

# Quarterly GAAP Bulletin

Updates from October to December 2024

January 2025



# Introduction

Dear reader,

Grant Thornton in India is delighted to present the 'Quarterly GAAP Bulletin', a bulletin that summarises significant accounting, auditing, regulatory and related updates. This publication has been compiled to meet the needs of dynamic Indian businesses and focuses on key developments in India and across the globe.

To access the source of information and complete details, you can click the hyperlinked text below each update.

We would be pleased to receive your valuable feedback. Please write to us at [npsg@in.gt.com](mailto:npsg@in.gt.com) with your comments, questions, or suggestions.

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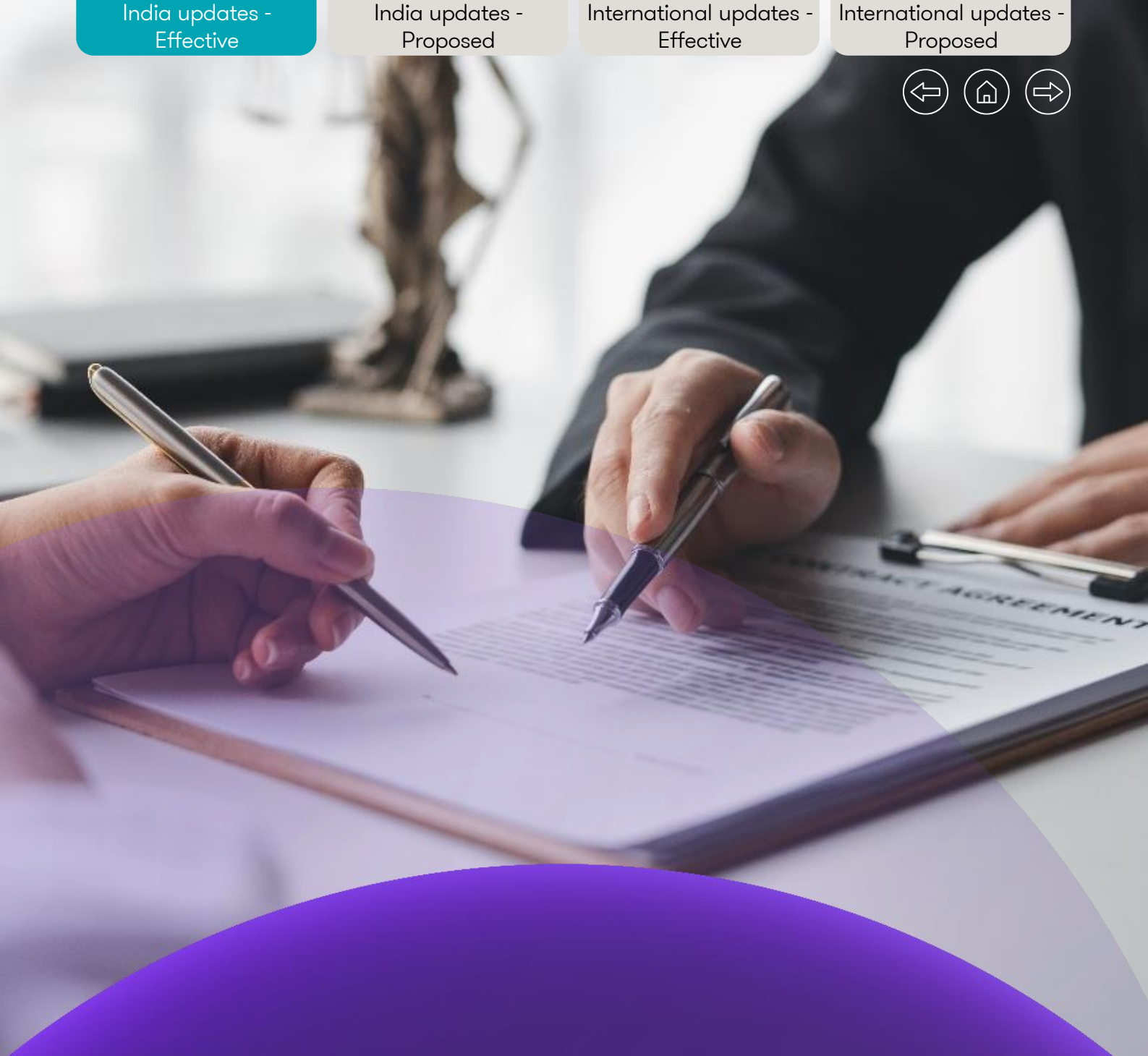
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01

India updates – Effective



## A. Accounting updates

### 1. EAC opinion on accounting treatment of shareholder's loan with interest-free period

The Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) has issued an opinion on queries which relate to: 1) Accounting treatment under Indian Accounting Standards (Ind AS) for shareholder's loan given by the company to its joint venture with an interest free period and 2) Whether a provision should be recognised towards the interest receivable that has been recognised by the company during the interest-free period.

The EAC opined that:

01

The overall contractual interest on the loan to the joint venture during the loan tenure, which bears no interest for a certain period, cannot be considered to be at market terms. The financial asset should be initially recognised and measured at its fair value, which should be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument with a similar credit rating as per the requirements of Paragraph B5.1.1 of Ind AS 109.

02

In the extant case, in substance, the below-market interest element may be construed as a "nonreciprocal capital contribution" by the shareholder to the joint venture and should be recognised by the company as an investment in the joint venture (as a component of the overall investment in the joint venture) in its separate financial statements.

03

As per the requirement of Ind AS 109, such financial assets shall be measured at an amortised cost, and the interest income on financial assets should be accrued and calculated using the effective interest method. The difference in the interest as per the contractual terms and interest accrued in the financial statements as per the effective interest rate is due to accounting as per the applicable Ind AS. Accordingly, the EAC notes that the interest is realisable when the actual payout starts from the joint venture. Therefore, at this stage, i.e., during the interest-free period, no non-realizable interest income is required to be provided for.

[Click here to access the EAC opinion](#)

## 2. EAC opinion on accounting treatment of unamortised portion of government grant



The EAC of the ICAI has issued an opinion on queries that relate to accounting treatment of unamortised portion of the government grant received by a company from its shareholders (i.e., the government of India and government of the national capital territory of Delhi) and other government agencies as part of the funding plan for the execution of the Metro project. The shareholders have contributed the funds in various forms: equity, subordinate debt, loans, etc. The funds are sanctioned on conditions, such as the company shall utilise the amount for the purpose for which it has been sanctioned and can not be diverted for any other purpose, and in case the company is unable to utilise the amount for the specified purpose, the unutilised portion shall be refunded to the government.

