable development. India's enlarging prominence as the second largest producer of carbon credit globally provides entrepreneurs with opportunities to generate income and advance sustainable development. However, challenges like regulatory disparity, price instability, and surplus credit in the carbon market must be addressed through improved governance and global cooperation. By conquering these obstacles, the carbon credit market may reach its full potential and facilitate India's transition to a low-carbon economy, promoting affordable clean energy solutions and combating climate change while fostering economic growth.

Conclusion

The carbon credit market plays a crucial role in combating climate change and fostering sustainability. Initiatives like India's Carbon Credit Trading Scheme 2023 and the Green Credit Programmes have significantly contributed to reducing carbon emissions and promoting environmental responsibility. However, the market faces challenges such as excess credits, price volatility, and regulatory disparity. Despite these hurdles, the carbon credit market holds immense potential for driving investments in the renewable energy sector, creating new job opportunities, and fostering economic growth while supporting Sustainable Development Goals. To fully realize this potential, it is crucial to tackle these challenges and strengthen international cooperation in carbon credit initiatives, both within India and on a global scale

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Balancing the Books of the Planet: Exploring the World of Carbon Accounting for a Sustainable Future



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The concept of “Carbon Accounting” has gained significant prominence in light of the escalating challenges posed by Climate Change. Carbon Accounting serves as a method for quantifying the environmental impact of human activities, specifically in terms of their role in contributing to climate change. This article endeavours to provide a comprehensive understanding of the Carbon Accounting concept, emphasizing its pivotal importance, elucidating its procedural intricacies, delineating the scope of Carbon Accounting within the context of India, and spotlighting notable companies that have incorporated Carbon Accounting as an integral component of their sustainability initiatives. Thus, this article will help stakeholders to act in an environmentally conscious way and make informed investment decisions.

Carbon accounting was developed in response to the rising knowledge of anthropogenic activities that contribute to climate change, as well as the need for a standardised approach to measure and track greenhouse gas emissions. Carbon accounting originated with the introduction of international climate change accords, such as the United Nations Framework Convention on Climate Change (UNFCCC). Over time, organizations such as the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD) helped shape carbon accounting methodology and standards. The Greenhouse Gas Protocol, developed by the WRI and WBCSD, has been a cornerstone in establishing criteria for organizations to quantify and manage their carbon footprint. This approach, together

with later international efforts, has paved the way for widespread acceptance of carbon accounting as a vital instrument in climate change mitigation.

Carbon accounting is the process of measuring, documenting, and reporting the quantity of greenhouse gases (GHGs), especially carbon dioxide (CO₂) and other emissions, emitted into the environment by a company, activity, or product. Carbon accounting aims to measure these entities’ carbon footprints and evaluate their influence on climate change. It seeks to measure the environmental effect of human actions in relation to climate change. Carbon accounting is frequently used by corporations, governments, and other entities to determine their carbon footprint, identify emission sources, set

emission reduction objectives, and measure progress towards climate change mitigation.

Key components of carbon accounting include:

Scope 1 Emissions: Direct emissions from sources that are owned or controlled by the entity, such as emissions from combustion of fossil fuels in on-site facilities.

Scope 2 Emissions: Indirect emissions from the generation of purchased electricity, heat, or steam consumed by the entity.

Scope 3 Emissions: Indirect emissions that occur in the value chain of the entity, including both upstream and downstream activities. This can include emissions from the production and transportation of raw materials, as well as the use and disposal of products.

Importance of Carbon Accounting

Carbon accounting is critical in today's world for a variety of reasons, the most important of which are increased awareness of climate change and the necessity for sustainable business practices. Carbon accounting is commonly used by businesses to measure their carbon footprint, identify emission hotspots, and execute greenhouse gas reduction methods. It aids in showing social responsibility by a corporate and achieving sustainability objectives. It is critical for assessing the environmental effect of supply chain networks. Companies use it to monitor emissions over the whole product life cycle, from raw material extraction to disposal.

As an example, carbon accounting is used in the transportation industry to track emissions from automobiles, ships, and aircraft. It helps to optimise routes, implement fuel-efficient technology, and create sustainable transportation practices. Similarly, carbon accounting aids the agriculture industry in determining emissions from farming techniques and land use changes. It promotes the development of sustainable agriculture practices.

Governments use carbon accounting to quantify national emissions, set emission reduction targets, and plan climate change strategies. It provides the foundation for international accords and obligations. Hence, various sectors benefit from such practices. Moreover, carbon accounting is also important for the following reasons:

- **Climate Change Mitigation:** Carbon accounting is critical for understanding and measuring different entities' contributions to greenhouse gas emissions. Organizations can establish objectives to minimise their carbon footprint by monitoring and reporting emissions, therefore contributing to global efforts to keep global warming under control.

- **Regulatory Compliance:** Governments and regulatory organizations throughout the world are progressively enacting measures to control and reduce greenhouse gas emissions. Carbon accounting assists organizations in complying with these rules, avoiding legal complications and assuring alignment with increasing environmental standards.

- **Sustainable Business Practices:** Carbon accounting contributes to the larger aims of sustainable development. It enables organizations to explore potential for resource efficiency, cost savings, and innovation, promoting a shift towards more sustainable business practices that match with global development goals.

- **Investor and Stakeholder Expectations:** Investors and stakeholders are increasingly demanding transparency about an organization's environmental effect. Carbon accounting allows businesses to report their carbon footprint, which builds confidence with investors, consumers, and the general public while also demonstrating a commitment to climate-related financial risk management.

- **Competitive Advantage:** Organizations that actively manage and minimise their carbon footprint might earn a competitive advantage. Consumers are becoming more environmentally sensitive, and firms that prioritise sustainability may reach a larger market segment, improve brand reputation, and generate long-term value.

Literature Review

Carbon accounting has evolved as an important instrument for governments to assess and control greenhouse gas emissions, with a critical role in meeting climate change mitigation targets. In India, a fast-growing economy with high emissions, knowing carbon accounting methodology, problems, and developments is critical for successful climate action. This literature review will look at current research on carbon accounting in India, with an emphasis on methodology, problems, and policy implications.

Recent studies have highlighted the complexity of carbon accounting in India, owing to its diversified economy, energy mix, and socioeconomic issues. Emissions are estimated using a variety of approaches spanning sectors such as energy, industry, transportation, agriculture, and forestry. Gibassier et al. (2020) emphasised the necessity of combining bottom-up and top-down methodologies to improve carbon accounting accuracy while taking into consideration sector-specific data and emission characteristics.

Carbon accounting in India has challenges such as data availability, accuracy, and consistency, especially in small-scale and informal sectors. Schaltegger and Csutora (2012) emphasised the need of strong data collecting methods and capacity building at the subnational level in improving the accuracy of emission inventories. Furthermore, accounting for emissions from land-use change and forestry presents substantial hurdles due to the complexity of monitoring and measurement methods.

Remote sensing and satellite data are being used to monitor land-use change and forest carbon stocks, among other advancements in carbon accounting approaches. Sinha (2018) found that remote sensing techniques can improve the spatial resolution and accuracy of carbon accounting in India's forest ecosystems. Furthermore, developments in process-based modelling approaches provide opportunity to better understand emission patterns and evaluate mitigation solutions across many industries.

The policy implications of carbon accounting research in India highlight the need of incorporating carbon accounting into national climate policies and initiatives. Hussain et al. (2024) proposed sector-specific emission reduction objectives based on reliable carbon accounting data to correspond with India's climate goals under the Paris Agreement. Strengthening institutional frameworks and improving international collaboration are also critical for increasing capacity and information exchange in carbon accounting approaches.

India has made international commitments, such as its Intended Nationally Determined Contributions (INDC), to reduce emissions intensity and increase the share of non-fossil energy capacity.

with national development objectives.

Scope of Carbon Accounting in India

The scope of carbon accounting in India is significant due to the country's commitment to sustainable development, increasing environmental awareness, and the global focus on mitigating climate change. India has made international commitments, such as its Intended Nationally Determined Contributions (INDC), to reduce emissions intensity and increase the share of non-fossil energy capacity. Carbon accounting plays a crucial role in monitoring and achieving these targets. Regulatory bodies like SEBI have introduced frameworks like the Business Responsibility and Sustainability Report (BRSR), encouraging companies to report on environmental aspects, including greenhouse gas emissions. Carbon accounting helps businesses to comply with these reporting requirements and align with sustainability goals.

India is actively promoting renewable energy and clean technologies to reduce dependence on fossil fuels. Carbon accounting is essential for assessing the environmental benefits of these initiatives and supporting the country's transition to a low-carbon economy. Carbon accounting is integral to climate finance mechanisms and carbon markets. Understanding and quantifying emissions help in accessing climate finance for sustainable projects, contributing to India's climate resilience and mitigation efforts. As India urbanizes, smart city initiatives and urban planning increasingly consider sustainability. Carbon accounting is essential for assessing the environmental impact of urban development projects and promoting low-carbon, resilient cities. In India, various governmental and non-governmental organizations are actively involved in promoting carbon accounting practices. Companies are encouraged to adopt frameworks like the Greenhouse Gas Protocol and participate in initiatives such as the Carbon Disclosure Project (CDP) to enhance transparency and accountability.

Carbon Accounting - Key to Long Term Growth

Various standards and frameworks, such as the Greenhouse Gas Protocol, provide guidelines



for organizations to follow in conducting carbon accounting. Additionally, initiatives like the Carbon Disclosure Project (CDP) encourage businesses to disclose their environmental impacts, including carbon emissions, to investors and the public.

Carbon accounting serves several purposes:

- **Monitoring and Reduction:** Organizations can use carbon accounting to track their emissions over time and identify areas for improvement, ultimately working towards reducing their carbon footprint.
- **Compliance:** In some regions, there are regulatory requirements for organizations to report and reduce their greenhouse gas emissions. Carbon accounting helps them comply with these regulations.
- **Stakeholder Communication:** Transparent reporting on carbon emissions can enhance an organization's reputation and satisfy the growing demand for sustainability information from customers, investors, and other stakeholders.
- **Climate Action:** By understanding their carbon footprint, organizations can contribute to global climate action goals by setting targets to reduce emissions and adopt sustainable practices.

Process of Carbon Accounting

The process of carbon accounting typically involves the following steps:

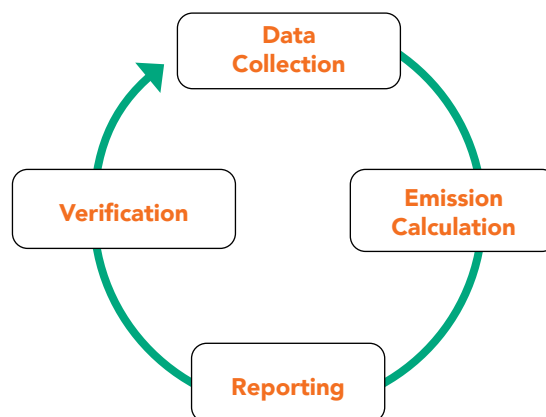
Data Collection: Gathering data on energy consumption, fuel use, and other relevant activities that contribute to greenhouse gas emissions.

Emission Calculation: Quantifying the amount of CO₂ and other greenhouse gases emitted based on the collected data. This often involves using emission factors provided by relevant authorities.

Reporting: Communicating the calculated emissions in a transparent and standardized manner. This may involve creating an annual sustainability or carbon report.

Verification: Some organizations choose to undergo third-party verification to ensure the accuracy and reliability of their reported emissions.

Figure: Process of Carbon Accounting



Indian Companies Practicing Carbon Accounting

Several companies in India are actively practicing carbon accounting as part of their sustainability initiatives to ensure long term survival and growth. Some of these examples include Tata Consultancy Services (TCS), Infosys, Mahindra & Mahindra, Wipro and Hindustan Unilever Limited (HUL) etc., showcasing the diversity of industries actively engaged in carbon accounting in India. Their commitment to sustainability is reflected in their annual sustainability or integrated reports, where they transparently disclose their carbon emissions and efforts to reduce their environmental impact.

Challenges faced in Carbon Accounting Practices

Embracing carbon accounting comes with its set of challenges for organizations.

- **Data Collection and Accuracy:** Accurately gathering data on energy usage, emission sources, and other related metrics can be difficult. Data availability, quality, and consistency across business divisions or processes may prove challenging.
- **Scope 3 Emissions and Supply Chain Complexity:** Assessing and reporting on Scope 3 emissions, particularly those connected to supply chains, may be challenging. The interdependence of global





supply chains, as well as the absence of standardized procedures for monitoring emissions, presents issues.

- **Scope Boundaries and Incomplete Reporting:** Organizations may struggle to establish proper scope boundaries for carbon accounting. Determining which emission sources to include and omit can have an influence on the reported carbon footprint's completeness and accuracy.
- **Lack of Standardization and Guidance:** The lack of standardized procedures and norms for carbon accounting might lead to variations in reporting. This lack of harmonization makes it difficult for organizations to compare their performance to industry norms.
- **Resource Constraints and Expertise:** Small and Medium-sized firms (SMEs) and organizations with low resources may have difficulty devoting the required time, staff, and financial resources to establish efficient carbon accounting methods.
- **Regulatory Uncertainty:** Evolving and uncertain regulatory environments can create challenges for organizations as they navigate changing compliance requirements related to carbon accounting and reporting.
- **Integration with Business Strategy:** Integrating carbon accounting into larger corporate plans might be difficult. Companies must link sustainability goals with broader company objectives, necessitating a comprehensive and strategic strategy.

Conclusion

In conclusion, carbon accounting plays a pivotal role in addressing climate change, with a growing significance in the context of India's commitment to sustainability. The scope of carbon accounting in India is extensive, encompassing various sectors such

as energy, transportation, and industry, reflecting the nation's dedication to reducing its carbon footprint. The importance of accurate carbon accounting cannot be overstated, as it provides crucial insights for policymakers, businesses, and individuals to make informed decisions aimed at mitigating climate change. However, it is essential to acknowledge the limitations inherent in carbon accounting, such as the complexity of data collection, the challenge of accounting for indirect emissions, and the need for standardized methodologies. Despite these challenges, the ongoing efforts to enhance carbon accounting practices in India underscore a commitment to a more sustainable and resilient future, where informed decisions contribute to global efforts in combating climate change.

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Transforming your Company into an LLP isn't just a Structural Change; It's a Smart Tax move



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This article delves into the intricate debate surrounding the tax implications of converting a Private Limited Company into a Limited Liability Partnership (LLP) under Section 47(xiiiib) r.w.s 47A of the Income Tax Act. It explores the strategic adoption of closely held company structures to mitigate liability risks, particularly when shareholders, also directors, withdraw funds triggering tax consequences. While an LLP offers flexibility, questions arise about the tax consequences if conversion conditions are violated. The article provides a comprehensive examination of this issue, aiming to guide decisions in instances where such conversions are contemplated.

The Genesis and Analysis of Legal Provisions

Provisions of Section 45 of the Income-tax Act, 1961 ('the Act') provides for charging of Capital Gains Tax on account of *transfer of capital asset* in the previous year subject to provisions of Section 54 – 54H of the Act under the head 'Capital Gains' and shall be deemed to be the income of the previous year in the year in which the transfer takes place.

The Finance Act, 2009 provided for the taxation of LLPs on the same footing as that applicable to partnership firms. However, the Act did not address the issue of taxation in case of conversions to LLP. Whether the same was excluded from the purview of taxable transfers was not addressed. Thus, there were issues w.r.t. taxing the conversion of Private

Limited Companies or unlisted public companies into an LLP.

The Finance Act, 2010 provided for an exemption in such cases by insertion of the new Clause xiiiib to Section 47 of the Act provided for the exemption on conversion of a Private Limited Company or an unlisted Company into an LLP, subject to **cumulative** satisfaction of conditions deeming the same to not constitute a transfer.

Conditions Precedent

- a. There is a transfer of capital asset by Co. to an LLP.
- b. All assets of Co. become assets of the LLP.
- c. All the shareholders of the company, immediately before

the conversion, become the partners of the LLP in the same proportion as their shareholding in the company on the date of conversion.

- d. The shareholders of the company do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of share in profit and capital contribution in the Limited Liability Partnership.
- e. The total sales, turnover, or gross receipts in the business of the company in **any of the three previous years** preceding the previous year in which the conversion takes place does not exceed 60 Lakh rupees.
- f. The total value of the assets as appearing in the books of account of the company in any of the three previous years preceding the previous year in which the conversion takes place does not exceed 5 crore rupees.

Condition Subsequent

- a. The aggregate of the profit-sharing ratio of the shareholders of the company in the LLP shall **not be less than fifty per cent at any time during the period of five years from the date of conversion.**
- b. No amount is paid, either directly or indirectly, to **any** partner out of balance of accumulated profit standing in the accounts of the company **on the date of conversion for a period of three years from the date of conversion.**

What happens if any of the conditions of Section 47(xiiib) are not fulfilled or violated?

Section 47A(4) of the Act provides for withdrawal of exemption in case of violations of the provisions / conditions mentioned under Section 47(xiiib) of the Act.



The section provides that where any of the conditions laid down in the proviso to Clause (xiiib) of Section 47 are not complied with, **the amount of profits or gains arising from the transfer of such capital asset or intangible assets or share or shares not charged under Section 45 by virtue of conditions laid down in the said proviso shall be deemed to be the profits and gains chargeable to tax of the successor Limited Liability Partnership or the shareholder of the predecessor company, as the case may be, for the previous year in which the requirements of the said proviso are not complied with.**

Whether a contrary view can be taken?

At the outset, it may be pertinent to analyse the definition of transfer as provided u/s 2(47) of the Act. Provisions of Section 2(47) of the Act **is an inclusive definition which provides transfer to include transfer by way of sale, exchange, relinquishment of rights, compulsory acquisition under any law, conversion of capital assets into stock in trade etc.**

Further, any transfer of assets whether movable, immovable, tangible, intangible, voluntary, involuntary **involves a contract to sell / transfer such property.** Therefore, a reference to provisions of the Indian Contract Act, 1872 may also be made. Provisions of Section 10 of the Indian Contract Act require existence of **two or more persons as parties to an agreement and lawful consideration amongst others** for an agreement to be a valid contract.

Taxation in the hands of the Company / Successor Firm / LLP

From an analysis of the definition provided u/s 2(47) of the Act and provisions of Section 10 of the Indian Contract Act, one of the plausible argument that can be taken **is that there have to be two parties to the contract of transfer i.e. to say that there should exist two parties at the time of transfer. In absence of the same, there is no transfer and consequently no capital gains.**

Furthermore, the word 'transfer' has also been defined in the Webster's law dictionary¹ as – "to convey from one person / place or situation to another."

Further, in the case of *Kantilal T. Sanghvi v ACIT* [2004] 89ITD282 (MUM.), the Mumbai ITAT held **transfer presumes both the existence of the asset and the transferee to whom it is transferred.**

Another important ingredient for levy of the Capital Gain Tax is the existence of profit or gain on account of transfer. Even the Indian Contract Act, 1872 requires that there exists lawful consideration for a valid contract. In

¹ <https://www.merriam-webster.com/dictionary/transfer>

the case of conversion of a company to an LLP, it can be argued that there is *no receipt of actual consideration* and in the absence of the same, the mechanism prescribed u/s 48 of the Act fails and consequently, there can be no Capital Gain Tax.

Basis the above, the following can be argued

1. In case of conversion, 2 parties (i.e. the Private Company and LLP) are not in existence simultaneously at the time of transfer. In absence of the same, the transfer could be made and therefore, there can be no Capital Gain Tax.
2. The assets still lie with the same entity as before, except that there is a change in the legal form of the business. Such change in the legal form and consequential legal vesting of assets cannot be said to be transferred.
3. There is no consideration flowing from the transferee to the transferor. Therefore, the provisions of Section 10 of the Indian Contract Act would fail and there is no valid contract of transfer.
4. In the absence of consideration, the computation mechanism for computation of Capital Gain u/s 48 of the Act would fail and consequently, there would be no Capital Gain Tax.

“For a valid agreement and contract, the two essential ingredients are the existence of two parties to the contract and valid consideration.”

Further, to support the above, reliance is also placed on *CIT v. Texspin Engg. & Mfg. Works*¹ wherein the Hon'ble Bombay High Court rightly observed that in the case of transfer of a capital asset, the two important ingredients are:

- a. Existence of a party and a counter party, and
- b. Incoming consideration qua the transferor

In the case in hand, there is only a statutory vesting of properties of the firm to the company and such vesting is not consequent to or incidental to a transfer as required by Section 45(1) of the Act.

One may note that the above judgement has been laid down prior to the insertion of Clause (xiiib) to Section 47 of the Act. However, the basic principles / tax jurisprudence would remain unchanged and therefore, the above case law continues to be a reference for several subsequent cases. The same was also observed by the Bombay HC while adjudicating the matter in the case of *CIT v Umicore Finance Luxembourg* [2016]²

For a valid agreement and contract, the two essential ingredients are the existence of two parties to the contract and valid consideration.

In the case of *ACIT v. Unity Care and Health Services* [2006]³, the Bangalore ITAT observed that the word “transfer” presumes existence of transferor and transferee simultaneously implying that if the firm is the transferor, the transferee company is not in existence. Thus, it is not the case of transfer by one person to another; it is merely a change under the Act under which the persons are registered to carry on the business.

In the case of *CIT v Umicore Finance Luxembourg* [2016]⁴ it was held, notwithstanding, the non-compliance of provisions of 47(xiii)(d) due to premature transfer of shares, the transferee company is not liable to pay Capital Gains Tax *for want of consideration attributable to such transfer.*

The above arguments and judgements provide a diverse and strong set of arguments which defend that the change in the legal form of business would not result in “transfer” and consequentially, there would be no charge of Capital Gain Tax.

Can conversion be considered equivalent to a transfer?

In the case of *ACIT v Celerity Power LLP* [2018] 100 taxmann.com 129 (Mumbai - Trib.), the Hon'ble Mumbai Tribunal had a contrary view to the above arguments made, as discussed above. The Mumbai ITAT made the following important observations while rejecting the arguments –

1. The transaction of vesting of assets from a company to a firm / LLP would constitute a transfer. Section 47 opens with the words “*nothing contained in Section 45 shall apply to the following transfers*” and Clause





(xiiiib) provides for the conversion of a company to an LLP subject to cumulative satisfactions of conditions mentioned therein. From a bare reading of the provisions, a clear manifest is that certain transfers would not be chargeable to Capital Gains Tax under Section 45 on the satisfaction of conditions mentioned in Section 47, though the *same originally constitute a transfer*.

“Memorandum to FB, 2010 observed the introduction of Clause (xiiiib) to Section 47 aimed to exempt the conversion of a company into an LLP from Capital Gains Tax which was otherwise subject to capital gain.”

2. The Hon’ble ITAT relied on the *Memorandum to Finance Bill, 2010* which provided as follows while inserting Clause (xiiiib) to Section 47 –

(relevant extract)

“Conversion of a private company or an unlisted public company into a limited liability partnership (LLP):

...

...

Under the existing provisions of the Income-tax Act, the conversion of a company into an LLP has definite tax implications. Transfer of assets on conversion attracts levy of the Capital Gains Tax. Similarly, the carry forward of losses and of unabsorbed depreciation is not available to the successor LLP.

Memorandum to FB, 2010 observed the introduction of Clause (xiiiib) to Section 47 aimed to exempt the conversion of a company into an LLP from Capital Gains tax which was otherwise subject to capital gain

It is proposed that the transfer of assets on the conversion of a company into an LLP in accordance with Section 56 and Section 57 of the Limited Liability Partnership Act, 2008 shall not be regarded as a transfer for the purposes of the Capital Gains Tax under Section 45, subject to certain conditions. These conditions are as follows:

...

.... [Clauses 8, 11, 13, 18, 19, 20, 22, 29]”

3. From a perusal of the above extract of ‘Memorandum to Finance Bill, 2010 explaining the purpose and intent behind the enactment of Sub-Section (xiiiib) to Sec. 47, it may be well noted that prior to its insertion, the ‘transfer’ of assets on conversion of a company into an LLP attracted levy of the “Capital Gains” Tax. The legislature in all its acumen had vide the Finance Act, 2010 inserted Clause (xiiiib) to Sec. 47, with the purpose/ intent to exempt tax on the transfer of assets on conversion of a company into an LLP in accordance with the Limited Liability Partnership Act, 2008, subject to fulfilment of the conditions contemplated therein, by not regarding the same to be ‘transfer’ for the purposes of Sec. 45 of the Act (subject to fulfilment of the conditions mentioned therein.)
4. Further, Sections 56 and 57 of the LLP Act, 2008 provide for conversion of a Private Limited Company into an LLP in accordance with the provisions of Chapter X of the Limited Liability Partnership Act, 2008 and the Third Schedule. The word ‘Convert’ is defined under Clause 1(b) of the 3rd Schedule which reads as under and consciously rejected the argument that automatic vesting of property vide Clause 6(b) of the 3rd Schedule of the LLP Act would not constitute transfer as per TOPA, 1882 –

“1(b).“Convert”, in relation to a private company converting into a Limited Liability Partnership, means a transfer of the property, assets, interests, rights, privileges, liabilities, obligations and the undertaking of the private company to the limited liability partnership in accordance with this schedule.”

5. “transfer” as defined under the Income-tax Act, 1961 should be read in the widest amplitude and not restrict the same to the definition provided under any other Act.

6. As per the analysis of Sec. 47A(4), it can safely be gathered that the same comes into play



only for the purpose of withdrawing an exemption earlier availed by an Assessee under Sec. 47(xiiiib). A reference has also been made to 'Notes on Clauses' of the Finance Act, 2010, which reads as –

"12.4 The Act has been amended to provide that if the conditions stipulated above are not complied with, the benefit availed by the company or by the shareholders, shall be deemed to be the profits and gains of the successor LLP or the shareholder of the predecessor company, as the case may be, chargeable to tax for the previous year in which the requirements are not complied with."

"If the difference between the transfer value of assets and COA is NIL, then the capital gain mechanism will fail and consequently, there will be no capital gain"

7. Further, the 'full value of consideration' used in Sec. 48 cannot be construed as the 'market value' of the asset on the date of transfer, relying on the Hon'ble Apex Court judgements in the case of (i) CIT v. George Henderson and Co. Ltd. [1967] 66 ITR 622 and (ii). CIT v. Gillanders Arbuthnot and Co. [1973] 87 ITR 407 (SC), where it was observed that the 'full value of the consideration' as appearing in Section 48 of the Act shall mean *"the price bargained for by the parties to the transaction and not market value"*
8. The cost of acquisition (COA) of the assets, as per Sec. 49(1)(iii), shall be deemed to be the cost for which the previous owner of the property had acquired the same.

9. Where the difference between the transfer value and the cost of acquisition was Nil, computation mechanism of the 'capital gains' u/s 48 would be rendered as unworkable and consequently, no Capital Gain Tax would be chargeable.

It was thus held that violating the provisions of Section 47(xiiiib) would constitute "transfer" and therefore be liable to Capital Gain u/s 47A, provided the mechanism for computation u/s 48 is not rendered unworkable.

Conclusion

The observations made by the Hon'ble ITAT while adjudicating the above case of ACIT v Celerity Power LLP (supra), seem reasonable. The findings made in the case of ACIT v Celerity Power LLP (Supra) are based on various references to statutory material available i.e., the Memorandum to Finance Bill, and the explanatory notes which give more reliable inference as to the intention of statute than the judicial precedents. One may therefore safely adopt the findings made in the ACIT v Celerity Power LLP (Supra). However, alternative arguments can be pleaded and explored before authorities as there is no settled principle or any judicial precedent of higher authorities, namely the High Courts and the Supreme Courts adjudicating this section of the Income Tax in particular.

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Capital Gains and Indexation – Analysis and the Way forward



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When the Finance Minister of India presented the Annual Budget for the Financial Year 2024-25 on 23rd July 2024, among the amendments proposed, the one which drew maximum attention was doing away with the concept of indexation for computing long term capital gain. Considering a spate of representations from taxpayers, the Finance Minister moved an amendment on 6th August 2024 giving some relief to taxpayers. This article discusses the history of the development of taxation of capital gains in India and a few major countries, and analyses the proposed amendments. In the end, a practical approach to the issue is suggested.

Why tax capital gains?

When a capital asset is sold it fetches a price higher, lower or same as the price at which it was acquired. The first case is called capital gain, while the second is capital loss and the third situation is neutral. Tax laws in many jurisdictions classify the gains/loss as short term or long term. There is no unanimity among countries regarding taxation of capital gains, particularly on immovable properties. The view depends upon the principles of taxation being followed in a country. One can argue that investment in immovable property is neither like interest income nor like dividends, which are compensations to investors by entities which use the fund to earn income. On the other hand, the price of immovable property may increase simply by holding on the property without earning income. The price rise of a property can be either due to inflation and/or mismatch in demand-supply situation. The

reasons for taxing the gain are based on political or social aspects of public finance. The taxation of transactions in immovable property benefits all authorities – Central Government through income tax, State governments through Stamp Duty and local authorities and organisations through various levies and charges. All these organisations need money for meeting various expenses.

