



**THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF INDIA**
(SET UP BY AN ACT OF PARLIAMENT)



World
Mental
HEALTH
DAY

2022 OCTOBER

E-NEWSLETTER

THRISSUR BRANCH
OF SOUTHERN INDIA REGIONAL COUNCIL
OF INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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EDITOR'S DESK



Dear Professional Colleagues,

September 2022 has been a tumultuous month with longer work hours, endless discussions with clients, intense auditing procedures and coordinating teamwork. The whole process must have left you exasperated and tired. My personal experience has been difficult too wherein most of the time I have been inwardly cringing at the precious time I have lost with my children. But I'm in awe of the resilience they now have and they seem to understand that Amma is working for them apparently. But as this tax audit period has ended and we are looking towards the next set of due dates and tax filings I want to remind all of you that however busy you are do try to make time for your family. Even if its for a few hours, do make that time COUNT. At the end of the day, FAMILY is all that we have. Also, the increased work pressure and assignment demands have resulted in anxiety and depression in millions of people across the globe. October 10th is celebrated as World Mental Health Day worldwide. Mental well-being is as important as physical well-being so I urge you dear members to take some time off and rejuvenate yourself before getting ready for the avalanche of upcoming deadlines.

“The greatest weapon against STRESS is our ability to choose one thought over another.”- William James

In this edition of the newsletter, we have a thought-provoking article from CA Mini Chandran aptly titled as “Navratri at Stock Exchange” and another article by CA Preetha Shenoy “Introduction of Legal Entity Identifier for large borrowers

Happy Reading!

Jai Hind Jai ICAI,

CA. DIVYA DHARMARAJAN,
NEWSLETTER IN CHARGE

CHAIRMAN'S MESSAGE



Dear Professional colleagues,

The month of September is always dear to us Malayalees as Onam usually comes during these months. We at Thrissur branch have been missing the physical celebrations for the last few years. But as COVID pandemic has abated a lot, last month the branch celebrated Onam physically. We had an array of cultural programmes which was attended by members and their families. I must mention that the performances by the members in general in the cultural programmes was so brilliant that we were all entertained through out the eve. Special mention to CA Vineesh Chandran for the “Pandi Melam”.

As it was the dead line for filing of TARs, we did not conduct CPE programmes in this month. I hope members were able to meet the deadlines and thus cater to various clients’ requirements. I do understand that there were some technical issues during the last day in the Income tax website and the extension of 7 days was really a boon for those cases which were stuck at the last minute. Now filing of return for audited cases is round the corner. I utilize this occasion to inform members that the branches of Kerala are going to conduct for the third time in a row “Navaratna” a CPE programme spread over 9 days. Thrissur Chapter will host the inauguration session scheduled on 10th October. Also, we will be participating in the All Kerala Inter Branch CA Cricket tournament and the branch is in the process of building a team. Interested members may reach out to the managing committee.

As part of the academic affairs the branch conducted Career Counselling Programme at Christ College Irinjalakuda and Co-operative Public School Padukkad. Also, the students of Thrissur branch celebrated Onam on 4th September at Branch premises. We at the branch celebrated Teachers Day on 5th September and distributed mementoes to the faculties of Thrissur. The classes as usual is being run in full swing. Special focus is being given by the branch for the final classes. The branch has reached out to the best faculties available in India for each and every subject and most of them have agreed to be part of the branch.

The Management Committee of the branch also met once during the month i.e., on 02/09/2022. I use this occasion to remind the members about the upcoming World Congress of Accountants in November and the SIRC conference in December.

Jai ICAI Jai Hind

CA. AJITH KAIMAL R
CHAIRMAN

NAVRATRI AT STOCK EXCHANGE



CA MINI CHANDRAN

In the business world, Navratri kalash sthapna started with the announcement of , steel giant Tata Group mega merger of seven of its subsidiary metal companies into Tata Steel, in an attempt to consolidate its metal business to drive efficiencies and reduce costs. The news became the talk of the town with analysts pouring in their views on the aftereffects of the amalgamation, including impact on the share prices. The share price of Tata Steel rallied while subsidiaries slumped by up to 9 per cent after the company's board approved the amalgamation of seven group companies. On the BSE, Tata Steel share was trading at 1.30 per cent higher at ₹105. The scrip surged to a high of ₹107.90 in the intra-day.