The management believes that the funds received through the grant are part of the funding pattern of the shareholders and accounted for the unamortised portion of the government grant as part of the “Other equity.”

### The EAC opined that:

- 01 The standard does not deal with government participation in the entity's ownership. Therefore, if the government provides funds to an entity acting in its capacity as owner of the entity, the same cannot be accounted for as government grants as per Ind AS 20.
- 02 However, in the extant case, the grant has been received for the construction/acquisition of the metro project/ assets, the same is a government grant related to assets.
- 03 Irrespective of the utilisation of a grant in the construction or acquisition of assets, till these assets are not depreciated, the grants yet to be amortised shall be presented as ‘deferred income’ under the head ‘liability’ (and not as ‘other equity’) in the balance sheet, as it represents the portion of grants for which the related conditions of the grant are yet to be fulfilled and may have to be refunded. Therefore, the unamortised portion represents unfulfilled obligations on the part of the entity receiving the grant.

[Click here to access the EAC opinion](#)



### 3. EAC opinion on classification of the project as inventory or investment property

The EAC of the ICAI has issued an opinion on the classification of the project as inventory or investment property under the Ind AS framework.

Based on the facts of the case, the company is developing real estate property for sale in the ordinary course of business. It has executed one of the real estate projects at Place J (the Project) under the joint operations with 'A' Municipal Corporation (AMC), where the company's share is 76.98%. AMC's share is 23.02% pursuant to a memorandum of understanding (MOU). Upon completion of the project, the company made various attempts to sell the project, but could not do so due to the non-availability of the completion/occupancy certificate from the concerned authority and pending RERA formalities. In order to generate temporary income till the sale of such a project, the space has been let out to some government authorities for a short period of 1-2 years. Further, it is also mentioned that the company has recently received the project's occupancy certificate, and the project's sale will be launched as soon as RERA and other statutory requirements are completed.

In accordance with the definition of inventory specified under Ind AS 2 and investment property under Ind AS 40, the EAC noted that inventories are assets that are held for sale in the ordinary course of business. In contrast, a property (land or a building—or part of a building—or both) held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business, is classified as Investment property. Thus, classifying an asset as 'investment' or 'inventories' depends on its intended primary use for an entity. In this case, the company's management's intention towards the project, as demonstrated by the actions taken, has always been to sell them in the market and not to let out.

Based on the above, EAC opined that the company's share in the project is in the nature of 'Inventory' and not 'Investment Property.'

[Click here for EAC opinion](#)





## 4. Revised criteria for classification of non-company entities for applicability of accounting standards

The ICAI has revised the classification criteria for non-company entities for applicability of Accounting Standards (AS) issued by the ICAI, which shall be effective for accounting periods commencing on or after 1 April 2024.

**For the purpose of AS applicability, non-company entities are classified into two categories:**

### Micro, small and medium sized entities (MSMEs)

### Large entities

#### Micro, small and medium-sized entity (MSME) means a non-company entity:

1. Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
2. Which is not a bank, financial institution, or an insurance company;
3. Whose turnover (excluding other income) does not exceed INR 250 crore in the immediately preceding accounting year;
4. Which does not have borrowings over INR 50 crore at any time during the immediately preceding accounting year, and
5. Which is not a holding or subsidiary of an entity that is not micro, small and medium-sized.

**Large entity is a non-company entity that is not an MSME.**

**Large entities are required to comply in full with all the accounting standards while certain exemptions/relaxations have been provided to MSMEs, which are as follows:**

1. AS not applicable to MSMEs in their entirety are:
  - AS 3, Cash Flow Statements
  - AS 17, Segment Reporting
  - AS 20, Earnings Per Share
  - AS 24, Discontinuing Operations





Further, AS 18, Related Party Disclosures, and AS 28, Impairment of Assets not applicable in their entirety to the following MSMEs:

- a) Whose turnover (excluding other income) does not exceed INR 50 crores in the immediately preceding accounting year.
- b) Which does not have borrowings in excess of INR 10 crore at any time during the immediately preceding accounting year, and
- c) Which is not a holding and subsidiary of an MSME not covered above.

**2. AS wherein relaxation from specific requirements of the standards has been given as an option to the MSMEs are:**

- AS 10, Property, Plant and Equipment
- AS 11, The Effects of Changes in Foreign Exchange Rates
- AS 15, Employee Benefits
- AS 19, Leases
- AS 22, Accounting for taxes on income
- AS 26, Intangible Assets
- AS 28, Impairment of Assets
- AS 29, Provisions, Contingent Liabilities and Contingent Assets.

The terms 'Small and Medium Enterprise' and 'SME' used in AS shall be read as MSME. Further, the terms Level II, Level III and Level IV entities used in AS shall be read as 'MSME' and Level I entity shall be read as a 'Large' entity.

Further, a non-company entity which are required to apply AS under any other relevant regulatory requirement, will not be eligible to benefit from these exemptions/relaxations. An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME and has complied with the AS insofar as they are applicable to an MSME. The ICAI announcement also provided other disclosure requirements and guidelines for MSMEs under different scenarios.

This new classification has replaced the old criteria issued in March 2021 and it mandates clear financial disclosures aiming to reduce the compliance burden on MSMEs and ensures that the reporting requirements are proportionate to the size and nature of the entity.

[Click here to access the ICAI Announcement](#)



## B. Auditing updates

### 1. Circular on responsibilities of principal auditor and other auditors in group audits under SA 600 by NFRA

The National Financial Reporting Authority (NFRA), on 3 October 2024, issued a circular (NFRA Circular) clarifying the responsibilities of the principal auditor and the component auditor based on the combined reading of the Standards on Auditing (SA) 600, SA 200 and overall responsibilities envisaged under the Companies Act, 2013 (the 2013 Act). The overall objectives of the audit of financial statements are the same for a principal auditor or a component/other auditor. Thus, principal auditors cannot contend that they did not perform adequate procedures in the audits of Consolidated Financial Statements (CFS) if, in their opinion, a particular SA, by itself, did not require them to do so.