History of taxation of capital gains in India

The Income Tax Act, 1922 neither defined the term “capital gains” nor its taxation was clearly stated. Capital gains were charged specifically, for the first time by the Income-tax and Excess Profits Tax (Amendment) Act, 1947, which inserted section 12B in the 1922 Act which was amended by the Finance (No.3) Act, 1956, w.e.f. 01st April 1957¹. This consisted of three sub-sections. Sub-section (1) was the

¹ **12B. Capital gains.**—(1) The tax shall be payable by an assessee under the head “Capital gains” in respect of any profits or gains arising from the sale, exchange, relinquishment or transfer of a capital asset effected after the 31st day of March, 1956,

substantive section which levied a tax in respect of profits or gains arising from the sale, exchange or transfer of a capital asset effected during specified period. Sub-section (2) stated how the amount of capital gain shall be computed, and it allowed certain deductions from the full value of the consideration for which the sale, exchange or transfer of capital assets was made. Sub-section (3) referred to a capital asset which became the property of the assessee by succession, inheritance or devolution or under any of the circumstances referred to in the third proviso to sub-section (1) and stated what deductions the assessee was then entitled to.² The levy was virtually abolished by the Indian Finance Act, 1949, which confined the operation of the section to capital gains arising before April 1, 1948; but it was revived with effect from April 1, 1957, by the Finance (No. 3) Act, 1956³ on the recommendation of Prof. Nicholas Kaldor. Since then, taxation of Capital Gains as a separate head of income has become a permanent feature of the Indian tax law.

Taxation of Capital Gains under Income-tax Act, 1961

The Income-tax Act, 1961, when introduced, made significant departure from the approach of taxation of capital gains as existing under the earlier law. Since then, changes have been made consistently. The Finance Act, 1987 introduced definition of the terms "long-term capital asset", "short-term capital assets", "long-term capital gain" and "short-term capital gain". The Finance Act, 1992⁴ introduced important changes in law as well as procedure. Prior to the amendments an asset was considered to be long-term if it was held for more than 36 months except for shares of companies, where the holding period was 12 months. Further, a basic deduction of Rs. 15,000, along with a fixed percentage of the remaining capital gains, was permitted under section 48(2). The specific percentage varied depending on the nature of the asset and the status of the assessee, but it was not linked to the duration of the holding period. This deduction was

designed to provide a straightforward relief from inflation, prevent the bunching of profits, and exempt relatively small capital gains from being taxed.

To further mitigate the effects of inflation, any increase in the value of assets prior to April 1, 1974, was excluded from taxation. This approach provided some inflationary relief but lacked a direct connection to the actual period the asset was held.

The introduction of indexation, by the Finance Act, 1992⁵ was aimed at achieving this fairer approach. Under indexation, both the cost of acquiring the asset and the cost of any improvements made to it are adjusted for inflation. This adjustment results in an indexed cost of acquisition and an indexed cost of improvement, which are then deducted from the sale price to calculate the long-term capital gains.

The cut-off date for determining the value of assets for indexation purposes was April 1, 1981. For any asset acquired before this date, its value as of April 1, 1981, was to be taken as the base for indexation. Only improvements made to the asset after this date were to be considered for indexation purposes. This system was incorporated to ensure that the calculation of long-term capital gains takes into account the impact of inflation over the period the asset was held, leading to a more accurate and fair assessment of taxable gains.

Thus, the shift from a fixed deduction approach to one that accounts for the holding period through indexation provides a more accurate reflection of the asset's value over time and ensures that inflationary effects are appropriately considered in the calculation of long-term capital gains.

Under the provisos to section 48(1)(a), non-resident Indians were originally protected from fluctuations in rupee value relative to the foreign currency used to purchase shares or debentures when calculating capital gains on their transfer. By the Finance Act, 1992 this protection was extended to all non-residents for long-

and such profits and gains shall be deemed to be income of the previous year in which the sale, exchange, relinquishment or transfer took place:

Provided that any distribution of capital assets on the total or partial partition of a Hindu undivided family or under a deed of gift, bequest or will shall not for the purposes of this section be treated as a sale, exchange, relinquishment or transfer of the capital assets:

Provided further that the transfer of a capital asset by a company to a subsidiary company, the whole of the share capital of which is held by the parent company or by the nominees thereof, shall not be treated as a sale, exchange or transfer within the meaning of this section where the subsidiary company is resident in the taxable territories and is registered under the Indian Companies Act, 1956, so however that for the purposes of clause (vi) or clause (vii) of sub-section (2) of section 10, the cost or the written down value, as the case may be, of the transferred capital asset shall be taken to be the same as it would have been if the parent company had continued to hold the capital asset for the purposes of its business.

² James Anderson v. The CIT, Bombay [1960 AIR 751 (SC)]

³ ibid

⁴ Finance Act, 1992 – Circular No. 636, Dated 31-08-1992

⁵ The average rate of inflation during 1971-72 to 1975-76 was 12.0% and was 8.5%, 6.5% and 7.8% during 76-77 to 85-86, 81-82 to 85-86 and 86-87 to 90-91 respectively, which were quite high. [Source "Price Rise/Inflation by Lok Sabha Secretariat, Reference Note No. 6/RN/Ref./2013 (https://loksabhadocs.nic.in/Refinput/New_Reference_Notes/English/Priserise.pdf)]

term capital gains on such assets. Previously, non-resident Indians were also allowed additional deductions under section 48(2). However, since the protection from currency fluctuation already accounts for inflation, non-residents benefiting from this concession were not eligible for further relief through indexation. This ensures that the existing protection under the first proviso to section 48 adequately compensated for inflation, eliminating the need for additional indexation benefits. This scheme of taxation of long term capital gains, broadly, continues till date.

Amendment made by the Finance (No. 2) Act, 2024

The Memorandum to the Finance (No. 2) Bill, 2024 explains that the changes proposed in the Bill aimed to rationalise and simplify the taxation of capital gains, focusing on three aspects:

1. **Holding Period Simplification:** There will now be only two holding periods: 12 months and 24 months. For all listed securities, the holding period will be 12 months, while for all other assets, it will be 24 months. This change is reflected in the amendment to clause (42A) of section 2 of the Act. Notably, units of listed business trusts will be treated similarly to listed equity shares, reducing their holding period requirement from 36 months to 12 months. The holding period for bonds, debentures, and gold will decrease from 36 months to 24 months, while the holding period for unlisted shares and immovable property will remain at 24 months.

2. Adjustment of Tax Rates:

- **Short-Term Capital Gains (STCG):** The tax rate on short-term capital gains for Securities Transaction Tax (STT) paid equity shares, units of equity-oriented mutual funds, and units of business trusts under section 111A of the Act has been increased from 15% to 20%. This change aims to address concerns that the current rate disproportionately benefits high-net-worth individuals. Other short-term capital gains will continue to be taxed at their applicable rates.
- **Long-Term Capital Gains (LTCG):** The rate for long-term capital gains has been standardized at 12.5% across all asset categories. Previously, the rate was 10% for STT-paid listed equity shares, units of equity-oriented funds, and business trusts under section 112A, and 20% with indexation

The shift from a fixed deduction approach to one that accounts for the holding period through indexation provides a more accurate reflection of the asset's value over time and ensures that inflationary effects are appropriately considered in the calculation of long-term capital gains.

for other assets under section 112. The exemption for long-term capital gains on STT-paid equity shares, units of equity-oriented funds, and business trusts has been increased from Rs. 1 lakh to Rs. 1.25 lakh (aggregate). Additionally, for listed bonds and debentures, the LTCG tax rate has been reduced from 20% (without indexation) to 12.5%.

However, while computing tax liability under section 112, on capital gains arising on transfer of a long term capital asset, being land or building or both, acquired before

23rd July 2024,, the excess income-tax computed at 12.5% over the income tax computed in accordance with the provisions of the Act, as they stood immediately prior to this amendment shall be ignored.

3. **Indexation Removal:** The indexation benefits currently available under the second proviso to section 48 for calculating long-term capital gains on property, gold, and other unlisted assets is being removed, on the basis that the rate of taxation has been reduced from 20% to 12.5%. This excluded assets acquired before 23rd July 2024, thus providing grand-fathering benefit.
4. **Taxation Parity Between Residents and Non-Residents:** To ensure parity between resident and non-resident taxpayers, amendments are made in sections 115AD, 115AB, 115AC, 115ACA, and 115E to align the tax rates for long-term and short-term capital gains with the rates under sections 112A, 112, and 111A.
5. **Withholding Tax Provisions:** Consequential amendments are also made in sections 196B and 196C to align the withholding tax provisions.

International approach to taxation of Capital Gains

Most of the countries have separate provisions for taxing capital gains. In the United Kingdom for the year 2023-24 tax year, individuals could claim a £3,000 capital gains tax allowance. There were two capital gains tax rates:

- 10% (18% for residential property) if the overall annual income was below £50,270
- 20% (24% for residential property) if the overall annual income was above the £50,270 threshold.

In the US, capital gains can be subject to either short-term tax rates or long-term tax rates. Short-term capital gains

are taxed according to ordinary income tax brackets, which range from 10% to 37%. Long-term capital gains are taxed at 0%, 15%, or 20%. The short-term capital assets are those which are held for one year or less.

In Australia, companies and individuals pay different rates of capital gains tax. Companies are not entitled to any capital gains tax discount and pay 30% tax on any net capital gains. For individual, the tax rate is the same as the income tax rate for that year. For Self-Managed Super Fund, the tax rate is 15% and the discount is 33.3% (rather than 50% for individuals).

Rationale for Retaining Indexation on Capital Gains in India

The price of an asset changes, normally, due to either one or a combination of two factors – inflation, and market demand and supply. So far as the second reason is concerned, it depends on the risk-bearing appetite and holding capacity of a person. On the other hand, inflation driven factor is not within control of a person. It may be mentioned that the average rate of inflation in UK, US, and Australia during 1990-2022 has been quite low, except during exceptional years.⁶ Apparently, due to this factor, these countries did not consider indexing cost of capital assets for computing long-term capital gains. Hence, there was no reason for making adjustment to the price due to inflation. On the other hand, the rate of inflation has been high in India, which has been at the root of concept of indexation of costs for determining capital gains.

Indexation adjusts the purchase price of assets like stocks, bonds, or real estate to account for inflation, using the Consumer Price Index (CPI) as a reference. This adjustment helps reflect the true increase in an asset's value by factoring in the decrease in purchasing power over time. By applying indexation, investors can accurately calculate capital gains, ensuring that taxes are imposed only on the real gains exceeding due to inflation. This leads to a fairer taxation process, as it prevents inflation from inflating the taxable amount.

In view of the fundamental reason for indexation mentioned above, removing it on the basis of reduction of tax rate does not address the basic increase in the price of an asset.

Proposed original amendment and subsequent amendment to the provisions on indexation

As mentioned supra, the Finance (No. 2) Bill, 2024 originally proposed to do away indexation for computing



capital gains. After presentation of the Bill, a spate of representations was made by taxpayers, and various business and professional organisations. Considering these, on 6th August 2024, the Finance Minister moved an amendment to section 112. As per the amendment, individuals or Hindu Undivided Families (HUF) having purchased long-term capital asset, being land or building or both before 23rd July 2024 can compute their taxes under section 112 under the two options and pay tax using either option, whichever is more advantageous. While the abolition of the indexation benefit continues, properties acquired before 23rd July 2024, are proposed to be grandfathered. Thus, for properties acquired before 23rd July 2024, a taxpayer can index the cost of acquisition and costs of improvement and then compute capital gain and apply 20% rate for determining tax or may opt to apply tax rate of 12.5% without applying indexation to the costs of acquisition and improvement. On the other hand, for assets acquired after 23rd July 2024, tax rate of 12.5% on the capital gains would be applied without indexing costs.

A Practical Approach to the Issue

No doubt, the government has sought to appease taxpayers by giving some benefit. However, the basic conceptual issue remains. Economically as well as on equity basis, it would have been better if the old regime was brought back. An option might have been given to taxpayers to adopt indexation coupled with 20% rate of tax or accept taxation at the rate of 12.5% without indexation, independent of the date of acquiring the long-term asset. This approach is not new to the tax department; for example, an option has been given to taxpayers to choose between the Old or New regime for taxation, and the option is available to taxpayers to go to the Commissioner of Income Tax (Appeals) or Dispute Resolution Panel. Having a cut-off date may give rise to manipulation of dates and thereby lead to litigation.



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⁶ For UK it has been varying around 2.5%, while US has been varying between 2%-3% and for Australia it was around 3% going up or down during exceptional years. [Source: <https://www.statista.com/statistics>]

Block Assessment under the Income-tax Act, 1961



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The reintroduction of block assessment provisions, in cases where a search under Section 132 or requisition under Section 132A is initiated or conducted on or after 1st September 2024, aims to streamline proceedings, reduce litigation costs for taxpayers, and eliminate the possibility of change of opinion with respect to the line of inquiry. This scheme has been reintroduced due to the lack of a legal requirement for consolidated assessments in search cases, which has resulted in only the time-barring year being reopened annually for the searched assessee. Consequently, the previous regime had led to staggered assessments prolonging the search assessment process for up to ten years.

The Evolution of Block Assessment: From Its Inception to Subsequent Revisions

The block assessment scheme was first introduced by the Finance Act of 1995 through the insertion of Chapter XIV-B (Sections 158B to 158BH) in the Income-tax Act, 1961, effective from 1st July 1995. Under this scheme, undisclosed income was determined and computed over a block period of ten previous assessment years. Subsequently, the Finance Act of 2001 revised the definition of the 'block period' to encompass six previous years.

The Finance Act of 2003 introduced a sunset date for the special provisions under Chapter XIV-B, effective from June 1, 2003, by introducing Sections 153A, 153B, and 153C where the assessee was required to furnish returns for the preceding six assessment years.

The Finance Act, 2017 amended Section 153A to empower the

Assessing Officer to issue notice to an assessee for periods beyond 6 assessment years but not exceeding 10 assessment years provided he has evidence that the income, represented in the form of asset, escaping assessment exceeds Rs. 50 lakhs.

However, with the enactment of the Finance Act, 2021, the search assessment provisions were subsumed under the reassessment framework outlined in Sections 147 to 151A of the Income-tax Act. This change applied to cases where a search, survey, or requisition was initiated or conducted on or after April 1, 2021. The Assessing Officer (AO) was empowered to reopen assessments for a period of up to three years from the end of the relevant assessment year, except when the Assessing Officer possessed information suggesting that the income escaped, represented in the form of an asset, exceeded Rs. 50 lakhs, in such cases, a period of 10 assessment years could be re-opened.



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The New Procedure of Block Assessment

■ Block Period

If the search takes place on or after 01-09-2024, the total income of the block period shall be assessed. The block period will consist of six assessment years preceding the previous year in which the search took place. Thus, if the search is conducted on 10-09-2024, the block period will consist of assessment years relevant to previous years 2023-24, 2022-23, 2021-22, 2020-21, 2019-20, and 2018-19, and would also include the period from 1st April 2024 to the date of execution of last of the authorizations for the search.

If any assessment, reassessment, or proceedings under Section 92CA are pending during the block period, it shall abate and be considered for assessment during the block period. If the block assessment is annulled in appeal, the abated assessment shall be revived.

■ Total Income

“Undisclosed income” includes any money, bullion, jewellery, or valuable items, as well as any expense or income based on any entry in the books of account or other documents or transactions, if these represent income or property that has not been or would not have been disclosed for income-tax purposes, or any expense, exemption, deduction, or allowance claimed but found to be incorrect, for the block period.

The assessment for the block period shall be completed within 12 months from the end of the month in which the last of the warrant of authorization was executed.

The total income for the block period shall be reduced by the returned income, assessed income, and income determined for the current year, and the remaining income shall be charged to tax under Section 113 at 60%, and a penalty of 50% of the tax on undisclosed income shall be levied

unless a return is filed, tax is paid on the declared income, and no appeal is filed in respect of the income declared in the return.

■ Filing of Return

The Assessing Officer shall issue a notice requiring such person to file the return within 60 days, declaring the total income, including the undisclosed income for the block period. Such return shall be considered as a return filed under Section 139 and notice under Section 143(2) shall be issued thereafter.

■ Assessment

Once proceedings are initiated in this chapter, no proceedings under Section 148 shall be initiated. The assessment of the block period shall be carried out in accordance with the provisions of the Act as applicable to the block period, i.e. sections 142, 143(2), 143(3), 144, 145, 145A, and 145B.

Section 143(1) and 144C (DRP) shall not apply to the assessment under this Chapter.

The total income of the block period shall be computed as follows:

Particulars of Income	Amount
Total income (ignoring loss) disclosed by the assessee in the return furnished under Section 158BC for the block period pursuant to search [A]	***
Add: Total income (ignoring loss) declared by the assessee in the return of income filed under Section 139/Section 142(1)/Section 148 for the block period [B]	***
Add: Total income (ignoring loss) assessed in the hands of the assessee before the date of initiation of search for the block period during the Scrutiny assessment Section 143(3)/ 144, Reassessment Section 148, and Search assessment Section 153A /153C) [C]:	***
Add: Total income (ignoring loss) of the previous year that has not ended, determined based on books of accounts and other documents maintained up to the date of the last authorization for the search or requisition [D]	***
Add: Undisclosed income determined by the AO based on evidence or information found during the search, requisition, or proceedings [E]	***
Total income for the block period [F = A + B + C + D + E]	***
Less: Disclosed income for the block period [G = B + C + D]	***
Total undisclosed income for the block period [H = F – G]	***

■ Time limit for assessment

The assessment for the block period shall be completed within 12 months from the end of the month in which the last of the warrant of authorization was executed.

Key Distinctions Between the Old and the New Provisions

- Under the previous provisions, the block period extended up to the date of commencement of the search. However, according to the new provisions of Section 158BC, the block period now extends until the date of execution of the final authorizations for the search.
- The definition of undisclosed income is included in two places, one in Section 158B(b) and another in Section 271AAB, and therefore pose some different results. The new provisions clearly define the term "undisclosed income", but the taxable amount under the block assessment is the total income and not just the undisclosed income.
- Under the previous scheme, undisclosed income included **any income** reflected by an entry in the books of account. However, in the proposed definition, it now also includes **any expenditure** recorded in the books of account.

Why the Need for Re-introduction of Block Assessment Procedures?

The reasons for reintroducing the block assessment procedures has been explained (inter alia) in the Memorandum to the Finance (No 2) Bill, 2024 as follows:

"3. In order to make the procedure of assessment of search cases cost effective, efficient and meaningful, it is proposed to introduce the scheme of block assessment for the cases in which search under section 132 or requisition under section 132A has been initiated or made. The main objectives for the introduction of this scheme are early finalization of search assessments, coordinated investigation during search assessments and reduction in multiplicity of proceedings."

The term 'undisclosed income' was not defined in Section 153A. The term was defined in Section 158B(b) for the purpose of the block assessment. Block Assessment u/s 158BC was limited to only undisclosed income. In the absence of a similar restrictive definition of 'undisclosed income' in section 153A, in a search case, the Assessing Officer had to assess regular as well as undisclosed income based on incriminating evidence in respect

of abated assessment years. The term 'undisclosed income' is defined in Section 271AAA/271AAB for the purpose of penalty. That definition, however, could not be imported for the purpose of assessment u/s 153A.

Potential Issues that may Arise During the Block Assessment

- In the case of pendency of a block assessment because of a first search, can a notice under section 158BC, in respect of another search, be issued, i.e., can there be two block assessments at the same point of time? If yes, then would the material found in the second search be used to make addition in respect of the first block proceeding?
- If any income discovered as a result of the search has already been included in the return filed under Section 158BC, then will it still be considered as undisclosed income and lead to double addition? Also, if there is any possibility to raise an additional claim in the return filed u/s 158BC?
- What would be the treatment of any losses in the block period and how would the carry forward and set-off of losses apply?

Conclusion

The search provisions have increasingly become more complex, particularly regarding definitions, the inclusion and exclusion of certain incomes, and the time limits for completing assessments and covering assessment periods. It appears that a fully effective and foolproof strategy is yet to be developed for handling search cases.

The shift from the previous block assessment regime to the introduction of Section 153A was driven by the failure to achieve the intended objectives and the inability to ensure timely resolution of block assessments. However, the provisions under Section 153A, as well as reassessment proceedings under Section 148, have been time consuming, leading to increased litigation cost for the taxpayer and the department. It is hoped that the new scheme of block assessment will help resolve these issues and facilitate timely finalisation of search assessments in an effective manner.



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Amendments in Chapter XVII-B and XVII-BB by the Finance (No.2) Act, 2024



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This article analyses the amendments made by the Finance (No.2) Act, 2024 with respect to the provisions contained in Chapter XVII-B and XVII-BB of the Income-tax Act, 1961 relating to TDS and TCS.

TDS on Salary [Section 192]

Section 192(2B) enables a taxpayer to furnish details of income under other heads and TDS thereon to his employer to be considered while deducting tax at source under section 192. However, there is no provision to consider tax collected at source in the case of the employees for the purpose of tax deduction under section 192. Therefore, to reduce the compliance burden in the hands of employees for claiming a refund from TCS and to avoid cash flow issues faced by them, it is suggested to allow the credit of TCS to be taken into account.

Also, section 192(2B) permits taking into account income under other heads and TDS thereon for the purpose of tax deduction under Section 192 (1), subject to fulfillment of certain conditions.

The scope of section 192(2B) has been expanded by substituting it w.e.f. 01.10.2024 to permit consideration of TDS and TCS for deducting tax under section 192(1). This is a benevolent provision providing clarity on an issue, which was hitherto silent.

Interest on Securities [Section 193]

Section 193 provides for a deduction of income tax at source on interest payable on securities to resident assessee. However, interest payable on any security of the Central Government/State Government has been excluded for this purpose. Tax would, however, be deductible on interest payable on 8% Savings (Taxable) Bonds, 2003 or 7.75% Savings (Taxable) Bonds, 2018, if such interest payable during the financial year is more than Rs.10,000.

The Finance (No.2) Act, 2024 has now provided that, in addition to the above, w.e.f. 01.10.2024, TDS under section 193 would also be attracted on interest payable on Floating Rate Savings Bonds, 2020 (Taxable), and any other notified security of the Central Government/State Government, if the interest payable on such securities during the financial year is more than Rs.10,000.

Payments to contractors [Section 194C]

Section 194C provides for TDS on sums payable to resident for carrying



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out 'any work' pursuant to a contract between the specified person (defined in Explanation to the section) @ 1% when the payment is being made or credit is being given to an individual or HUF and @2% in other cases.

Section 194J requires tax deduction at source, *inter alia*, on fees for professional services @10% and fees for technical services @ 2%.

Clause (iv) of the *Explanation* to the section 194C explains the meaning of "work" for attracting the provisions of TDS under section 194C. Since there was no specific exclusion of sums in respect of which tax is required to be deducted u/s 194J, some deductors were deducting tax under section 194C, even in cases where tax was required to be deducted under Section 194J.

This amendment has been brought to give effect to the Circular No. 720 issued by CBDT dated 30.08.1995: "Payment of any sum shall be liable for deduction of tax only under one section".

The Explanation in Clause (iv) of section 194C has been amended w.e.f. 01.10.2024 to expressly mention that any sum referred to in section 194J(1) would not constitute "work" for tax deduction under section 194C.

Life insurance policy payments [Section 194DA]

Section 194DA requires the deduction of tax at source by a person responsible for paying to a resident any taxable sum (including bonus) under a life insurance policy at the time of payment. The rate of TDS is 5% on the income comprised therein.

This rate has been reduced from 5% to 2% w.e.f. 01.10.2024.

Repurchase of units by Mutual Fund or Unit Trust of India [Section 194F]

Section 194F requires tax deduction@20% by the person responsible for paying the amount referred to

in section 80CCB(2), which relates to investment made under the Equity Linked Savings Scheme.

The said section has been omitted w.e.f. 01.10.2024 because now most of the schemes of section 80CCB have been redeemed or withdrawn.

Commission/Remuneration on the sale of lottery tickets [Section 194G]

Section 194G requires tax deduction at source@5% by a person who is responsible for paying an amount exceeding Rs 15,000 in the nature of commission/remuneration/prize of lottery tickets to a person stocking, distributing, purchasing or selling such tickets, at the time of credit of income to the payee's account or at the time of payment, whichever is earlier.

The rate has been reduced from 5% to 2% w.e.f. 01.10.2024.

Commission or brokerage [Section 194H]

Section 194H requires tax deduction at source@5% at the time of credit of brokerage or commission (other than insurance commission) to the payee's account or at the time of payment, whichever is earlier, by a person responsible for paying such income to a resident.

The rate has been reduced from 5% to 2% w.e.f. 01.10.2024.

Payment on transfer of immovable property [Section 194-IA]

Section 194-IA(1) requires tax deduction by a person, being a transferee, responsible for paying to a resident transferor any amount as consideration for transfer of immovable property (except agricultural land). The rate of TDS is 1% of the consideration or the stamp duty value, whichever is higher, and tax is to be deducted at the time of credit or payment, whichever is earlier, of such amount to the transferor.

However, no tax deduction is required if both the consideration for the transfer of an immovable property and the stamp duty value of such property are less than Rs.50 lakh.

Some taxpayers have, however, interpreted that the consideration being paid or credited indicates each individual payment and not the total consideration paid for the immovable property.

Therefore, a proviso has been inserted w.e.f. 01.10.2024 to clarify the requirement for TDS in cases where there is more than one transferor or transferee of any immovable property. In such cases, the consideration would be the aggregate sum of the amounts paid or

payable by all such transferees to the transferor or all such transferors for transfer of the immovable property.

Rental payment by certain individuals or Hindu undivided family [Section 194-IB]

Section 194-IB(1) requires deduction of tax at source @ 5% by a person responsible for paying to a resident, rental income more than Rs.50,000 p.m. or for part of a month during the relevant previous year.

The TDS rate has been lowered from 5% to 2% w.e.f. 01.10.2024.

Payment of certain sums by certain individuals or Hindu undivided family [Section 194M]

Section 194M(1) requires any person, being an individual or a Hindu undivided family (other than individuals/HUFs who are required to deduct tax under sections 194C/ 194H/ 194J) responsible for paying any amount to any resident for carrying out any work (including supply of labour for carrying out any work) pursuant to a contract, by way of commission (other than insurance commission)/ brokerage/fees for professional services during the financial year, to deduct tax@5% at the time of credit of such sum or at the time of payment of such sum in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

The TDS rate has been lowered from 5% to 2% w.e.f. 01.10.2024.

Amount paid by e-commerce operator to e-commerce participant [Section 194O]

Section 194O-(1) requires tax deduction at source in cases where sale of goods/provision of services of an e-commerce participant is facilitated by an e-commerce operator through its digital/electronic facility/platform. In such cases, the e-commerce operator has to deduct tax@1% of the gross amount of sales/services/both, at the time of credit of such sum to the e-commerce participant's account or at the time of payment, whichever is earlier.

Offline transactions attract much lower TDS @ 0.1% (under sec 194Q relating to TDS on payment of certain sums on for purchase of goods) or TCS @ 0.1% (under section 206C(1H) relating to TCS on receipts from sale of goods). To ensure parity between these provisions,

Section 194F requires tax deduction@20% by the person responsible for paying the amount referred to in section 80CCB(2), which relates to investment made under the Equity Linked Savings Scheme.

the rate of TDS under section 194-O has been lowered from 1% to 0.1% w.e.f. 1.10.2024.

Payments to partners of firms [Section 194T]

So far, there was no requirement to deduct tax at source on salary, remuneration, interest, bonus, or commission paid by the firm to its partners. Now, a new section, section 194T has been inserted by the Finance (No. 2) Act, 2024. With effect from 01.04.2025, a firm is required to deduct tax at the time of credit to the partner's account (including capital account) or at the time of payment, whichever is earlier, of income by way of salary/commission/remuneration/bonus/ interest to its partners. The rate of TDS is 10%.

However, the firm is not required to deduct TDS where the sum or aggregate of such sums credited/ paid/likely to be credited/paid to its partner during the financial year is not in excess of Rs.20,000.

The TDS requirement will help in reducing the advance tax burden on partners receiving remuneration from the partnership firms.

Income from units [Section 196B]

As per section 196B read with section 115AB, any income on transfer of units which is payable to an Offshore Fund is subject to TDS, and the TDS rate on long term capital gain was 10% if the transaction takes place before the 23rd July, 2024. However, if the transaction takes place on or after the 23rd July 2024, then, the TDS on long term capital gain will be 12.5%. Since for the purpose of section 115AB, the long-term capital gain was required to be computed without indexation benefit even prior to amendment, consequently, there is no change in relation to the manner of computation of long-term capital gains under section 115AB as a result of the amendment.

Income from foreign currency bonds of Indian Company or GDRs [Section 196C]

As per section 196C read with section 115AC, where any income by way of long-term capital gains on transfer of bonds of an Indian company issued in accordance with a notified scheme or GDRs, arises to a non-resident, then, TDS on long term capital gain @ 10% will be attracted, if the transaction takes place before the 23rd July, 2024. The first and second proviso to section 48 shall not be available on income by way of long-term capital gains.

However, if the transaction takes place on or after the 23rd July, 2024, then, the TDS on Long term capital gain will be 12.5%. The rate of TDS has increased from 10% to 12.5%.

Summary of the rates of tax deducted at source under Chapter XVII-B

Sr. No	Section	Old Rate	New Rate
1.	194DA – Payment in respect of life insurance policy	5%	2%
2.	194G – Commission etc. on the sale of lottery tickets	5%	2%
3.	194H - Commission on brokerage	5%	2%
4.	194IB- Payment of rent by certain individuals or HUF	5%	2%
5.	194M- Payment of certain sums by certain individuals or HUF	5%	2%
6.	194O- Payment of certain sums by e-commerce operator to e-commerce participants	1%	0.1%
7.	196B – Long term capital gains on Income from Units	10% if the transaction takes place before 23 rd July, 2024	12.5% if the transaction takes place on or after 23 rd July, 2024
8.	196C – Long term capital gains on income from foreign currency bonds or shares of Indian company	10% if the transaction takes place before 23 rd July, 2024	12.5% if the transaction takes place on or after 23 rd July, 2024

Certificate for deduction at lower rate [Section 197]

Section 197 provides that, in the case of any income of any person or sum payable to any person, income-tax is required to be deducted at the time of credit or payment at the rates in force under the provisions of sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194K, 194LA, 194LBA, 194LBB, 194LBC, 194M, 194-O and 195, if the Assessing Officer is satisfied that the total income of the recipient justifies the deduction of income-tax at any lower rates or no deduction of income-tax, as the case may be, the Assessing Officer shall, on an application made by the assessee in this behalf, given to him such certificate as may be appropriate.