Out of the seven Tata Group companies that would get merged with Tata Steel, four are listed. All these four companies were trading with heavy losses.

Lets pour down the accounting of the mergers.

Theme 1:

Merging with a special purpose acquisition company (#SPAC) presents an alternative to the traditional IPO route to closely held companies wanting to go public.

On the identification of a merger target, the SPAC prepares a proxy statement to obtain shareholder approval for various aspects of the proposed merger transaction.

The proxy statement (on Schedule 14A) or joint statement (on Form S4) require the following:

- # To comply with Regulation S-X Rules 3-05 and 3-09, the financial statements of the SPAC, target(s) and other entities, such as businesses acquired by the target or equity method investees of the target,
- # Unaudited pro forma financial information reflecting the proposed acquisition and any other material transactions, and
- # Management's discussion and analysis of the SPAC and target(s).

For both the SPAC and the closely held target entities, audited financial statements should be provided for at least the two most recent fiscal years (or since inception), and unaudited financial statements should be provided for any interim periods that are required to meet the age requirements per the Securities Exchange Commission (SEC) rules. The SEC staff allows the proxy statement or joint statement to present two years of the target's annual financial statements if the target would qualify as an EGC if it were conducting its own IPO and if the SPAC hasn't yet filed an annual report on Form 10-K.

For those SPACs that have filed a Form 10-K, the requirement is to present three years of financial statements for the target company, unless the target would meet the definition of a smaller reporting company (SRC). To qualify as an SRC per the SEC rules, the target financial statements must apply US Generally Accepted Accounting Principles and the target must have annual revenue of less than \$100 million in its most recent fiscal year for which the financial statements are included in the proxy or Form S-4 registration statement.

Theme 2:

Ready, Target, Go.

The financial statement presentation and disclosure requirements for SPAC targets are an important element of the SEC filings in a De-SPAC transaction.

A SPAC is a newly formed company that obtains cash from investors through an IPO and then identifies and funds the acquisition of a target, using the cash generated or issuing the equity of the SPAC for completing the acquisition transaction. Post a successful IPO, the SPAC is required to consummate an acquisition of a target within a specified period (e.g., 24 months). In certain cases, additional funding is required by the SPAC and target to complete the acquisition of the target.

Before consummating an acquisition of a target, a SPAC will be required to file a proxy or a registration statement, which must include the target's (1) annual financial statements audited in accordance with PCAOB standards and (2) unaudited interim financial statements, depending on the timing of the transaction.

The presentation and disclosure requirements of the target's financial statements must comply with SEC rules and regulations, which are governed by SEC Regulation S-X and SEC Staff Accounting Bulletins. For example, Regulation S-X, Rule 4-08(h), requires income tax rate reconciliation as a footnote disclosure. However, targets that would qualify as a Small Reporting Company are generally not required to apply the disclosure provisions of Regulation S-X in their entirety.

The financial statement requirements for interim reporting are outlined in Article 10 of Regulation S-X. Condensed interim financial statements and related footnotes may be presented on a basis allowed by Article 10. At the same time it is necessary that the interim financial statements include disclosure of any material matters that were not disclosed in the most recent annual financial statements.

Additional presentation and disclosure requirements are triggered as the target's financial statements must also comply with public-company GAAP. Such requirements include, for example, earnings per share (ASC 260), segment and entity-wide disclosures (ASC 280), disaggregation of revenues (ASC 606), and additional business combination disclosures (ASC 805).

In some instances under Regulation S-X, Rule 3-05, additional requirements may be triggered. target may be required to provide separate audited preacquisition financial statements for its significant acquired or to be acquired businesses (acquirees) in the proxy or registration statement.

Further, the reporting and disclosure requirements in Regulation S-X, Rules 3-09, 4-08(g), and 10-01(b) require that if the target holds an interest in an equity method investee, that is considered significant, the investee's separate financial statements must be included in the proxy or registration statement. If the result of either the investment test or the income test exceeds 20 percent for any annual period presented in the target's financial statements, then the equity method investment is considered significant.

The auditing standards issued by the AICPA's Auditing Standards Board (i.e., U.S. generally accepted auditing standards apply to private company audits. The audit of a SPAC target that becomes the predecessor of the SPAC must be performed in accordance with the standards of the PCAOB. In addition, interim financial statements are generally reviewed by the target's auditors. More importantly, the registered accounting firm, conducting the audit, must meet the independence requirements in Regulation S-X, Article 2.