#### Key highlights from the NFRA circular –

01

Several aspects of SA 600 are being misinterpreted or are being applied selectively, leading to insufficient work being performed in the case of group audits. The word "should" in SA 600 casts responsibilities that the provisions are mandatory and not directory.

02

It is mandatory to comply with all requirements under SA 600 and other standards unless alternative procedures are performed or non-performance of such procedures does not materially impact the reporting on the financial statements as accurate and fair.

03

Sharing work papers by the component auditors and reviewing component auditors' working papers by the principal auditor in appropriate cases is permissible under the Chartered Accountants Act, 1949, since such sharing is required for the lawful discharge of duties by the principal auditor.

04

Evaluation of professional competence to go beyond ICAI membership.

The circular applies to audits of all entities that fall under Rule 3 of NFRA Rules 2018, with effect from 3 October 2024.

[Click here to access the NFRA circular](#)



## C. Regulatory updates

### SEBI updates

#### 1. SEBI circular on investments in overseas mutual funds/unit trusts by Indian mutual funds

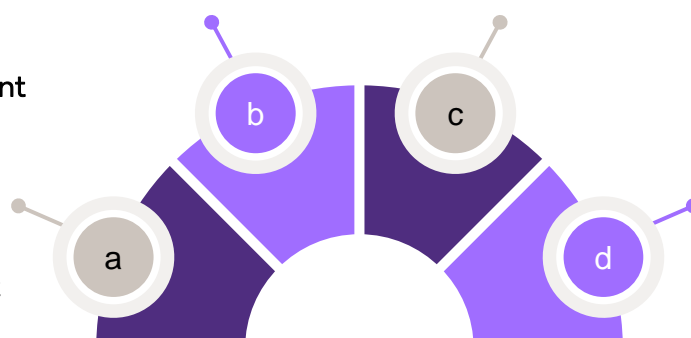
Securities and Exchange Board of India (SEBI), through its circular dated 4 November 2024, has permitted Indian mutual fund schemes to invest in overseas mutual funds or unit trusts (MF/UTs) with limited exposure to Indian securities, provided the total exposure to Indian securities by these MF/UTs should not be more than 25% of their assets.

While investing in overseas MF/UTs, the Indian mutual funds should ensure that:

**Pari-passu and pro-rata** – All investors in the overseas MF/UTs should have pari-passu and pro-rata rights, i.e., they receive a share of returns/gains from the fund proportional to their contribution and have equal rights.

**Independent fund management** - overseas MF/UTs should be managed by an independent investment/fund manager to ensure investments are made without any influence, directly or indirectly, by any investor.

**Overseas MF/UTs must have a pooled investment structure**, i.e., the contribution of all overseas MF/UTs investors to be pooled into a single investment vehicle.



**No advisory agreements with Indian mutual funds** – To prevent conflict of interest or undue advantage to anyone, there should not be any advisory agreement between the Indian and overseas MF/UTs.

Additionally, the overseas MF/UTs are required to disclose their portfolios every quarter to maintain transparency.

To mitigate risks associated with potential changes in the underlying investment portfolio, if the Indian securities exposure of an overseas fund exceeds the 25% limit during this period, the Indian mutual fund scheme must either rebalance its investment or liquidate its position within the next 6 months. Further, Indian MFs are exempted from fundamental attributable change for switching overseas MF/UTs in case of breach of 25% limits.

The provisions of this circular are effective from 4 November 2024.

[Click here to access the SEBI circular](#)

## 2. SEBI's study on the payment of royalty by listed companies to its related parties



SEBI has conducted a study analysing the royalty payments made by listed companies to their related parties (RPs). SEBI's study, released on 14 November 2024, analysed 233 listed companies over 10 years, starting from the financial year 2014 (FY14).

The study found 1,538 instances of royalty payments below the approval requirement threshold, set at 5% of the turnover. Royalty payments of more than 5% of the turnover must be ratified by the majority of minority shareholders. Out of 1,538 instances, 1,353 instances of royalty payments were made by listed companies having net profits, and 185 cases of royalty payments were by companies that made net losses.

It was found that one out of four times, listed companies paid more than 20% of their net profits as royalty to related parties. One out of two times, the listed companies that paid royalties did not pay dividends or paid more royalties to RPs than the dividends paid to non-RP shareholders.

SEBI's study sheds light on these companies' poor disclosure levels, unfair payouts, and unjustified payments for brand usage and technology know-how. It also points out the lack of proper justification around the rationale, adding that the rates of royalty payments are not provided by the listed companies in their annual reports.

[Click here for SEBI's study on royalty payments](#)

## 3. Securities and Exchange Board of India (Alternative Investment Funds) (Fifth Amendment) Regulations, 2024

SEBI has notified the Securities and Exchange Board of India (Alternative Investment Funds) (Fifth Amendment) Regulations, 2024, to amend further the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.

As per the amendment, the rights of the investors in investments of the scheme and distributions of the returns from a scheme of Alternative Investment Funds (AIF) shall be pro-rata to their commitment to the scheme and that in all other respects (subject to specified exemptions), the rights of the investors of a scheme of an AIF shall be pari-passu, ensuring equal treatment.

Additionally, AIFs can offer specified differential rights to certain investors without affecting others, based on principles set by SEBI. Large value funds have also been exempted from ensuring pari-passu rights among accredited investors.

The amendments are effective from 18 November 2024.

[Click here to access the SEBI notification](#)



## 4. Securities and Exchange Board of India (Buy-Back of Securities) (Second Amendment) Regulations, 2024

SEBI has notified the Securities and Exchange Board of India (Buy-Back of Securities) (Second Amendment) Regulations, 2024, to amend further the Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018.

01 Exclusion of promoters' shares from entitlement ratio calculations if any promoter or member of the promoter group declares its intention to opt out of the buy-back.

01

02

02 Mandatory disclosure of the entitlement ratio for the small and general shareholders on the cover page of the Letter of Offer, and a web link to the Registrar and Share Transfer Agent website is provided for shareholders to check their buy-back entitlement.

Some of the key amendments are as follows -

04 Permitting companies to issue shares or securities during the buy-back period to fulfill existing obligations (e.g., conversion of warrants, stock options, sweat equity, preference shares, or debentures into equity shares). It also requires companies to disclose details of these obligations and their potential impact in the public announcements, ensuring transparency in the buy-back process.