Sub-section (1) has been substituted w.e.f. 01.10.2024 to include the provisions relating to deduction of tax at source on payment of certain sum for purchase of goods under section 194Q also within its scope.

Tax deducted is income received [Section 198]

As per section 198, for computation of income of an assessee, tax deducted is deemed to be income received.

The Memorandum to the Finance (No 2) Bill, 2024 mentions that some assesseees are not including

foreign taxes withheld in computing total income, thus, offering only the net income for taxation which results in underreporting of total income. They were, however, claiming credit for such taxes withheld abroad. This has resulted in double deduction on account of taking credit for foreign taxes withheld and not including income in total income.

In the above background, the said section has been amended w.e.f. 01.04.2025. It requires all sums deducted under Chapter XVII-B and income tax paid outside India by way of deduction and in respect of which an assessee is allowed a credit against the tax payable under the said Act, to be deemed as income received for computing the income of the assessee. This amendment is clarificatory in nature.

Duty of person deducting/collecting tax [Section 200(3) and 206C(3B)]

Section 200(3) requires a deductor to prepare statement in prescribed form and furnish it within the prescribed period to the specified authority, after paying the tax deducted to the credit of the Central Government within the prescribed time. Further, a correction statement may also be delivered for rectification of any mistake or to add, delete or update the information furnished in the statement delivered in the prescribed form and verified in the prescribed manner.

Likewise, section 206C(3B) provides for furnishing a correction statement by the person collecting tax for rectification of any mistake or to add, delete or update the information furnished in the statement delivered under the proviso to section 206C(3) in the prescribed form and verified in the prescribed manner.

Although a time limit has been specified for furnishing statement dealing with TDS/TCS, however, there is no time limit for furnishing the correction statements. Consequently, such statements are being revised several times leading to misuse and causing hardship to deductees.

Accordingly for ensuring certainty and finality, these sections have been amended w.e.f. 01.04.2025 to provide a time limit of six years from the end of the financial year in which the statement is required to be delivered, for furnishing a correction statement.

Processing of statements of TDS and other statements [Section 200A]

Section 200A contains the manner in which a statement of TDS or a correction statement made by a deductor under section 200 has to be processed.

There are statements, such as Form No. 26QF which is filed by an Exchange. The ambit of section 200A of the Act has been widened to state that in respect of statements which have been made by any other person, not being a deductor, the CBDT may make a scheme for processing such statements.

The CBDT has amended Rule 31A of the Income-tax Rules, 1962 notifying Form 26QF for filing of TDS statement in respect of tax deducted under section 194S by an 'Exchange'. Further, guidelines were issued vide Circular no. 13 of 2022, dated 22-06-2022, to give clarity on who is required to deduct tax under section 194S when a Virtual Digital Asset is transferred on or through an Exchange. The Exchange is responsible for deducting tax at source and furnishing a quarterly statement in Form no. 26QF in the following situations:

- a) There is a written agreement between the Exchange and the broker that the broker alone shall be deducting tax if payment between Exchange and Seller is done through a broker.
- b) There is a written between Exchange with the buyer/broker that Exchange would be paying tax on the transfer of VDA that takes place on or through an Exchange and the VDA is owned by such Exchange.

New sub-rule 4E provides that the Exchange is also responsible for furnishing particulars of amount paid or



credited on which tax was not deducted in accordance with guidelines.

As per Section 2(47A) of the Income-tax Act, 1961, a "Virtual Digital Asset (VDA) includes cryptocurrency, Non-Fungible Tokens (NFTs), and any other digital asset notified by the central government in the official gazette."

The marginal heading has been amended to insert the words "and other statements".

New sub-section (3) has been inserted in section 200A to empower the CBDT to make a scheme for processing of statements which have been made by any person, other than a deductor.

Consequences of failure to deduct/collect or pay [Section 201 and 206C]

Section 201(3) contains the time limit for passing an order under section 201(1) deeming a person to be an assessee in default, in cases where there is a failure to deduct the whole or any part of the tax from a resident.

Section 201(3) has been substituted 01.04.2025 to provide the time limit, after which no order can be passed under section 201(1) deeming a person to be an assessee in default for failure to deduct tax.

The time limit is the later of –

- (i) 6 years (instead of 7 years) from the end of the F.Y. in which payment is made or credit is given or
- (ii) 2 years from the end of the F.Y. in which the correction statement is delivered,

Similar time limit has been provided for deeming a person to be an assessee in default for failure to collect tax by inserting new sub-section (7A) in section 206C w.e.f. 01.04.2025.

Tax Collection at Source provisions [Section 206C]

Section 206C(1F) requires tax collection at source@1% of sale consideration by a seller at the time of receipt of consideration for sale of a motor vehicle of value more than Rs.10 lakh.

The scope of this section has been widened w.e.f. 01.01.2025 to include within the ambit of TCS, in addition to sale of motor vehicle, sale of any other notified goods of value more than Rs.10 lakh.

As per section 206C(4), any amount collected and paid to the credit of the Central Government shall be deemed to be a payment of tax on behalf of the person from whom the amount has been collected and credit shall be given to such person for the amount so collected in a particular assessment year.

Sub-section (4) has been amended w.e.f. 01.01.2025 to provide that credit for amount collected and paid to the Central Government shall also be given to any other person eligible for credit for the amount so collected in a particular assessment year in accordance with the rules.

Section 206C(7) provides for levy of interest@1% for every month or part of month for failure to collect tax or remit tax collected to the credit of the Central Government. The interest is calculated@1% on the amount of tax from the date on which such tax was collected to the date on which such tax is actually paid.

The rate has been increased to 1.5% for every month or part of month w.e.f. 01.04.2025.

Section 206C(9) provides that where the Assessing Officer is satisfied that the total income of the buyer or licensee or lessee justifies the collection of the tax at any lower rate than the rate mentioned in sub-section (1) or sub-section (1C), the Assessing Officer would, on an application made by the buyer or licensee or lessee in this behalf, give to him a certificate for collection of tax at such lower rate than the rate specified in sub-section (1) or sub-section (1C).

Sub-section (9) of the said section has been amended w.e.f. 01.10.2024 to include sub-section (1H) of that section under its purview.

A new sub-section (12) has been inserted in section 206C w.e.f. 01.10.2024 to provide for no TCS or a reduced rate of TCS for specified transaction,



from notified person or class of persons, including institution/association/body/class of institutions/associations/bodies.

Failure to pay tax to the credit of Central Government under Chapter XII-D or XVII-B [Section 276B]

Section 276B (a), *inter alia*, provides for rigorous imprisonment for a term between 3 months to 7 years and with fine if a person fails to remit to the Central Government, the tax deducted at source by him as required under Chapter XVII-B.

A proviso has been inserted w.e.f. 01.10.2024 to section 276B to provide that such prosecution provision would not apply if the payment has been remitted to the Central Government at any time on or before the time prescribed for filing the statement under section 200(3).

The changes in TDS and TCS provisions aim to enhance ease of doing business, enable tracking of expenses on luxury goods by high net-worth persons, streamline the overall deduction and collection process and facilitate better compliance.



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Exploring Corporate Guarantee Matters within the Framework of GST



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‘Corporate Guarantees’ are quite common in trade parlance where the holding or parent company issues a guarantee to the financial institutions as a security for extending credit facilities on behalf of its subsidiary company. The issuance of corporate guarantee is governed by specific provisions outlined in the Indian Contract Act, Reserve Bank of India (RBI) regulations, and the Companies Act, collectively providing a comprehensive framework for issuance of corporate guarantee.

Despite the common use of the term ‘Guarantee’ or ‘Corporate Guarantee’ in trade transactions, the Goods and Services Tax (GST) law does not explicitly define these terms. However, Section 126 of the Indian Contract Act 1872 defines a ‘Contract of Guarantee’ as a contract to perform the promise, or discharge a liability, of a third person in case of his default.

The taxability of corporate guarantees under the GST regime has been a subject of prolonged litigation. It gained significant attention after the Supreme Court (SC) judgment in the case of **Edelweiss Financial Services Limited [2023 (4) TMI 170]**, which ruled out service tax applicability on corporate guarantees provided on behalf of group entities without consideration. Subsequently, significant amendments have been introduced under the GST framework. This analysis aims to delve into the relevant provisions, understand the tax implications, address post-amendment issues, and explore the positions adopted globally on this matter.

Position under the Service Tax Regime

The taxability under the service tax regime was intricately tied to the term ‘services’, defined as any activity carried out by one person for another for consideration. The pivotal element triggering the levy of service tax was the ‘receipt of consideration’.

Primarily, in case of corporate guarantee arrangements, the Reserve Bank of India (RBI) issued guidelines pertaining to the invocation of guarantees and the payment of guarantee commissions. In certain scenarios, banks obtain an undertaking from both the borrowing company and the guarantor, explicitly confirming the

absence of direct or indirect consideration associated with the corporate guarantee.

Building on these considerations, the SC in the matter of **Edelweiss Financial** (Supra) emphasized that consideration is pre-requisite for imposing service tax on a corporate guarantee. In the absence of consideration, no service tax liability arises since there is no concept of deemed valuation. Consequently, when no consideration is involved, service tax applicability is negated.

However, at this juncture, it is crucial to highlight that the SC did not question the applicability of 'service' in the aforementioned matter.

The education guide issued by CBEC, while examining the scope of service by interpreting the word 'activity', stipulates that the term 'activity' encompasses a broad range of meanings, including an act done, work done, or execution of an act, provision of a facility, etc. This interpretation underscores the extensive connotation of the term 'activity', encompassing both active and passive elements.

Based on this interpretation, the SC did not categorically classify corporate guarantees as not constituting a service. Instead, the court centered its discussion on the absence of consideration as the decisive factor for exempting it from the service tax liability.

Position under the GST regime

Under the GST law, the supply of goods or services is the trigger point for the purpose of levy the tax. For an activity to be treated as 'supply' under GST, there are essentially three parameters –

- Supply of goods or services
- For a consideration
- In the course or furtherance of business



In terms of Schedule I of the CGST Act, the supply of goods or services between related persons in the course or furtherance of business even without consideration qualifies as 'supply'. Accordingly, the judgment of SC in Edelweiss Financial holds no significance under the GST regime on account of deeming fiction.

Since the inception of GST law, there have been varied perspectives with respect to taxability and classification of corporate guarantee arrangements. The CBIC, vide *Circular No. 34/8/2018-GST dated 01.03.2018*, had clarified that the service provided by the Central Government/State Government to any business entity, including PSUs, by way of guaranteeing the loans taken by them from financial institutions against the consideration in any form, including guarantee commission, is taxable. However, subsequently, the GST council in its 28th meeting recommended to exempt such services by way of guarantees given by central / state government to their undertakings and PSU's. Later on, under *Circular No.154/10/2021-GST, dated 17.06.2021*, it was re-iterated that guaranteeing of loans by the Central or State Government for their undertaking or PSU is specifically exempt.

However, the circular had not touched on the aspect that in most of the cases, no consideration is typically charged in corporate guarantee arrangements because of the RBI guidelines. Even if such arrangements constituted supply, the main concern revolved around the valuation of such supply, given the absence of a benchmark, as every arrangement tends to be unique.

Consequently, the GST council in its 52nd council meeting provided clarity on the taxability of corporate guarantees and proposed substantial changes in the valuation rules to introduce specific methodologies for valuing corporate guarantee transactions.

The CBIC, vide *Circular No. 204/16/2023-GST dated 27 October 2023* (Circular), affirmed that corporate guarantee is a 'supply of service' even without consideration and therefore, liable for GST.

Furthermore, a new sub-rule under Rule 28 was also introduced, effective from 26 October 2023, to govern corporate guarantee transactions. Our discussion will now be bifurcated from a valuation standpoint to encompass relevant aspects of both pre and post amendment situations.

A. Valuation Prior to Amendment

The corporate guarantee, being an arrangement between the parent/holding company and subsidiary company/group entity to act as 'guarantor' on behalf of such subsidiary company/group entity and make payment in the event of default, is a transaction

between the related parties. Consequently, the valuation is governed by the Valuation Rules instead of Section 15.

Prior to the amendment of Rule 28 of the CGST Rules, which comprises the manner of determining the value of services between related persons, prescribed the value of services shall be determined as follows:

- Open Market Value (OMV) of such services
- In case OMV is not available, value of supply of services of like kind and quality
- In case of non-availability of the above, 110% of the cost of provision of services or by best judgment method

Pertinently, the term 'Open Market Value' has been defined under explanation to Rule 35 as the full value in money which is payable by the supplier and recipient where they are unrelated and the price is the sole consideration, excluding the GST. Given that transactions involving corporate guarantees are not typically encountered in the ordinary course of business, determining the value based on OMV becomes challenging.

However, the second proviso to Rule 28 provides that where the recipient is eligible for full input tax credit (ITC), the value as declared in the invoice shall be deemed to the OMV of the services. Accordingly, one may take the benefit extended by the said proviso to specify a suitable value in the invoice at the time of providing such guarantee which may be deemed as the OMV, subject to availability of ITC. However, in case ITC is not allowable for the related recipient then valuation poses a big challenge though the activity of giving a guarantee is taxable.

B. Valuation w.e.f. 26 October 2023

Rule 28(2) was introduced vide, *Notification No. 52/2023-CT w.e.f. 26 October 2023*, prescribing the value of corporate guarantee to be higher of:

- 1% of the value of the corporate guarantee offered; or
- Actual consideration received

Accordingly, the taxability and valuation aspects of corporate guarantees have been clarified to some extent. For all guarantee contracts executed post 26 October 2023, the valuation would be deemed to be 1% of the guarantee amount in the absence of consideration.

The determination of the taxable event for corporate guarantee services raises questions regarding the frequency of the liability to pay GST i.e. whether it occurs on an annual, quarterly, or monthly basis.

While the recent amendments introduced a specific and standardized approach to the valuation of corporate guarantees, there remain several open issues that require interpretation by the taxpayers leading to diverse positions and litigation by the GST authorities. Some of the key aspects that pose challenges to businesses and need urgent clarification are highlighted below:

■ Amount on which GST is to be paid

The critical consideration pertains to determining the value on which GST is applicable, particularly when there is a disparity between the amount of the guarantee extended to the bank and the credit facility availed by the subsidiary company. Pertinently, Rule 28(2) of the CGST Act provides that the value of supply shall be 1% of the guarantee offered in the absence of consideration. Accordingly, in cases where the holding company has given a guarantee for INR 100 crore while the credit facility availed by the subsidiary company is INR 20 crore, GST liability would still arise on 1% of the entire INR 100 crore value going by the strict interpretation of the law. The taxpayers may find themselves subject



to GST liability on a higher value than the actual economic benefit derived from the transaction, highlighting the need for further clarity or potential amendments to address such discrepancies.

■ **Taxable event in case of guarantee services i.e. on annual or quarterly or monthly basis**

The determination of the taxable event for corporate guarantee services raises questions regarding the frequency of the liability to pay GST i.e. whether it occurs on an annual, quarterly, or monthly basis.

Based on the clarification issued by CBIC, it may be inferred that the intention behind taxing corporate guarantees under the category of 'supply of service' indicates that extending a corporate guarantee on behalf of a subsidiary company is considered a taxable event in itself. Accordingly, the liability to pay tax should not arise immediately after the guarantee is executed; rather, it may be triggered only when the guarantee is renewed, typically on an annual basis.

This perspective suggests that the act of providing a corporate guarantee is not a recurring monthly or quarterly taxable event but rather a single event with potential tax implications arising at the time of renewal. Further clarity or specific guidelines may be necessary to delineate the timing and frequency of GST liability for corporate guarantee arrangements.

A letter of comfort, letter of intent, or commitment letter shares similarities with a corporate guarantee but has distinct characteristics. These documents are typically issued by a stakeholder of a company, such as a parent or subsidiary company, to a lending institution.

■ **Taxability in case of long-term guarantee arrangements executed under the service tax regime but continuing under GST regime**

The taxability of long-term guarantee arrangements that were initiated under the service tax regime and continue under the GST regime raises specific considerations. In the service tax era, the provision of a corporate guarantee by a holding company on behalf of its subsidiary was recognized as a service. However, if no consideration was

charged, such services were not subject to tax.

It is the well-established legal principle that when the levy was not in existence at the time of the removal of goods or services, tax cannot be imposed at subsequent stages. This principle is supported by the decisions of the Supreme Court on similar issues. In the context of long-term guarantee arrangements initiated under the service tax regime, reliance may be placed on this principle to argue GST taxability in such case.

■ **Bank Guarantee as a benchmark for valuation of supply prior to amendment**

Since service tax era, there have been divergent views on equating bank guarantee similar to corporate guarantee for the purpose of valuing such supplies basis the bank guarantee commission. CESTAT Delhi in case of **M/s Olam Agro India Limited [2018 (8) TMI 102]** held the nature of a corporate guarantee similar to that of a bank guarantee. Both are used to facilitate the lending of funds. CESTAT Mumbai in case of **HINDUSTAN CONSTRUCTION COMPANY [2023 (8) TMI 1144]** held similar view.

However, Chennai CESTAT in case of **M/s STERLITE INDUSTRIES INDIA LTD [2019 (2) TMI 1249]** held that bank guarantee and corporate guarantee are not same. Relevant extract is quoted below:

'a bank guarantee is given by a bank on behalf of the customer to the beneficiary bank guaranteeing the payment in case of default by customer. A corporate guarantee is a guarantee given by the corporate to cover their own exposure or exposure of some other related entity to their bank. Bank guarantees are issued by Bank on a regular basis as part of their business of Banking. It is nobody's case that appellant is doing the business of providing corporate



guarantee on a regular basis. The corporate guarantee that was entered into by appellant is only for the limited purpose of securing loans to its subsidiaries. Corporate guarantees are issued in order to safeguard the financial health of their associate enterprises and to provide it support. For banks, providing bank guarantee is part of their regular course of business and they charge rate on the higher side. Further, these are fool proof instruments of security of the customer and failure to honour the guarantee is treated as a deficiency of services of the bank under banking laws. Corporate guarantee is actually an in-house guarantee and is not issued to customers generally.'

Even under the direct tax precedents, courts have held that the arm's length price of corporate guarantee cannot be determined based on bank guarantee. Accordingly, the rate charged by the bank for furnishing a guarantee cannot be taken as a base for determining the value of a corporate guarantee. Accordingly, the clarity may come at higher levels.

■ Letter of Comfort, Letter of Intent, Commitment Letter similar to Corporate Guarantee

It is important to highlight that a letter of comfort, letter of intent, or commitment letter shares similarities with a corporate guarantee but has distinct characteristics. These documents are typically issued by a stakeholder of a company, such as a parent or subsidiary company, to a lending institution. The purpose is to provide financial assurance and support by the company.

Unlike a corporate guarantee, a letter of comfort or letter of intent does not necessarily imply a direct obligation on the entity issuing it. Instead, it serves as a form of assurance towards the lending institution that the principal debtor will fulfill their payment obligations promptly.

In the context of the Insolvency and Bankruptcy Code, there have been legal precedents where the HC has held that a Letter of Comfort would be considered a guarantee only if, upon examining the terms as a whole and considering the conduct of the parties, the requirements under Section 126 of the Contract Act are met. This implies that the classification or nomenclature of the document is inconsequential, and each document should be independently assessed based on its terms and the intent of the parties involved.

Therefore, while these instruments may bear similarities to corporate guarantees, their legal implications and obligations can vary, and a

thorough examination of each document is essential to determine its nature and legal standing.

Having explored the various issues and key aspects surrounding the taxability and valuation of corporate guarantees, it becomes evident that a definitive clarification from the government is essential to address the challenges faced by taxpayers and ensure a consistent application of tax provisions. While the introduction of Rule 28(2) has provided some resolution to the disputes, there remain areas that necessitate further clarity.

The recent challenge to the validity of Rule 28(2) before the Delhi High Court adds an intriguing dimension to the ongoing discussions on the legislative powers of the GST Council. The court's interpretation and final decision on this matter will be closely watched, considering the potentially wide-ranging ramifications it could have on the taxation of corporate guarantees. Notably, under transfer pricing regulations, a 0.5% guarantee commission has been widely accepted by the courts. The introduction of new GST valuation rules may appear to be in conflict with transfer pricing valuation guidelines.

An intriguing point of consideration is the global perspective on indirect tax laws. In jurisdictions like Australia and Canada, the provision or receipt of corporate guarantees is categorized under financial services, resulting in exemption from indirect tax laws. This international approach adds an interesting dimension to the ongoing discussions on the taxation of corporate guarantees.

Conclusion

In conclusion, while Rule 28(2) has brought some resolution to the disputes surrounding taxability and valuation, there are lingering issues that demand further clarity from the GST Council. Addressing these uncertainties will not only contribute to a more transparent and efficient tax regime but also foster a conducive environment for businesses engaged in corporate guarantee transactions.



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Enhancing transparency by unveiling disclosures on Supplier Finance Arrangements



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Supplier Finance Arrangements in India is becoming popular in recent days as entities acknowledge the benefits of this mode of financing. Supplier finance arrangements, also known as supply chain finance or reverse factoring, aid businesses in enhancing their cash flow by leveraging their supply chain relationships. The motivation behind supply chain finance mainly stems from the necessity for working capital financing. Managing cash flow poses considerable challenges for many entities, given extended payment terms, payment delays, and high financing costs. Supplier finance arrangements provide access to more affordable funding and faster payments. Despite the advantages, the lack of transparency in disclosing supplier finance liabilities in the financial statements poses a challenge from the view of investors. Recent amendments in disclosure requirements issued by The International Accounting Standards Board (IASB) effective from January 1, 2024 may enhance transparency for various stakeholders, in the understanding of financial implications.

Background

Supplier finance arrangements represent a mutually beneficial arrangement that entities offer for the benefit of their suppliers. Earlier payments to suppliers, deferred payments by the entity, and a consequential liability to make payments to the bank on the due date that is typically not disclosed as borrowing make supplier finance arrangements as an attractive solution yet at the cost of transparency to the investors / stakeholders. The amounts due to the supplier, which is now owed

by the entity to the bank, in view of supplier finance arrangement, typically continue to be presented as trade payables or capital payables in the entity's Balance Sheets. Despite suppliers receiving payment, the amounts owed by the entity to the bank are not explicitly required to be disclosed in the financials as a liability to the bank under the erstwhile accounting standard guidance. As a result, supplier finance arrangements and its related risks are often not reflected in the entity's financial statements. Given the lack of disclosures, these arrangements could remain hidden within the

ambit of working capital and can create a significant liquidity gap that magnifies and intensifies the underlying credit challenges in the entity.

Traditionally, there were no disclosures made in the financial statements relating to the quantum of supplier finance arrangements or the actual funds utilized through supplier financing arrangements at the reporting date. However, with recent amendments, entities are now obliged to make certain disclosures in the financial statements, effective from January 1, 2024 (proposed as April 1, 2024 under Ind AS[#]). These amendments aim to enhance transparency by unveiling disclosures and provide stakeholders with a clearer understanding of the financial implications associated with supplier finance arrangements.

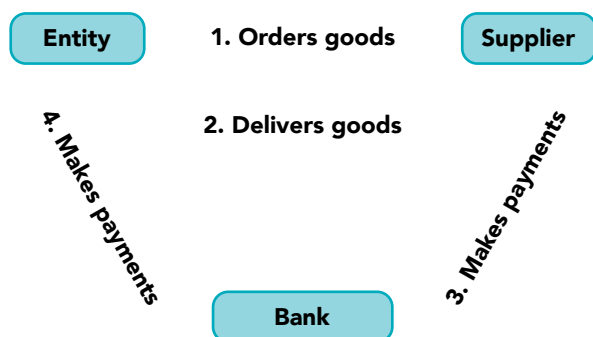


Chart – 1: The above chart depicts the flow of transactions in one of the type of supplier financing arrangements.

Scope of Amendment

The International Accounting Standards Board (IASB) by virtue of amendments in IAS 7 (Ind AS 7[#]) on 'Statement of Cash Flows' and IFRS 7 (Ind AS 107[#]) on 'Financial Instruments: Disclosures', issued new disclosure requirements on Supplier Finance Arrangements. Entities availing working capital finance through the supplier financing model, are required to provide disclosures for the first time for annual reporting periods beginning on or after 1 January 2024 (proposed as April 1, 2024 under Ind AS[#]).

These new disclosures will enhance transparency for investors to assess the impact of such arrangements on the entity's financial position, its related cash flows, and its exposure to liquidity risk. This amendment

IAS 1 (Ind AS 1) 'Presentation of Financial Statements' does not provide particular guidance on supplier finance arrangements. However, the standard specifies the requirements for the presentation of liabilities in an entity's statement of financial position.

covers all types of supplier finance arrangements that provide finance to the entity, for the amount such entity owes its suppliers. Supplier finance arrangements may take different names or forms; however, it is pertinent to note that a change in nomenclature will not impact the requirement for disclosures. The underlying principles for disclosure remain applicable irrespective of the terminology used to describe these arrangements. Besides, all the arrangements with the characteristics of supplier

finance arrangements are subject to the said disclosures irrespective of the entity's presentation and classification of supplier financing related liabilities and its related cash flows in the financial statements. However, the arrangements linked to financing inventories, trade receivables, and credit cards are outside the purview.

This article deliberates detailed perspectives related to disclosure requirements for supplier financing arrangements, taking into account the mentioned amendments alongside pertinent updates from IFRIC and existing presentation requirements stipulated under IAS 1 (Ind AS 1) 'Presentation of Financial Statements', IAS 7 (Ind AS 7) Statement of Cash Flows, IFRS 7 (Ind AS 109) 'Financial Instruments: Disclosures' & IFRS 9 'Financial Instruments' on this subject, dividing the discussion into four components outlined below:

- Presentation in the Statement of Financial Position
- Presentation in the Statement of Cash Flows
- Disclosures in Notes to Financial Statements
- Illustrative disclosures in the Financial Statements
- Transition and Effective date



Supplier finance arrangements, which may materially affect financial statements, require disclosure to the extent that the information is pertinent to understanding the financial statements, considering both quantitative and qualitative factors.

Presentation in the Statement of Financial Position

IAS 1 (Ind AS 1) 'Presentation of Financial Statements' does not provide particular guidance on supplier finance arrangements. However, the standard specifies the requirements for the presentation of liabilities in an entity's statement of financial position. It requires an entity to present 'trade and other payables' as a separate line item in the statement of financial position when the size, nature, or function of an item or aggregation of similar items is such that a separate presentation is relevant to an understanding of entity's financial position. Depending upon the facts and circumstances of each supplier finance arrangement, entities are required to derecognize the existing supplier financing liability in accordance with IFRS 9 (Ind AS 109), evaluate and exercise management judgment in assessing whether the entity's supplier finance arrangement qualifies as a 'trade and other payable' or 'other financial liability (borrowings)' for recognition in the balance sheet.

Presentation in the Statement of Cash Flows

IAS 7 (Ind AS 7*) Statement of Cash Flows, also does not provide particular guidance on supplier finance arrangements. As a result, the general requirements of IAS 7 have to be applied in determining whether the cash

flows are operating or financing. The Standard defines:

- (a) operating activities as 'the principal revenue-producing activities of the entity and other activities that are not investing or financing activities'; and
- (b) financing activities as 'activities that result in changes in the size and composition of the contributed equity and borrowings of the entity'.

An entity has to classify the cash flows relating to supplier finance arrangement either as cash flows from operating activities or cash flows from financing activities, based on the judgment exercised in the presentation of such liability in the statement of financial position.

When the supplier financing liability qualifies for presentation as 'trade payables', cash outflows are presented as part of 'cash flows from operating activities' since it forms part of the entity's working capital.

However, when the supplier financing liability is not considered as a trade payable and is presented as part of 'borrowings' as per the management judgment, the liability to the supplier is settled and a new liability to the bank is recognized. This could result in different schools of thought for presentation in cash flows as explained below:

Methodology 1

When the bank pays the supplier on behalf of the entity, this can be tantamount to availing a loan from the bank and making payments to the supplier, on the premise that the bank / financial institution acts as an agent. The payment to the bank on a subsequent date is presented as financing cash outflow.

Methodology 2

The entity does not present cash inflow /outflow when the bank pays the supplier since there is no physical movement in the entity's bank account. However, the payment to the bank on a subsequent date is presented as financing cash outflow.

Table - 1

Particulars (INR)	Methodology 1	Methodology 2
Cash flow from operating activities		
- when supplier financing liability is paid by the Bank to supplier on behalf of the entity	(-) 100	No cash flow to the entity
Cash flow from financing activities		
- when supplier financing liability is paid by the Bank to supplier on behalf of the entity	(+) 100	No cash flow to the entity. But resulted in non-cash increase in borrowings
- when entity makes payment to the bank subsequently on due date	(-) 100	(-) 100

It is pertinent to note that the statement of cash flows typically includes transactions where money moves in or out of the entity's bank account. Hence, Methodology 2 may be an appropriate presentation. Irrespective of the method adopted by the entity, providing a transparent explanation of the method adopted gives a better picture to the investor community.

Besides providing a clear explanation, with respect to supplier finance liabilities categorized as 'borrowings,' the entity should separately disclose any non-cash increase in borrowings as part of disclosure relating to 'changes in liabilities arising from financing activities'. This disclosure is typically presented in the form of a reconciliation statement as provided in Table-3.