Theme 3:

Are you Acquired or the Acquired?

The determination of the accounting acquirer in a SPAC transaction leads to some interesting accounting considerations.

Private companies continue to be attracted by SPACs ("Special Purpose Acquisition Corporations"), which arguably provide a faster route to raising capital versus using the traditional initial public offering route or other financing options. A SPAC raises capital from sponsors, and public, through an initial public offering, and uses the cash and in some instances, its equity, to fund the acquisition of a target.

As with every business combination, GAAP ("US Generally Accepted Accounting Principles") requires the identification of an acquirer for each transaction. Per the FASB ("Financial Accounting Standards Board") Accounting Standards Codification ("ASC") an acquirer is defined as "The entity that obtains control of the acquiree. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer."

In a usual business combination transaction, the entity that transfers cash or assets or assumes liabilities to effect the transaction is generally considered to be the accounting acquirer in the transaction. In situations where equity shares are issued by an entity to effect the transaction, the entity issuing the equity shares is generally considered as the accounting acquirer in the transaction. The entity issuing the shares is termed as the "legal acquirer" in the transaction. Under certain specific circumstances, termed as reverse acquisitions, the legal acquirer, the entity issuing the equity shares, is determined to be the accounting acquiree,

while the entity whose equity shares are acquired, the "legal acquiree" is determined to be the accounting acquirer.

ASC 805-40-05-02 provides an example of a reverse acquisition transaction.

A private operating entity may want to become a public entity but not want to register its equity shares. To become a public entity, the private entity will arrange for a public entity to acquire its equity interests in exchange for the equity interests of the public entity. In this situation, the public entity is the legal acquirer because it issued its equity interests, and the private entity is the legal acquiree because its equity interests were acquired. However, application of the guidance in paragraphs 805-10-55-11 through 55-15 results in identifying:

1. The public entity as the acquiree for accounting purposes (the accounting acquiree).
2. The private entity as the acquirer for accounting purposes (the accounting acquirer).

The issue of determining an accounting acquirer is important in a SPAC transaction.

If the SPAC is determined to be the accounting acquirer, the initial determination is whether the target constitutes a business per the definition under GAAP. If the target is determined to be a business, the assets and liabilities, including identified intangible assets of the target and resultant goodwill are recognized at fair value by the SPAC.

If, on the other hand, the target is determined to be the accounting acquirer, the key determination is whether the SPAC meets the definition of a business per GAAP. Generally, most SPACs typically carry cash and investments as assets and do not meet the definition of a business. This effectively leads to the conclusion that the transaction is not a business combination but a recapitalization of the target (a reverse recapitalization). The accounting for a reverse recapitalization is recognized as an issuance of equity by the target in consideration for the net assets of the SPAC. No intangible assets or goodwill are recorded in this transaction. Important to note that certain transaction costs incurred by the target are charged to equity. The historical book values of the target's assets and liabilities are carried over to the post-combination company, with the exception of the shareholders' equity.

Within the shareholders' equity, while the historical retained earnings (deficit) and accumulated other comprehensive income (loss) of the target are carried over at book value, the share capital and additional share capital balances are adjusted retrospectively to reflect the impact of the transaction.

The determination of the accounting acquirer continues to be an important aspect of the presentation and disclosure of SPAC transactions. Understanding the implications is critical in providing appropriate pro forma disclosures in SEC ("Securities and Exchange Commission") filings made by the SPAC.

Navratri lights up Social stock exchange

SSE is a novel concept in India and such a bourse is meant to serve the private and non-profit sectors by channeling greater capital to them. The idea of SSE was first floated by Finance Minister Nirmala Sitharaman in her Budget speech for the financial year 2019-20.

In its circular, the regulator specified minimum requirements to be met by a NPO for registration with SSE, disclosure requirement for NPOs raising funds through the issuance of zero-coupon zero principal instruments and put in place annual disclosure requirements that needs to be made by NPOs on such exchanges.

