

# Exposure Draft

## Guidance Note on Reports in Company Prospectuses (Revised 2018)

Readers may note that this Guidance Note supercedes the Guidance Note on Reports in Company Prospectuses (Revised 2016) issued by the ICAI in November 2016.

**(Last date for comments: December 21, 2018)**



**Issued by**  
**Auditing and Assurance Standards Board**  
**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
New Delhi

Your comments on this Exposure Draft should reach us by **December 21, 2018**. Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. The comments should be sent to:

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## **Applicability of the Guidance Note**

1.1 This Guidance Note is issued for providing guidance to the practitioners in reporting requirements that are required in relation to financial information to be included in the prospectus in case of initial public offering (IPO) in accordance with Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (hereinafter referred to as the “ICDR Regulations”). This Guidance Note, apart from the IPO, is also applicable to other type of filings for the issue of securities (equity shares, debentures and notes etc.) such as letter of offer (in case of right issue), placement document (in case of Qualified Institutional Buyers ‘QIBs’) etc. and filings for the issue of units under Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014, as amended and Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014, as amended to the extent applicable. The Guidance Note is drafted considering the offer or sale of the securities in India. Accordingly, the guidance or formats included may need to be modified based on other international guidance or practices, in case an offer or sale of the securities is made outside India. This Guidance Note will be applicable in relation to initial offer document such as DRHP/ DLoF/ PPD and others which are filed on or after [Date]. Earlier application is voluntary.

## **Overview of amendments in the ICDR Regulations**

1.2 The SEBI has issued the ICDR Regulations which amended the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (“ICDR 2009”) with the aim of simplifying the law, eliminating redundancies and inconsistencies and updating references to the Companies Act, 2013. The Chapters have been reorganised for various issues of securities issues like IPO, further public offers, rights issues etc.

Some of the key amendments are given below:

### 1) Definitions:

- Definition of promoter and relative made consistent with the Companies Act, 2013.

- Qualified institutions placement means issue of eligible securities by a listed issuer to qualified institutional buyers on a private placement basis and includes an offer for sale of specified securities by the promoters and/or promoter group on a private placement basis, in terms of these regulations.
  - Group companies defined to include such companies (other than promoter(s) and subsidiary/subsidiaries) with which there were related party transactions, during the period for which financial information is disclosed (three years), as covered under the applicable accounting standards, and also other companies as considered material by the board of the issuer.
  - To identify promoter group, shareholding threshold increased to 20 percent as against earlier requirement of 10 percent.
- 2) All entities whose promoters or directors are fugitive economic offenders have been precluded from making any offer of securities.
  - 3) ICDR 2009 stipulated that an issuer may make an IPO only if the aggregate of the proposed issue and all previous issues made in the same financial year in terms of issue size does not exceed five times its pre-issue net worth as per the audited balance sheet of the preceding financial year. This requirement has now been deleted.
  - 4) Financial disclosure for public/right issue to be made for preceding 3 years as against 5 years earlier.
  - 5) In conditions for IPO, it has been stipulated that the net tangible assets and net worth requirements of Rs. 3 crores and 1 crore respectively, should be calculated on a restated and consolidated basis. Also the average operating profit of Rs. 15 crores has to be during the preceding three years and not during the three most profitable years out of the immediately preceding five years, with the additional requirement that there should be an operating profit in each of the three years.
  - 6) If equity shares arising out of the conversion or exchange of the fully paid-up compulsorily convertible securities are being

offered for sale, the conversion or exchange should be completed prior to filing of the offer document (i.e. red herring prospectus in the case of a book built issue and prospectus in the case of a fixed price issue), provided full disclosures of the terms of conversion or exchange are made in the draft offer document.

- 7) For an issuer to be eligible to make an IPO of convertible debt instruments, the issuer should not be in default of payment of interest or repayment of principal amount in respect of debt instruments issued by it to the public, if any, for a period of more than six months.
- 8) One of the conditions for an IPO is that the specified securities held by the promoters should be in dematerialised form prior to filing of the offer document.
- 9) Where the value of the convertible portion of any listed convertible debt instruments issued by an issuer exceeds Rs. ten crore (earlier Rs. 50 lakhs) and the issuer has not determined the conversion price of such convertible debt instruments at the time of making the issue, the holders of such convertible debt instruments should be given the option of not converting the convertible portion into equity shares.
- 10) For issuing of warrants, the restriction of having one warrant attached to one specified security has been done away with and now a specified security may have one or more warrants attached to it.
- 11) In case the exercise price of warrants is based on a formula, 25 percent of the consideration amount based on the cap price of the price band determined for the linked equity shares or convertible securities shall be received upfront. In case the warrant holder does not exercise the option to take equity shares against any of the warrants held by the warrant holder, within three months from the date of payment of consideration, such consideration made in respect of such warrants shall be forfeited by the issuer.
- 12) Shortfall of up to 10 percent of minimum promoter's contribution can now be met by institutional investors (foreign venture capital investor, scheduled commercial banks, public financial institution, alternate investment funds and registered

insurance companies) without being identified as promoters. Contributions received from such institutional investors will be locked in for a period of three years from the date of commencement of commercial production or date of allotment in the IPO, whichever is later.