04

03

03 The term 'record date' is now replaced with 'date of the public announcement,' changing the timeline for opening the buy-back offer. After the amendment, the buy-back offer will be opened no later than four working days from the date of the public announcement.

The amendments are effective from 20 November 2024.

[Click here to access the SEBI notification.](#)





## 5. Securities and Exchange Board of India (Prohibition of Insider Trading) (Third Amendment) Regulations

The SEBI, on 4 December 2024, notified the Securities and Exchange Board of India (Prohibition of Insider Trading) (Third Amendment) Regulations, 2024, to further amend the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015, intending to improve transparency and prevent illegal trading practices.

The term “connected person” has been redefined and expanded to include two more categories of person who shall be deemed to be called as “connected person,” namely (i) a firm or its partner or its employee in which a connected person is also a partner, and (ii) a person sharing household or residence with a connected person.

**The key updates of the amendment are as follows:**

The term “immediate relative” of a person who shall be deemed connected has been replaced with “relatives,” which shall now also include the spouse of sibling of the person and spouse of the child of the person.

These amendments are effective from 4 December 2024.

[Click here for the SEBI notification](#)

## 6. SEBI circular on disclosure of expenses, half-yearly returns, yield, and risk-o-meter of schemes of mutual funds

SEBI has issued a circular that mandates mutual funds to disclose expenses, half-yearly returns, and yield separately for direct and regular plans. It also introduces a colour scheme for the risk-o-meter depicting risk levels. Any change in the risk-o-meter must be communicated to unitholders by displaying the existing and revised risk-o-meters.

To standardise the above disclosures, the format for the half-yearly financial statement for mutual fund schemes will be reviewed and finalised by the Association of Mutual Funds in India (AMFI) in consultation with SEBI.

The provisions of this circular are effective from 5 December 2024.

[Click here to access the SEBI circular](#)



## 7. Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2024 and related circular

The SEBI, on 12 December 2024, notified Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2024, to further amend Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations). These amendments are effective from 12 December 2024 unless specified otherwise. These amendments affect the listed companies and aim to enhance corporate governance, increase transparency, and ensure timely reporting of material events.

The key highlights of the amendment are as follows:



### **New conditions for appointment of the Secretarial Auditor by the listed companies and its material unlisted subsidiaries incorporated in India (effective from 1 April 2025):**

The amendments mandate that the secretarial audit shall be conducted only by a peer-reviewed company secretary, whose appointment shall necessarily be recommended by the Board of Directors (BOD) and should be approved by the shareholders in its annual general meeting.

The individual secretarial auditor cannot be appointed for more than one term of five years, and in the case of a secretarial auditor firm, their term should be no more than two terms of five years. Further, the details of disqualifications and restricted services have been listed by SEBI in its circular dated 31 December 2024.



### **Certain exemptions are included for approval from the audit committee, and the audit committee may ratify related party transactions subject to the fulfilment of certain conditions:**

Remuneration and sitting fees paid by the listed entity or its subsidiary to its director, KMP, or senior management (excluding promoter or promoter group members) shall no longer require the approval of the audit committee, provided these payments are not material as per the policy on the materiality of related party transactions (RPTs).

Certain other RPTs exempted from approvals include transactions entered between two public sector companies, transactions between public sector companies and the government, and transactions in the nature of payment of statutory dues/ fees/ charges to the government.

Independent audit committee members can now ratify RPTs that are not material within three months from the transaction date or in the immediate next audit committee meeting (whichever is earlier), subject to certain conditions.

Further, the audit committee may now grant omnibus approval for RPTs proposed to be entered into by the listed entity or its subsidiary, subject to quarterly review.



### **Publishing the financial result in newspapers via a QR code along with a weblink to the full financials:**

Listed companies can now provide a QR code and the details of the webpage in the newspaper advertisement, where the investors can access its complete financial results, along with the modified opinion(s) or reservation(s), if any, expressed by the auditor. Such publication shall be made within 48 hours of the conclusion of the meeting of BOD.



### **Simplified communication for annual reports by providing a weblink instead of sending hard copies:**

The requirement of sending a “hard copy of the statement containing the salient features of all the documents”, as prescribed under Section 136 of the 2013 Act, to the shareholders who have not registered their email addresses with the company, has been replaced with “a letter providing the web link, including the exact path, where complete details of the annual report are available.”



### **Increased time limit for disclosure of financial results by listed entities under approved IBC resolution plans:**

Listed entity, with respect to which a resolution plan u/s 31 of the Insolvency Bankruptcy Code, 2016 (IBC) has been approved, is required to disclose its financial results within 90 days from the end of the quarter in which such resolution plan was approved. Further, a listed entity in respect of which a resolution plan u/s 31 of the IBC has been approved during the last quarter of a financial year must disclose its annual audited financial results within 120 days from the end of such financial year.



### **Increased time limit for giving disclosures of material events or information in certain cases.**

Disclosure of material events or information as an outcome of BOD meetings is now required to be made within three hours from the meeting closure in case such meeting closes after normal trading hours but more than three hours before the beginning of normal trading hours of the next trading day.

If the BOD meeting lasts more than one day and financial results are discussed, the company must disclose the financial results on the day these were considered.

Further, where the company receives any notice about a claim against it (except for tax-related disputes), and if the details of these claims are maintained in a structured digital database as required by the SEBI's Insider Trading Regulations, the company must disclose the claim to the stock exchange within 72 hours of receiving the notice.





### Revision in the meaning of “Acquisition” specified under Schedule III Part A of SEBI LODR Regulations and related disclosure:

Pursuant to the amendment, the disclosure of acquisitions as required under Schedule III Part A of SEBI LODR Regulations without any application of the guidelines for materiality as specified in Regulation 30(4), would be necessary only when the listed entity holds shares amounting to 20% (earlier specified as 5%) in the company; and where changes after last disclosure exceed 5% (earlier specified as 2%).

Further, the disclosure requirement has been added (which shall be disclosed every quarter in the format specified under the SEBI circular dated 31 December 2024) when shares have been acquired of an unlisted company of more than 5% and change from the last disclosure is more than 2%.

The SEBI, vide its circular dated 31 December 2024, has introduced an integrated filing framework to streamline compliance processes and improve the efficiency of disclosure practices for listed entities. The SEBI has reorganised periodic filings into two primary categories: governance and financial.

