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SEBI Committee on Disclosures and Accounting Standards (**SCODA**) on September 14, 2009 has come out with the following proposals to improve disclosure and accounting norms for listed companies.

- a) Requirement of professional qualifications/financial literacy for Chief Financial Officer (CFO)
The appointment of the Chief Financial Officer of a listed entity should be approved by its audit committee. So, the audit committee, which comprises two thirds of an entity's independent directors, will be responsible to ensure that the CFO has necessary accounting or related financial management expertise and experience which would result in the individual's financial sophistication.
- b) Rotation of Audit firms / partners
Opining that mandatory rotation of audit firms may not be practical for all companies, SCODA has, accordingly, recommended as under:-
 - SEBI may mandate that the partner of the audit firm signing the audited accounts of a listed entity be mandatorily rotated every five years.
 - The Audit Committee shall be responsible for ensuring independence of the audit firm and its partners.
- c) Appointment of an external audit firm as internal auditor of the company
SEBI had proposed to SCODA that that in case of listed companies, the functions of internal audit committee (as prescribed under Clause 49 of the Listing Agreement) may be mandatorily carried out by an external audit firm. The Committee, however, recommended that such a move would not be prudent.
- d) Modification in formats of limited review report and statutory auditor's report
SEBI vide circular dated February 3, 2009 provided for certain periodical disclosures to be made by listed entities regarding the details of promoters and promoter group shareholding, including the details of pledged/encumbered promoter's shareholding, as additional line items (Item Nos. 17 and 18 of the format) along with the periodical disclosures of financial results provided as annexures to Clause 41 of the Listing Agreement.

However, in order to clarify that the details regarding disclosure of pledged shares have not been verified by the auditor and have been drawn from the disclosures made by promoters/promoter group of the listed entity, SCODA has recommended to add the following at an appropriate place in the limited review report and in the statutory auditor's report provided as annexures to Clause 41 of the Listing Agreement:-

□ except for disclosures in item No. 17 and 18 namely, □Public Shareholding□ and □Promoter and Promoter Group Shareholding□ which have been traced from disclosures made by the management.□

e) Voluntary adoption of International Financial Reporting Standards (IFRS) by listed entities having subsidiaries

In accordance with the announcement of Ministry of Corporate Affairs that the Indian financial reporting standards be converged with IFRS from the accounting periods commencing on or after 1st April, 2011 for all public interest entities, SCODA has proposed that companies should be allowed to voluntarily adopt International Financial Reporting Standards as a possible first step towards phased implementation of the new accounting practice starting April, 2011. An issue that came up for debate in this context was whether all listed entities should be permitted to present consolidated accounts in IFRS or only those entities that have foreign subsidiaries should be permitted to do so. During the deliberations, the following two alternatives emerged in this regard:

- Only those listed entities which have overseas subsidiaries contributing to a major portion, say at least 50% of the total revenue of the consolidated entity, should be given the option to voluntarily adopt IFRS. Therefore, it was suggested that such listed entities may be given an option to submit their consolidated financial results in IFRS on a voluntary basis, subject to the condition that they submit reconciliation as per IFRS 1 and IAS 34.
- The option may be extended to all listed entities having subsidiaries.

f) Interim disclosure of balance sheet items by listed entities

In accordance with international practice, SCODA has recommended that the audited figures of the major heads of the balance sheet prepared in accordance with Schedule VI to the Companies Act or its equivalent in other statutes may be disclosed by listed entities on a half-yearly basis.

g) Timelines for submission of financial results by listed entities

In order to enable investors gain a better perspective about a company's asset-liability position more frequently, SCODA has made the following proposals to streamline the submission of financial results by companies and reduce the period for their submission to the stock exchanges:

- Listed entities shall be required to submit their (a) quarterly and year to date audited stand-alone financial results or (b) quarterly and year to date un-audited stand-alone financial results accompanied by limited review report of the auditor, within 45 days from the end of the quarter. This shall be applicable for all quarters other than the last quarter.
- Listed entities which have subsidiaries, may, along with the quarterly and year to date stand-alone financial results as mentioned at (i) above, also submit consolidated audited quarterly and year to date financial results or un-audited quarterly and year to date financial results accompanied by limited review report, as the case may be, within 45 days from the end of the quarter. This shall be applicable for all quarters other than the last quarter.
- Listed entities having subsidiaries which submit consolidated quarterly and year to date financial results in addition to stand-alone results shall continue to publish only consolidated financial results. However, the following items shall also be additionally published on a stand-alone basis, as a foot note:- (a) Turnover (b) Profit before tax (c) Profit after tax.
- Listed entities which opt to submit their annual audited results on a stand-alone basis in lieu of the last quarter un-audited financial results subject to limited review report by the auditors shall

submit the annual audited results within 60 days from the end of the financial year.

- Listed entities having subsidiaries shall, in addition to submission of stand-alone annual audited financial results as mentioned at point (4) above, submit their consolidated annual audited financial results within 60 days from the end of the financial year.
- Listed entities that do not opt to submit their annual audited financials results within 60 days from end of financial year as mentioned at points (4) and (5) above shall submit their last quarter un-audited financial results accompanied by limited review within 45 days from the end of the quarter.

As part of the consultative decision making process followed by SEBI in policy formulation, the above proposals are placed on SEBI website for public comments, to be e-mailed on or before September 25, 2009 to aparnat@sebi.gov.in.

In case of clarifications kindly contact our Capital Market Team.

Please visit our new website www.aralaw.com.

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ARA LAW - Advocates & Solicitors

3/F Mahatma Gandhi Memorial Bldg.,
7, Netaji Subhash Road, Charni Road (West),
Mumbai - 400 002.
Tel: (+91 22) 66199800
Fax : (+91 22) 66199899
E-mail: bom@aralaw.com

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