Disclosures in the Notes to Financial Statements

Supplier finance arrangements can pose liquidity risks due to the following reasons:

- (a) Concentration of a portion of its liabilities with a single financial institution instead of diversifying among various suppliers, increases the risk of having to make a substantial payment to one counterparty immediately on demand.
- (b) Suppliers may get accustomed to receiving earlier payments through supplier finance arrangements. Withdrawal from such an arrangement could impact the entity's ability to settle liabilities to the supplier on the due date if the entity is already facing financial difficulties.

In light of the above, IFRS 7 (Ind AS 107#) requires an entity to disclose how exposures to risk arising from financial instruments including liquidity risk, the entity's objectives, policies and processes for managing the risk, concentrations of risk and summary quantitative data about the entity's exposure to liquidity risk at the end of the reporting period.

The assessment of presenting liabilities and cash flows related to supplier finance arrangement involves management judgment, and such management's judgments should be disclosed if they significantly impact the financial statements. Supplier finance

arrangements, which may materially affect financial statements, require disclosure to the extent that the information is pertinent to understanding the financial statements, considering both quantitative and qualitative factors. Accordingly, the entity is required to provide aggregate disclosures for its supplier finance arrangements, which include the following:

- (a) the terms and conditions of the arrangements, with separate disclosure for dissimilar terms. These disclosed terms and conditions serve to offer stakeholders a comprehensive understanding of how these supplier financing arrangements are utilized and outline any limitations or constraints within such arrangements.
- (b) disclose the carrying amounts and associated line items in the balance sheet for the financial liabilities within supplier finance arrangements as at the beginning and end of the reporting period and differentiate amounts for which suppliers have already received payment.
- (c) the range of payment due dates for these financial liabilities that are part of the supplier finance arrangement, along with comparable trade payables, is necessary as at the beginning and end of the reporting period. If payment due date ranges are broad, explanatory information or additional ranges should be disclosed.
- (d) the entity shall disclose the type and effect of non-cash changes in the carrying amounts of these financial liabilities that are part of the supplier finance arrangement.

Illustrative disclosures in the Financial Statements

The entity may disclose the information relating to the said disclosures in the format tabulated below.

(a) Terms and conditions: A narrative description on the nature of arrangements with similar terms aggregated together should be disclosed.

(b) Carrying amount of liabilities:

Table – 2

Particulars	31-XX-2024 INR	31-XX-2023 INR
Presented within trade and other payables	2,000	1,500
- Of which suppliers received payment	1,800	1,450
Presented within borrowings	1,500	1,200
- Of which suppliers received payment	1,400	1,100
Range of payment due dates		
- Liabilities that are part of arrangement	30 to 90 days from invoice date	30 to 100 days from invoice date
- Comparable trade payables that are not part of arrangement	15 to 60 days from invoice date	15 to 70 days from invoice date

Note: figures in the tables are only for illustrative purpose based on certain assumptions

(c) Reconciliation Statement to reflect non-cash changes in the carrying amounts of these financial liabilities; however, the entity can choose to present the same at an aggregate level in a different format.

Table - 3

Particulars	31-XX-2024 INR	31-XX-2023 INR
Opening balance		
- Long term borrowings	8,035	10,000
- Short term borrowings	2,500	2,000
- Liability for supplier financing	1,100	-
Total Opening Balance	11,635	12,000
Cash flows during the year		
- Long term borrowings	(-) 1,500	(-) 2,000
- Short term borrowings	(-) 250	500
- Liability for supplier financing	(-) 1,200	-
Total Cash flows during the year	(-) 2,950	(-) 1,500
Non-cash changes		
- Forex fluctuation/Fair value change	(-) 10	35
- Transfers from Trade payables to Borrowings	1,500	1,100
Total Non-cash changes	1,490	1,135
Closing balance		
- Long term borrowings	6,525	8,035

Particulars	31-XX-2024 INR	31-XX-2023 INR
- Short term borrowings	2,250	2,500
- Liability for supplier financing	1,400	1,100
Total Closing Balance	10,175	11,635

Note: figures in the tables are only for illustrative purpose based on certain assumptions

Transition and Effective Date

- The entity is not mandated to provide comparative details for periods before January 1, 2024 (April 1, 2024 under Ind AS#).
- The entity is not obligated to disclose information regarding the amounts paid by financial institutions to suppliers and ranges of payment due dates in the respect of suppliers forming part of supplier finance arrangement and comparable trade payables that are not part of supplier finance arrangements, as of January 1, 2024 (April 1, 2024 under Ind AS#).
- The details stipulated by the amendments need not be disclosed by the entity for any interim periods during FY24 (FY2024-25 under Ind AS#)
- The initial annual reporting period for which the entity must apply these amendments is December 31, 2024 (March 31, 2025 under Ind AS#).

Conclusion

In the contemporary landscape, supplier finance arrangements have gained increased prominence as a financing avenue. In the current context, the amendments and updates from standard-setting bodies,

play a crucial role towards enhancing transparency by unveiling disclosures to bring clarity in financial reporting. Since the presentation of supplier financing liability as 'trade payable' or 'borrowings' in the balance sheet and its related cash flows becomes a matter of management judgment, there may be diversity in the presentation of such liability in the financial statements. Nevertheless, these new disclosures hold significance as they can influence investors' evaluations of debt covenants associated with borrowing arrangements. Consequently, this has implications for the entity's leverage ratios, working capital, net debt, and free cash flows. As entities continue to implement these amendments emphasizing the importance of enhanced visibility through regulatory updates, it may result in greater understanding and trust in financial reporting in the upcoming periods.

References

- #Amendments in the respective Ind AS pertaining to supplier financing arrangement are under Exposure Draft stage and subject to finality
- <https://www.ifrs.org/projects/completed-projects/2023/supplier-finance-arrangements/>
- <https://www.ifrs.org/news-and-events/updates/ifric/2020/ifric-update-june-2020/#1>
- <https://resource.cdn.icai.org/75275asb60855-indas-7and107.pdf>
- IASB webcast on Supplier finance arrangements



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India's Digital Currency (e₹): A Comprehensive Study on CBDC



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Central Bank Digital Currencies (CBDCs) have become a hot topic in finance recently. Many banks, institutions, and governments are studying whether it's feasible to introduce a new type of digital money and how it might affect monetary and fiscal policies. A CBDC is a digital form of a country's currency issued by the central bank, backed by the government's credit. This article discusses CBDC motives, advantages, disadvantages, origins, and India's recent CBDC pilot program (e₹) by the RBI, comparing it with UPI, cryptocurrencies, and e₹. The benefits of CBDCs will likely depend on how countries and the private sector handle them, along with advancements in technology. Examining India's journey in adopting CBDCs and launching pilot programs provides valuable insights into the influence of digital currencies on global finance. Overall, the impact of CBDCs on India's economy will depend on their implementation, regulatory framework, and public acceptance.



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Introduction

Central Bank Digital Currency (CBDC) has gained popularity among central banks worldwide lately. Many countries have already launched or are planning to launch their own CBDCs. This shift to digital currency is driven by advanced technologies and reflects a global move towards digital payments and less use of physical cash (Chiu et al., 2023). Central banks are looking into CBDCs to keep up with technological advancements,

although the concept is still in its early stages (Auer et al., 2022). Consumers are increasingly preferring digital payment methods over cash. A survey by the Bank for International Settlements (BIS) in 2021 showed that many central banks are actively researching CBDCs, with some experimenting or deploying pilot projects (Ngo et al., 2023). India is also a part of this trend, with the Reserve Bank of India (RBI) taking steps to launch its CBDC called E-rupee. The RBI



released a concept note on CBDC in 2022, detailing pilot programs in wholesale and retail sectors. The e₹-W pilot (Digital Rupee - Wholesale) focuses on secondary market exchanges with government assets, while the e₹-R pilot (Digital Rupee - Retail) is limited to a closed user group of customers and merchants. This article explores the concept, motives, pros and cons, origins, and evolution of CBDCs in India. It also discusses the recent launch of CBDC (E-rupee) pilot programs by the RBI, comparing them with other payment methods like UPI, Crypto, and E-rupee.

Concept of Central Bank Digital Currency (CBDC)

The idea of a CBDC is about creating virtual money that's backed and issued by a central bank. It's a response to the way money has changed from bartering to digital transactions. Nowadays, money often exists as numbers on computers rather than physical coins or bills (Náñez Alonso et al., 2021). While private entities currently manage these digital financial systems, there are downsides like high fees, security issues, and excluding some people from access. To tackle these problems, many countries are contemplating to introduce CBDCs. These could make payment systems better and help include more people in the financial system. However, if not done carefully, CBDCs might bring risks. Not every country is rushing into this, but many are exploring the idea for potential future use. The benefits of CBDCs will likely depend on how countries and the private sector handle them, along with advancements in technology.

Motivations behind CBDC adoption

Central banks have several key reasons for issuing a CBDC, which include:

- **Financial Innovation:** CBDCs represent a leap in financial innovation, akin to the introduction of banknotes in the past. They facilitate digital financial markets, offering new conveniences in payments and ensuring that central bank money remains relevant in the evolving payment landscape.
- **Access to Central Bank Money:** In areas where cash use is declining due to digital payment trends, CBDCs provide a direct link to risk-free central bank money. This expands the scope of digital currency use and offers a secure alternative to privately issued money.
- **Payment Diversity:** CBDC adoption diversifies payment methods, fostering choice and competition in the payments sector. It extends the safety of central bank money to digital transactions, enhancing overall system stability.

- **Financial Inclusion:** CBDCs can promote financial inclusion by providing digital payment access to unbanked populations. They also serve as a foundation for cheaper financial services for underbanked individuals, potentially offered by fintech companies.
- **Cross-Border Payments:** CBDC functionalities can significantly impact cross-border payments, streamlining processes and reducing costs associated with multiple intermediaries, time zones, and regulatory requirements.
- **Transparency and Privacy:** CBDCs introduce transparency to central bank payments while addressing privacy concerns. They offer traceability for regulatory compliance regarding anti-money laundering and terrorism financing, ensuring legitimacy and safety in digital transactions (Ngo et al., 2023).

Table 1. Most Recent and Widely Recognized CBDC Pilot Initiatives.

Country/Region	CBDC Name
China	Digital Yuan
Sweden	e-krona
Bahamas	Sand Dollar
Eastern Caribbean Area	DXCD
Marshall Islands	Sovereign
India	e-Rupee
Nigeria	eNaira
Jamaica	Jam-Dex

Source: <https://www.indiatimes.com>

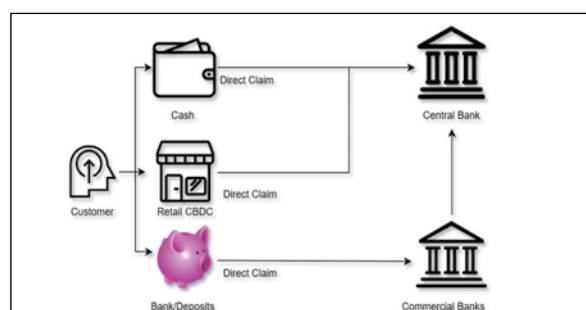


Figure 1: Retail CBDC and Monetary System

Figure 1 provides an overview of CBDC. Retail CBDC can be given directly to the public by the central bank, which is called direct issuance. Another way is for the central bank to give CBDC to intermediaries like banks,

who then give it to the public similar to regular money; this is called indirect issuance. A third method, hybrid issuance, mixes these approaches. In hybrid issuance, CBDC goes to intermediaries first, but the central bank also keeps track of balances periodically.

Research Methodology

The research methodology used in this study is qualitative, focusing on understanding the concept of Central Bank Digital Currency (CBDC), its motives, and examining its pros and cons of CBDC, as well as how it has evolved in India through pilot projects. The study also compares CBDC with other payment methods such as UPI, cryptocurrencies, and E-rupee.

Benefits of Central Bank Digital Currency (CBDC)

CBDCs have been gaining significant attention worldwide as they offer a range of potential benefits. Below are some of the key benefits of CBDCs:

- **Support for Public Policy Objectives:** CBDCs provide a secure and resilient means of payments that align with the government's public policy goals, such as promoting financial inclusion and efficiency in transactions.
- **Efficient and Inclusive Payments:** Properly monitored CBDCs promote efficient, inclusive, and innovative payment methods that cater to a wide range of users, including those who may not have access to traditional banking services.
- **Risk Management and Resilience:** Effective risk management strategies are implemented to overcome potential risks associated with CBDCs, ensuring their resilience in the face of various challenges (Ozili, 2023).
- **Targeted Distribution for Goods and Services:** The potential of CBDCs lies in their ability to target specific distributions of money for goods, services, aids, and subsidies, thereby enhancing the effectiveness of government initiatives.
- **Stability Against Volatility:** CBDCs offer stability by protecting the public from the volatility often associated with virtual currencies, ensuring a more reliable payment system.
- **Speed and Efficiency in Transactions:** High-value transactions are expedited with CBDCs as they eliminate the

CBDCs are gaining popularity globally, with many countries exploring the potential benefits of launching their own CBDCs.

need for post-reconciliation, thanks to Distributed Ledger Technology (DLT), streamlining the payment process.

■ **Offline Payments and Societal Benefits:** CBDCs facilitate offline payments through digital tokens, benefiting various segments of society, including those with limited access to digital infrastructure or internet connectivity.

Risk Associated with Central Bank Digital Currency (CBDC)

CBDCs are gaining popularity globally, with many countries exploring the potential benefits of launching their own CBDCs. However, several challenges need to be addressed. Here are some of the significant challenges:

- **Risks of Bank Runs with CBDCs:** Bank runs with CBDCs can happen quickly and aren't limited by geographical proximity or time, which makes them risky (Ozili, 2023). During a crisis, people might switch from traditional bank deposits to CBDCs to avoid certain risks, but this switch could have more severe consequences compared to traditional withdrawal methods.
- **Risks of Financial Disintermediation of Incumbents:** CBDCs without interest might discourage people from keeping their money in bank deposits, leading banks to rely more on wholesale funding (Mallesha & Archana, 2023). This shift could slow down innovation in traditional banks, highlighting their inefficiencies. Transitioning to asset-light fintech players may also be riskier in developed markets.
- **Technical and Security Risks:** CBDCs could face vulnerabilities due to power outages, connectivity issues, and technical design problems. While they



can prevent tampering with account records, they may not fully address personal information security (Ozili, 2023). Hackers targeting private keys could lead to property loss, emphasizing the need for robust cybersecurity measures.

- **Legal and Supervision Risks:** Many countries have legal gaps concerning the issuance, use, circulation, and supervision of CBDCs. Monitoring and supervising CBDCs pose unique challenges due to their digital nature, making security issues and system failures more severe.
- **Currency Circulation Risks with Inadequate Digital Infrastructure:** CBDC circulation is closely tied to internet infrastructure and smartphone penetration. Poor network infrastructure and low digital literacy could hinder CBDC adoption, potentially leading to the loss of private keys and digital currency scams.

Recent CBDC pilot projects initiated by the Reserve Bank of India

In her presentation of the Union Budget for 2022-2023, Ms. Nirmala Sitharaman, the Union Minister for Finance and Corporate Affairs, talked about the advantages of India using a Central Bank Digital Currency (CBDC). This move is expected to improve India's digital economy by making currency management more efficient and cost-effective. It fits with the government's focus on digitization and is likely to change how financial transactions work in the country. The Reserve Bank of India (RBI) has been thinking about issuing a CBDC for a while now. On October 7, 2022, the RBI released a concept note about CBDC, which explains the pilot programs that have started in both wholesale and retail sectors. You can find this note on the RBI's website, where it outlines the framework and features of the CBDC in detail. The first pilot program, called Digital Rupee - Wholesale (e₹-W), began on November 1, 2022, to test how well CBDC works in public securities secondary market exchanges. It involves banks, non-banking financial institutions, and payment intermediaries.

Another pilot, Digital Rupee - Retail (e₹-R), started on December 1, 2022, focusing on everyday transactions. CBDC acts like digital cash, available in the same denominations as coins and paper money and can be used for person-to-person (P2P) and person-to-merchant (P2M) transactions. It has features like trust, safety, and finality in settlements, similar to physical cash. Unlike bank savings, CBDC doesn't earn interest, but it can be converted into other currencies. The RBI has selected 13 banks to join the retail pilot program, and based on feedback from these pilots, they plan to expand the use of CBDC gradually and thoroughly.

Table 2. List of Banks that Provide Digital Payment Applications

Pilot Banks	Name of the App
SBI	eRupee by SBI
ICICI Bank	Digital Rupee By ICICI Bank
IDFC First Bank	IDFC First Bank Digital Rupee
YES BANK	Yes Bank Digital Rupee
HDFC Bank	HDFC Bank Digital Rupee
Union Bank of India	Digital Rupee By UBI
Bank of Baroda	Bank of Baroda Digital Rupee
Kotak Mahindra Bank	Digital Rupee by Kotak Bank
Canara Bank	Canara Digital Rupee
Axis Bank	Axis Mobile Digital Rupee
IndusInd Bank	Digital Rupee by IndusInd Bank
PNB	PNB Digital Rupee
Federal Bank	Federal Bank Digital Rupee

Source: <https://www.timesnownews.com>



Figure 2. India's Digital Currency



Figure 3. Digital Currency (e₹) provided by Reserve Bank of India

Table 3. Comparison between CBDC (₹), UPI, and Cryptocurrency

Aspect	CBDC (₹)	UPI / Other Fund Transfer Modes	Cryptocurrency (e.g., Bitcoin)
Type	Digital representation of physical currency	Payment modes	Digital currency
Usage	Not limited to payments, serves as 'unit of account' and 'store of value'	Primarily for payments	Speculative investment, medium of exchange
Issuer	Reserve Bank of India	Banks or Payment Service Providers (PSPs)	Decentralized network, no central issuer
Intrinsic Value	Represents a claim on the Reserve Bank's balance sheet	Facilitates transactions, no intrinsic value	No intrinsic value, value determined by market
Legal Tender	Yes, legal tender issued by RBI	Yes, legal methods of payment	Not legal tender, accepted based on discretion
Backed by Assets	Yes, backed by Reserve Bank's assets	Facilitates transactions, not backed by assets	Not backed by any physical assets
Central Authority	Centralized authority (RBI)	Centralized authorities (banks/PSPs)	Decentralized network, no central authority

Source: Compiled by Authors'

Conclusion

Central Bank Digital Currencies are gaining traction globally as stakeholders including banks, institutions, and governments explore their feasibility and potential impacts on monetary and fiscal policies. CBDCs, representing digital forms of national currencies issued by central banks and backed by governments, aim to streamline financial transactions, enhance transparency, and promote financial inclusion. While they offer benefits like improved payment system efficiency, reduced cash dependence, and increased transparency, challenges such as cybersecurity risks and regulatory frameworks need careful consideration. India's recent CBDC pilot program, ₹, by the Reserve Bank of India (RBI) provides insights into the comparison with existing digital payment systems like UPI and cryptocurrencies. Successful integration and adoption of CBDCs will depend on technological advancements, regulatory clarity, and public acceptance, marking a significant shift in the global financial landscape.

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Personal Data as Audit Evidence: Exploring the impact of DPDPA on Audits



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With the implementation of India's Digital Personal Data Protection Act ("DPDPA"), data privacy in India will undergo a transformational change. The DPDPA, India's first comprehensive and cross-sectoral data privacy law, is a principles-based legislation that borrows significantly from the General Data Protection Regulation, 2018 ("GDPR"), which applies to the European Union. Regardless of size and nature, it applies to all entities that process personal data digitally. This article analyses the potential impact of the DPDPA on Chartered Accountants ("Auditor") in connection with the audit of financial statements ("Audit"), wherein the Auditor opines on the fairness¹ of the financial statements.

Overview of DPDPA

The DPDPA applies to the personal data of individuals processed in a digitised form² i.e. Personally Identifiable Information ("PII"), and individuals to whom the PII relates are called Data Principals. PII has been broadly defined³ as any data about an individual identifiable by or in relation to such data and includes examples like contact numbers, email addresses, IP addresses or credit card information.

Processing⁴ includes various operations, including collection, use, sharing, storage, and erasure of PII. Broadly, anything done or any interaction with PII may be

considered processing. Within the context of an Audit, transcribing or notating PII in work papers, performing substantive testing or analysis on data which includes PII, or archiving files which contain PII would be considered as processing.

Data Fiduciaries⁵ determine the purpose and means of processing PII, and entities that process PII on behalf of Data Fiduciaries, pursuant to a contract, are called Data Processors⁶. A simplistic example of this relationship would be payroll processing, where the employer (Data Fiduciary) provides payroll inputs, and a service

¹ SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing - Para 3.

² The Digital Data Protection Act, 2023, §3(a).

³ The Digital Data Protection Act, 2023, §2(t).

⁴ The Digital Data Protection Act, 2023, §2(x).

⁵ The Digital Data Protection Act, 2023, §2(i).

⁶ The Digital Data Protection Act, 2023, §2(k).

provider (Data Processor) processes the payroll on its IT infrastructure. Certain Data Fiduciaries may be notified as Significant Data Fiduciaries⁷ (“SDU”); SDUs have enhanced obligations, including appointing a Data Protection Officer and conducting periodic audits and data protection impact assessments.

PII can be processed based on the consent⁸ of the Data Principal, or prescribed grounds (referred to as ‘legitimate uses’)⁹ where consent is not required or where processing is otherwise exempted under the DPDPA¹⁰. Compared to the GDPR, the grounds for processing without consent under the DPDPA are limited and predominantly relate to government functions or purposes, or where the processing purpose relates to a health or public emergency context. Essentially, from the lens of a commercial entity, consent would be the sole ground for processing in most instances. The prerequisites for obtaining consent are rigid. A notice¹¹ articulating specified information, including the purposes and PII required for processing, should be provided to the Data Principal before or upon obtaining consent.

Data Principals should be able to demonstrate¹² that a notice was issued and consent was obtained. Other obligations include implementing measures to comply with the provisions¹³ of the DPDPA, safeguards¹⁴ to protect PII and breach reporting¹⁵. Varying penalties¹⁶ have been specified for non-compliance, with a maximum penalty of INR 250 Crores for data breaches.

To summarise, obligations to comply with the DPDPA primarily vest on Data Principals who decide the purpose and means of processing PII.

Audit Evidence

Auditors perform Audits¹⁷ in compliance with the Standards of Auditing (“SA”) prescribed by the Institute of Chartered Accountants of India (“ICAI”). SA prescribes the methodology through which an auditor

performs the Audit – a methodology¹⁸ which inter alia includes an assessment of risks of misstatement, performing audit procedures to obtain sufficient and appropriate information (or audit evidence) to assess whether misstatement risks exist, and evaluating audit evidence to render an opinion.

Any information¹⁹ which the Auditor uses to formulate his opinion would be audit evidence, and this information can be sourced from the auditee or other sources²⁰; the latter being considered more reliable. As such, audit evidence is not restricted to accounting records and can be varied or expansive depending on the Auditor’s judgment. The manner in which information is evaluated depends on the type of audit procedure used by the Auditor, which, from an information processing standpoint, may be limited (such as inspection or observation where the Auditor views the information) or expansive (such as substantive analytical procedures where data is analyzed). The type of audit procedure would dictate how information (and any PII included thereon) would be incorporated into the audit file. To illustrate, information would be transcribed onto audit working papers during an inspection, whereas copies of the information provided by the auditee would be retained in case of substantive analysis.

The quantum and quality of audit evidence required by an Auditor are co-related to the risk of misstatement of financial statements²¹. Typically, the Auditor’s reliance on PII as a form of audit evidence would be significantly higher in auditees whose objectives or operations depend considerably on PII. Examples of usage of PII as audit evidence include:

- In relation to payroll, PII such as name, PAN and UAN would be typically documented by the Auditor during walkthroughs in relation to test of controls or for substantive testing to assess compliance with Provident Fund regulations.

⁷ The Digital Data Protection Act, 2023, §10(2).

⁸ The Digital Data Protection Act, 2023, §4(1)(a).

⁹ The Digital Data Protection Act, 2023, §7.

¹⁰ The Digital Data Protection Act, 2023, §17.

¹¹ The Digital Data Protection Act, 2023, §5(1).

¹² The Digital Data Protection Act, 2023, §6(10).

¹³ The Digital Data Protection Act, 2023, §8(4).

¹⁴ The Digital Data Protection Act, 2023, §8(5).

¹⁵ The Digital Data Protection Act, 2023, §8(6).

¹⁶ The Digital Data Protection Act, 2023, §33(1).

¹⁷ SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing - Para 18.

¹⁸ SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing - Para 7.

¹⁹ SA 500 Audit Evidence – Para 5(c).

²⁰ SA 500 Audit Evidence – Para A(31).

²¹ SA 500 Audit Evidence – Para A(4).

- Auditors would perform substantive testing, which would inter-alia include PAN details, on payments to individual payees to assess compliance with tax deduction regulations.
- Consideration of whistleblower complaints under CARO, which may inter-alia include names and other personal identifiers of the whistleblower and implicated individuals.
- With reference to financial sector entities, the Auditor would verify and archive KYC documentation of borrowers, which invariably includes PII.

Since PII is shared with the Auditor by the auditee in connection with the auditee's obligation under the law to undergo an audit, it can be said that the auditee is determining the 'purpose'.

Regardless, Auditors would process PII in some form or the other in all audits and specific audit procedures which are prevalent across all audits would involve the processing of PII.

Auditors are required to prepare and retain an audit file, which would inter alia include the audit evidence²², to demonstrate²³ that the Audit was conducted in accordance with the SAs and other applicable laws. Notably, definitive guidelines on the extent of audit evidence to be retained have not been specified, and the sole guiding principle²⁴, which is subjective and indeterminate, is that an experienced auditor, without any previous connection to the audit, should be in a position to understand the audit procedures and conclusions arrived at. As such, it would be in the Auditor's interests to adopt a conservative approach and retain more audit evidence rather than less.

Auditors: Fiduciaries or Processors?

Under the DPDPA, a Data Fiduciary²⁵ means 'any person who, alone or in conjunction with other persons, determines the purpose and means of the processing of personal data', and a Data Processor means 'any person who processes personal data on behalf of a Data Fiduciary'²⁶. The term 'purposes' connotes the reason and objective for processing, i.e. the 'why' of such processing, and means connotes the "how" of processing, i.e. the technical and functional elements such as the application used for processing, accessibility, storage and retention of

PII. Based on a conjunct reading of the terms above, a Data Processor would be subservient to the Data Fiduciary, who would decide the purpose and means. However, it would be challenging for the Data Fiduciary to articulate the specifics or precisely define the means for processing, particularly in scenarios where Data Processors such as cloud or IT infrastructure service providers, operate the underlying infrastructure where PII is processed. As such, it could be argued that a Data Processor would be expected to make decisions on the 'means'

at a certain granular level based on overarching directions of the Data Fiduciary – a construct which is applied under the GDPR²⁷.

Since PII is shared with the Auditor by the auditee in connection with the auditee's obligation under the law to undergo an audit, it can be said that the auditee is determining the 'purpose'. Therefore, the auditee would be a Data Fiduciary and the auditor processing the PII pursuant to a contract (engagement letter) on behalf of the auditee would be a Data Processor.

However, at the same time, it can be argued that the auditee does not determine the means of processing. From the context of the DPDPA, audit procedures would amount to processing as they involve operations such as recording, storage, retrieval, use or structuring of PII. The Auditor exercises the prerogative to determine the information required, the manner in which the information would be analysed, organised, used, retained, and stored, and the applications and procedures to be used for the aforesaid operations. As such, the 'means' of processing are solely determined by the auditor, a decision assigned to a Data Fiduciary. Furthermore, it can be argued that the Auditor and not the auditee, determines the purpose of processing as the underlying objectives for which information is required. If the 'purpose' element has to be defined with a degree of specificity, then it would be the Auditor who decides the purpose.

Furthermore, a Data Fiduciary can engage a Data Processor only in connection with offering goods or

²² SA 230 Audit Documentation – Para 8.

²³ SA 230 Audit Documentation – Para 2.

²⁴ SA 230 Audit Documentation – Para 8.

²⁵ The Digital Data Protection Act, 2023, §2(f).

²⁶ The Digital Data Protection Act, 2023, §2(k).

²⁷ Concepts of Controller and Processor in the GDPR - Guideline 7/2020 issued by the European Data Protection Board – Para 2.1.4, Page 13 - https://edpb.europa.eu/our-work-tools/documents/public-consultations/2020/guidelines-072020-concepts-controller-and_en

services to a Data Principal. If a limited application to “offering goods or services” is applied, the auditor cannot be construed as “offering goods or services” to a Data Principal on behalf of the auditee.

A Data Fiduciary and Data Processor under the DPDPA play similar roles to that of a Data Controller²⁸ and Data Processor²⁹ under the EU General Data Protection Rules (“GDPR”), and the definitions are identical. Under the GDPR³⁰, an auditor is classified as a Data Controller on the grounds that an auditor is required by law to be independent of the auditee and determine the information required and technical means for processing the information. This rationale can be equally applied to auditors subject to the DPDPA, and it appears that it is more likely that an Auditor would be a Data Fiduciary than a Data Processor under the DPDPA.

Exemptions under DPDPA

While the DPDPA curtails the obligations of certain Data Fiduciaries under grounds of legitimate use and other exemptions, it appears that Auditors cannot claim the benefit of the exemptions above.

One of the grounds under legitimate use includes processing affected by the State or its *instrumentalities*³¹ of any function prescribed by the law. It can be argued that Audits, where prescribed by the law, would fall within this exemption. A body would be considered an instrumentality of the State if it is financially, functionally and administratively under the control of the State³². While ICAI, a statutorily constituted body, is an instrumentality of the State, members of ICAI who perform the Audits cannot be said to be instrumentalities of the State as they are distinct and independent of ICAI. However, they are subject to the regulations of ICAI. As such, it appears that Auditors cannot leverage this exemption under legitimate use as they may not be considered instrumentalities of the State.

