UPDATE ALERT

SEBI Issues Discussion Paper on Revision of Clause 41

Of the Equity Listing Agreement

Arpit Shah

csarpitshah@gmail.com

"Discussion Paper on Revision of Clause – 41 of Listing Agreement"

On the recommendations of the SCODA (SEBI Committee on Disclosures and Accounting Standards), SEBI has proposed to revise some of the provisions of Clause-41 to improve the disclosure standards and to make the provisions consistent with the Companies Bill 2012and has invited public comments at revisedclause41@sebi.gov.in on or before 13th September, 2013

A. Following are the major changes as proposed under "Revised Clause-41":

1. The format of disclosure of financial statements for "**Finance Companies**" has been **modified to be in line with Banking Companies**. Therefore the same format may be used by both Banking Companies & Finance Companies.

2. Half yearly consolidated financial statements has been made mandatory in case there is a variation in the revenue / total assets / total liabilities / profits/(loss) in the consolidated financial results of 20% or more vis-à-vis the corresponding amounts in the standalone financial results as per the last annual audited financial statements.

3. In respect of **foreign subsidiaries**/ JV's the consolidated results shall include **reviewed/ audited results** of such number of foreign subsidiaries which together with the reviewed/ audited results of all Indian subsidiaries/ joint ventures would constitute not less than 80% of the consolidated turnover/ net worth/ profit (loss).

4. **Book Value** of Equity Shares to be **mandatorily disclosed half yearly**.

5. The presentation of amounts in financial statements must be in ` **in crores** with two decimal places.

6. **Cash Flow** must be submitted every **half yearly** in addition to statement of Assets and Liabilities.

7. **Details of Discontinued operations** must be disclosed under "Notes to financial Results"

8. The financial results of the companies which **do not have a Managing Director**, are compulsorily required to be approved by the Board as the Committee for approval of financial results cannot be formed without the Managing Director.

(In order to enable such companies to constitute the Committee for approval of financial results, it has been proposed that the Committee for approval of financial results shall consist of minimum 1/3rd of the directors and shall include at least 1 WTD and 1 independent director.)

9. Companies will be required to submit consolidated financial results as per **notified AS (Indian GAAP).** The companies may still have option to submit consolidated financial results as per IFRS notified by IASB in addition to publishing financial results as per notified AS.

10. **Auditor's Report Format changed** to align with reporting requirements under revised auditing standards, such as SRE 2410 ("Review of Interim Financial Information Performed by the Independent Auditor of the Entity"), SA 700 – 706 (Standards of Auditing), etc.

11. The reference to "Chairman" has been replaced with "Chairperson".

12. The term "**Half-year**" has been modified to "**every six months** in the financial year".

13. **Removal** of the requirement for **management to respond to variations in excess of 10%** between the unaudited results and the reviewed/audited results.

B. Following are the Clarifications as proposed under "Revised Clause-41":

1. The figures of last quarter are the balancing figures between the audited figures in respect of the full financial year and the published year to date figures upto the quarter preceding the last quarter of the financial year. **Hence, the same shall be stated as "Fourth Quarter (balancing figures)"** unless the company presents audited quarterly financial results and no separate review/audit report is required to be submitted.

2. If there are any **changes in the accounting policies** during the year, the impact of the same on the prior quarters of the year, included in the current quarter results, **shall be disclosed separately by way of a note** to the financial results of the current quarter, **without restating the previously published figures**.

3. The expression "**other reservation**" under "*qualification or other reservation*" would mean "**in the nature of an adverse comment or disclaimer**".

4. The ‘**exceptional items**’ shall be disclosed as a **line item in the main table** instead of in the "Notes" to enhance visibility. Further, the **definition of ‘exceptional items’ has also been modified** to bring more clarity in disclosures.

5. If a company submits quarterly consolidated financial results in addition to the standalone financial results, it **may submit the quarterly or annual segment information only in the consolidated financial results**.

6. The quarterly standalone and consolidated (where applicable) financial results shall be **approved on the same date by the Board** of Directors of the company **or by a committee thereof, *other than the Audit Committee***, and shall be submitted together, to the Stock Exchange.

Note:

The original discussion paper of the above can be downloaded from:
http://www.sebi.gov.in/cms/sebi_data/attachdocs/1376995124126.pdf