Governance-related disclosures include corporate governance updates and reports on investor grievance redress mechanisms, and financial disclosures encompass related party transactions, outstanding loan defaults, and quarterly financial results. The circular specifies the timelines and details the formats for the integrated filing framework.

[Click here for the SEBI notification](#)

and

[Click here for the SEBI circular](#)

## 8. SEBI circular on industry standards on reporting of BRSR core

To facilitate the ease of doing business and to bring about standardisation in implementation, the Industry Standards Forum (ISF), comprising representatives from three industry associations, viz. ASSOCHAM, CII, and FICCI, under the aegis of the stock exchanges, on 20 December 2024, formulated industry standards, in consultation with the SEBI, for effective implementation of the requirement to disclose Business Responsibility and Sustainability Report (BRSR) Core under Regulation 34(2)(f) of the SEBI LODR Regulations read with Chapter IV-B of SEBI master circular dated 11 November 2024 for compliance with the provisions of the LODR regulations by listed entities.

The industry associations, which are part of the ISF (ASSOCHAM, FICCI, and CII) and the stock exchanges, has published the aforesaid industry standards on their websites. The stock exchanges are advised to bring the contents of this circular to the notice of their listed entities and ensure its compliance.

The listed entities shall follow the above industry standards to ensure compliance with SEBI requirements on disclosure of the BRSR core.

This circular shall be applicable for FY 2024-25 and onwards.

[Click here for the SEBI circular](#)

and

[Click here for industry standards](#)



## Other regulatory updates

### 1. MHA has notified Foreign Contribution (Regulation) Amendment Rules, 2024

The Ministry of Home Affairs (MHA), on 31 December 2024, notified the Foreign Contribution (Regulation) Amendment Rules, 2024, to amend further the Foreign Contribution (Regulation) Rules, 2011.

Key highlights of the amendment are as follows:

1. Associations can now carry forward the unspent portion of allowable administrative expenses to the next financial year, provided the reasons are specified in Form FC-4.
2. Updates in Form FC-4: new provisions inserted -
  - Reporting transfer of foreign contribution part of income tax refund from a non-FCRA bank account.
  - Detailed reporting for the carry forward of unspent administrative expenses.
  - Requirement to provide the chartered accountant's details, who is issuing certificates under sub-rule (5) of Rule 17.
3. Chartered accountants must explicitly certify whether there were any violations of the FCRA Act or rules made or notifications issued thereunder, with details of violations, if applicable.

These amendments are effective from 1 January 2025.

[Click here for the MHA notification](#)



02

## India updates – Proposed



## Auditing updates

### 1. NFRA recommended revision of the SAs, including SA 600 and new SQM 1 and SQM 2 on the lines of the global standard

The NFRA, in its meeting held on 11 and 12 November 2024, has approved the revision to SA 600, SQM 1 and SQM 2, and other SAs on the lines of the global standards and has recommended the same to the central government for notifying under Section 143(10) of the 2013 Act.

The details of the recommendation and background are as follows:

#### A. Revisions to SA 600 “Using the Work of Another Auditor”

The NFRA had issued a consultation paper inviting comments on the proposals in respect of the revision of SA 600, applicable to the audits of public interest entities (PIEs) falling under Rule 3 of NFRA Rules, 2018, except public sector enterprises, public sector banks, public sector insurance entities, and their respective branches.

Such a consultation paper covered the background and rationale for the NFRA seeking public consultation regarding changes proposed in SA on the lines of the corresponding International Standards on Auditing (ISA) 600 issued by the International Auditing and Assurance Standards Board (IAASB). Some of the largest corporations and companies with significant exposure to capital markets, investors, and creditors, thereby involving huge public interest, operate through a network of subsidiaries, joint ventures, branches, and associates, making this standard's requirements very significant. The quality of audit opinion on the Consolidated Financial Statements (CFS), which is relied upon by investors, creditors, and other stakeholders, hinges on a significant part of how robust this standard is and how it is applied by auditors in the discharge of their audit responsibilities.

Click [here](#) and [here](#) to access the NFRA consultation paper and background and rationale on consultation paper, respectively.

#### B. SQM 1 - “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” and SQM 2- “Engagement Quality Reviews

The Auditing and Assurance Standards Board (AASB) of the ICAI, vide announcement dated 14 October 2024, has issued two Standards of Quality Management (SQMs) as follows:

**SQM 1**

“Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements” and

**SQM 2**

“Engagement Quality Reviews” to replace the earlier Standard on Quality Control (SQC) 1- “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.”

**SQM 1 deals with** a firm’s responsibilities to design, implement, and operate a quality management system for audits or reviews of financial statements or other assurance or related service engagements.

**SQM 2 deals with:**

- a) The appointment and eligibility of the engagement quality reviewer; and
- b) The engagement quality reviewer’s responsibilities relating to the performance and documentation of an engagement quality review.

Click [here](#) to access SQM 1.

Click [here](#) to access SQM 2.

Click [here](#) to access Conforming Amendments to Other Standards arising from SQM 1, SQM 2, and SA 220 (Revised).

Click [here](#) to access SQC 1.

### C. Other SAs

Apart from the above, the NFRA, in its meeting, has also recommended the following matters to the central government:

1. Conforming adjustments with the SA 600 (Revised) in the liability of joint auditors under SA 299 “Responsibility of Joint Auditors”, for consistency, by making the joint auditors jointly and severally responsible, on the lines of the standard international practices.
2. The three SAs, SA 800 (Revised) (Special Considerations-Audits of Financial Statements Prepared in accordance with Special Purpose Frameworks, SA 805 (Revised) (Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, SA 810 (Revised) (Engagements to Report on Summary Financial Statements) are also recommended.
3. Other 33 auditing standards on lines of the corresponding global standards.

Upon the central government’s approval, these SAs, including SQMs, are recommended to be effective from 1 April 2026. SQC 1 will continue to apply until SQM 1 and SQM 2 become effective.

Click [here](#) to access the NFRA press release for the meeting held on 11 and 12 November 2024.



## 2. NFRA finalised and recommended SAs to the Central Government for notifying under Section 34A of LLP (Amendment) Act, 2021

The NFRA held its meeting on 25 November 2024 to finalised and recommended SAs to the central government for notifying under Section 34A of LLP (Amendment) Act, 2021. The authority decided to recommend the 40 SAs and related SQM, which were finalised by the authority in its meeting held on 11-12 November 2024 for the audit of companies, to apply to the audit of LLPs on a *mutatis mutandis* basis.