Similarly, the DPDPA exempts processing by *any body* entrusted by the law to perform any *regulatory or supervisory*³³ function. While ICAI would fall within the ambit of this exemption as it is a body performing a regulatory or supervisory function, Auditors may not be considered as a *body* as explained above.



As such, even though Auditors may be said to be fulfilling a regulatory or supervisory function by virtue of the fact that the powers of an auditor are prescribed under the law, the exemption above may not apply to Auditors.

Auditor as a Data Fiduciary - Complexities & Challenges

Consent Mandates

If an Auditor is a Data Fiduciary, the Auditor would not only have to comply with the DPDPA but would also potentially face a plethora of operational complexities. Under the GDPR, exemptions from consent requirements are available to Auditors under grounds such as legal obligation or legitimate use. However, under the current construct of the DPDPA, processing by an Auditor does not fall under any of the legitimate uses (as discussed earlier) or currently prescribed exemptions and therefore, consent would be the only ground for processing.

It is unclear, based on the provisions of the DPDPA, whether the auditee can obtain consent on behalf of an Auditor. If so, the purpose can only be broadly articulated (such as audit purposes) by an auditee. If a more specific purpose description is mandated, it would be difficult for an auditor to anticipate all such purposes as they would be determined based on the risks of misstatement, which typically fluctuate and vary year on year. On the other hand, considering the operational complexities associated with identifying

²⁸ Article 4(7) of the GDPR - controller’ means the natural or legal person, public authority, agency or other body which, alone or jointly with others, determines the purposes and means of the processing of personal data

²⁹ Article 4(8) of the ‘processor’ means a natural or legal person, public authority, agency or other body which processes personal data on behalf of the controller;

³⁰ Concepts of Controller and Processor in the GDPR - Guideline 7/2020 issued by the European Data Protection Board – Para 2.1.4 , Page 14 - https://edpb.europa.eu/our-work-tools/documents/public-consultations/2020/guidelines-072020-concepts-controller-and_en

³¹ The Digital Data Protection Act, 2023, § 7(c).

³² Pradeep Kumar Biswas and Ors. vs. Indian Institute of Chemical Biology and Ors. (16.04.2002 - SC) : MANU/SC/0330/2002

³³ The Digital Data Protection Act, 2023, §17(b).

Data Principals from the information provided by the Auditee and obtaining and managing consent mandates, it would be infeasible, if not impossible, for Auditors to obtain consent from Data Principals. If the Data Principal refuses to provide consent, the Auditor's ability to conduct the Audit would be impeded.

Right to Erasure

The obligation to erase PII would conflict with the Auditor's obligations under the SAs^{34, 35} to retain audit documentation for seven years or longer, as mandated by any other law. Under the DPDPA, PII may not be erased if retention is required under the law. Audits are typically conducted under regulatory mandates such as Section 143 of the Companies Act, 2013 or Section 44AB of the Income Tax Act, 1961. With reference to Audits effected under the Companies Act, 2013 ("**Companies Act**"), SAs have been prescribed U/s 143(10) of the Companies Act and would be tantamount to the law and an Auditor disregard erasure provisions of the DPDPA. From the context of the DPDPA, it is unclear whether the SA, on their own, would be considered as a law. As such, with reference to Audits where the retention of PII is not prescribed under a specific law, there would be a conflict between the Auditor's obligation to erase PII and the obligation to maintain audit documentation as per the SA.

An added complexity is the conflict between the auditee's responsibilities to erase the PII and the Auditor's statutory right to access information, such as under Section 143(1) of the Companies Act. While the auditee is obliged to erase the PII if the Data Principal requests erasure or when the specified purpose is served, he may determine that the PII may be prospectively requisitioned by the Auditor and, therefore, erasure is unnecessary. However, from the lens of the auditee, the information which an auditor may request is indeterminable and open-ended, and in the absence of objective criteria, the auditee may end up retaining the PII, which is not necessary and vice versa.

Other Obligations

Besides obtaining consent, Auditors would also have obligations towards Data Principals, which, as explained earlier, include rights to information about processing, grievance redressal and correction of data. At the same



time, it would appear that exercising these rights would not serve any purpose as the auditor would not use PII for any other purpose apart from that of the Audit.

Conclusion

It is evident that classifying an Auditor as a Data Fiduciary would lead to a plethora of challenges which would severely impede the ability of an Auditor to effectively and in some cases, conclude an Audit. While measures such as anonymization of the PII may limit the extent of PII shared with an Auditor, it is implausible that an Auditor can conclude an Audit without processing PII, however limited it may be. At the same time, it is unlikely that an Auditor may be classified as a Data Processor as the Auditor principally determines the means of processing. Under the GDPR regime, processing by Auditors is exempted under non-consent grounds. As such, the most plausible solution would be to extend similar exemptions to Auditors under the DPDPA, powers which the Central Government can exercise.



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³⁴ Standards on Quality Control 1 – Para 83.

³⁵ SA 230 Audit Documentation – Para A23.

Deficient Financial Statements: Are auditors alone to be blamed? The other side of the coin!



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The Accounting Regulator, National Financial Reporting Authority (NFRA) which came into being through rules notified on 13th November, 2018 is in action. One of the significant findings besides deficiencies in audit, is quality of financial statements including non-compliances with accounting standards and disclosure requirements. Various NFRA reports were studied to assess whether some of these reported deficiencies in financial statements could have been avoided if the other responsible party diligently adhered to its mandate: the Audit Committee- whose role under the Companies Act, 2013, and the SEBI(LODR) Regulations, 2015 is indispensable for ensuring financial probity and protecting stakeholders' interests. The adaptability and efficacy of audit committees will remain critical in upholding the pillars of trust and transparency upon which robust corporate governance is built.

Background and Current Scenario

The news of National Financial Reporting Authority ("NFRA") passing an order against the auditor, imposing penalty and debarring the auditor has become quite common. NFRA has been carrying out Audit Quality Reviews since 2019 and released its first Audit Quality Review Report in December 2019 highlighting significant deficiencies in audit. Since then, NFRA has issued various orders and inspection reports. Till now, NFRA has debarred few Chartered Accountants and firms for periods ranging from one year to ten years and has imposed penalties on these auditors/ firms ranging

from Rupees One Lakh to Rupees Three Crore. The reports and orders issued by NFRA are detailed and self-explanatory.

It is pertinent to note that most entities where auditors have been found to be lacking by NFRA are listed companies raising a big question mark on the efficacy of Corporate Governance!

Significance of Corporate Governance in financial reporting

The corporate landscape is dynamic and complex, requiring robust mechanisms to ensure transparency, accountability, and integrity. The Companies Act,

2013 ("the Act") and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR") have significantly reshaped corporate governance practices in India. Among the many pillars of governance, the audit committee stands out as a key player in fostering financial integrity and safeguarding stakeholders' interests.

The audit committee, as mandated, particularly by the Regulations, 2015 plays a pivotal role in upholding the principles of good corporate governance and financial transparency. Its independent and vigilant oversight contributes significantly to the accuracy and reliability of financial reporting, thereby fostering investor confidence and market integrity.

In essence, the audit committee acts as an intermediary between the board of directors, management, internal auditors, and external auditors, contributing to the overall integrity and transparency of the financial reporting process.

The Legal Provisions

The Companies Act, 2013

Section 177 of the Companies Act, 2013, provides for the constitution of an audit committee by every listed public company and such other class or classes of companies as may be prescribed.

The SEBI (LODR), Regulations, 2015

It is important to look at the following provisions of Regulation 18 under Chapter IV of the SEBI(LODR) Regulations, 2015, in respect of listed companies: (only relevant provisions reproduced)

Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

All members of audit committee shall be **financially literate and at least one member shall have accounting or related financial management expertise.**

Explanation (1): For the purpose of this regulation, **"financially literate" shall mean the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.**

The regulators including SEBI should ensure that the majority of members of the audit committee are financially literate in real sense. This can be achieved through mandatory assessment of members of audit committee and mandatory courses in emerging financial reporting.

Explanation (2): For the purpose of this regulation, a member shall be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

Role of the Audit Committee and Review of Information by the Audit Committee has been described in Part C of Schedule II of the SEBI (LODR) Regulations, 2015.

Standard on Auditing (SA) 260(Revised), Communication with Those Charged with Governance ("SA 260(R))"

SA 260(R) which is a standard on auditing mandated under section 143(9) and 143(10) of the Companies Act, 2013 requires statutory auditor to communicate certain matters with those charged with governance ("TCWG"). It is particularly important to note the guidance provided in Paragraphs A51 of SA 260(R) (not reproduced). While the standard largely casts responsibility on the auditor, the paragraph A51 emphasize what audit committees should do.

Did the audit committees function effectively?

Upon reading the provisions of the Companies Act, 2013 and the SEBI (LODR) Regulations, 2015, the key



roles and responsibilities of audit committee so far as these relate to financial reporting can be summarized as under. Reading of NFRA reports and orders provide some indication of the gaps in the way audit committees of some of these companies functioned. The examples given below are only some instances. Also, some instances may be extreme, and these may not be true in all cases where NFRA has taken action against the auditors- but they do highlight matters of concern for stakeholders.

Oversight of Financial Reporting and Review of Financial Statements

The primary responsibility of the audit committee is to oversee the financial reporting process. This includes reviewing the company's financial statements, assessing the adequacy of the company's accounting policies, and ensuring that the financial statements comply with relevant accounting standards and regulatory requirements. The audit committee should also review the company's disclosures in the financial statements, including footnotes and other disclosures.

The audit committee should review the company's financial statements before they are released to the public. This includes reviewing the auditor's report and management's discussion and analysis. The audit committee should also ensure that any significant issues or risks identified during the audit process are appropriately disclosed in the financial statements.

In a majority of NFRA reports, there were instances of inadequate disclosures as per Schedule III to the Companies Act, 2013 and non-compliances with applicable accounting standards including deviations from accounting policies. In fact, the four Financial Reporting Quality Review Reports issued by NFRA indicate significant deficiencies in the preparation and presentation of financial statements.

In one instance NFRA has reported that there was a sharp rise (1026%) in the reported revenue of the company from Rs. 159.07 crores in year 1 to Rs. 1,791.01 crores in year 2. Did the audit committee consider it to be inappropriate recognition of revenue or aggressive revenue recognition practices thus distorting financial statements?

Clearly, the audit committees did not review the financial statements before approving the same for adoption by the board of directors.

Oversight of External Audit Process

The audit committee is responsible for overseeing the external audit process. This includes selecting the external auditor, approving the scope of the audit, and reviewing the auditor's findings and recommendations. The audit committee should also review the auditor's independence, objectivity, and performance, and ensure that any conflicts of interest are appropriately addressed.

In one instance, NFRA in its order has stated as under:

"We find that CA X has a poor understanding of Standards on Auditing and Ind AS. CA X is therefore, advised to undertake training on Standards on Auditing and Ind ASs from ICAI or any institution recognized by the ICAI or equivalent International Institution and submit the proof of completion of such training to this Authority within one hundred eighty (180) days from the date of this Order becoming effective".

There are multiple instances where the auditor did not have Engagement Quality Control Review and the auditor appointed was a proprietor with limited resources. There were significant non-compliances with Standard on Quality Control (SQC)-1.

NFRA reports/ orders indicate instances of conflict of interest of the auditor including violation of provisions of Section 144 of the Companies Act 2013. In a recent order issued by NFRA in December 2023, it has been alleged that the auditor himself was owning and/or controlling shares of the auditee company through his family-owned company.

Did the audit committee exercise due care in appointing statutory auditors by asking about the size of the firm, number of chartered accountants and other staff employed, experience of audits, relevant industry experience, firm's quality control policies, conflict of interest, among other questions? In many cases, the auditor remuneration as disclosed in the financial statements was abysmally low for audit of listed companies requiring significant compliances. Did cost considerations outweighed competency? It may be pertinent to mention that NFRA in its Consultation



Paper of 29th September, 2021 has raised concerns on quality of audit by benchmarking time and effort required with the auditor remuneration.

Review of Related Party Transactions

The audit committee should review and approve any related party transactions, including those involving the company's officers, directors, or significant shareholders. The audit committee should ensure that these transactions are conducted at arm's length and are in the best interests of the company and its shareholders.

In the case of Coffee Day Enterprises Limited and other group companies, NFRA has pointed out significant diversion of funds and non-disclosure of related parties and transactions therewith. This included understatement of loans, evergreening of loans, and diversion through a network of related parties/group companies. Section 177 of the Companies Act, 2013 and Part C of Schedule II of the SEBI (LODR) Regulations, 2015 specifically requires approval or any subsequent modification of transactions of the company with related parties. Section 177 also requires scrutiny of inter-corporate loans and investments by the audit committee. Did the audit committee assess the process of identification of related parties and how transactions are identified? Did the audit committee assess whether these transactions were at arm's length and had business rationale?

Financial Literacy of members of Audit Committee

In accordance with the requirements of the Companies Act, 2013 and SEBI (LODR) Regulations, 2015 all members of audit committee should be "financially literate", meaning that they have the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows. Further, at least one member shall have accounting or related financial management expertise.

In some of the companies where NFRA has debarred the auditors, it was noted that majority of members of respective audit committees were apparently not even "financially literate" as can be seen from their profiles in the annual reports, leave aside having financial management expertise. They did seem to have relevant industry experience. In case of one company, the profiles of independent directors of audit committee were far from being financially literate! One director was a bachelor's in physical education and the other was a graduate in Chemistry! They may be financially literate, but *prima facie*, do not appear to be so!

These illustrative gaps in the constitution and functioning of the audit committees do not in any way absolve the auditors of their responsibilities as auditors



as per applicable standards on auditing, code of ethics, and other regulations, but indicate the present situation.

What should Audit Committees do?

Addressing deficiencies in financial reporting requires the audit committee to work closely with management, internal auditors, and external auditors. Timely identification and resolution of these issues are essential to maintain the integrity of financial reporting and uphold investor confidence. As part of their role, audit committees should assess the competency of the finance and accounts department and also the effectiveness of the internal audit function. Some questions that audit committees should consider asking from the auditors are given below. These are not a comprehensive list of questions but only some illustrative questions.

During planning meeting/ before annual audit

- What is the planned scope of your audit, (e.g. what percentage of inventories will be observed, what percentage of trade receivables and trade payables will be confirmed? What alternative procedures will be performed in case of no responses?)
- Will there be an element of surprise in the audit procedures? For example, will there be rotation of locations to be covered or financial statement areas not covered earlier due to materiality?
- How can the scope of audit and audit plan be relied upon to detect material errors, fraud, illegal acts or material weaknesses in internal control?
- Have the key processes been appropriately identified and are there any concerns with respect to internal controls in identified key business processes?

- What risk assessment techniques will be used?
- How does the firm determine materiality including performance materiality? Are the benchmarks and percentages appropriate?
- What CAAT tools will be used?
- How will sampling be done?
- How does the planned scope of current year audit differ from that of the previous year?
- What will be the size and composition of the audit team including their experience? What is the expected level of participation by the engagement partner?
- What procedures will be performed to detect the existence of related party transactions? What procedures the engagement team plans to perform to verify arm's length of related party transactions?
- Is there any proposed accounting, auditing, tax or reporting requirements that could materially affect the company's financial statements?
- How does the firm ensure independence? Are there any matters that might reasonably be thought to bear on auditor's independence? What are the audit firm's affiliations/ network firms that may result in any potential conflict of interests?
- Are there any unresolved questions from the prior year's audit? How are these proposed to be addressed?

During the post audit meeting

- What Key Audit Matters ('KAM' as per SA 701) have been identified and what specific procedures were performed to address these KAM? If the



engagement team has not identified any KAM, why no KAM have been identified?

- Were there any changes in the audit plan as shared previously? Did it result in identification of new risks of material misstatement or lowering of materiality and performance materiality levels?
- Did the management provide you with all the information you requested for audit? Do you have any reason to believe that information was deliberately not provided or that management representations were incorrect?
- Did the company impose any limitations on the scope or coverage of audit?
- Did your audit procedures detect any material errors, fraud, illegal acts or significant deficiencies or material weaknesses in the company's internal control system?
- Have KAM been appropriately addressed?
- Were there any significant changes in financial statement amounts as compared to the previous year? Have these variations been properly explained and are these reasonable or are indicative of financial statement misstatement?
- Did you have adequate time to perform your audit procedures or were there delays in providing information for audit?
- Were there any changes in accounting principles?
- Were there any disagreements regarding accounting, auditing or reporting matters with the management? Have these been resolved in accordance with applicable financial reporting framework?
- Were there any adjustments or disclosures proposed by you that were not recorded by the management? What is the impact on the audit report?
- Are there any unresolved matters? Do they have a material impact on the financial statements?
- Are the accounting principles used by the company overly aggressive? Do the accounting principles followed by the company conform to industry practice?
- How did you satisfy yourself as to the reasonableness of significant accounting estimates made by management, such as allowances for doubtful accounts, useful lives of tangible and intangible assets, provisions for warranty, etc.
- Are you satisfied that there is no material uncertainty about the company's ability to continue as a "going concern?"

The Way Forward

In present environment of complex accounting principles (e.g. hedge accounting, fair valuation) and ever changing Ind AS, corporate laws, and disclosure requirements, the definition of “financial literacy” needs a revision. For instance, a Chartered Accountant may be financially literate but is an expert in taxation and may not be keeping updated with financial reporting.

The regulators including SEBI should ensure that the majority of members of the audit committee are financially literate in real sense. This can be achieved through mandatory assessment of members of audit committee and mandatory courses in emerging financial reporting.

“Technical Guide on the Functioning of Audit Committee & its Review Checklist” issued by the ICAI has suggested that audit committee members do a brainstorming. It suggests the following, which the directors and management should evaluate:

- *“Does the nominating and governance committee maintain a matrix that incorporates the skills and attributes needed on the audit committee?”*
- *Does the audit committee periodically assess its composition to confirm its members collectively have the skills and experience (e.g., industry, business, leadership) needed to fulfill the committees’ duties? Are any gaps discussed with the nominating and governance committee chairman?”*
- *When assessing committee composition, does the committee consider attributes such as diversity, tenure, and experience?”*
- *Do the audit committee members meet the requirements for financial expertise and financial literacy?”*
- *Are training and education programs available to help audit committee members maintain their financial knowledge?”*

Conclusion

Deficiencies in financial reporting can arise from various factors, and the audit committee plays a key role in identifying and addressing them. By actively fulfilling their responsibilities, audit committees serve as a critical governance mechanism, promoting transparency, accuracy, and reliability in financial reporting. Their oversight helps build trust among stakeholders, including investors, regulators, and the public.

At the same time, auditors cannot escape from their responsibilities as auditors just because the audit committees failed to do so! Nothing prevents the auditor from modifying the audit opinion if he/ she is unable to obtain sufficient appropriate audit evidence or if the management fails to prepare financial statements as per applicable financial reporting framework including disclosures required.

Penalizing only the auditors is not right. The primary responsibility for the financial statements lies with the management. The role of head of finance also needs to be probed. The regulators have made robust laws and regulations with respect to audit committees, and these have evolved since Corporate Governance was first introduced in India. However, it’s time that the regulators do a reality check whether these are being followed in true spirit or not and put in place a corrective action plan.

SA 260(R) envisages a two-way communication between the auditors and TCWG. The auditors and TCWG can complement each other to ensure accurate financial reporting and ensure that listed entities adhere to the highest standards of accuracy and reliability of financial reporting.

References

- Website of National Financial Reporting Authority (<https://nfra.gov.in/>) for various orders/ reports.
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Analysis of notifications under the PMLA: the responsibilities of Professionals as Reporting Entities



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The article presents views on two notifications No. S.O. 2036(E) and 2135(E), issued by the Ministry of Finance, Department of Revenue on 3rd May 2023 and 9th May 2023, respectively. By virtue of these notifications, CAs, CMAs, and CSs in practice, their firms, and formation agents shall act as 'Reporting Entities' under Section 2(1)(sa) of the Prevention of Money Laundering Act (PMLA). After these notifications, FIU-IND brought guidelines for the SRB and professionals. Now, professionals must be more cautious and must Know Your Customer (KYC) and Customer Due Diligence (CDD) of their clients and must maintain records of suspicious transactions while dealing with specified transactions of clients if money laundering is involved.

INTRODUCTION

i. Historical background of Taxation and origin of the word money laundering

In the First Dynasty of the Old Kingdom of ancient Egypt, the first known taxation system was introduced around 2800–3000 BC. In Bharat (India), this practice began in the 11th century. As the taxation system was introduced, people also started to find ways to evade taxes by following different methods. The main reason behind tax evasion seems to be the easily available sources to earn illicit money and the heavy taxation imposed by

any government. People see the new ways to earn more by evading taxes. Therefore, people indulge in predicate crimes like drugs, smuggling, human trafficking, prostitution, fraud, and other economic offenses to earn more money which is used in money laundering with the help of others.

Sterling Seagrave is an American historian who wrote the book '*Lords of the Rim*' on money laundering and one of the main features of the book is that it traces the origins and evolution of money laundering for over 3000 years.



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In Black's Law of Lexicon dictionary, the term "laundering" refers to an investment or other transfer of money flowing from racketeering, drug transactions, and other sources (illegal sources) into legitimate channels so that its original source cannot be traced.

ii. Initiatives for Anti-Money Laundering (AML)

Conventions and Resolutions

The Basel Committee on Banking Supervision, in 1974, issued a statement on the "Prevention of criminal use of banking system for the purpose of money laundering". G7 Summit in Paris was held in 1989 and 40 Recommendations of the Financial Action Task Force (FATF) on Money Laundering for combating terrorist financing were adopted. The Egmont Group, which is an international body of 164 Financial Intelligence Units (FIUs), recognized the use of channels of the banking system in money laundering and provided a platform to combat money laundering and terrorist financing (ML/TF) in 1995.

The Government of India introduced the Prevention of Money Laundering Act (PMLA), 2002, which came into effect from 1st July 2005.

FINANCIAL ACTION TASK FORCE (FATF) AND ITS RECOMMENDATIONS ON MONEY LAUNDERING

FATF made 40 recommendations on money laundering to combat terrorist financing and monitor International financial crimes and have been adopted by the maximum countries at large.

- i. **FATF** specifies lawyers, notaries, other independent legal professionals, and accountants should be required to report suspicious transactions when, on behalf of or for a client, they engage in a financial transaction in relation to the activities described in **Para (d) and (e) Recommendation 22 of FATF** which are not in the notifications issued by the government,
- ii. **Guidance for a Risk-Based Approach (RBA) paper** specifies activities covered in the notification performed by accountants that are the most susceptible to the potential launderer who involves proceeds of crime in **Para 22(d) of FATF:**

RBA research paper covered the ethical obligations of professionals to avoid assisting criminals or facilitating criminal activity (mentioned/listed

under) in R 31. Specifically, the requirements apply to accountants when they prepare for or carry out transactions for their clients concerning the activities listed/provided in the notifications issued by the government.

In view of the recommendations of FATF and the possible on-site assessment which is due in November 2023 by FATF in India, the two notifications S.O. 2036(E) and 2135(E) have been issued by the Ministry of Finance and Department of Revenue on 3rd May 2023 and 9th May 2023 respectively, under PMLA.

The notifications specify that certain financial transactions and activities carried out by a relevant person on behalf of their client or service providers shall be considered activities under PMLA for reporting purposes.

ANALYSIS OF THE NOTIFICATIONS

i. Notification No. S.O. 2036(E) dated 3rd May 2023

The Central Government hereby notifies that the financial transactions carried out by a relevant person on behalf of his client, in the course of his or her profession, in relation to the following activities-

- buying and selling of any immovable property;
- managing client money, securities, or other assets;
- management of bank, savings or securities accounts;
- organization of contributions for the creation, operation, or management of companies;
- creation, operation, or management of companies, limited liability partnerships or trusts, and buying and selling of business entities shall be an activity for said sub-section.

In the Explanation of notification - 'relevant person' includes – An individual who obtained a certificate of practice under Section 6 of the Chartered Accountants Act, 1949, the Company Secretaries Act, 1980 and Cost and Works Accountants Act, 1959, and practicing individually or through a firm, in whatever manner it has been constituted; and 'firm' shall have the same meaning assigned to it in sub-clause(i) of clause (23) of Section 2 of the Income-tax Act, 1961, which includes LLP also.

ii. **Second Notification No. S.O. 2135(E) dated 9th May 2023**

The Central Government has notified that the following activities, when carried out in the course of business on behalf of or for another person, as the case may be, are considered activities for the purposes of the sub-clause as mentioned above:

- acting as a formation agent of companies and limited liability partnership
- acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a firm, or a similar position in relation to other companies and limited liability partnerships
- providing a registered office, business or accommodation address, correspondence or administrative address for a company or a limited liability partnership or a trust
- acting as (or arranging for another person to act as) a trustee of an express trust or performing the equivalent function for another type of trust; and
- acting as (or arranging for another person to act as) a nominee shareholder for another person.

The government, while explaining the notifications, has cleared some doubts that activities carried out as part of any agreement of lease, sub-lease, tenancy or any other agreement or arrangement for the use of land or building or any space and the consideration is subject to deduction of income-tax as defined under Section 194-I of Income-tax Act, 1961 (43 of 1961); or any activity that is carried out by an employee on behalf of his employer in the course of or in relation to

The Ministry of Finance has brought notifications covering the professions of chartered accountants, company secretaries, and cost accountants in practice and their firms and formation agents as reporting entities.

his employment, or any activity that is carried out by an advocate, a chartered accountant, cost accountant or company secretary in practice, who is engaged in the formation of a company to the extent of filing a declaration as required under clause (b) of sub-section (1) of Section 7 of Companies Act, 2013, shall not be regarded as activity under the ambit of PMLA for Reporting Entity.

After bringing the notification, the govt. has also brought another notification dated 9th May 2023, in which the govt. added some more persons as 'Reporting Entities' and clarified some activities rendered are not under the PMLA and removed some doubts by way of explanations. It is pertinent to mention that in the second notification, activities have been added not the financial transactions.

The second notification further has widened the scope under the PMLA to include formation agents, arrangements of director or secretary, providing address and nominee shareholder via issuing acting as a formation agent of companies and limited liability partnerships or to act as trustee of the trust.

The present review explains the notification clauses as under: -

A formation agent who offers you professional expert advice and assistance to register the entity which suits your needs. This means that the persons who will work as formation agents or service providers shall be Reporting Entities.

- i. The person acting as (or arranging for another person to act as) a director or secretary of a company, a partner of a firm, or a similar position in relation to other companies and limited liability partnerships, will become an intermediary and shall come under the ambit of PMLA.
- ii. The person providing a registered office, business address or accommodation address, correspondence or administrative address for a company or a limited liability partnership or a trust, shall come under the ambit of PMLA.
- iii. Acting as (or arranging for another person to act as) a trustee of an express trust or acting as (or arranging for another person to act as) a nominee shareholder for another person.

However, the notification has given relaxation to the activities, provided that the conditions mentioned in the notification are fulfilled.



Thus, notification widens the liability of professionals who should take the assignment only after due diligence and maintaining the proper records. If suspicious transactions are found, the same should be monitored and should be reported.

With reference to the notifications, some provisions of PMLA need to be understood:

(a) Section 2(1)(ha) defines “Client”, a person who is engaged in a financial transaction or activity with a Reporting Entity and includes a person on whose behalf the person who engaged in the transaction or activity, is acting.

(b) Section 2(1)(sa) empowers the government to notify any person carrying on designated business or profession as Reporting Entities. It includes persons carrying on activities that are associated with gambling or casinos, or who are Registrar or Sub Registrar, or Real estate agents, or Dealer in precious metals. Persons engaged in the safekeeping and administration of cash and liquid securities are already covered.

The Ministry of Finance has brought notifications covering the professions of chartered accountants, company secretaries, and cost accountants in practice and their firms and formation agents as reporting entities.

The notification implies that practicing CA/CS/CMA and firms who manage client assets and formation agents will now fall under the ambit of the PMLA and will have to comply with its provisions such as reporting suspicious transactions, maintaining records, verifying identity, etc.

To understand the implications, requirements and responsibilities under the provisions of PMLA, all reporting entities should know some of the important relevant definitions provided under the PMLA:

- (a) Section 2(1)(u) defines “Proceeds of Crime” which means any property derived as a result of criminal activity relating to scheduled offenses.
- (b) Section 2(1)(v) defines the “Property” in which it has been clarified that every type of property used in any scheduled offense has been included. It is pertinent to mention here that it does not matter where property is located either in India or out of India.
- (c) Section 2(1)(wa) defines “Reporting Entity” which includes a banking company, financial institution,



intermediary, or a person carrying on a designated business or profession.

Consequently, the Various Reporting Entities include stockbrokers, Real estate agents, and jewelers. SEBI, INSURANCE COMPANIES, a total of 19 entities are acting as reporting entities.

Now, by virtue of notification, CA's, CMA's and CS's and their firms and service providers are Reporting Entities. As the government has given the responsibility to the professionals, they should also understand which type of offences will fall under the PMLA.

- (d) Sec 2(1)(y) defines “Scheduled Offence” which means:
 - (i) The offences specified under Part A of the Schedule.
 - (ii) The offences specified under Part B of the Schedule if the total value involved in such offenses is one crore rupees or more.
 - (iii) The offenses specified under Part C of the Schedule.

The Schedule Offences covers 161 Activities falling under 29 Acts.

- (e) Section 3 defines “Offence of Money Laundering” which has the following essential elements:
 - (i) A crime has been committed;
 - (ii) There are proceeds of or gain from the crime;
 - (iii) There is a transaction in respect of the proceeds of the gains;
 - (iv) There is involvement in any activity connected with the concealment, possession, or acquisition of the tainted money or use, projecting, or claiming as untainted property in any manner whatsoever;

- (v) The process or activity connected with the proceeds of crime is a continuing activity;
- (vi) The activity continues till such a time a person is directly or indirectly enjoying the proceeds of crime.