- 13) The requirement of lock in of specified securities held by persons other than promoters will not apply to equity shares held by an employee stock option trust or transferred to the employees by an employee stock option trust pursuant to exercise of options by the employees, in accordance with the employee stock option plan or employee stock purchase scheme. Such equity shares allotted to the employees will be subject to the provisions of lock-in as specified under the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014.
- 14) At least one lead manager to the issue should not be an associate of the issuer.
- 15) Prior to making an IPO, the issuer should file three copies of the draft offer document with the concerned regional office of the Board under the jurisdiction of which the registered office of the issuer company is located, in accordance with Schedule IV, along with fees as specified in Schedule III, through the lead manager(s).
- 16) Lock-in of pledged promoter securities shall continue pursuant to the invocation of the pledge and the transferee (scheduled commercial bank or a public financial institution or a systemically important non-banking finance company or a housing finance company) will not be eligible to transfer the specified securities till the lock-in period stipulated in these regulations has expired.
- 17) The regulation on determination of face value as stipulated in the ICDR 2009 has been removed. The statement about the issue price being "X" times of the face value) has also been removed.
- 18) Where the issuer opts not to make the disclosure of the floor price or price band in the red herring prospectus, the issuer should announce the floor price or the price band at least two working days (earlier five working days under ICDR 2009)



before the opening of the issue in the same newspapers in which the pre-issue advertisement was released.

- 19) In case of differential pricing, discount, if any, should be expressed in rupee terms in the offer document.
- 20) In an issue made through the book building process, it has now been provided that the unsubscribed portion in the categories 'retail individual investors' and 'non-institutional investors' may be allocated to applicants in any other category.
- 21) Reservation on a competitive basis in the case of shareholders is now permitted only for shareholders (other than promoters and promoter group) of listed subsidiaries (earlier listed group companies) or listed promoter companies.
- 22) Requirement of reservation for persons who as on the date of filing the draft offer document with SEBI, had business association as depositors, bondholders or subscribers to services of the issuer making an IPO, as was provided in Reg. 42(1)(c) of ICDR 2009 has been removed.
- 23) In the event of non-receipt of minimum subscription, all application monies received should be refunded to the applicants forthwith, but not later than fifteen days from the closure of the issue. Earlier there was a distinction between non-underwritten issues and underwritten issues for refunds.
- 24) In case of force majeure, banking strike or similar circumstances, the issuer may, for reasons to be recorded in writing, extend the bidding (issue) period disclosed in the red herring prospectus (in case of a book built issue) or the issue period disclosed in the prospectus (in case of a fixed price issue), for a minimum period of three working days, subject to the restriction of 10 working days.
- 25) In case of oversubscription, an allotment of not more than one percent (earlier ten percent) of the net offer to public may be made for the purpose of making allotment in minimum lots.
- 26) The lead manager(s) or bankers shall ensure that the allotment, credit of dematerialised securities and refund or unblocking of application monies, as may be applicable, are done electronically.

- 27) Threshold for submission of draft letter of offer for right issue to SEBI has been increased to Rs. 10 crores as against Rs. 50 lakhs earlier.
- 28) The non-convertible portion of partly convertible debt instruments issued by a listed issuer, the value of which exceeds Rs. 10 crore (earlier Rs. 50 lakhs), may be rolled over, subject to certain compliances.
- 29) Applicants in a rights issue will be eligible to make applications through ASBA facility only if such applicant: (i) is holding equity shares in dematerialised mode (ii) has not renounced entitlement in part or in full and (iii) is not a renouneece.
- 30) Financial disclosure for public/right issue to be made for preceding 3 years as against 5 years.
- 31) An issuer can make a fast track rights issue only if it does not have any audit qualifications on the audited accounts of the issuer in respect of those financial years for which such accounts are disclosed in the letter of offer.
- 32) A rights issue can be underwritten only to the extent of entitlement of shareholders other than the promoters and promoter group.
- 33) The price determined for a preferential issue shall be subject to appropriate adjustments, if the issuer makes an issue of equity shares after completion of a demerger wherein the securities of the resultant demerged entity are listed on a stock exchange.
- 34) Preliminary placement document to be prepared for qualified institutions placement.
- 35) The requirement that the aggregate of the proposed qualified institutions placement and all previous qualified institutions placements made by the issuer in the same financial year shall not exceed five times the net worth of the issuer as per the audited balance sheet of the previous financial year has been removed.
- 36) Minimum anchor investor size in SME IPO reduced to Rs. 2 crore from existing Rs. 10 crore.

- 37) For issue of Indian Depository Receipts, an issuer will be eligible to make an issue of IDRs only if the issuing company is listed in its home country for at least three immediately preceding years.
- 38) The mode of allotment to institutional investors, i.e., whether discretionary or proportionate, shall be disclosed prior to or at the time of filing of the offer document.
- 39) There are incremental requirements from the auditors and chartered accountants.