Upon the central government's approval, these standards are recommended to be effective from 1 April 2026.

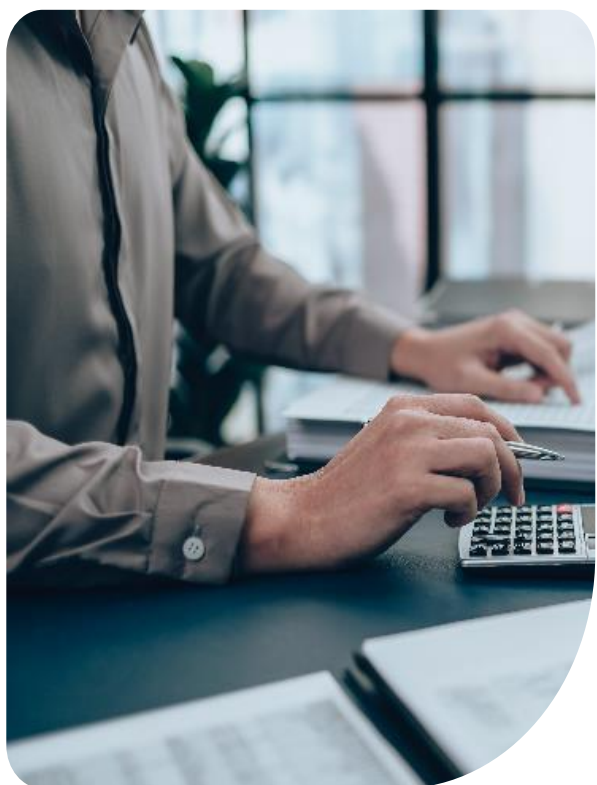
[Click here to access the press release](#)





# 03

## International updates – Effective



## A. Accounting updates

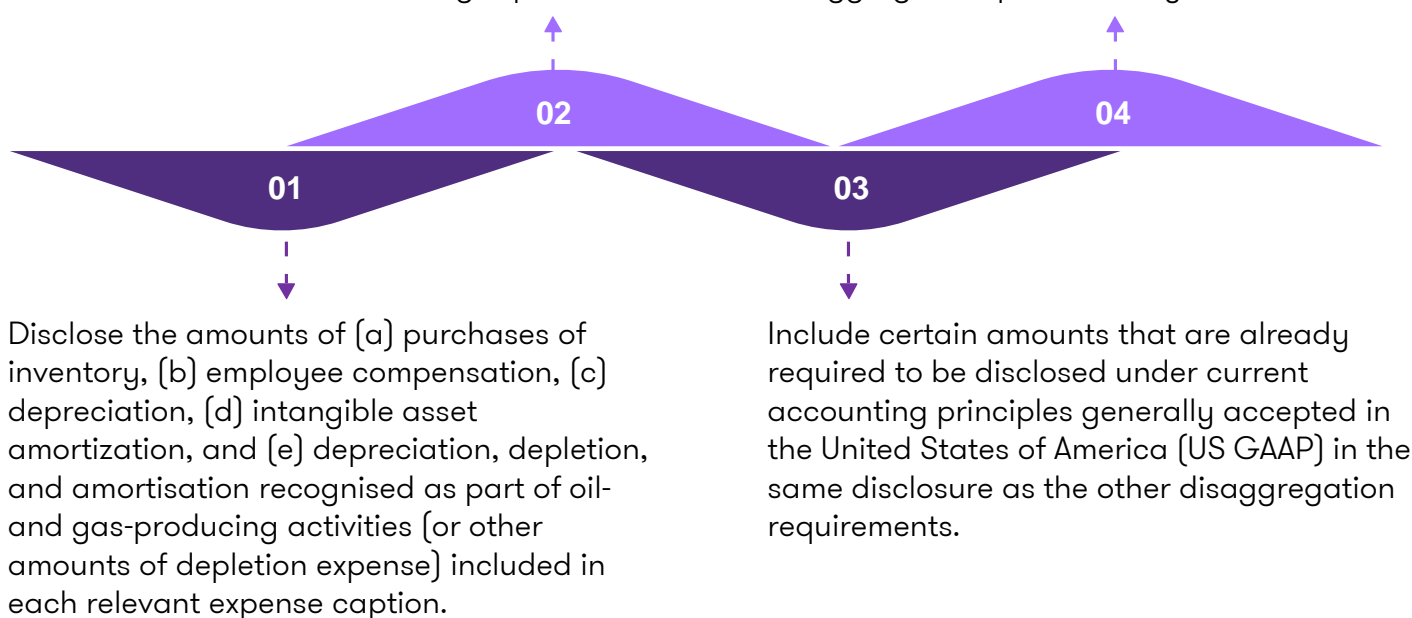
### 1. FASB issues standard that improves disclosures about income statement expenses

The Financial Accounting Standards Board (FASB) has published an Accounting Standards Update (ASU) 2024-03 (subtopic 220-40) that is focused on enhancing disclosures around income statement expenses.

The ASU requires public companies to disclose specified information about certain costs and expenses in the notes to financial statements at each interim and annual reporting period. Specifically, they will be required to:

Disclose the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses.

Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively.



The amendments in the ASU are effective for annual reporting periods beginning after 15 December 2026 and interim reporting periods beginning after 15 December 2027. Early adoption is permitted.

[Click here to access ASU.](#)





## 2. FASB issues standard that improves accounting guidance for induced conversions of convertible debt instruments

The FASB has issued ASU 2024-04 (Sub-topic 470-20), clarifying the requirements for determining whether certain settlements of convertible debt instruments, including convertible debt instruments with cash conversion features, should be accounted for as an induced conversion.

Under the amendments, to account for a settlement of a convertible debt instrument as an induced conversion, an inducement offer is required to provide the debt holder with, at a minimum, the consideration (in form and amount) issuable under the conversion privileges provided in the terms of the instrument. An entity should assess whether this criterion is satisfied as of the date the holder accepts the inducement offer. If, when applying this criterion, the convertible debt instrument had been exchanged or modified (without being deemed substantially different) within the one year leading up to the offer acceptance date, an entity should compare the terms provided in the inducement offer with the terms that existed one year before the offer acceptance date.