Now, by virtue of these notifications, the specified transactions and activities are under the ambit of PMLA. Relevant professionals or their firm shall be found guilty if proceeds of crime are involved in executing the specific transactions or activities. The PMLA aims to prevent money laundering and the financing of terrorist activities by tracking and intercepting such transactions.

The Reporting Entity is required to carry out customer due diligence, maintain the identity of the clients, and record transactions properly. The entity has to maintain adequate procedures to prevent money laundering. To ensure compliance with the PMLA, it is important to keep accurate records of all financial transactions, including the source of funds, the purpose of the transaction, and the identity of the person or entity involved. They must also have a robust compliance program in place to prevent ML/TL.

It is seen that transactions mentioned in the notification have been recommended by FATF and this has been a compulsion of the government.

- (f) Section 11A defines that "Every Reporting Entity shall verify the identity of its clients and the beneficial owner".

The Reporting Entity shall increase the future monitoring of the business relationship with the client, including greater scrutiny or transactions conducted in such manner as may be prescribed.

Obligations of Professionals as Reporting Entity

Recent guidelines issued for Professionals as Reporting Entities cast the responsibility to frame internal policies, procedures, and controls to combat money laundering, counter terrorist financing and combat proliferation financing.

- (g) Section 12 defines for maintenance of records evidencing the identity of its clients and beneficial owners, by the Reporting Entity. Accordingly, every Reporting Entity shall have to maintain a record of all transactions including attempted or executed transactions. They shall maintain the said records for a period of five years after the business relationship.
- (h) Section 12A defines the power of the director under PMLA to access information. Every Reporting Entity shall furnish to the director such information and any of the records referred to in Section 11A, Sub-section (1) of Section 12, Sub-section (1) of Section 12AA, and any additional information as he considers necessary for this Act.
- (i) Section 12AA defines enhanced Due Diligence. For every Reporting Entity who shall, prior to the commencement of each specified transaction, verify the identity of the client's undertaking and take additional steps to examine the ownership and financial position, including sources of funds of the client.
- (j) Section 13 defines that the Director is authorized to impose a fine in case of failure to comply with the obligations of such Reporting Entity or its designated Director on the Board or any of its employees for each failure, not less than Rs. 10,000 but may extend to Rs. 1,00,000 after giving an opportunity of being heard.
- (k) Section 14 defines immunity to the Reporting Entity, its Directors, and Employees against any civil or criminal proceedings.
- (l) Section 15 defines the procedure and manner of furnishing information by reporting entities.

Recent guidelines of FATF prescribe that statutory bodies shall identify members in practices and register the same with SRB, and further, SRB also shall obtain the information about the principal officer and designated director of the firm in practice. The same shall be sent to FIU-IND and shall be updated periodically.



In view of the above, the Reporting Entity shall not allow the specified transaction to be carried out where any transaction undertaken by a client is considered suspicious or likely to involve proceeds of crime. The Reporting Entity shall increase the future monitoring of the business relationship with the client, including greater scrutiny or transactions conducted in such manner as may be prescribed. A director is authorized to impose a penalty in case requisite information is not furnished. Also, no civil or criminal liability lies against the Reporting Entity.

RESERVE BANK OF INDIA'S MASTER CIRCULAR ON ANTI-MONEY- LAUNDERING

The Reserve Bank of India has issued Master Circular on Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/ Combating Financing of Terrorism (CFT) / Obligation of banks and financial institutions under PMLA, 2002 which have consolidated all the instructions issued in the notification no. DOR.AML.REC.13/14.01.001/2023-24 on 04th May 2023.

ANNOUNCEMENT OF KNOW YOUR CLIENT (KYC) NORMS BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA (ICAI)

The ICAI has already informed all the members of ICAI, who are in practice, that the Council has formulated the Know Your Client (KYC) norms at its 356th Meeting. As per the guidelines issued, all relevant persons must have robust mechanisms in place to comply with KYC norms for new as well as existing clients.

These KYC norms are mandatorily applicable for engagements accepted on or after 1st January 2017. However, the same may be revised in view of new guidelines issued by FATF.

FUNCTION AND REGISTRATION WITH FINANCIAL INTELLIGENCE UNIT (FIU)

In view of the notifications, it is brought to notice that it will be necessary for the Reporting Entity to register with FIU through SRB. The present paper also explains how the Reporting Entity shall register themselves.

Financial Intelligence Unit – India (FIU-IND) was set up by the Government of India on 18th November 2004. This is a central national agency responsible

REs will have to appoint a Principal Officer or Designated Director to report to SRB who will further report to FIU.

for receiving, processing, analyzing, and disseminating information relating to suspected financial transactions.

Guidelines by Fiu for SRB

Though guidelines for registering and reporting with SRB have been issued, the format for reporting transactions as required under rule 7(2) of PMLR is yet to be prescribed.

JUDICIAL PRONOUNCEMENTS

i. Murali Krishna Chakrala V/s. The Deputy Director, Directorate of Enforcement

JUDGEMENT: The Hon'ble Madras High Court held that Chartered Accountants (CA) are required only to examine the nature of the documents and not the genuineness of those documents. Therefore, merely issuing a certificate cannot be valid grounds to prosecute a CA under the Prevention of Money Laundering Act, 2002 ("the PMLA Act").

ii. Vijay Madanlal Choudhary v/s Union of India, Supreme Court of India

JUDGEMENT: The court also held that the reporting entities are not liable for civil or criminal action for filing Suspicious Transaction Reports (STRs) in good faith.

UNRESOLVED QUESTIONS

The notification aims to strengthen the legal framework for tackling money laundering and terrorism financing in India and enhance the compliance and reporting standards of professionals involved in financial transactions. Though the new guidelines have been issued, still the following questions are unresolved:

- Whether Reporting Entity (RE) be liable to report for only transactions and activities mentioned in the notifications, while there is no money laundering?
- When there is an engagement of professionals in transactions or activities and the transactions found to be involved in money laundering have to be reported?
- While carrying out specified transactions and activities, if there are no suspicious or money laundering transactions, reporting has to be made to FIU for nil report?



- In the normal course of the audit, if any suspicious transactions come to notice, whether they will be reported even if they are not related to activities mentioned in the notification?
- If any falsifications of books are noticed while auditing in a normal course related to specified transactions and activities, is there a responsibility to report to FIU? However, there is already a responsibility to report Fraud under Section 143(12).
- Whether all professionals in practice have to get registration with FIU if they are not carrying out the transactions mentioned in the notifications?

CONCLUSION

After going through the contents of notifications and various provisions of PMLA, their implications over practicing CA/CS/CMA's and firms are as follows:

- REs will have to appoint a Principal Officer or Designated Director to report to SRB who will further report to FIU.
- They have to ensure that their employees are adequately trained and informed about the PMLA and its obligations.
- It shall be ensured that no tipping off should be made to the client, such that all kinds of suspicious or even attempted transactions have been reported.
- They have to cooperate with the authorities in case of any inquiry or investigation under the PMLA.
- Now, specified professionals have to report suspicious transactions under PMLA.

- Review and monitor the customer's and transaction records to assess the possible existence of red flags or any ML/FT potential risk indicator.
- Check whether the identified potential suspicion is aligned with the customer's profile or is unusual to the customer's expected activities. Having collected all the information around the risk indicators, clarification or explanation received from the customer and customer due diligence, evaluate whether the activity is linked to the proceeds of crime or suggests the involvement of terrorism financing.
- If professionals are satisfied that the transaction is suspicious, they have to report it to the FIU-IND by filing a Suspicious Transaction Report (STR) within 7 working days from the date of occurrence.
- Professionals have to maintain a record of all STRs filed and ensure their confidentiality.

In view of the above, there is a need to bring clarifications and guidelines for such professionals because professionals should not be brought parallel to other reporting entities like banks and financial institutions.

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- RBI notification no. DOR.AML. REC.13/14.01.001/2023-24 issued on May 04, 2023.
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Rising Threats: Navigating the Complex World of Cyber Security Attacks



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During the World Telecommunication Development conference, held in Kigali, Rwanda, from 6 to 16 June 2022, the delegates reviewed the question of securing information and communication networks. Central to their discussions were inquiries into the optimal strategies for developing a culture of cyber security. Additionally, they exchange insights on the latest Cyber Security Assurance Practices.

What is a Cyber security threat?

A cyber security threat involves the illicit use of software tools to breach security measures. It entails the unlawful utilization of certain software to gain access to the private information of individuals, firms, organizations, or governments. These threats not only disrupt digital operations but also cause damage to critical information, posing risks to cyber security of data.

All the information related to critical infrastructure such as the nuclear and power sector which is private to them in their nature is there in our computer systems. Disruption of these systems brings a lot of threat of terrorism as well as loss of reputation at individual and global levels as well.

Actions perpetrated by corporate spies, hacktivists, terrorist groups, hostile nation states, criminal organizations, and disgruntled employees can result in financial, environmental, and social havoc for the nation and its citizens.

According to the CyberArk 2023 Identity Security Threat Landscape

Report, virtually 99% of the respondents agree that they will face an identity-related compromise in the future years. Additionally, 58% of the participants said this would happen as a part of a digital transformation initiative.

Threats manifest in various forms. Let us study some of them in detail.

Malware – Is anyone spying?

It stands for malicious software. There are various types of malwares:

1. **Spyware** - It infiltrates your computer through links and functions as a digital spies, similar to Pegasus. It has the capability to lock your data and valuable files.
2. **Trojan Horse** - Much like the myth, a Trojan horse also referred to as "Trojan" disguises itself as a normal file. It is downloaded alongside a file though it does not replicate itself. However, it hampers the working and gets forwarded with the file in which it was embedded. It can also leak data like other malware.

3. **Bugs** – Bug is an error, flaw or fault in the design or development . It refers to a type of error or failure that produces an undesirable outcome or result. It's a commonly used term to describe such malfunctions.
4. **Virus** – Viruses are also the type of malware that we hear commonly. The purpose of each virus can be different, but the ultimate purpose is either to hamper the working on the device or to leak information for the benefit of outsiders.
5. **Adware** – At times when we open our emails, applications or websites, we encounter numerous advertisements.. However, when these advertisements become excessive and hinder our work, they are referred to as adware. It inundates your applications and websites with advertisements, thereby slowing down your work processes.
6. **Worms** – Another type of malware that replicates itself and disrupts user activity are worms. They spread rapidly and impede normal operations.7-Boats - It is a software program. It is created to perform certain tasks. If tampered with, it can send spam or can be used to bring down the entire website.

If a ransom is demanded to release your crucial data, which was spied upon by malware and held as hostage by hackers, then this constitutes an extended form of ransomware threat.

As per the Indian Ransomware Report H1-2022, there was a 51% increase in the ransomware incidents reported in 2022 as compared to the previous year 2021.¹

Talking more about attacks in cyber security for our workplace.

Let's see what SQL Injection is.

We use a lot of applications on a daily basis from booking a cab service to ordering food and groceries to our doorstep. Our lives have been eased out by these applications. Similarly, there are other applications for shopping and entertainment purposes as well, aimed at providing users with diverse options and experiences. When creating login accounts on these platforms, we often input a plethora of personal details, including sensitive information like bank details.

Here comes the twist. SQL stands for Structured Query Language. SQL attack occurs when malicious actors insert SQL code into the input fields of web applications. This technique allows attackers to manipulate the data and gain unauthorized access to sensitive data. Hackers can modify or delete the data and even execute administrative operations on the

database. This can lead to serious security breaches if not properly mitigated. Apart from data leakage, some administrative attacks are also possible.

For example: If an attacker gets access to the email ID of CFO, he can ask employee to transfer money to a particular account. On the part of the employee since official and confidential mail is received through a formal process, he will obey the instructions which might lead to loss of funds.

Similarly, if an attacker gets access to an administrative login, he might disallow the service for a day which can lead to even shut down of a business. Thus, SQL injection is a very risky and important aspect from the point of view of the company. One should not overlook this and be prepared for these kinds of attacks.

Now Picture this: You left for the client's place without breakfast, needed a coffee went to Starbucks and immediately one of your partners calls for a file to be mailed. You used an open Wi-Fi to quickly send that file. It seems convenient right? But here is the twist, lurking in the digital shadows, there could be a hacker intercepting and keeping a copy of data being exchanged over digital means. These kinds of attacks are known as Man in the Middle attack. In this, someone has taken your information without your consent.

Have you ever received mail claiming you have won Cash prizes?

Just open the mail and click on the link below to get the amount in your account!

Sometimes, we may disregard these emails, but on occasion, either by mistake or out of curiosity to understand the subsequent developments, we may click on them. Despite our lack of intention to share any data, clicking on such emails can result in the inadvertent installation of malicious software onto our device without our awareness. This software can leak our data or may hamper the processing of our device. This kind of attack is known as a phishing attack.

Next, we are going to discuss about social engineering attacks. This is related to manipulation in human psychology. In this, an attacker exploits human psychology to deceive an individual or organization.

For example: We came across many calls during the day in which cyber criminals portrayed themselves as RBI/ Bank officials. They generally tell you that your cards or account has been blocked due to some instance. They will need an OTP to restart the service. The moment you share OTP embezzlement of funds happens. What they have done is play with your psychology.

¹ Black and Purple Abstract Tech General Report (cert-in.org.in)

There is another instance in which a person called the victim that I am your father's friend and specified some of the details to gain trust. Then he told him that your father gave me your number and asked me to transfer some funds which I had borrowed some time back. He then asked this person to share his account details or UPI. Now the attacker said that my bank is asking for the OTP of the account holder so that the funds are going into the right account and are not lost in between. The person shared his OTP. He lost the funds. His mind was manipulated in such a way that he forgot to ask his father and confirm the same. This is another example of a Social Engineering Threat that led to fraudulently taking funds from an individual.

On similar terms let's have a look at another example where an employee is looking for a job change. There is an opening for an upgraded profile in competitor organizations. They ask the employee that you can get a job if you give the interview on video call right now from the laptop since they have a lot of candidates. The employee starts a video call from the office laptop. The competitor asks him to open the link from chat and fill in some details. The link was embedded with a virus to leak information. The moment the employee clicked that link, information was leaked. He was now in a trap. This is one of the examples where the weakness of an employee to get a high paid job with up gradation in profile was used by the competitor to manipulate him.

If the employee had done it intentionally then might have taken the name of insider threat attack. An insider threat attack involves the malicious intent of the insider to share a piece of confidential information or disrupt the working of a victim. It involves actions by employees, contractors, or business partners.

Delving Towards the Anatomy of DoS Attack

DoS stands for Denial-of-Service attack. It involves an attempt by an attacker to overload the targeted server with illegitimate traffic of requests to be executed. Thus, the server is unable to process the requests within normal time. It becomes unavailable to the intended user. In this, the attacker might send a lot of ping requests to the targeted server. The server might get confused to reply to which one first.

Similarly, this can happen to exploit vulnerabilities in the TCP handshake process. A lot of synchronization packets can be sent to the targeted server. It makes the server unable to respond and drops the connection requests.

These kinds of attacks can make the performance of the server slow, unresponsive, and inaccessible to legitimate users. Due to this, the organization might have to face reputational consequences as well.

An extension of this kind of attack is known as Distributed Denial of Service Attack (DDoS). Unlike a DOS attack as discussed above which suffers a flood from a single source, a distributed denial of service attack experiences a flood from multiple sources. It becomes very difficult to handle this kind of attack. It leads to long-term loss of business along with reputational consequences. In this collective power various DOS attacks are invested to bring down the server down of an organization.

We are living in an era of pace-changing technologies. On a daily basis, a new application is being developed. To take the first mover advantage, applications are deployed as soon as it pass the tests.

Thus, there can be vulnerabilities that are not known to the maker. The exploitation of these vulnerabilities is referred to as Zero-Day attacks. The developers have zero days to prepare and release a patch. The attackers exploit these vulnerabilities before they are fixed by the developer. This can happen at the testing stage as well. This poses a significant challenge for developers.

Conclusion

As members of a prestigious institute and contributors to society, we bear the responsibility of upholding the confidentiality of data and maintaining integrity. Given our reliance on various software and applications in our daily lives for efficient work completion, it is imperative that we remain vigilant about associated threats. The examples and threats outlined above serve to raise awareness about potential risks.

Emphasizing the significance of education and awareness in analyzing and mitigating cybersecurity risks is paramount. As technology evolves, so do cyber threats. Therefore, it is crucial to highlight and raise awareness about these threats.

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What's New for the IESBA Code: 2023 Edition and Beyond

IFAC is committed to supporting the development, adoption, and implementation of high-quality international ethics and independence standards. Key to this is ensuring that professional accountants around the world follow the latest standards issued by the International Ethics Standards Board for Accountants ("IESBA"). This article is part of an ongoing series summarizing the key changes to the International Code of Ethics for Professional Accountants (including International Independence Standards) ("the Code").

This article covers changes since previous summary in December 2022 and focuses on changes included in the 2023 edition of the Code, as well as horizon scanning for future developments. It aims to provide only a high-level overview of changes; therefore, when implementing these updates, please refer to the Code for the full details of all the requirements.

Changes included in the 2023 Code:

Revisions effective for audits of financial statements for periods beginning on or after December 15, 2023 include:

- Revisions relating to the definition of engagement team and group audits; and
- The expiration of the "jurisdictional provision" addressing long association of personnel with an audit client

The 2023 Code also includes revisions which have been approved by IESBA, but will only become effective on December 15, 2024:

- Revisions to the definition of a public interest entity ("PIE"), "audit client" and "group audit client"; and
- Technology-related revisions



Proposed IFRS Taxonomy Update 2024 and comment letters: Contracts for Renewable Electricity

On 15 August 2024, the IASB published for public comment IFRS Accounting Taxonomy 2024—Proposed Update 2 *Contracts for Renewable Electricity*.

The proposed changes reflect the disclosure requirements proposed by Exposure Draft *Contracts for Renewable Electricity*, published in May 2024.

This Proposed IFRS Taxonomy Update is based on proposed amendments to the IFRS Accounting Standards. The proposed amendments to IFRS Accounting Standards might change, and the proposals in this Proposed IFRS Taxonomy Update would change to reflect the amendments issued.

The deadline for submitting comments is **14 October 2024**.



Exposure Draft and comment letters: Translation to a Hyperinflationary Presentation Currency

The International Accounting Standards Board (IASB) published for public comment the Exposure Draft Translation to a Hyperinflationary Presentation Currency. The Exposure Draft proposes to improve information for investors in a cost-effective manner by requiring an entity to translate amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy using the closing rate at the date of the most recent statement of financial position.

The IASB is inviting feedback on the proposed amendments until **22 November 2024**.



Exposure Draft and comment letters: Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

The International Accounting Standards Board (IASB) published its Exposure Draft *Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures*. The IASB is proposing to update IFRS 19. The Standard, issued in May 2024, permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements.

In developing the reduced disclosure requirements in IFRS 19, the IASB considered the disclosure requirements in other IFRS Accounting Standards as at 28 February 2021. When the Standard was issued, it did not contain reduced versions of any disclosure requirements that were added or amended after that date. Therefore, the IASB is now consulting, through the Exposure Draft, on whether and how to reduce these disclosure requirements in IFRS 19. The IASB is also asking for views on whether to reduce the disclosure requirements from the prospective IFRS

Accounting Standard *Regulatory Assets and Regulatory Liabilities*.

The comment letter period is open until **27 November 2024**.



Discussion Paper: Opportunities for the future of digital reporting

This paper addresses changes in the regulatory landscape and considers the impact of the recently passed Economic Crime and Corporate Transparency Act 2023.

The FRC has been developing and maintaining UK taxonomies for over a decade, providing a framework for high-quality, consistent digital reporting. The UK Taxonomy Suite plays a crucial role in minimising burdens on businesses while supporting economic growth by enabling investors to access and compare information efficiently and allowing regulators to confirm compliance with legal and regulatory requirements.

Key topics covered in the discussion paper include:

1. Potential alternatives to the European Single Electronic Format (ESEF) taxonomy for UK regulated markets
2. Proposed changes to structured digital reporting to support regulatory disclosure initiatives
3. Considerations for mandatory assurance of digital tagging
4. The impact of "full tagging" requirements on companies and charities
5. Strategies to support stakeholders in adapting to new digital reporting requirements

The discussion paper seeks input from a wide range of stakeholders, including preparers of financial reports, investors, software vendors, accountants, and regulators. It aims to help shape the future of digital reporting in the UK, ensuring it meets the needs of all users while promoting transparency, comparability, and efficiency in corporate reporting.

The FRC encourages all interested parties to submit their responses to XBRL@frc.org.uk by 1 November 2024.



Consultation on Guidance on the Going Concern Basis of Accounting and Related Reporting, including Solvency and Liquidity Risk

The FRC is consulting on proposals for revised 'Guidance on the Going Concern Basis of Accounting and Related

Reporting, including Solvency and Liquidity Risk' (the draft Guidance). This would replace the FRC's existing Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risk, issued in 2016.

The draft Guidance brings together the requirements and provisions of company law, accounting standards, auditing standards, listing rules, the UK Corporate Governance Code and other regulation relating to reporting on the going concern basis of accounting and solvency and liquidity risks.

It is intended to help companies in performing going concern assessments and in preparing company-specific disclosures about their going concern conclusions and how they were reached. The process should allow investors to understand a company's exposure to and plans to navigate solvency and liquidity risks.

It includes a revised range of factors and techniques directors could consider when performing going concern assessments.



The consultation closes on **28 October 2024**.

FRC publishes amendments to FRS 101 Reduced Disclosure Framework

The Financial Reporting Council (FRC) has today issued minor Amendments to FRS 101 Reduced Disclosure Framework following the 2023/24 annual review cycle.

Changes include a disclosure exemption from presenting certain comparative information, and a conditional exemption for qualifying entities in respect of certain disclosures about supplier finance arrangements required by IAS 7 Statement of Cash Flows.

Amendments were also made to Appendix II Note on Legal Requirements for consistency with IAS 1 Presentation of Financial Statements.

Links to the supporting documents can be found below:

FRS 101 Reduced Disclosure Framework

Feedback Statement and Impact Assessment – Amendments FRS 101 Reduced Disclosure Framework – 2023/24 cycle





Q Can a Chartered Accountant in practice disclose information acquired in the course of his professional engagement?

No, as per Clause (1) of Part-I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

Q Whether an auditor is required to provide to the client or to main auditor of the Head Office of the same enterprise access to his audit working papers?

No, working papers are the property of an auditor. An auditor is not required to provide the client access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. The auditor may at his discretion, in cases considered appropriate by him, make portions of, or extracts from his working papers available to the client.

Q Whether Joint Auditors can demand the working papers of one another?

No, the working papers are the property of an auditor. Therefore, no Joint Auditor can demand the working papers of the other auditor.

Q Whether a joint auditor will be responsible for the work done by other joint auditor?

The Council direction under Paragraph 2.15.1.2(ii) under Clause (2) of Part -I of the Second Schedule to the Chartered Accountants Act, 1949, appearing

in Volume II of the Code of Ethics, prescribes that in respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him including proper execution of the audit procedures. However, on the other hand, all the joint auditors are jointly and severally responsible for the work which is not inter-se divided among the auditors.

Q Can a Chartered Accountant in Service accept or agree to accept any part of fees, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification?

No, Clause (2) of Part-II of First Schedule to the Chartered Accountants Act, 1949, prohibits a member in service from accepting or agreeing to accept any part of fees, profits or gains from a lawyer, a Chartered Accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

Q Whether a member of the Institute shall be deemed to be guilty of professional misconduct, if he includes in any statement, return or form to be submitted to the Council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false?

Yes, as per Clause (3) of Part-II of the Second Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct if he includes in any statement, return or form to be submitted to the Council or any of its committees,

Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

Q Whether the member in practice can permit his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast?

No, as per clause (3) of Part-I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice will be deemed to be guilty of professional misconduct if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transaction in a manner which may lead to the belief that he vouches for the accuracy of the forecast. As per opinion of the Council, a Chartered Accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts and so long as he does not vouch for the accuracy of the forecasts. The member has to comply with SAE 3400 while drafting the report for such engagements.

Q Can a member in practice express his opinion on financial statements of any business or enterprise in which he, his relative, his firm or a partner in his firm has a substantial interest?

No, as per Clause (4) of Part-I of the Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he expresses his opinion on financial statements of any business or any enterprise in which he, his firm or a partner in his firm has substantial interest. 'Substantial interest' here has the same meaning as contained in the resolution passed by the Council in pursuance to Regulation 190A of the CA Regulations, 1988.

However, in case of a company, under Section 141(3)(d)(i) of the Companies Act, 2013, a member cannot accept audit even if he or his partner holds a single share.

Further, in case of a company, under Section 141(3)(d)(i) of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014, the relative of an auditor cannot hold security or interest in the company of face value in excess of one lac rupees.

In case of entities other than companies, the criteria laid down for relatives in Regulation 190A of the CA Regulations, 1988 may be referred.

Q Can an auditor write the books of accounts of the auditee?

No, Council directions under Paragraph 2.15.1.4(xi) under Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of Code of Ethics prescribe that an auditor is not permitted to write the books of accounts of his auditee clients. Further section 144 of the Companies Act, 2013 bars the auditor of a company to directly or indirectly render accounting and book keeping services to the said company, or its holding company or subsidiary company.

Q Whether the fee received from limited review/quarterly Audit of the same undertaking/company under the listing regulations should be included in the fee received for carrying out the "statutory audit of the same undertaking/company", while comparing the same with the fee from permissible non-audit services?

The exemptions to the general rule contained in Chapter IX of Council General Guidelines mention "audit under any other statute". The limited/quarterly review would not be included in the same, as these are done in the same statute (i.e. Companies Act, 2013). Hence, limited Review/quarterly Audit may be deemed to be included in statutory Audit.

Q Whether a Chartered Accountant is qualified to be appointed as statutory auditor of one associate company when he is the internal auditor of another fellow associate company.

Yes, the statutory auditor of one associate company can accept internal audit of the fellow associate company, because there is no holding-subsi-dary relation between such companies, and therefore there is no violation of provisions of Companies Act, 2013.

Q Whether a member in practice will be liable, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading?

Yes, as per Clause (5) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice shall be deemed to be guilty of professional misconduct, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading.

Opinion

Accounting for subsidy receivable under Ind AS framework.

A. Facts of the Case

1. A Company (hereinafter referred to as 'the Company') is registered under the Companies Act, 1956/2013. The Company is a state government company as the entire equity is held by the State Government. The bonds of the Company are publicly traded on Bombay Stock Exchange (BSE). The Company is having the following 5 subsidiaries, distribution companies (hereinafter collectively referred to as the DISCOMs):

1. Pu Vidyut Vitran Nigam Limited (PuVVNL)
2. M Vidyut Vitran Nigam Limited (MVVNL)
3. D Vidyut Vitran Nigam Limited (DVVNL)
4. P Vidyut Vitran Nigam Limited (PVVNL)
5. K Electricity Supply Company Limited (KESCO)

The DISCOMs are also registered under the Companies Act, 1956/2013.

2. The Company is primarily engaged in bulk purchase of power from inter-state and intra-state generators and in bulk sale/supply of power to the DISCOMs. Bulk sale tariff for sale of power to DISCOMs is decided by the Company. The DISCOMs are engaged in distribution and supply of electricity to consumers in their specified areas. Tariff for distribution/supply

(including subsidy chargeable/receivable against subsidised consumers) is regulated/approved by the State Electricity Regulation Commission (SERC).

3. The Company has been receiving grants/subsidies from the State/Central Government on behalf of the DISCOMs under various schemes, such as, Ujjwal DISCOM Assurance Yojana (hereinafter referred to as UDAY), ATMNIRBHAR Scheme, Revamped Distribution Sector Scheme (RDSS) etc. and subsequently allocates/transfers it to the respective DISCOMs.

4. The UDAY scheme was a financial restructuring programme launched by the Government of India in November 2015. The scheme primarily aimed to address the financial health and operational efficiency of DISCOMs in India. The scheme's basic objectives were mainly to reduce the debt burden, to improve operational efficiencies and to promote sustainable energy practices of the DISCOMs. Under this scheme, the State Government took over 75% of the outstanding debt on the books of the DISCOMs as on September 30, 2015. The balance debt i.e. remaining 25% was issued as state government-guaranteed DISCOM bonds. This helped in reducing the interest burden and overall debt of the DISCOMs. State Government had sanctioned and released subsidy of Rs. 29350.32 crores under the UDAY (being 75% of the total outstanding debt of the DISCOMs amounting to Rs 39,133.76 crores as on 30-09-2015).

5. Additional revenue subsidy amounting to Rs. 39,743.00 crores, which was determined by the SERC (in trueing up of the Tariff for the DISCOMs for the period from financial year (F.Y.) 2007-08 to F.Y. 2019-20), was payable by the State Government to DISCOMs through the Company. But, no accounting has been done on this account in the books of the account of the Company and DISCOMs as there was no reasonable assurance from the State Government in this regard. Later on in the year 2020-21, the State Government, vide its Notification No. 445/24-01-21-731(budget) /2020 dated 05-03-2021, had adjusted the aforesaid revenue subsidy of Rs. 29,350.32 crores, which was received under UDAY, in the following manner and heads/item:

S. No.	Particulars	Amount (Rs. in Crores)
1.	Electricity dues from State Government's departments	4,268.86
2.	Against additional revenue subsidy of Rs. 39,743.00 crores trueed up Tariff for the year 2007-08 to 2019-20	25,081.46
	Total	29,350.32

After adjustment of above additional tariff subsidy of Rs. 25,081.46 crores, the additional tariff of subsidy of Rs. 14,661.54 crores (Rs. 39,743.00 crores - Rs. 25,081.46 crores) remained unadjusted. Apart from this, the balance amount of Rs. 6,278.47 crores were also payable by the State Government under UDAY for the period from F.Y. 2016-17 to 2019-20. Thus, the total subsidy of Rs. 20,940.00 crores (Rs. 14,661.54 crores + Rs. 6,278.47 crores) was to be received from the State Government for which the State Government had ordered in the aforesaid Notification dated 05-03-2021 that Rs. 20,940.00 crores shall be paid to the Company/ DISCOMs in the next 10 (Ten) years through budget, which will be utilised/adjusted by the Company to repay the loan (including interest) taken from financial institutions, R Corporation and P Corporation under Aatmnrirbhar Yojna. The loan of Rs. 20,940.00 crores was taken from financial institutions against the above admissible/receivable subsidy of Rs. 20,940.00 crores from the State Government.