### **Legal Aspects**

1.3 The purpose of this Guidance Note is to provide guidance on compliance with the provisions of the Companies Act, 2013 (hereinafter referred to as “the Act” unless otherwise specified), and the ICDR Regulations, relating to the reports required to be issued by chartered accountants in prospectus issued by the companies for the offerings made in India.

1.4 The relevant provisions of the Act dealt within this Guidance Note are:

- (a) Section 2(1) – definition of abridged prospectus;
- (b) Section 2(38) – definition of expert;
- (c) Section 2(70) – definition of prospectus;
- (d) Section 14 – requirements to be complied with by a private company which becomes a public company by altering its Articles of Association;
- (e) Sections 23 to 42 – relating to prospectus and allotment of securities for public offer and private placement; and
- (f) Sections 387 to 393 – relating to prospectus issued by companies incorporated outside India.

The Guidance Note also deals with relevant aspects of the ICDR Regulations.

1.5 Section 2(70) of the Companies Act, 2013 defines 'Prospectus' as any document described or issued as a prospectus and includes a red herring prospectus referred to in

Section 32 or shelf prospectus referred to in Section 31 or any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate. The object of issuing a prospectus is, therefore, to invite the public to invest their moneys in the company or to purchase shares offered for sale by existing shareholders of the company. In order to enable the potential investors to take a well-informed decision in the matter, the Act and various sections of the ICDR Regulations spell out, in details, the information to be given in a prospectus. Furthermore, to ensure that the information required to be stated in a prospectus is truthfully disclosed, the relevant statutes prescribe severe penalties for untrue statements in a prospectus, the object of the law being to protect the potential investors.

1.6 Section 26 of the Act, read with the ICDR Regulations, deals with the matters to be stated in the prospectus and the reports to be set out therein. Requirements of Section 26 of the Act read with the ICDR Regulations are to be complied with when a company invites the public to subscribe for its shares or debentures.

1.7 The ICDR Regulations deal with the reports to be set out in a prospectus. Paragraphs (A) and (B) of clauses (11)(I) and (11)(II) of Part A of Schedule VI to the ICDR Regulations require the reports/certificates to be issued by auditors of the company, containing the specified particulars.

## **Roles and Responsibilities**

### **Bankers**

1.8 As mentioned in the ICDR Regulations:

- a) The lead manager(s) or bankers shall exercise due diligence and satisfy themselves about all aspects of the issue including the veracity and adequacy of disclosure in the draft offer document and the offer document.
- b) The lead manager(s) or bankers shall call upon the issuer, its promoters and its directors or in case of an offer for sale, also the selling shareholders, to fulfill their obligations as disclosed

by them in the draft offer document and the offer document and as required in terms of these regulations.

- c) The lead manager(s) or bankers shall ensure that the information contained in the draft offer document and offer document and the particulars as per restated audited financial statements in the offer document are not more than six months old from the issue opening date.

1.9 The term 'Bankers' referred herein refers to "any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management" as defined under Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992 as amended. Bankers are generally referred to as 'Merchant Bankers'.

1.10 Further, as per the ICDR Regulations, it is the responsibility of lead manager(s) or bankers to confirm that:

- a) the draft offer document/ draft letter of offer filed with the Board is in conformity with the documents, materials and papers which are material to the issue;
- b) all material legal requirements relating to the issue as specified by the SEBI, the Central Government and any other competent authority in this behalf have been duly complied with; and
- c) the material disclosures made in the draft offer document/draft letter of offer are true and adequate to enable the investors to make a well informed decision as to the investment in the proposed issue and such disclosures are in accordance with the requirements of the Companies Act, 2013, these regulations and other applicable legal requirements.

#### **Auditors / Accountants**

1.11 The auditors/accountants shall report / certify on matters as required under the ICDR Regulations as per the guidance provided in this guidance note.

1.12 Certain certificates required under the ICDR Regulations

involve consideration of legal matters. In such cases, the auditors/accountants should be careful while issuing such certificates and restrict their responsibility only towards accounting matters and their work should be performed in accordance with the Guidance Note on Reports or Certificates for Special Purposes (Revised 2016) issued by ICAI. The auditors/accountants should refrain from certifying any legal matters.