The amendments do not change the other criteria that are required to be satisfied to account for a settlement transaction as an induced conversion.

The amendments in this ASU are effective for all entities for annual reporting periods beginning after 15 December 2025 and interim reporting periods within those annual reporting periods. Early adoption is permitted.

The amendment in this ASU permits an entity to apply the new guidance on either a prospective or a retrospective basis.

[Click here to access the ASU](#)

## 3. IASB amended IFRS accounting standards for nature-dependent electricity contracts

The International Accounting Standards Board (IASB), on 18 December 2024, issued targeted amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures to allow companies to report better the financial effects of nature-dependent electricity contracts, which are often structured as power purchase agreements (PPAs). Earlier, in June 2023, the IFRS Interpretations Committee (Committee) had discussed a request about applying the 'own use' exception in paragraph 2.4 of IFRS 9 to physical delivery contracts to purchase energy.



The amendments include (a) clarification on the application of the ‘own-use’ requirements; (b) permitting hedge accounting if these contracts are used as hedging instruments; and (c) adding new disclosure requirements to enable investors to understand the effect of these contracts on a company’s financial performance and cash flows.

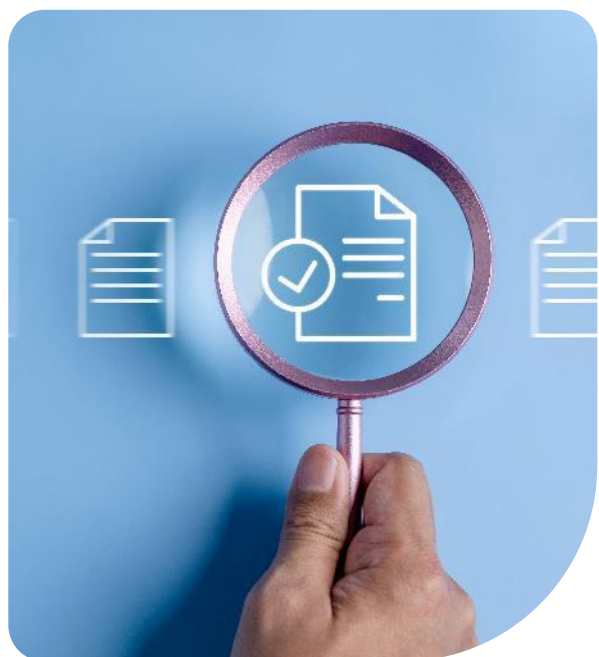
The amendments specifically target using PPAs as designated hedging instruments in qualifying hedge relationships. Under a hedging relationship, the hedged item may be designated as a variable nominal amount of forecast electricity transactions, which is aligned with the variable amount of electricity expected to be delivered under a PPA designated as the hedging instrument.

In the application guidance, the amendments set out that some PPA contracts will expose entities to volume risk, the risk that they may have to buy electricity during a window in which they cannot use the electricity or sell electricity that it cannot use within a specified period. The amendments clarify that these features are not necessarily inconsistent with a contract held in accordance with the entity’s expected usage requirements. The entity needs to determine whether or not they are still a net purchaser of electricity in these situations, and in making this determination, it needs to consider all reasonable and supportable information about past, present, and future electricity transactions.

**Effective date:** The amendments are effective for periods starting on or after 1 January 2026, with early application permitted.

[Click here for the IFRS amendment](#)





## B. Auditing updates

### 1. International Standard on Sustainability Assurance (ISSA) 5000

The IAASB has published the final version of ISSA 5000 'General Requirements for Sustainability Assurance Engagements', which deals with assurance engagements on sustainability information.

ISSA 5000 will serve as a comprehensive, stand-alone standard suitable for any sustainability assurance engagements. The standard applies to sustainability information reported across any sustainability topic and prepared under multiple frameworks. It can be used by both professional accountants and non-accountant assurance practitioners.

This ISSA is effective for assurance engagements on sustainability information reported for periods beginning on or after 15 December 2026; or as at a specific date on or after 15 December 2026.

Earlier application is also permitted.

[Click here to access the ISSA 5000](#)

### 2. PCAOB spotlight on audit firm culture and audit quality

The Public Company Accounting Oversight Board (PCAOB) staff, on 5 December 2024, released a spotlight report on the importance of an audit firm's culture to audit quality with the primary purpose of exploring and understanding drivers of audit firm culture and to probe the impact of an audit firm's culture on the rising levels of audit deficiencies.

This spotlight is based on an in-depth PCAOB staff review of culture at audit firms by reviewing inspection results and other materials related to aspects of the quality control systems at the firms, including governance and leadership, engagement performance, and information and communication.

The spotlight highlights the impact of centralisation, remote work, messaging from audit firm leaders, and other factors that can affect audit quality.

[Click here for the PCAOB spotlight](#)



### 3. PCAOB audit focus on audit committee communications

The PCAOB staff, on 3 December 2024, released an audit focus series highlighting key reminders for auditors from the PCAOB standards and staff guidance related to audit committee communications, which provides the staff's perspectives on common deficiencies in the auditors' work and shares good practices that the staff has observed.

The most common audit deficiencies observed by the PCAOB staff in its inspections of the audits of smaller public companies are the auditor not providing the following required communications to the audit committee:

Copies of the management representation

All significant deficiencies and material weaknesses identified during the audit.