Listed NPO will have to submit a statement of utilization of funds to SSE, as mandated under Sebi's rules within 45 days from the end of quarter. Also, Sebi has asked social enterprises raising funds using SSE to disclose Annual Impact Report (AIR) within 90 days from the end of financial year, capturing the qualitative and quantitative aspects of the social impact generated by the entity and where applicable, the impact that is generated by the project or solution for which funds have been raised on SSE.

Under the rules, SSE will be a separate segment of the existing stock exchanges.

Social enterprises eligible to participate in the SSE will be entities - NPOs and for-profit social enterprises - having social intent and impact as their primary goal.

Also, such an intent should be demonstrated through its focus on eligible social objectives for the underserved or less privileged populations or regions.

The social enterprises will have to engage in a social activity out of 16 broad activities listed by the regulator.

The eligible activities include eradicating hunger, poverty, malnutrition and inequality; promoting healthcare, supporting education, employability and livelihoods; gender equality empowerment of women and LGBTQIA+ communities; and supporting incubators of social enterprise.(religious ..kept at bay!!!) Corporate foundations, political or religious organizations or activities, professional or trade associations, infrastructure and housing companies, except affordable housing, will not be eligible to be identified as a social enterprise. With regard to minimum requirements to be met by a NPO, Sebi said that NPO needs to be registered as a charitable trust and should be registered for at least three years, must have spent at least Rs 50 lakh annually in the past financial year and should have received a funding of at least Rs 10 lakh in the past financial year.

Specifying initial disclosure requirement for NPOs raising funds through the issuance of zero coupon zero principal instruments, Sebi said such entities need to make disclosure about its vision, disclose target segment (those affected by the problem and how are they affected) and approach to accomplish its planned activities; details of its governing body, composition, dates of board meetings held; and details of key managerial staff.

In addition, NPOs need to make disclosure of financial statements for last three financial years, details of past social impact and risks that they see to its work and how it proposes to mitigate these. In respect of annual disclosure by NPOs on SSE which have either raised funds through SSE or are registered with SSE, Sebi said that such NPOs will have to disclose about details of top five donors or investors in terms of budget, scale of operations, including employee and volunteer strength, governance structure, financial statement, programme-wise fund utilization for the year and auditors report and auditor details.

Navratri money sack

Navratri boomed the SEBI as and when it imposed penalty of Rs. 1.75 crores on IL & FS Transportation network for breaching RPT norms .SEBI remarks that, “Even though auditors submitted reports to them, it was their responsibility to ensure that such reports were as per the applicable regulatory provisions and not blindly rely

on the reports received by them.”, and adds that an obligation was cast on Noticees as per LODR Regulations and they were expected to discharge their duties with due diligence, however they have failed in discharging those duties; Further, notes that IL&FS did not take specific shareholders’ approval for the RPTs with IL&FS Financial Services Ltd. (‘IFIN’) and that related parties have raised funds from IFIN and transferred these funds to IL&FS which is more than three times the materiality threshold, which cannot be overlooked; W.r.t. IL&FS’s contention that while the RPT policy and RPT Framework was approved by the Audit Committee and the Board, a yearly approval for RPT Framework giving required details such as nature of transactions, period of transactions and maximum amount of transactions proposed to be entered with the related parties during that year was obtained from the Audit Committee at the beginning of each year, Regulator states that approval for an indefinite period can neither be taken under Regulation 23(2) nor under Regulation 23(3) of the LODR; Lastly, SEBI finds that IL&FS avoided requisite disclosure of the borrowings in the annual reports by routing the loans through group companies and third parties, and asserts that aggregating the borrowings under ‘Others’ in the annual reports appear to obscure the importance of these transactions and that the same is also not in accordance with the spirit of the accounting standards and is not in the interest of the shareholders.

God!! this Navratri really giving a nightmare chills to every auditor.

CA MINI CHANDRAN

INTRODUCTION OF LEGAL ENTITY IDENTIFIER FOR LARGE BORROWERS



CA PREETHA SHENOY

The Legal Entity Identifier is a unique 20 character long alphanumeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). With the help of the LEI, essential information regarding the parties to a financial transaction can be easily referenced. It acts as a global directory that provides the much-needed transparency for the benefit of all involved, providing details of the ownership structure and associated details of the parties involved.