### **Who are Eligible to Make the Reports**

1.13 The reports to be included in a prospectus under paragraphs (A) and (B) of clauses (11)(I) and (11)(II) of Part A of Schedule VI to the ICDR Regulations should be made by the auditors of the company in case of types of transactions covered in Part A. Auditors may refer to Parts B, C and D of Schedule VI to the ICDR Regulations for other type of issuances. In case the company has joint auditors, the reports should be signed by all the joint auditors in accordance with the principles enunciated in Standard on Auditing (SA) 299(Revised), “Joint Audit of Financial Statements”. The reports under paragraphs (A) and (B) of clauses (11)(I) and (11)(II) of Part A of Schedule VI to the ICDR Regulations should be made by the chartered accountant(s) who shall be named in the prospectus. According to paragraph A(i) clauses (11)(I) and clause (11)(II) of Part A of Schedule VI to the ICDR Regulations, the financial information specified in these clauses shall be certified by only those auditors who have subjected themselves to the peer review process of the Institute of Chartered Accountants of India (‘ICAI’/ ‘Institute’) and hold a valid certificate issued by the ‘Peer Review Board’ of the ICAI. In case where the financial statements were audited by an auditor who had not been subjected to peer review process of ICAI, all financial information specified in these clauses must be re-audited for one full financial year and the stub period, by the chartered accountants certifying them. The ICDR Regulations refer to “auditors” / “chartered accountants” as “accountants” in various sections. Accordingly, the word “accountants” mentioned in the Guidance Note should be read as “auditors” or “chartered accountants”, as applicable. In certain sections of the ICDR

Regulations, it has been mentioned that such reports/certificates are required to be issued by statutory auditors/auditors. It is hereby clarified that apart from these reports/certificates, any other report/certificate required by the ICDR Regulations may be issued by auditors or accountants, as the case may be. The word “chartered accountants” has been interchangeably used as “auditors” in the Guidance Note.

1.14 Further, in terms of Section 141 of the Act read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014, a chartered accountant who is indebted to the company for an amount exceeding five lac rupees, or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one lac rupees or holds any security of that company, is disqualified for appointment as its auditor. “Security” for this purpose means any instrument which carries voting rights. In addition, Section 141 of the Act provides requirements in relation to eligibility, qualifications and disqualifications of auditors which need to be considered as applicable.

1.15 From the above paragraph, it is clear that the intention of the Act is that even the ‘chartered accountant’ should not have incurred any disqualification mentioned in section 141 of the Act.

### **Fees for Issuing the Reports**

1.16 Section 26 of the Act and paragraphs (A) and (B) of clauses (11)(I) and (11)(II) of Part A of Schedule VI to the ICDR Regulations state that the report shall be made by the auditor(s) of the Company. An auditor appointed under Section 139 of the Act read with Rule 3 of the Companies (Audit and Auditors) Rules, 2014, at the annual general meeting holds office until the conclusion of the sixth annual general meeting. In terms of Section 142 of the Act, the remuneration of the auditor is fixed in general meeting of the company or in such manner as the company in a general meeting may determine. Normally, the shareholders at the general meeting authorise the Board of Directors to fix the fee of the auditor(s). The fee for issuance of the reports in the company prospectus is a part of the remuneration of

the statutory auditor in terms of Section 142 of the Act. It is, therefore, advisable for the members to ensure, before accepting the appointment for issuing the report in the prospectus, that the Board of Directors has requisite authority with them to fix the auditor's fee. The amount of fee for issuing the reports is a matter of agreement between the company and the reporting member and is determined on the basis of factors such as the quantum of work involved, extent of the reporting, auditor's/ chartered accountant's responsibility, etc.

### **Signing the Report**

1.17 Where the report is issued in a firm name, it should be signed by the member in his individual name, as partner/proprietor, as the case may be, for and on behalf of the firm, as in the case of other company audit reports, along with his membership number and the firm's registration number as required under Standard on Auditing (SA) 700 (Revised), "Forming An Opinion and Reporting on Financial Statements", issued by the ICAI.

### **Consent Letter**

1.18 Section 26(7) of the Act requires that the Registrar shall not register a prospectus unless the requirements of this section with respect to its registration are complied with and the prospectus is accompanied by the consent in writing of all the persons named in the prospectus. Accordingly, a chartered accountant whose report (including certificate) is included in the prospectus is to be treated as an expert (read with Section 2(38) of the Act). Further, according to Section 26 of the Act read with the ICDR Regulations, the expert should give his written consent to the issue of the prospectus. The prospectus should further state that he has not withdrawn his consent as aforesaid. An illustrative format of the consent letter has been given in **Appendix 1** to this guidance note.

### **Comfort Letter**

1.19 In certain circumstances, the issuer company may request the auditor(s) to provide a comfort letter on the financial



information of the company to the requesting parties (such as Lead managers and other managers etc.). The purpose of comfort letter is to assist Lead managers and other managers, etc., in performing a “due diligence review” process of the prospectus. The scope of comfort letter needs to be agreed with the underwriters, lead managers, etc. Comfort letters are not required under the ICDR Regulations and copies of the same are not required to be filed with SEBI or any other regulatory authorities. It may, however, be noted that issuance of comfort letters is in the nature of an assurance engagement and thus, the fees received on account of issuance of comfort letter would not be considered in the ceiling on fees from an individual client. A brief overview of the concept of comfort letters, has been provided in **Appendix 2** to this guidance note.