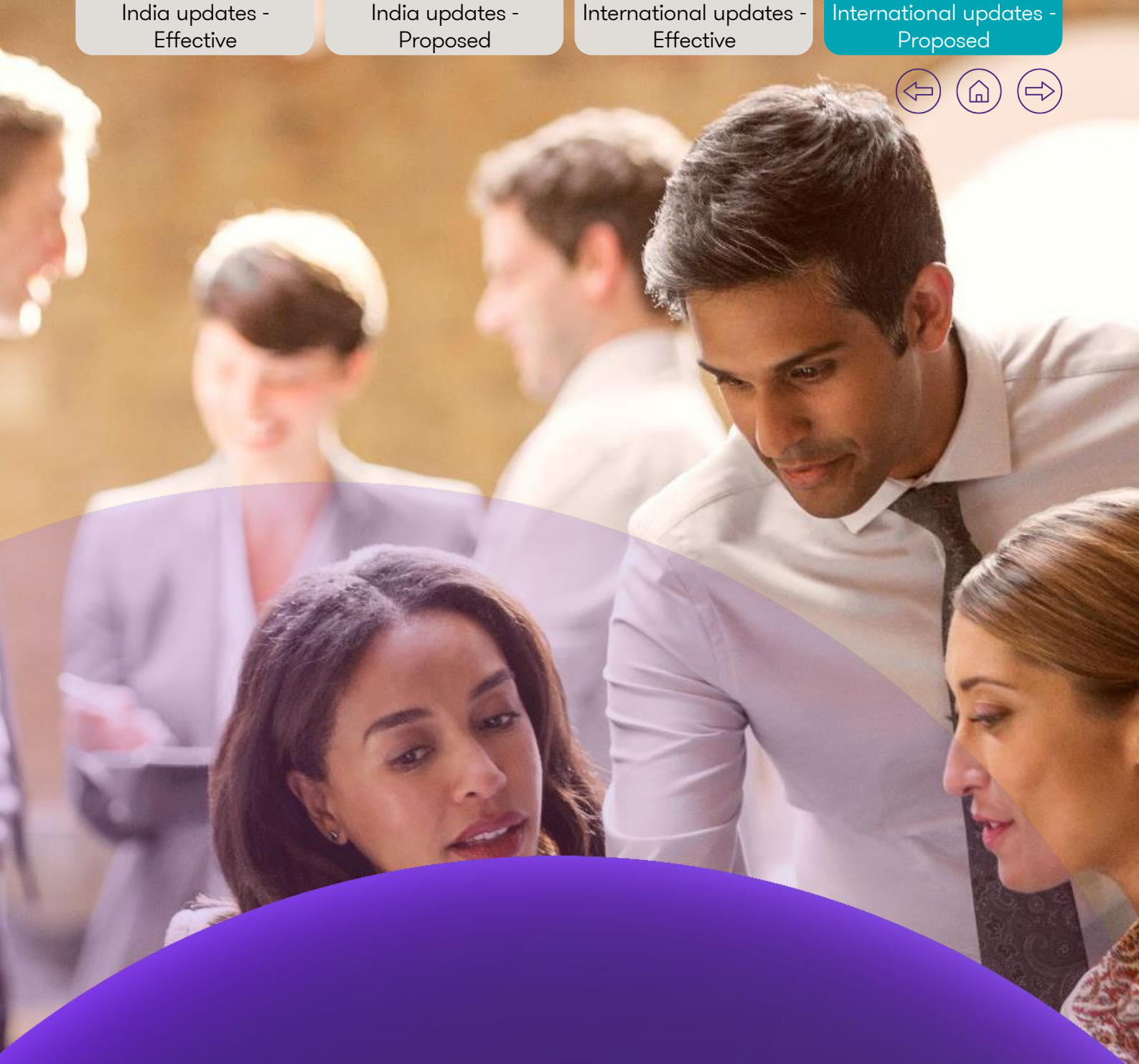
All critical accounting policies and practices used by the public company.

The overall audit strategy, including the names, locations, and planned responsibilities.

The schedule of corrected misstatements identified during the audit.

The auditor's evaluation of the public company's identification of, accounting for, and disclosure of its relationships and transactions with related parties.

[Click here for PCAOB audit focus, audit committee communications](#)



04

# International updates – Proposed



## A. Accounting

### 1. Proposed Accounting Standards update - Government Grant (Topic 832): Accounting for government grant by business entities

The FASB has published a proposed Accounting Standards Update (Proposed ASU) that would establish authoritative guidance on the accounting for government grants received by business entities.

US GAAP does not provide specific authoritative guidance about the recognition, measurement, and presentation of a grant received by a business entity from a government. Consequently, many businesses currently apply the International Accounting Standard (IAS) 20, accounting for government grants and disclosure of government assistance, by analogy, at least in part, to account for government grants.

The proposed ASU aims to leverage IAS 20 with improvements to guide the recognition, measurement, and presentation of government grants related to assets and income. It also requires detailed disclosures about the nature of the grants, accounting policies used, and significant terms and conditions.

In accordance with the proposed amendments, a government grant would be initially recognised when it is probable that:

- A business entity will comply with the conditions attached to the grant and
- The grant will be received.

As per amendments, upon meeting the initial recognition threshold, a grant related to an asset be recognised in the balance sheet either as:

- Deferred income (the deferred income approach)
- A part of the cost used to determine the asset's carrying amount (the cost accumulation approach).

The amendments in the proposed ASU would apply to business entities (specifically, all entities except for not-for-profit entities and employee benefit plans) that receive a government grant, which would be defined as a transfer of a monetary or a tangible non-monetary asset other than an exchange transaction from a government. The proposed amendments would not apply to exchange transactions, income taxes, the benefit of below-market interest rate loans, and government guarantees.

The comment period is open until 31 March 2025.

[Click here to access proposed ASU](#)



## 2. Targeted improvements to requirements for provisions by IASB

The IASB has published an exposure draft to improve the requirements for recognising and measuring provisions on company balance sheets.

In the exposure draft, the IASB is proposing to make the following targeted improvements to IAS 37 Provisions, Contingent Liabilities and Contingent Assets:

Updating the definition of a liability to align it with the definition in the conceptual framework;

Aligning the wording of the present obligation recognition criterion with the updated definition of a liability;

Removing the term ‘obligating event’ and instead identifying and explaining three conditions (obligation, transfer, and past-event conditions) within the present obligation recognition criterion;

Redefining a past event;

Improving the wording of the requirements for restructuring costs without changing the substance of those requirements.

Adding requirements for threshold-triggered costs; and

Specifies the costs an entity includes in estimating the future expenditure required to settle an obligation

Specify that an entity discounts the future expenditure required to settle an obligation at a rate (or rates) that reflect(s) the time value of money— represented by a risk-free rate—with no adjustment for non-performance risk.

The IASB also proposes amendments to the Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Guidance on implementing IAS 37). These amendments would update the guidance on applying the present obligation recognition criterion to reflect the proposed amendments to the requirements.

The comment period is open until 12 March 2025.

Click [here](#) to access Exposure draft on proposed amendments to IAS 37.

Click [here](#) to access Exposure Draft on Proposed amendments to Guidance on implementing IAS 37.



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