RBI mandated LEI for all borrowers of banks having total fund based and non-fund based exposure of ₹ 5 crore and above will be introduced in a phased manner. Accordingly, it has been decided that the banks shall advise their existing large corporate borrowers having total exposures of ₹ 5 crore and above to obtain LEI. Borrowers who do not obtain LEI as per the schedule are not to be granted renewal / enhancement of credit facilities.

Banks should encourage large borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates. Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and use of LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Reserve Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is accredited by the GLEIF as the Local Operating Unit (LOU) in India for issuance and management of LEI.

The rules, procedure and documentation requirements may be ascertained from LEIIL. After obtaining LEI code, banks shall also ensure that borrowers renew the codes as per GLEIF guidelines. These directions are issued under Section 21 and Section 35(A) of the Banking Regulation Act, 1949

Extracts from Statement on Developmental and Regulatory Policies

It has been decided to require banks to make it mandatory for corporate borrowers having aggregate fund-based and non-fund based exposure of ₹ 5 crore and above from any bank to obtain Legal Entity Identifier (LEI) registration and capture the same in the Central Repository of Information on Large Credits (CRILC). This will facilitate assessment of aggregate borrowing by corporate groups, and monitoring of the financial profile of an entity/group. This requirement will be implemented in a calibrated, but time-bound manner. Necessary instructions will be issued by end-October 2017.

STRUCTURE OF LEI CODE

The LEI code comprises of 20 characters and the following structure:-

- Characters 1-4 are unique to each LOU (Local Operating Unit) and are affixed by the ROC Secretariat.
- Characters 5-6 are reserved characters (00).
- Characters 7-18 comprise a 12 character reference that is assigned by the LOU to a particular entity based on transparent and sound allocation policies.
- Characters 19-20 are two check digits under ISO 17442.

HOW TO APPLY?

The LEI registration form consists of 5 pages in total, including the payment gateway.

Company Information Page: All the basic details of the company are entered on this particular page.

Holding Company Page (Direct Parent Information Page): Details of the parent company are to be filled in here.

Ultimate Parent Page: Where the company is a step-down subsidiary, along with the parent's details, the ultimate parent's details are also to be provided.

Payment Page: The payment for the form is to be made once it is complete.

Upload Page: The necessary documents are uploaded on this page. Once the form is filled, the payment page offers the option to either make the payment online immediately or to choose the option of a demand draft. If any of the online payment options are chosen, following which the "Save and Submit" option is selected, once the payment is received by the Legal Entity Identifier India Limited (LEIL), a reference number is generated, which becomes key in any future communication between the parties. In addition to the reference number, an email is also sent, detailing the list of documents to be submitted to the LEIL. If the demand draft option is selected, following which the "Save and Submit" option is selected, the reference number and email are generated immediately.

Verification process: Once the documents are uploaded or sent physically, they will be verified by the LEIL along with the application form. If necessary, the LEIL may ask for additional documents as well. The applicant entity may also be directed to make changes in the application form online by the LEIL.

Issue of LEI Code: The LEI code will be issued on the successful submission and verification of the form and the related documents. The LEI code will be sent in an email to the entity, and this code must be provided to the banks

RENEWAL OF LEI CODE

An LEI Code is generally valid for one year. In order to continue to use the code, it must be renewed through an application form. This can be found on the same online portal; the only difference this time around is to select the option "Modify and Renewal" and not the "Register" option. Again, any changes to this part will also need the authorised person to do so. In the form, once the LEI Code is entered in, all the details appear automatically. Any modifications to be made shall be made.

The "LEI Renewal" checkbox has to be checked right and then the same process of form completion, payment and document submission is followed. On successful submission of all the above, the LEI Code is renewed, and the confirmation of the same is received.

CA. PREETHA SHENOY

Glimpses

SEPTEMBER 22



16.09.2022

CAREER COUNSELLING PROGRAMME
CHRIST COLLEGE IRINJALAKUDA THRISSUR



27.09.2022

CAREER COUNSELLING PROGRAMME
CO-OPERATIVE PUBLIC SCHOOL PADUKKAD THRISSUR

Glances

SEPTEMBER 22



06.09.2022
MEMBERS ONAM CELEBRATIONS 2022



THRISSUR BRANCH OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ICAI BHAWAN, CHIYYARAM, THRISSUR – 680 026.
TEL - (0487) 2253400, 2253800, EMAIL - TRICHUR@ICAI.ORG, WEB- THRISSURICAI.ORG