6. Since the aforesaid subsidy of Rs. 20,940.00 crores was to be allocated by the Company amongst the DISCOMs, the Company, vide its circular no. 1526 dated 26-10-2021 had allocated the same after making necessary adjustments as tabulated below:

S.N.	Name of DISCOM	Tariff subsidy	UDAY Subsidy	Total Amount (Rs. in Crores)
1	PuVNL	6,401.50	1,714.04	8,115.54
2	MVNL	-	978.08	978.08
3	DVNL	-	2,159.69	2,159.69
4	PVNL	8,260.03	886.42	9,146.45
5	KESCO	-	540.24	540.24
		14,661.53	6,278.47	20,940.00

7. The State Government vide its following orders, has sanctioned/released the subsidy against total receivable subsidy of Rs. 20,940/- crores as detailed below:

S.N.	State government order no.	Sanctioned/ Released amount	Year
1	90/2021/1040/24-1-2021-830 Budget @2021 dated. 05.08.2021	Rs. 2000 crores	2021-22
2	111/2022/001-914-24-1-2022-830 Budget-2021 dated. 20.07.2022	Rs. 2000 crores	2022-23
3	46/2023/001-972-24-1-2023-830 Budget-2021 dated. 15.04.2023	Rs. 2000 crores	2023-24

8. In the context of the accounting for subsidy of Rs. 20940.00 crores, the following relevant points/facts are clear in the aforesaid Notification dated 05-03-2021 of the State Government:

- (i) There is a reasonable assurance that Rs. 20,940.00 crores shall be received from the State Government in the next 10 years from the F.Y. 2021-22.
- (ii) The Company shall comply with the conditions after receipts of fund/amount from the State Government.

9. In the above context, the following provisions of Ind AS 20, 'Accounting for Government Grants and Disclosure of Government Assistance' are also relevant, which can be referred:

As per Ind AS 20, **“Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity...”**

“6 Government grants are sometimes called by other names such as subsidies, subventions, or premiums.”

“20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.”

“22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes

receivable, with disclosure to ensure that its effect is clearly understood.”

“8 A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received....

9 The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.”

10. *Accounting Treatment given in books*

(A) For subsidy of Rs. 14,661.53 crores

Keeping in view the aforesaid provisions of Ind AS 20 and the fact that the additional tariff subsidy of Rs. 14661.54 crores relate to earlier period i.e. 2007-08 to 2019-20, the DISCOMs (PVVNL and PuVVNL) had made the accounting entries in their books of account for the year 2020-21 as tabulated below:

S.N.	Name of DISCOMs	Amount of tariff subsidy (Rs. in Crores)	Debit head of Account	Credit head of Account
1	PVVNL	8,260.03	Receivable from the State Government	General Reserve (under other equity)
2	PuVVNL	6,401.50	Receivable from the State Government	Retained Earnings (Accumulated Deficit) (under other equity)

From the year 2021-22 and onwards, the General Reserve Account is being amortised on the basis of actual year-wise receipt of subsidy from the State Government, by debiting to General Reserve Account/Retained Earning Account/Accumulated Deficit and crediting to Other Income under the Profit and Loss Account.

(B) For subsidy of Rs. 6278.47 crores

The accounting treatment given by the DISCOMs in the year 2020-21 in respect of subsidy of Rs. 6,278.47 crores under UDAY scheme is as follows:

S.N.	Name of DISCOMs	Amount of UDAY Subsidy (Rs.in Crores)	Debit head of Account	Credit head of Account
1	PuVVNL	1,714.04	Receivable from State Government	Retained Earning
2	MVVNL	978.08	Receivable from State Government	Other Income
3	DVVNL	2,159.69	Receivable from State Government	General Reserve

S.N.	Name of DISCOMs	Amount of UDAY Subsidy (Rs.in Crores)	Debit head of Account	Credit head of Account
4	PVVNL	886.42	Receivable from State Government	General Reserve
5	KESCO	540.24	Receivable from State Government	Other Income
	Total	6278.47		

From the year 2021-22 and onwards, the General Reserve Account/ Retained Earnings (Accumulated Deficit) is being amortised, on the basis of actual year-wise receipt of subsidy from GoUP, by debiting to General Reserve Account/Retained Earnings (Accumulated Deficit) and crediting to Other Income.

11. *Comment/Observation of Government Supplementary Audit:*

(A) With respect to the accounting for the additional revenue subsidy of Rs. 14,661.53 crores (as mentioned above in paragraph 10A above), the views as per supplementary audit comments issued on the financial statements of the PVVNL and PuVVNL for the F.Y. 2020-21 are as follows:

(i) PVVNL: The additional revenue subsidy of Rs. 8,260.03 crores is receivable from the State Government in the next 10 years as per Government Order (GO) dated 5th March 2021 issued by the State Government, which was allocated to PVVNL by the Company vide letter dated 26th October 2021. The amount of subsidy receivable in next 10 years should have been accounted for as 'Deferred Income' in terms of paragraph 55 of Ind AS 1, which provides for inclusion of additional line item in the Balance Sheet. However, amount of Rs. 8,260.03 crores receivable from the State Government has been adjusted in General Reserve instead of booking as Deferred Income. Thus, incorrect depiction has resulted in overstatement of General Reserve and understatement of Deferred Income by Rs. 8,260.03 crores each.

(ii) PuVVNL: The additional revenue subsidy of Rs. 6,401.50 crores is receivable from the State Government in the next 10 years as per GO dated 5th March, 2021 issued by the State Government, which was allocated to PuVVNL by the Company vide letter dated 26th October 2021. The amount of subsidy receivable in next 10 years should have been accounted as 'Deferred Income' in terms of paragraph 55 of Ind AS 1, which provides for inclusion of additional line item in the Balance Sheet. However, amount of Rs. 6,401.50 crores receivable from the State Government has been adjusted in Accumulated Deficit as adjustment

against Reserves and Surplus instead of booking as Deferred Income. Thus, incorrect depiction has resulted in understatement of Accumulated Deficit (being negative) and Deferred Income by Rs. 6,401.50 crores each.

(B) In respect of the accounting treatment made in accounts for subsidy of Rs. 6,278.47 crores as mentioned above in paragraph 10(B) above, the views as per supplementary audit are as follows:

(i) The above also includes Rs. 1,714.04 crores being claim of UDAY Loss subsidy made by PuVVNL in addition to the admissible amount as per the actual loss incurred by it in previous years. As per clause 1.2(i) of the tripartite MoU signed on 30th January 2016 among the Ministry of Power, Government of India (GoI), State Government and the Company (on behalf of all DISCOMs), the admissible period for claim of UDAY loss subsidy has expired in 2020-21. Further, PuVVNL has already accounted inadmissible UDAY loss subsidy receivable from State Government in its accounts for the year ending up to 2020-21. Hence, accounting of additional UDAY loss subsidy resulted in understatement of accumulated deficit (being negative) and overstatement of Receivable from State Government by Rs. 1,714.04 crores.

(ii) The above includes Rs. 3,046.10 crores (DVVNL: Rs. 2,159.69 crores and PVVNL: Rs. 886.41 crores) being claim of UDAY Loss subsidy made by the Company in addition to the admissible amount as per the actual loss incurred by it in previous years. As per clause 1.2(i) of the tripartite MoU signed on 30th January 2016 among the Ministry of Power, Government of India (GoI), State Government and the Company (on behalf of all DISCOMs), the admissible period for claim of UDAY loss subsidy has expired in the year 2020-21. Further,

the Company has already accounted for UDAY loss subsidy receivable from State Government in its accounts for the year ending up to 2020-21. Hence, accounting of additional UDAY loss subsidy resulted into overstatement of General Reserve and Receivables from State Government by Rs. 3,036.10 crores.

(iii) The above includes Rs. 1,518.32 crores (MVVNL: Rs. 978.08 crores and KESCO: Rs. 540.24 crores) being claim of UDAY Loss subsidy made by the Company in addition to the admissible amount as per the actual loss incurred by it in previous years. As per clause 1.2(i) of the tripartite MoU signed on 30th January 2016 among the Ministry of Power, Government of India (GoI), State Government and the Company (on behalf of the all DISCOMs), the admissible period for claim of UDAY loss subsidy has expired in 2020-21. However, the Companies have accounted inadmissible UDAY loss subsidy receivable from State Government in their accounts for the year ending up to 2020-21.

{The Company's views on above audit comment of Rs. 6278.47 crores: - If in the supplementary AG's Audit, it had been agreed with the admissibility of the subsidy of Rs. 6,278.47 crores under UDAY as per State Government's aforesaid notification dated 05-03-2021, the view in the final comments on Rs. 6278.47 related to UDAY would have been the same as in the case of accounting of the additional revenue subsidy of Rs. 14,661.54 crores.}

(C) Government Supplementary Audit comment on Disclosures:

"It has been disclosed by the Company that as per GO dated 05.03.2021 of State Government, the subsidy of Rs. 20,940 crores is receivable from the State Government in favour of DISCOMs through the Company and the same are to be paid by the State Government in the forthcoming 10 years. This amount includes Rs. 14,661.54 crores being balance amount of additional revenue subsidy and Rs. 6,278.46 crores being UDAY loss subsidy. The UDAY loss subsidy was claimed from the State Government in addition to the admissible amount as per actual loss incurred by the DISCOMs in the period ending upto 2020-21.

As per the aforesaid GO dated 05 March 2021, State Government has accepted to provide additional revenue subsidy of Rs. 39,743 crores to the DISCOMs for the period 2007-08 to 2019-20 as approved by SERC through its Tariff/True-up Orders issued from time to time. The above GO also provided that, out of total

additional revenue subsidy of Rs. 39,743 crores, Rs. 25,081.46 crores shall be deemed to be paid from the grants provided to the DISCOMs by the State Government under UDAY in earlier years. The balance amount of Rs. 14,661.54 crores shall be paid to the DISCOMs by State Government in the next 10 years, commencing from 2021-22. The Company vide its letter dated 26 October 2021, has allocated the above additional revenue subsidy as below:

S.No.	Name of DISCOM	Amount (Rs. in Crores)
1	M Vidyut Vitran Nigam Limited	3490.00
2	Pu Vidyut Vitran Nigam Limited	12367.00
3	P Vidyut Vitran Nigam Limited	14673.00
4	D Vidyut Vitran Nigam Limited	9213.00
5	K Electricity Supply Company Limited	0.00
	Total	39743.00

The facts in para 2 above being material requiring specific accounting treatment should also have been disclosed in the Notes to the Accounts to enable better understanding of financial information."

12. *Comment/Observation of Statutory Auditors:*

The comment of statutory auditors as given in the consolidated financial statements of the Company for F.Y. 2021-22 is as under:

"Group has shown Rs. 16940.00 crores subsidy receivable from State Government as Non-Current Assets Note No. 8 towards Atmnirbhar Bharat Scheme which is receivable in 10 years as per G.O. no 445-1-24-731 (Budget)/2020 dated 05.03.2021 of State Government. The corresponding amount is credited in "Other Equity" (Retained Earnings). Considering the principle of Revenue Recognition and Ind AS 20, subsidy should be accounted for on annual basis based on the budget provision/release subsidy by the State Government. In view of above, subsidy receivable as mentioned in Non-current assets is overstated and Other Equity (negative) is understated to that extent."

The querist has mentioned in the above context that the Statutory Auditor has given comment on the subsidy of Rs. 16940 crores {non-current assets} instead of Rs.

20,940 crores as sanction of subsidy of Rs. 4000 crores as per budget of State Government was received before finalisation of consolidated financial statements.

B. Query

13. In view of the final comment of the government auditor as well as comment of statutory auditor and the different accounting treatment given by the DISCOMs, the Company seeks the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) on the following issues considering the specific facts and circumstances as described above in the Facts of the Case:

- (a) What accounting should have been done by the DISCOMs in financial year 2020-21 in respect of the subsidy of Rs. 20,940.00 crores receivable from State Government?
- (b) Since the accounts of the DISCOMs for the F.Y. 2021-22 and 2022-23 have been finalised, what would be the correct and prudent consequential accounting treatment/adjustment which is to be given in the ensuing accounts in hand, i.e., F.Y. 2023-24.
- (c) In case, any correction is required in the year 2020-21 towards the accounting of subsidy, what would be the necessary disclosure which are required to be given in the financial statements of the Company/ DISCOMs in F.Y. 2023-24.

C. Points considered by the Committee

14. The Committee notes that the Company is a State Government Company and is primarily engaged in bulk purchase of power from inter-state and intra-state generators and in bulk sale/ supply of power to the DISCOMs (being its subsidiaries). The tariff for supply of power by DISCOMs to consumers (including subsidy receivable against subsidized consumers) is regulated/approved by the State Electricity Regulation Commission (SERC). The Company has been receiving grants/subsidies from the State Government/Central Government on behalf of the DISCOMs under various schemes and subsequently allocates/transfers it to the respective DISCOMs. The Committee presumes that these grants/subsidies are not given by the government in its capacity of being a shareholder/owner of the Company and instead represent government grant as per Ind AS 20. The Committee notes that the basic issue raised by the querist relates to accounting treatment of Rs. 20,940 crores subsidy received or receivable in respect of certain grants receivable under Uday Scheme and those under additional tariff/revenue subsidy as per Ind AS 20 by the DISCOMs. The Committee has, therefore, examined only

this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting by the Company, allocation to tariff subsidy and UDAY subsidy, allocation to DISCOMs, fulfilment of conditions related to the grants, accounting for issuance of state government-guaranteed DISCOM bonds, expiry or admissibility of grant under UDAY scheme, application (if any) of Ind AS 114, 'Regulatory Deferral Accounts', adjustment of the additional revenue subsidy against the subsidy under UDAY, accounting for earlier subsidy received or adjusted of Rs. 29,350.32 crores, presentation requirements under Schedule III to the Companies Act, 2013, etc. The Committee has answered the issue only from accounting perspective and not from legal perspective, such as, legal interpretation of MoU or Trueing up order of SERC, various orders of Government and the schemes under which the subsidies or grants were provided, etc. Further, the Indian Accounting Standards referred to in the Opinion are the Standards notified under the Companies (Indian Accounting Standards) Rules, 2015, as revised or amended from time to time.

15. The Committee notes the following paragraphs of Indian Accounting Standard (Ind AS) 20, 'Accounting for Government Grants and Disclosure of Government Assistance':

"Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are government grants other than those related to assets."

From the above, the Committee notes that grants related to assets are those grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire long-term asset and other grants are classified as grant related to income. Thus, in case of grants related to assets, primary condition is purchase, construction or acquisition of long-term assets.

As per the Facts of the Case, the Committee notes that the main objective of the grants under consideration in the extant case appears to be to provide financial support for the operating activities of the DISCOMs:

- The additional tariff subsidy appears to be in lieu of the revenue foregone in view of the regulated or subsidised price and should be considered as grant related to income.
- The UDAY scheme is a financial restructuring programme whose basic objectives is to reduce part of the debt burden (by providing subsidy) and improve operational efficiencies rather than acquire any tangible/intangible asset.

Thus, the grants in the extant case are grants related to income.

16. With regard to the accounting for the grants, the Committee notes the following requirements of Ind AS 20:

“12 Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.”

“17 In most cases the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable. Thus grants in recognition of specific expenses are recognised in profit or loss in the same period as the relevant expenses. Similarly, grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.”

“19 Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached. In such cases, care is needed in identifying the conditions giving rise to costs and expenses which determine the periods over which the grant will be earned. It may be appropriate to allocate part of a grant on one basis and part on another.

20 A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised

in profit or loss of the period in which it becomes receivable.

21 In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to a particular entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant in profit or loss of the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.

22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.”

With respect to timing of recognition of grant, the Committee also notes the following paragraphs of Ind AS 20:

“7 Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

(a) the entity will comply with the conditions attaching to them; and

(b) the grants will be received.

8 A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.”

17. The Committee notes from the Facts of the Case that the Tariff for distribution/supply (including subsidy chargeable/receivable against subsidised consumers) is regulated/approved by the State Electricity Regulation Commission (SERC) and is a subsidised/concessional price. Thus, the tariff subsidy is not in relation to any specific expense incurred by the DISCOM; rather it appears to be the compensation for loss of tariff for the DISCOM due to subsidised/concessional tariff (as fixed by the SERC/ government) to be charged to the consumer. Therefore, the subsidy is received in return for compliance with certain conditions including supply of power at subsidised or concessional rates. Accordingly, the Committee is of the view that the tariff subsidy should

be recognised in the Statement of Profit and Loss in the period in which the related power is supplied provided there is reasonable assurance of receipt of grant and compliance of other conditions attached to the subsidy, as per paragraph 7 of Ind AS 20.

The Committee notes that as per the Facts of the Case, the tariff subsidy aggregating to Rs. 39,743.00 crores for F.Y. 2007-08 to F.Y. 2019-20 was not recognised in the relevant years due to lack of reasonable assurance as required by paragraph 7 of Ind AS 20. In F.Y. 2020-21, the Government Order dated 05-03-2021 determined the tariff subsidy to be Rs. 14,661.54 crores and this was to be received by the DISCOMs in 10 installments from F.Y. 2021-22. Of these, 3 installments have been received.

The Committee is of the view that irrespective of receipt of funds, the tariff subsidy (relating to power already supplied at concessional rate) should have been recognised in the financial year in the Statement of Profit and Loss with a corresponding cash or asset (subsidy receivable) when the requirements of paragraph 7 of Ind AS 20 were met; in other words, the subsidy should be recognised only as and when there is reasonable assurance that the related criteria are met. As clarified in paragraph 8 of Ind AS 20, mere receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. In this regard, the Committee notes that the querist has stated in the context of the amount of subsidy of Rs. 20,940 crore (which also includes subsidy under UDAY scheme) that the Company shall comply the conditions *after* receipts of fund/amount from the State Government. Thus, it is not clear that whether there are any substantive conditions to be complied with in relation to the additional revenue subsidy other than supply of power. Therefore, if even at the time of receipt of funds, there are pending substantive conditions related to tariff subsidy and the reasonable assurance criteria are not met, the grant should not be recognized and the funds received towards the grant should be recognised as liability (deferred income). However, if there are no substantive conditions related to grants to be complied with and there is reasonable assurance about receipt of grant due to the Order of the State Government in the F.Y 2020-21 (even though funds are not received), the subsidy should be recognised in that financial year in the Statement of Profit and Loss with a corresponding asset (subsidy receivable).

In the above context, the Committee notes that the DISCOMs had recognised tariff receivable in the F.Y. 2020-21 with a corresponding credit to general reserve/retained earnings (which is subsequently being amortised to profit or loss on the basis of actual year-wise receipt of subsidy). As stated above, if the requirements of paragraph 7 were not met, then the recognition of asset was not appropriate. However, if requirements

of paragraph 7 were met and the recognition of asset was appropriate, the corresponding credit should have been recognised in the Statement of Profit and Loss. The credit to general reserves/retained earnings is not in compliance with Ind AS 20.

18. As regards the subsidy under UDAY Scheme, the DISCOMs will receive funds from the State Government (through the Company) which can be used only for discharge of specified outstanding debt. The Committee notes that while it is stated that there is a reasonable assurance that grant shall be received from the State Government in the next 10 years from the F.Y. 2021-22, it is also stated that the Company shall comply with the conditions *after* receipts of fund/amount from the State Government. Thus, it appears that the entitlement of grant under this scheme is subject to various substantive conditions. Therefore, the discussion in paragraph 17 above would also apply for timing of recognition of the grant under UDAY Scheme. Thus, if there are pending substantive conditions related to the subsidy and the reasonable assurance criteria are not met, the grant/subsidy should not be recognised even if the funds have been received; the subsidy should be recognised only and when there is reasonable assurance that the required criteria as per Ind AS 20 are met.

In the above context, the Committee notes that some of the DISCOMs had recognised the subsidy receivable in the F.Y. 2020-21 with a corresponding credit to general reserve/retained earnings (which is subsequently being amortised to profit or loss on the basis of actual year-wise receipt of subsidy). As stated above, if the requirements of paragraph 7 were not met, then the recognition of asset was not appropriate. But if requirements of paragraph 7 were met and the recognition of asset was appropriate, the corresponding credit should have been recognised in the Statement of Profit and Loss instead of general reserves/retained earnings.

19. The Committee is further of the view that in the extant case, since the DISCOMs did not follow the above-mentioned requirements of Ind AS 20, as discussed above, the same should be rectified in the current reporting period, considering it as an accounting error, as per the following requirements of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors':

"Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) **was available when financial statements for those periods were approved for issue; and**

- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud."

"41 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with Ind ASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are approved for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 42–47).

42 Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements approved for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented."

Thus, in the extant case, the DISCOMs shall correct material prior period errors retrospectively in the current reporting period, i.e., F.Y. 2023-24 by restating the comparative amounts for the prior period(s) presented in which the error occurred or if the error occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities and equity for the earliest prior period presented. Further, necessary disclosures as per the requirements of Ind AS 8 (paragraph 49) and Ind AS 1, 'Presentation of Financial Statements' (including presentation of a third balance sheet at the beginning of the preceding period) should be made.

D. Opinion

20. On the basis of the above, the Committee is of the following opinion on the issues raised in paragraph 14 above:

- (a) Refer paragraphs 17 and 18 above.
- (b) Since the DISCOMs did not follow the requirements of Ind AS 20, as discussed above, the same should be rectified in the current reporting period, i.e., F.Y. 2023-24 considering it as an accounting error, as per the requirements of Ind AS 8, as discussed in paragraph 19 above.
- (c) For necessary disclosures, refer to the requirements of Ind AS 8 and Ind AS 1.

1.	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2.	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on 8th April, 2024. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3.	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in forty-two volumes. These volumes are available for sale and can be procured online through CDS Portal at https://icai-cds.org/
4.	Opinions of the Committee may be accessed at the following link: http://115.248.235.50/eacicai/
5.	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head 'Resources'. For further information, write to eac@icai.in

Accountant's Browser

PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals received during July - August 2024 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

Amendment to Ind AS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction by Dolphy D'Souza. BCAJ, July 2024, pp. 59-61.

Effects of Policy and Economic Uncertainty on Investment Activities and Corporate Financial Reporting: A Study of Developing Countries in Asia-Pacific by Firdaus Kurniawan and Hilma Tsani Amanati, etc. Aian Review of Accounting, Vol. 32, No. 3, pp. 373-393.

2. Audit

Survey Study of Iraqi auditors' Adoption of Blockchain Technology by Rasha H. Majeed and Alaa A.D. Taha. Aian Review of Accounting, Vol. 32, No. 3, pp. 521-546.

3. Economics

Asset Reconstruction Companies and India Banking by Aditya Sushant Jain. Economic & Political Weekly, August 03, 2024, pp. 42-46.

Measuring the Contribution of Labour Composition in Gross Value Added in India – The Human Capital Approach by Sreerupa Sengupta and Vineet Kumar Srivastava. RBI Bulletin, July 2024, pp. 103-114.

4. Investment

Capital Market Ecosystem in GIFT-IFSC by Praveen Kamat and Shubham Goyal. Chartered Secretary, July 2024, pp. 72-74.

Remote Trading Participants (RTPs) on Stock Exchange in the IFSC by Pradeep Ramakrishnan. Chartered Secretary, July 2024, pp. 56-57.

5. Management

Does Top Managers' Tenure Matter to Management Accounting System Design? By Mohamed M.M. Ahmed. Aian Review of Accounting, Vol. 32, No. 3, pp. 423-442.

Organizational Learning Culture and Firm Performance: The Mediating Role of Learning Agility by Ashtha Tripathi. Vikalpa, April-June 2024, pp. 129-142.

6. Taxation and Finance

GST on Corporate Guarantees: Recent Retrospective Guidance Fails to Clear the Air by Meyyappan Nagappan and Shweta Mallya. Good & Services Tax Cases, August 13-19, 2024, pp. 17-23.

Recent Developments in GST by G.G. Goyal and C.B. Thakar. BCAJ, July 2024, pp. 74-79.

Full Texts of the above articles are available with the Central Council library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-30110419 and 011-30110420 or by e-mail at library@icai.in.

CLASSIFIEDS

- 6049 34-year-old firm headquartered in Delhi NCR invites proposal for merger from sole proprietorship or partnership firms. Mail with brief profile to sangeeta.pgc@gmail.com or call 9811278153
- 6050 We are a firm of Chartered Accountants practicing in Chennai, specialising in Income tax matters. We are on the look out for a Chartered Accountant who has set up his practice recently to work with us as part-time assistant. Interested CAs may reach us on our mobile 9841016025 or send their resume to gopu19751@gmail.com
- 6051 Required Full/Part-time CAs as Partners/Retainers, Semi-Qualified, Article Asstts. for Delhi-NCR, Chandigarh, Jaipur and Jammu & Kashmir. Contact 9205136037 E-mail: kkg200317@gmail.com
- 6052 We, a 55 years old CA firm having 17 partners & H.O. at Delhi, are looking for 10 or more years old proprietor firm at Bengaluru, Bhuwneshwar, Chennai, Hyderabad, Jaipur, Kanpur, Lucknow & Ranchi for merger. Interested firms can send proposal with profile on: jk.sarawgi@jksco.in, WhatsApp - 9871599182
- 6053 We are Ahmedabad Based CA Firm with 10 partners; inviting proposal for merger from sole proprietorship or partnership firm. Please mail: ea@shahteelani.com
- 6054 Required full time partners for Delhi, Chennai, Vishakhapatnam, Hyderabad, Lucknow, Raipur, Kolkata, Rourkela and Bangalore on revenue sharing basis. Please Contact on email id: bk1ckdk@gmail.com

Disciplinary Case

Issuance of false certificate by the Respondent by misrepresenting the financial figures of two Companies – Held, Respondent is GUILTY of professional misconduct falling within the meaning Clause (7) of Part I of Second Schedule and clause 2 of Part IV to the First Schedule to the Chartered Accountants Act, 1949.

Held:

In the instant matter the charge against the Respondent was that he had given a wrong certificate in favour of X Ltd. and Y Ltd. regarding supply of three phase distribution of transformer. The said certificate had the figures i.e., quantity and value of transformers of various capacities manufactured and sold by the said companies to various Government departments during the year 2011-12, 2012-13 and 2013-14. In this regards the Respondent stated that though he had signed the papers, the same was not certified by him. Whereas, on perusal of the documents available on record the Committee noted that fact is not correct as the third page of the certificate signed by the Respondent contained the following certification:

“The above particulars are true and correct based on explanation, record and books of accounts produced before us. Further, the above certification issued on request of the company.”

The Respondent submitted that the first two pages of the certificates were changed without his knowledge and that it is the act of the companies to whom he had issued the said certificate. As per the claim of the Respondent the Committee summoned the Complainant department to produce original copy of the said certificates for verification. However, on perusal of the same it was evident that the Respondent was making a false claim by misrepresenting the facts. The Committee held that the Respondent is GUILTY of professional misconduct under Clause (7) of Part I of Second Schedule and clause 2 of Part IV to the First Schedule to the Chartered Accountant Act, 1949.

PR/318/2015/DD/76/2016/DC/682/2017

Respondent certified balance sheet and Income & Expenditure Account of Trust for different years on his letter heads with stamps “Checked & found correct in conformity with records produced” – Certification on letter head is clear violation of Guidance Note 4, on Preparation of financial statements on Letter-heads and stationery of auditors – Held, Respondent is GUILTY of professional misconduct falling within the meaning Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

Held:

In the instant case, the charge against the Respondent was that he made 15 years’ fake Accounts of a registered Charitable Trust only in two days. The Complainant also stated that he sent a letter in 2015 to the Respondent seeking clarification on the issues pertaining to the financial statements prepared by the Respondent. The Respondent stated that the true facts of the case are that he had been appointed for checking and confirmation of the accounts and preparation of Income & Expenditure Account and Balance Sheet of Trust by Mr. A, who was said to be one of the trustees of the Trust. The Committee noted that the Balance Sheet and Income & Expenditure Account of the Trust was on letter head of the Respondent and the said certification on letter head is clear violation of Guidance Note 4, eighth edition, 2011 on “Preparation of financial statements on Letterheads and stationery of auditors”. The Committee was of the view that as letter-heads and stationery of the Respondent has been used for preparation of accounts of the Trust, it proves that the Respondent has prepared the accounts of the Trust himself and then has audited the same. Hence, he has not acted independently while auditing the accounts of the Trust. Moreover, the Committee noted that the accounts of the Trust were not signed by any Trustee. When the Committee questioned the Respondent, he replied that the same has been certified based upon data of Tally which was signed by Mr. A. However, he accepted his mistake in this regard and said that the same would not be repeated in future. The last charge against the Respondent was that he has certified the financial statements of the trust for 16 years. In this regard the Committee was of the opinion that the Respondent has certified the financial statements in one go without exercising due diligence which is essential for performing attest function. Further, the Committee noted that there was no resolution on record which shows that these accounts had been accepted by the Management of the Trust and Respondent also failed to clarify that from where he has taken opening balances for certification of Balance Sheets of the Trust. The Committee held that the Respondent is GUILTY of professional misconduct under Clause (7) of Part I of Second Schedule to the Chartered Accountant Act, 1949.