### **Liability for Misstatement in Prospectus**

1.20 As per Section 34 of the Act where a prospectus, issued, circulated or distributed under Chapter III of the Act, includes any statement which is untrue or misleading in form or context in which it is included or where any inclusion or omission of any matter is likely to mislead, every person who authorises the issue of such prospectus shall be criminally liable under Section 447 of the Act which states that any person who is found to be guilty of fraud, shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud. It is further provided that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years. However, if the person proves that such statement or omission was immaterial or that he had reasonable grounds to believe, and did up to the time of issue of the prospectus believe, that the statement was true or the inclusion or omission was necessary, nothing in Section 34 of the Act will apply. Further, Section 15HB of the Securities and Exchange Board of India Act, 1992, also provides that whoever fails to comply with any of the provisions of the aforementioned Act, the rules or the regulations made thereunder or directions

issued by SEBI thereunder, for which no separate penalty has been provided, shall be liable to a penalty which may extend to one crore rupees.

1.21 Every person who authorises the issue of the prospectus is, in terms of Section 35(1) of the Act, liable to pay compensation to every person who subscribes for securities on the faith of the prospectus, for any loss or damage that the latter may have sustained by reason of any untrue statement included therein. However, a chartered accountant giving his consent under Section 26 of the Act read with the ICDR Regulations shall be liable only in respect of an untrue statement, if any, made by him in his capacity as an expert. However he shall not be held liable under Section 35(1) if he proves that the prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent as mentioned in Section 35(2)(b).

1.22 The reporting auditor/ chartered accountant while carrying out such engagements, should also comply, to the extent practicable, with the principles enunciated in the Engagement and Quality Control Standards issued by the ICAI. Since such types of engagements are subject to peer review requirements of the ICAI, the auditor should properly document all the working papers necessary to provide evidence of the procedures performed and the basis of his conclusions therefrom as required under Standard on Auditing (SA) 230, "Audit Documentation" issued by the ICAI. The member would also need to ensure compliance with the requirements of the Code of Ethics issued by the ICAI.

The reporting auditor/chartered accountant should use the concepts of test checks and materiality to obtain reasonable assurance while carrying out such engagements to issue certificates/reports as required by the ICDR Regulations in accordance with the guidance provided in "Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)" and Standards on Auditing.

## **Reports and Certificates**

1.23 As per the ICDR Regulations, below is the list of

reports/certificates that may be required to be issued by the auditors. Applicable reports/ certificates should be issued considering the accounting standards (Ind AS or Indian GAAP, as the case may be) used for preparation of restated financial information. For sake of convenience, in this list, wherever chapters of ICDR Regulations have been referenced, the terms 'para' and 'sub-para' have been used instead of 'regulation' and 'sub-regulation' and 'clause' respectively.

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
Sub para 9(d) of para 25 of Part VI of chapter II	a certificate from a statutory auditor, before opening of the issue, certifying that promoters' contribution has been received in accordance with the ICDR Regulations, accompanying therewith the names and addresses of the promoters who have contributed to the promoters' contribution and the amount paid and credited to the issuer's bank account by each of them towards such contribution	Refer Appendix 6
Sub- para 1(b) of para 64 of Part II of chapter III	the issuer has, along with the notice for passing the resolution, sent to all holders of the convertible debt instruments, an auditors' certificate on the cash flow of the issuer and with comments on the liquidity position of the issuer	Refer Appendix 7
Sub- para (b) of para 108 of Part II of	the issuer has, along with the notice for passing the resolution, sent to all	Refer Appendix 7

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
chapter IV	holders of the convertible debt instruments, an auditors' certificate on the cash flow of the issuer and with comments on the liquidity position of the issuer	
Sub- para 2 of para 163 of Part III of chapter V	The issuer shall place a copy of the certificate of its statutory auditors before the general meeting of the shareholders considering the proposed preferential issue, certifying that the issue is being made in accordance with the requirements of the ICDR Regulations	Refer Appendix 8
Sub- para (5) of para 169 of Part VI of chapter V	The issuer shall submit a certificate from the statutory auditors to the stock exchanges where the equity shares of the issuer are listed stating that the issuer is in compliance of sub-regulation (4) and the relevant documents thereof are maintained by the issuer as on the date of certification	Refer Appendix 9
Sub- para 3(b) of para 229 of Part I of chapter IX	the financial statements are duly certified by auditors, who have subjected themselves to the peer review process of the ICAI and hold a valid certificate issued by the Peer Review Board of the	Refer guidance provided in paragraph 1.31 of this guidance note

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
	ICAI, stating that: (i) the accounts and the disclosures made are in accordance with the provisions of Schedule III of the Companies Act, 2013; (ii) the accounting standards prescribed under the Companies Act, 2013 have been followed; (iii) the financial statements present a true and fair view of the firm's accounts	
Clause (9)(A)(2)(b) of Part A of Schedule VI	If one of the objects of the issue is loan repayment: (a) details of loan proposed to be repaid such as name of the lender, brief terms and conditions and amount outstanding; (b) certificate from the statutory auditor certifying the utilization of loan for the purpose availed.	To be in line with the Illustration 3 of the Guidance Note on Reports or Certificates for Special Purposes (Revised 2016) issued by ICAI
Clause (9)(F)(1) of Part A of Schedule VI	Details of the sources of funds and the deployment of these funds on the project (where the issuer is raising capital for a project), up to a date not earlier than two months from the date of filing of the offer document, as certified by a statutory auditor of the issuer and the date of the certificate	To be in line with the Illustration 3 of the Guidance Note on Reports or Certificates for Special Purposes (Revised 2016) issued by ICAI

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
Clause (9)(F)(2) of Part A of Schedule VI	Where the promoters' contribution has been brought prior to the public issue, which is utilised towards means of finance for the stated objects and has already been deployed by the issuer, a cash flow statement from the statutory auditor, disclosing the use of such funds received as promoters' contribution.	Refer Appendix 10
Clause (11)(I)(A)(i) of Part A of Schedule VI	Consolidated Financial Statements (CFS) prepared in accordance with Ind AS for three years and the stub period (if applicable) should be audited and certified by the statutory auditor(s) who holds a valid certificate issued by the Peer Review Board of the ICAI.	Refer Appendix 4
Clause (11)(II)(A)(i) of Part A of Schedule VI	Consolidated Financial Statements (CFS) prepared in accordance with Indian GAAP for three years and stub period (if applicable) should be audited and certified by the statutory auditor(s) who holds a valid certificate issued by the Peer Review Board of the ICAI.	Refer Appendix 4
Clause (11)(I)(A)(i)(d) of Part A of Schedule VI	The auditor shall issue an examination report on the restated and audited financial information in	Refer Appendix 4

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
	accordance with the Guidance Note issued by the ICAI from time to time.	
Clause (11)(II)(A)(i)(d) of Part A of Schedule VI	The auditor shall issue an examination report on the restated and audited financial information in accordance with the Guidance Note issued by the ICAI from time to time	Refer Appendix 4
Clause (11)(I)(B)(iii) of Part A of Schedule VI	The Issuer shall provide Proforma financial statements, as certified by the statutory auditor, of all the subsidiaries or businesses material to the consolidated financial statements where the issuer or its subsidiaries have made an acquisition or divestment including deemed disposal after the latest period for which financial information is disclosed in the offer document but before the date of filing of the offer document.	Refer format provided in SAE 3420 Assurance Engagement to Report on the Compliance of Pro Forma Financial Information Included in a Prospectus.
Clause (11)(II)(B)(iii) of Part A of Schedule VI	The Issuer shall provide Proforma financial statements, as certified by the statutory auditor, of all the subsidiaries or businesses material to the consolidated financial statements where the issuer or its subsidiaries have made an acquisition or divestment including	Refer format provided in SAE 3420 Assurance Engagement to Report on the Compliance of Pro Forma Financial Information Included in a Prospectus.

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
	deemed disposal after the latest period for which financial information is disclosed in the offer document but before the date of filing of the offer document.	
Clause (11)(I)(B)(iii) of Part A of Schedule VI	Further, in case of non-material acquisitions/ divestments disclosures in relation to the fact of the acquisition/ divestment, consideration paid/received and mode of financing shall be certified by the statutory auditor of the issuer company.	Refer Appendix 11
Clause (11)(II)(B)(iii) of Part A of Schedule VI	Further, in case of non-material acquisitions/ divestments disclosures in relation to the fact of the acquisition/divestment, consideration paid/received and mode of financing shall be certified by the statutory auditor of the issuer company.	Refer Appendix 11
Clause (11)(III)(iii) of Part A of Schedule VI	A report by the auditors of the issuer on a limited review of the profit or loss and assets and liabilities (indicating changes in accounting policies, if any), as at a date not earlier than six months prior to the date of the opening of the issue, where audited accounts as at such date	Refer Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".



<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
	are not available.	
Clause (15)(B) (26)(b)(i) of Part A of schedule VI	In case of an issue of convertible debt instruments, the issuer shall also give an additional undertaking that it shall forward the details of utilisation of the funds raised through the convertible debt instruments duly certified by the statutory auditors of the issuer, to the debenture trustees at the end of each half-year.	To be in line with the Illustration 3 of the Guidance Note on Reports or Certificates for Special Purposes (Revised 2016) issued by ICAI
Clause (5)(XIX)(g)(1) of Part B of schedule VI	In case of an issue of convertible debt instruments, the issuer shall also give an additional undertakings that it shall forward the details of utilisation of the funds raised through the convertible debt instruments duly certified by the statutory auditors of the issuer, to the debenture trustees at the end of each half-year.	To be in line with the Illustration 3 of the Guidance Note on Reports or Certificates for Special Purposes (Revised 2016) issued by ICAI
Clause (15)(2)(d) of Part A of Schedule VIII	Where the law of the home country requires annual statutory audit of the accounts of the issuing company, a report of the statutory auditor on the audited financial	Reports issued on the annual statutory financial statements.

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
	statements of the issuing company for each of the three financial years immediately preceding the date of the prospectus including the profits or losses, assets, liabilities and cash-flow statement of the issuing company at the last date to which the accounts of the issuing company were made in the specified form.	