[PR/131/2016/DD/187/2016/DC/986/2019]



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI – 110 002**

2nd September, 2024

**NOTIFICATION
(Chartered Accountants)**

No. 54-EL(1)/1/2024: In pursuance of sub-rules (3) and (5) of rule 6 of the Chartered Accountants (Election to the Council) Rules, 2006 read with Clauses (iv) and (v) of sub-regulation (4) and sub-regulation (10) of Regulation 134 of the Chartered Accountants Regulations, 1988, it is hereby notified that the printed copy of the list of members eligible to vote (i.e., List of Voters) from the various Regional Constituencies for elections to the Twenty Sixth Council and Twenty Fifth Regional Councils of the Institute will be available on payment of Rs.2500/- (Rupees Two thousand five hundred only) per copy for any one of the five Regional Constituencies from the office of the Institute at ICAI Bhawan, Indraprastha Marg, New Delhi - 110 002 and from its on-line Centralised Distribution System (CDS)

i.e., www.icai-cds.org; effective from 3rd September, 2024. Copies of the List of Voters pertaining to relevant Regional Constituency will also be available for sale at the said rate in the concerned Regional Councils at Mumbai, Chennai, Kolkata and Kanpur. The List of Voters will also be available for reference only at the respective Branches of the Regional Councils. The soft copy of the List of Voters will be available at a cost of Rs. 500/- online from the CDS Portal of the Institute, i.e. www.icai-cds.org; only.

**(CA. (Dr.) Jai Kumar Batra)
Returning Officer and Secretary**

**[TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA,
EXTRAORDINARY DATED 3RD SEPTEMBER, 2024]**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI – 110 002**

3rd September, 2024

**NOTIFICATION
(Chartered Accountants)**

No. 54-EL(1)/2/2024: In pursuance of sub-rule (2) of rule 4 of the Chartered Accountants (Election to the Council) Rules, 2006 read with sub-regulation (10) of Regulation 134 of the Chartered Accountants Regulations, 1988, the Institute of Chartered Accountants of India is pleased to notify the following important dates relating to the next elections of Members to its Council and Regional Councils:-

Sl. No.	Stages of Election	Dates Fixed
1.	The last date and time for receipt of Nominations	25.09.2024 – 6.00 P.M.
2.	(i) Date(s) and place of scrutiny of Nominations; and (ii) Last date for scrutiny of nominations	01.10.2024 to 10.10.2024 (New Delhi)
3.	The last date and time for withdrawal of nominations	

The number of persons to be elected from each Regional Constituency is shown below in column (3) against the respective Constituency:

Sl. No.	Name of the Regional Constituency	No. of persons to be Elected
(1)	(2)	(3)
1.	Western India Regional Constituency The States of Goa, Gujarat and Maharashtra and the Union Territories of Dadra & Nagar Haveli and Daman & Diu.	11
2.	Southern India Regional Constituency The States of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Telangana and the Union Territories of Lakshadweep and Puducherry.	07
3.	Eastern India Regional Constituency The States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Odisha, Sikkim, Tripura, West Bengal and the Union Territory of Andaman & Nicobar Islands.	02
4.	Central India Regional Constituency The States of Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Rajasthan, Uttarakhand and Uttar Pradesh.	06
5.	Northern India Regional Constituency The States of Haryana, Himachal Pradesh, Punjab and the Union Territories of Chandigarh, Delhi, Jammu & Kashmir and Ladakh.	06

The fee of election and security deposit required to be paid under Rule 10 and 11 of the said Rules must be by way of demand draft drawn in favour of the Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

(CA. (Dr.) Jai Kumar Batra)
Returning Officer and Secretary

**[TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA,
EXTRAORDINARY DATED 3RD SEPTEMBER, 2024]**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI – 110 002**

3rd September, 2024

NOTIFICATION

(Chartered Accountants)

No.54-EL(1)/4/2024: In pursuance of sub-regulations (5) and (6) of Regulation 134 of the Chartered Accountants Regulations, 1988 read with rule 9 of the Chartered Accountants (Election to the Council) Rules, 2006 and Schedule 4 thereto, the Institute of Chartered Accountants of India is pleased to notify that Nomination of Candidates who desire to stand for election to its Twenty Fifth Regional Councils, to be held in December, 2024 should be forwarded in the manner prescribed/specified therein (details of which will be found printed in the Nomination Form also) addressed to CA. (Dr.) Jai Kumar Batra, Returning

Officer and Secretary to the Council (by name) at ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 so as to reach him not later than 6.00 P.M. on 25.09.2024.

The Nomination shall be in the Form approved by the Council. While filing the Nominations, Candidates should keep in mind the provisions of sub-regulations (6A), (7) and (7A) of the said regulation read with the Chartered Accountants (Election to the Council) Rules, 2006, particularly those contained in Rule 9, 10, 11 and 12 of the said Rules. The Nomination Forms can be had from the Office of the Institute at ICAI Bhawan,

Indraprastha Marg, New Delhi as well as from the Regional Offices at Mumbai, Chennai, Kolkata and Kanpur and major Branches at Ahmedabad, Bengaluru, Chandigarh, Coimbatore, Ernakulam (Kochi), Hyderabad, Indore, Jaipur, Nagpur, Pune, Surat, Thane and Vadodara w.e.f. 3rd September, 2024. The Nomination Forms will however be accepted by the

Returning Officer and Secretary to the Council at ICAI Bhawan, Indraprastha Marg, New Delhi – 110 002 only, effective from the said date.

The number of persons to be elected to each Regional Council is shown below in column (3) against the respective Regional Council:

Sl. No.	Name of the Regional Council	No. of persons to be Elected
(1)	(2)	(3)
1.	Western India Regional Council	21
2.	Southern India Regional Council	14
3.	Eastern India Regional Council	05
4.	Central India Regional Council	12
5.	Northern India Regional Council	12

The fee of election and security deposit required to be paid under regulation 134 of the said Regulations read with rule 10 of the said Rules must be by way of a demand draft drawn in favour of the Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

the Chartered Accountants Regulations, 1988, the provisions relating to elections as contained in the Chartered Accountants (Election to the Council) Rules, 2006, shall 'mutatis mutandis' apply.

For the purpose of elections to the Regional Councils, subject to the provisions contained in Chapter VII of

(CA. (Dr.) Jai Kumar Batra)
Returning Officer and Secretary

**[TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA,
EXTRAORDINARY DATED 3rd SEPTEMBER, 2024]**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI – 110 002**

3rd September, 2024

**NOTIFICATION
(Chartered Accountants)**

No. 54-EL(1)/5/2024: In exercise of the powers conferred by sub-rule (1) of rule 10 of the Chartered Accountants (Election to the Council) Rules, 2006, the Institute of Chartered Accountants of India has decided that in respect of election to its Twenty Sixth Council to be held in December, 2024, a Candidate for election shall pay in all a fee of Rs. 25,000/- (Rupees Twenty Five Thousand only) for his candidature,

irrespective of the number of nominations that may be filed.

The said fee is required to be paid by way of a demand draft drawn in favour of Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

(CA. (Dr.) Jai Kumar Batra)
Returning Officer and Secretary

**[TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA,
EXTRAORDINARY DATED 3rd SEPTEMBER, 2024]**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI – 110 002**

3rd September, 2024

**NOTIFICATION
(Chartered Accountants)**

No. 54-EL(1)/6/2024: In exercise of the powers conferred by sub-regulation (7) of Regulation 134 of the Chartered Accountants Regulations, 1988 read with sub-regulation (10) of the said Regulation and Rule 10 of the Chartered Accountants (Election to the Council) Rules, 2006, the Institute of Chartered Accountants of India has decided that in respect of election to its Twenty Fifth Regional Councils to be held in December, 2024, a Candidate for election shall pay in all a fee of

Rs. 12,500/- (Rupees Twelve Thousand Five Hundred only) for his candidature, irrespective of the number of nominations that may be filed.

The said fee is required to be paid by way of a demand draft drawn in favour of Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

**(CA. (Dr.) Jai Kumar Batra)
Returning Officer and Secretary**

**[TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA,
EXTRAORDINARY DATED 3rd SEPTEMBER, 2024]**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI – 110 002**

3rd September, 2024

**NOTIFICATION
(Chartered Accountants)**

No. 54-EL(1)/7/2024: In pursuance of sub-rule (1) of rule 11 of the Chartered Accountants (Election to the Council) Rules, 2006, the Institute of Chartered Accountants of India hereby notifies that in respect of election to its Twenty Sixth Council to be held in December, 2024, a Candidate shall pay an amount of Rs.20,000/- (Rupees Twenty Thousand only) as security deposit, for his candidature, irrespective of the number of Nominations that may be filed. The security deposit so paid shall be forfeited, if he fails to secure not less

than 2% (two percent) of the original votes, as defined in rule 35 of the said Rules, polled in the concerned Regional Constituency.

The said deposit is required to be paid by way of a demand draft drawn in favour of Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

**(CA. (Dr.) Jai Kumar Batra)
Returning Officer and Secretary**

**[TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA,
EXTRAORDINARY DATED 3rd SEPTEMBER, 2024]**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI – 110 002**

3rd September, 2024

**NOTIFICATION
(Chartered Accountants)**

No. 54-EL(1)/8/2024: In pursuance of sub-regulation (7A) of regulation 134 of the Chartered Accountants Regulations, 1988 read with sub-regulation (10) of

the said Regulation and the Chartered Accountants (Election to the Council) Rules, 2006, the Institute of Chartered Accountants of India hereby notifies

that in respect of election to the Twenty Fifth Regional Councils to be held in December, 2024, a Candidate shall pay an amount of Rs.10,000/- (Rupees Ten Thousand only) as security deposit, for his candidature, irrespective of the number of Nominations that may be filed. The security deposit so paid shall be forfeited if he fails to secure not less than 1% (One percent) of the original votes, as

defined in rule 35 of the said Rules, polled in the concerned Regional Constituency.

The said deposit is required to be paid by way of a demand draft drawn in favour of Secretary, the Institute of Chartered Accountants of India, payable at New Delhi.

(CA. (Dr.) Jai Kumar Batra)
Returning Officer and Secretary

[TO BE PUBLISHED IN PART III SECTION 4 OF THE GAZETTE OF INDIA, EXTRAORDINARY DATED 3rd SEPTEMBER, 2024]

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
NEW DELHI – 110 002**

3rd September, 2024

**NOTIFICATION
(Chartered Accountants)**

No. 54-EL(1)/9/2024: In pursuance of rules 21 and 29 of the Chartered Accountants (Election to the Council) Rules, 2006 read with Schedule 6 thereof and sub-regulation (10) of Regulation 134 of the Chartered Accountants Regulations, 1988, it is hereby notified that 6th and 7th December, 2024 have been appointed as the dates for the recording of votes for elections to the Twenty Sixth Council and Twenty Fifth Regional Councils of the Institute of Chartered Accountants of India for Agra, Ahmedabad, Aurangabad (MH), Bengaluru, Bhayandar, Bhilwara, Bhopal, Bhubaneswar, Chandigarh, Chinchwad, Chennai, Coimbatore, Delhi/New Delhi, Dombivali, Faridabad, Ghaziabad (including Indirapuram, Sahibabad and Vaishali),

Guntur, Gurugram, Guwahati, Howrah, Hyderabad, Indore, Jaipur, Jodhpur, Kalyan, Kanpur, Kochi, Kolkata, Kota, Lucknow, Ludhiana, Meerut, Mira Road, Mumbai, Nagpur, Nashik, Navi Mumbai, Noida, Patna, Pune, Raipur, Rajkot, Ranchi, Surat, Thane, Udaipur, Vadodara, Vijayawada and Visakhapatnam.

At all other places, 7th December, 2024 has been appointed as the date for recording of votes.

All polling booths will remain open from 8.00 a.m. to 8.00 p.m. on the respective date(s).

(CA. (Dr.) Jai Kumar Batra)
Returning Officer and Secretary



ANNOUNCEMENT

Certificate Course on Concurrent Audit of Banks

The concurrent audit system of banks has become very crucial and important for banks. The main objective of the system is to ensure compliance with the audit systems in banks as per the guidelines of the Reserve Bank of India and importantly, to ensure timely detection of lapses/irregularities. In view of the core competence of the chartered accountants in the area of finance and accounting, risk management, understanding of the internal functioning and controls of banks, etc., the banking sector has been relying extensively on them to comply with these requirements of the regulator. The Board of Internal Audit & Management Accounting of ICAI conducts 6 days Certificate Course on Concurrent Audit of Banks. The purpose of the **Certificate Course on Concurrent Audit of Banks** is to provide an opportunity to the members to understand the intricacies of concurrent audit of banks thereby improving the effectiveness of concurrent audit system in banks, and also the quality and coverage of concurrent audit reports.

The course is open for the members of the Institute of Chartered Accountants of India

Please refer link for further details of the Course: https://www.icai.org/post.html?post_id=9611

FEES DETAILS: Rs. 11,800/- (including GST)

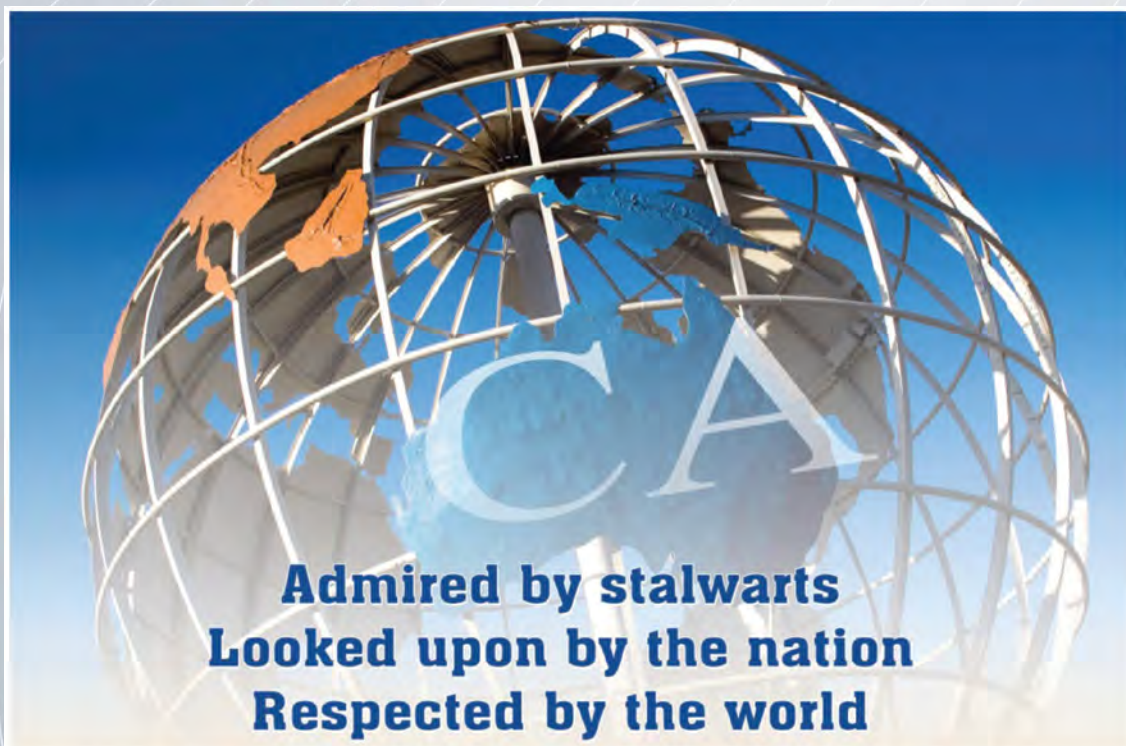
The details of the forthcoming batches of the Certificate Course on Concurrent Audit of Banks to be organized by the Board of Internal Audit & Management Accounting is as follows:

Location	Scheduled Dates	Course Structure and other details
Coimbatore	October 4, 5, 11, 12, 18 & 19, 2024	https://learning.icai.org/committee/ias/concurrent_audit_of_banks/coimbatore/

Chairman

Board of Internal Audit & Management Accounting, ICAI

E-mail: biama@icai.in



Invitation for Empanelment as Examiners for Chartered Accountants Examinations

Applications are invited from eligible members of the Institute and other professionals including academicians of reputed educational institutions, tax and legal practitioners, etc., having a flair for academic activities including evaluation of answer books and willing to undertake confidential assignments as a dedicated examiner, for empanelment as examiner in respect of the following papers of the Chartered Accountants Examinations.

Foundation Examination	
Paper-1	Accounting
Paper-2	Business Laws

Intermediate Examination	
Paper-3	Taxation 3A: Income Tax Law 3B: Goods and Services Tax (GST)
Paper-4	Cost and Management Accounting
Paper-5	Auditing and Ethics
Paper-6A	Financial Management

Final Examination	
Paper-2	Advanced Financial Management
Paper-3	Advanced Auditing, Assurance and Professional Ethics
Paper-6	Integrated Business Solutions (Multi-disciplinary Case Studies)

The eligibility criteria for empanelment as examiner are as follows:

- Chartered Accountants with a minimum of five years standing in practice or in service are eligible.
- University Lecturers/Professors with a minimum of five years teaching experience are eligible.
- ICWA, ACS, M.Com, Post Graduates in Economics or Law, Lawyers, IT Professionals, MBA (Finance), and other professionals with at least five years experience, either in academic position or in practice or in employment are eligible to apply. Those with work experience having direct relevance to the aforesaid subject(s) of examination(s) will be preferred.
- Persons above 65 years of age are not eligible.
- Persons who are visually impaired or suffer from such other physical disability that might necessitate taking the assistance of any other person for evaluation of answer books are not eligible.
- Persons who are undergoing CA Course of the Institute are not eligible.
- Persons whose applications were rejected earlier from the Panel are eligible to apply again after a gap of 1 year from the date of rejection.
- Those who are already empanelled with ICAI as examiners need not apply. Their candidature will be considered in the normal course, at the appropriate time.
- Persons associated with the coaching activities are not eligible. Those who have ceased to be associated with the coaching activity are permitted to apply after a gap of 5 years.

Scales of honorarium for evaluation of answer books

Examination	Paper	Rate (for Digital Evaluation)
Foundation	1 & 2	Rs 125/- per answer book
Intermediate	1, 2, 4 & 5	Rs 150/- per answer book
Intermediate	Sectional papers (Paper 3A, 3B, 6A & 6B)	Rs 100/- per answer book
Final examination	1, 2, 3, 4, 5 & 6	Rs 190/- per answer book

Application for empanelment as examiner can be made online at <http://examinerspanel.icaiaexam.icaai.org>

ICAI has implemented the Digital evaluation (Online Evaluation) of answer books in all the papers of Foundation, Intermediate, and Final examinations. Hence, applicants are expected to be comfortable working on computers and also evaluating answer books online. However, requisite training will be provided, before online evaluation assignments are undertaken. Please fill the application form online, take a printout, affix your photograph, sign it and send it with all the requisite enclosures to the following address:

Shri S K Garg
 Director (Exams)
 The Institute of Chartered Accountants of India
 ICAI Bhawan
 Indraprastha Marg
 New Delhi – 110002

Director (Exams.)

Rack the Brain!

1. I am the only financial statement prepared on a cash basis. What am I?

3. We are the 3 local standards that are not included in IFRS but are still in use in Nigeria. What are we?

5. I am an expense in the profit or loss account remitted to the government. What am I?

2. It occurs when the carrying amount exceeds the recoverable value. What am I?

4. I am a threat that occurs due to a long or close relationship or being too sympathetic with clients. What am I?

Answers of August 2024 Edition

1. Miscellaneous Expenses
2. Ratio Analysis
3. Horizontal Analysis
4. Cash Flow Statement
5. Ind AS 18 - Revenue Recognition

Request to comply with CPE hours requirements for the Current Calendar Year (i.e. from 1-1-2024 to 31-12-2024) latest by 31st December 2024

As you are already aware that from Calendar year 2023 onwards the CPE Hours requirements have been revised which are to be complied with by various categories of Members. These CPE Hours Requirements for each Calendar Year Applicable from 1-1-2023 onwards are available at <https://resource.cdn.icai.org/73566cpe59376.pdf>

Also, with a view to enable its members to maintain the requisite high quality standards in the professional services and the professional competence, the ICAI identified Continuing Professional Education (CPE) as a major area of focus for the members and accordingly, in the year 2003, the ICAI had issued the Statement on Continuing Professional Education, 2003 prescribing the norms for undergoing CPE activities by the members and the mechanism to implement the same by POUs. The CPE Statement, 2003 was amended from time to time and was applicable till enforcement of CPE Statement, 2023.

Further, in exercise of the powers conferred by the section 15(2) (fa) of the Chartered Accountants Act 1949 as amended by the Chartered Accountants (Amendment) Act, 2022 (No. 12 of 22), the Council of ICAI at its 426th meeting had decided to issue **"Statement on Continuing Professional Education, 2023"** for undergoing CPE activities by the members and the mechanism to implement the same by POUs. This includes consequential provisions for non-compliance with CPE hours' requirements applicable to various categories of members on yearly basis from Calendar Year 2024 onwards as decided by the Council of ICAI. These consequential provisions are applicable w.e.f. 1st January 2025 for non-compliance arising from the Calendar Year 2024. Detailed Statement on Continuing Professional Education, 2023 is hosted on ICAI portal and accessible at <https://www.icai.org/post/issuance-of-cpe-statement-2023>

The CPE learning activities are categorized into Structured Learning Activities (SLAs) and Unstructured Learning Activities (ULAs). These advisories are available at <https://www.cpeicai.org/advisory-on-structured-and-unstructured-learning-activities/>

ICAI has also developed an e-learning platform – Digital Learning Hub which can be accessed by members through their SSP Login credentials through the link (<https://icai.org/elearning>). Members can earn their professional learning credits (eligible Structured/Unstructured CPE hours) through this platform where the learning is facilitated with videos, presentations, reference material, guidance notes etc. in both desktop and mobile device modes.

Please note the following important details:

CPE Hours Status: You can view your updated CPE hours status by logging into the CPE Portal at www.cpeicai.org. Use your six-digit membership number as the User ID and the default password format: cpe+6 digit membership number.

Submission Deadline for Unstructured CPE Hours: It is pertinent to mention that due to introduction of Consequential Provisions from Calendar year 2024 onwards the last date of submission of Self Declaration Form for claiming Unstructured hours (ULA) from Calendar year 2024 is preponed to 31st December of every year. Therefore, Members are again requested to complete and claim their CPE hours requirements (structured/unstructured) for the current Calendar year (2024) in timely manner without any delay - latest by 31st December 2024.

To avoid any hardship and to ensure compliance as per Continuing Professional Education Statement, 2023, we once again urge you to:

1. Review your current CPE hours status on the CPE Portal www.cpeicai.org
2. Complete any remaining CPE hours (Unstructured and Structured) requirements for Calander year 2024 latest by 31 December 2024.

Should you have any discrepancies regarding Structured CPE hours, please contact the relevant CPE Programme Organising Units (POUs) directly.

Your timely compliance with these requirements is essential to maintain the requisite professional standards and to avoid any hardship that may arise from non-compliance.

Happy learning!

With Kind Regards,

Chairman, CPE Committee

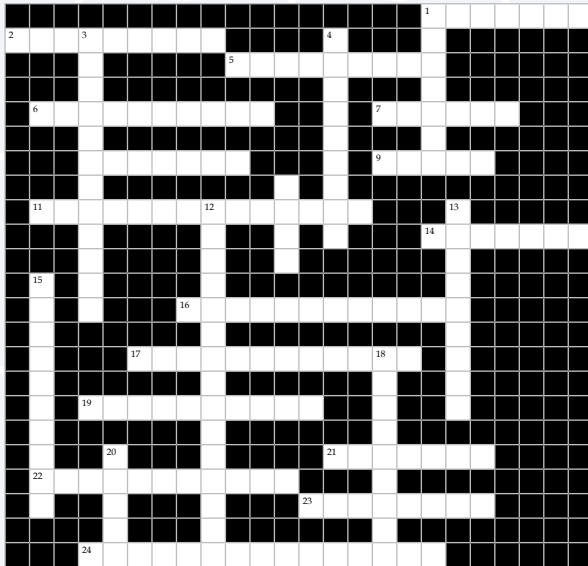
Vice-Chairman, CPE Committee

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

वेबसाइट: <http://www.icai.org>

Email: cpeadmin@icai.in

CROSSWORD – 006



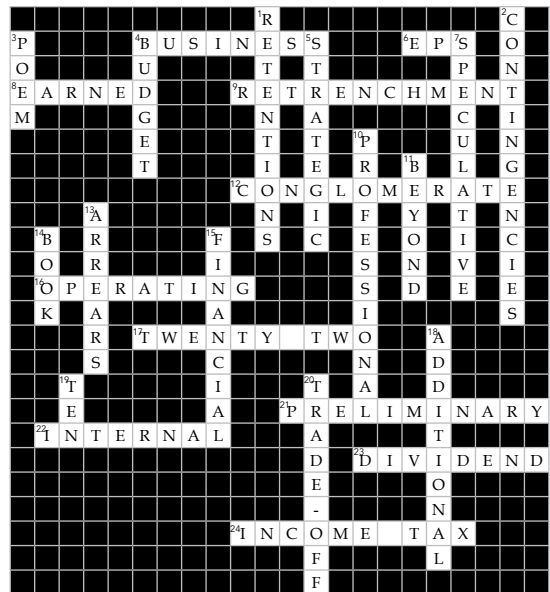
Across

- 1 Innovation means the implementation of a new or significantly improved production or delivery method.
- 2 The point at which products are separated from the main product is known as POINT.
- 5 change is a complex process that involves a corporate strategy focused on new markets, products, services, and new ways of doing business.
- 6 The full form of HSN is System of Nomenclature.
- 7 The term used for indirect benefits that improve the morale, loyalty, and stability of employees towards the organization is
- 8 The period is the time it takes for cumulative net cash flows from an investment to equal the initial cash outlay.
- 9 '.....' is a statistical term that measures how far a process deviates from perfection.
- 11 What is the term used for the costs of material handling, facilities, and quality inspection decline when a JIT system is installed?
- 14 The cost of abnormal loss is transferred to the Profit and Loss Account.
- 16 sets goals and measures firm productivity using best industry practices and comparing with competitors or leading industry figures.
- 17 What is the name given to the budget which is designed to remain unchanged irrespective of the level of activity actually attained?.....
- 19 cost drivers are the organizational factors that affect the costs of a firm's product.
- 21 The phases for describing the life cycle of a product include Introduction; Growth; Maturity; Saturation, and
- 22 When the job is completed, overhead charges are added for ascertaining total
- 23 A declaration of Commencement of Business is filed by the within 180 days of the date of corporation with the registrar.
- 24 What is the difference between the current assets and current liabilities?

Downward

- 1 order theory is based on Asymmetric information, which refers to a situation in which different parties have different information.
- 3 is an entrepreneur who operates within the boundaries of an organization.
- 4 strategy involves keeping track of new developments to ensure that the strategy continues to make sense.
- 10 Competency is a distinctive or unique skill or technological know-how that creates distinctive customer value.
- 12 According to Michael Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership,, and focus.
- 13 An organization structure has three layers, with a narrow middle coordinating diverse activities at the lower level.
- 15 The net present value technique is a cash flow method that considers the time value of money in evaluating capital investments.
- 18 If the time taken by a worker on a job is less than or equal to the standard time, then he is rated
- 20 5S is the name of a workplace organization method that uses a list of five Japanese words, which includes, seiri, seiton,, seiketsu, and shitsuke.

CROSSWORD SOLUTION – 005





The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)



CRAFTING CAPTIVATING THOUGHTS

Invitation to Write Articles

Chartered Accountants and other subject experts, with academic passion and flair for writing, are invited to share their expertise through the ICAI Journal – *The Chartered Accountant*. The article may cover any topic relevant to the **accounting world covering auditing, finance, laws, strategy, taxation, technology, artificial intelligence, sustainability, ethics, financial reporting** and so on. While submitting articles, please keep following aspects in mind:

- ★ **The length of articles should be about 2000-2500 words.**
- ★ **Articles should not have been published or sent for publishing in any other print or electronic media.**
- ★ **An executive summary of about 100 words should accompany the article.**
- ★ **Articles should be engaging, original and aligned with Journal guidelines. Every selected article is subjected to Plagiarism check in line with Editorial Board's Plagiarism Policy.**

Please send articles sharing your valuable insights and expertise to the ICAI Journal and help enrich the knowledge base of the accountancy profession. Attach photograph, editable soft copy of file, declaration of originality and assignment of copyright in the prescribed format along with the article. E-mails may be sent to eb@icai.in and eboard@icai.in

For detailed guidelines and formats of declaration of originality and assignment of copyright, visit: https://www.icai.org/post.html?post_id=2557





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ICAI Digital Learning Hub is an integrated Learning Management System (LMS) which brings a new knowledge ecosystem in a collaborative pedagogical model and with participatory learning to improve learner outcomes.

OUR STAKEHOLDERS

Members

Students

MRA/
MOU/SAFA
Members

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- Access Quick E-Referencers
- Subscribe to Web Lectures
- Register for Residential Programs
- Register for CPE Events
- Subscribe to E-Journals
- Undertake Assessments to assess one's subject knowledge
- Earn Structured & Unstructured CPE Credits
- Join Communities and interact with peers
- Take up Surveys, Quizzes, Polls
- Earn Badges

Benefits to the Stakeholders



CONTACT.



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<https://learning.icai.org/>



For Queries, mail to
elarning@icai.in