In addition to above, as per the ICDR Regulations, below is the list of reports/certificates that may be required to be issued by the accountant:

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
Sub- para 9(d) of para 123 of Part VI of chapter IV	a certificate from a Chartered Accountant, before opening of the issue, certifying that promoters' contribution has been received in accordance with the ICDR Regulations, accompanying therewith the names and addresses of the promoters who have contributed to the promoters' contribution and the amount paid and credited to the bank account of the issuer by each of them towards such contribution	To be in line with Appendix 6

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
<p>Clause (5)(VIII)(B)(4) of Part B of Schedule VI</p>	<p>If any part of the proceeds of the issue is to be applied directly or indirectly:</p> <p>(A) in the purchase of any business; or</p> <p>(B) in the purchase of an interest in any business and by reason of that purchase, or anything to be done in consequence thereof, or in connection therewith; the issuer will become entitled to an interest in respect to either the capital or profits and losses or both, in such business exceeding fifty per cent. thereof;</p> <p>a report made by accountants (who shall be named in the letter of offer) upon:</p> <p>(i) the profits or losses of the business of each of the five financial years immediately preceding the issue of the letter of offer; and</p> <p>(ii) the assets and liabilities of the business at the last date to which the accounts of the business were made, being a date not more than six months before the date of the issue of the letter of offer.</p>	<p>Refer format provided in Standard on Auditing (SA) 800 “Special Considerations— Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” and Guidance Note on Combined and Carve-Out Financial Statements, as the case may be</p>

<b>ICDR Regulation reference</b>	<b>Requirements</b>	<b>Certificate/ Report format</b>
Clause (5)(VIII)(B)(5)(H)(1) of Part B of Schedule VI	Details of the sources of funds and the deployment of these funds on the project (where the issuer is raising capital for a project), up to a date not earlier than two months from the date of filing the letter of offer with the designated stock exchange, as certified by a Chartered Accountant, along with the name of the chartered accountant and the date of the certificate.	To be in line with the Illustration 3 of the Guidance Note on Reports or Certificates for Special Purposes (Revised 2016) issued by ICAI
Clause (15)(2)(c) of Part A of Schedule VIII	In case the financial results are prepared as per IFRS or US GAAP, the financial results shall be audited by a professional accountant or certified public accountant or equivalent (by whatever name called in the home country in accordance with the International Standards on Auditing (ISA)).	Refer format provided in Standard on Auditing (SA) 800 “Special Considerations— Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” or similar International Standards on Auditing
Clause 15(2)(h) of Part A of Schedule VIII	Where the law of the home country does not require annual statutory audit of the accounts of the issuing company, a report, prepared in	Refer format provided in Standard on Auditing (SA) 800 “Special Considerations—

ICDR Regulation reference	Requirements	Certificate/ Report format
	<p>accordance with Indian accounting standards certified by Chartered Accountant in practice within the terms and meaning of the Chartered Accountants Act, 1949 on the financial statements/ results of the issuing company for each of the three financial years immediately preceding the date of prospectus including the profits or losses, assets, liabilities and cash-flow statement of the issuing company at the last date to which the accounts of the issuing company were made in the specified form</p>	<p>Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks”</p>
<p>Clause (20)(b) of Part A of Schedule VIII</p>	<p>If the subsidiaries and associates of the issuing company are not required to prepare audited statements as per the laws prevailing in those countries (home countries of the subsidiaries/ associates), the same may be certified as true and correct by the Board of Directors and the management of such companies, provided a certificate from a certified public accountant or</p>	<p>Refer format provided in Standard on Auditing (SA) 800 “Special Considerations— Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” or similar International Standards on Auditing</p>

ICDR Regulation reference	Requirements	Certificate/ Report format
	equivalent practicing in the concerned country is submitted to the Board.	

In certain cases, other regulators (e.g. securities market participants, such as National Stock Exchange of India Limited and BSE Limited regulated by SEBI) may require certain reports/certificates. In such cases, auditors or accountants should follow the guidance provided in paragraphs 1.24 and 1.25 of this guidance note.

1.24 Apart from above, bankers may request auditors to issue certificates in respect of Non-GAAP measures or other financial information (items which are not defined under Accounting Standards as notified under the Companies (Accounting Standards) Rules, 2006 (as amended) or Indian Accounting Standards as notified under the Companies (Indian Accounting Standards) Rules, 2015 (as amended), as applicable. However, auditors may decide based on professional judgment whether certificate can be issued in respect of Non-GAAP measures or other financial information (e.g., net worth, operating profit, net asset value, accounting ratios, etc.) as requested by the bankers. Auditors may consider performing agreed upon procedures as agreed upon with bankers as per Standard on Related Services 4400, “Engagements to Perform Agreed-upon Procedures Regarding Financial Information” for such Non-GAAP measures. Auditors should submit such agreed-upon reports to the company and address to the board of directors of the company. Unless required by ICDR Regulations or other regulators, auditors may not issue any certificate in relation to account balances, classes of transactions and disclosures of the financial statements for which they have already issued an audit opinion or review report for the purpose of Bankers due diligence obligation towards SEBI. Auditors may consider providing circle up comfort in relation to such items if requested by Bankers or consider performing agreed upon procedures as agreed upon with bankers as per Standard on Related Services 4400, “Engagements to Perform Agreed-upon

Procedures Regarding Financial Information” and submit such agreed-upon reports to the company and address to the board of directors of the company.

1.25 If auditors decide to issue certificates on Non-GAAP measures or other financial information or in relation to account balances, classes of transactions and disclosures of the financial statements for which they have already issued an audit opinion or review report, then issuance of such certificates should be in compliance with the ‘Guidance Note on Reports or Certificates for Special Purposes (Revised 2016)’ issued by the ICAI and to be addressed to the board of directors of the company.

1.26 It is the company’s responsibility to ensure that all the information included in the prospectus is accurate and factually correct. The auditor’s should read the information (to the extent it relates to the information obtained during audit or review for reporting) and ensure that such information is properly included.

1.27 The auditor should read the other information in the prospectus because the credibility of the audited financial statements may be undermined by material inconsistencies between the audited financial statements and other information in the prospectus.

## **Rights and Powers**

1.28 The next point for consideration is the rights and powers which a chartered accountant enjoys for performing his onerous duties in such engagement. Refer paragraph 1.23 of this guidance note for reports/certificates to be issued by auditor or chartered accountant.

1.29 In cases falling under paragraphs (A) and (B) of clauses (11)(I) and (11)(II) of Part A of schedule VI to ICDR Regulations, the report is to be given by the auditors, who, in turn, are empowered, by Section 143(1) of the Act, to have a right of access at all times to the books and accounts of the company and to require from the officers of the company, necessary information and explanations. Thus, they are vested with sufficient powers to discharge their duties.

## **Person to whom the Report should be addressed**

1.30 There are no provisions either in the Act or in the ICDR Regulations as to whom the report should be addressed. The usual practice is to address the report to the board of directors of the company.

## **Financial Information of the Issuer Company**

1.31 Clauses (11)(I) and (11)(II) of Part A of schedule VI to the ICDR Regulations require the financial information section of the offer document to be divided into two parts, viz., restated financial information and other financial information. As required under the ICDR Regulations, auditors are required to issue examination report on the first part i.e. restated financial information. It is clarified that other financial information required under ICDR Regulation shall not form part of restated financial information.

Paragraph (A)(i) of clauses (11)(I) and (11)(II) of Part A of schedule VI to the ICDR Regulations requires that restated consolidated financial information is required to be prepared in accordance with Schedule III to the Companies Act, 2013 (as amended) for a period of three years and the stub period (if applicable). It also states that the above mentioned restated consolidated financial information should be audited and certified by the statutory auditor(s) who holds a valid certificate issued by the Peer Review Board of the ICAI. If the issuer company does not have a subsidiary, associate or joint venture, in any financial year, the issuer company shall present separate restated financial information for that financial year by following the applicable requirements of restated consolidated financial information. The issuer company will be required to prepare special purpose consolidated financial statements in accordance with Ind AS 34 'Interim Financial Reporting' or AS 25 'Interim Financial Reporting', as applicable, specified under section 133 of the Act and other accounting principles generally accepted in India for the stub period, if financial statements for latest full financial year included in the offer document are older than six months from the date of filing of the draft offer document/offer document. Such financial statements for stub period should include all those



disclosures required to be presented for annual financial statements to the extent applicable. Refer paragraph 2.4 for more details on the preparation of financial statements for the stub period.

Further, the ICDR Regulations clarify that the issuer company is exempted from presenting comparatives for the stub period. However, the issuer company has an option to present comparatives for the stub period. Auditor should hold a valid peer review certificate issued by the Peer Review Board of the ICAI as on the date of signing the restated financial information. If a new auditor holding a valid peer review certificate is appointed for the stub period, and the predecessor auditor did not hold a valid peer review certificate at the date of signing the last annual financial statements, then the last annual financial statement would need to be re-audited by the new auditor in accordance with applicable standards. The report on the special purpose consolidated financial statements for the stub period and for the period re-audited shall be issued in accordance with SA 800 “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks”, issued by the ICAI, and hence, may exclude report on internal financial controls over financial reporting, Companies (Auditor’s Report) Order, 2016 and other pure regulatory matters. However, It is clarified in the ICDR Regulations that where auditor earlier held a valid peer review certificate, but did not hold a valid certificate at the date of signing the restated financial information, the earlier certificate shall be considered valid provided there is no express refusal by the peer review board to renew the certificate and the process to renew the peer review certificate was initiated by the auditor.

1.32 In general, the requirement is to give the figures of profits and losses for the three financial years preceding the issue of the prospectus. If the entity has been carrying on business for less than three financial years, the figures are to be given for the actual period of its existence. Where the three financial years immediately preceding the issue of the prospectus cover a period less than three years, i.e., 36 months (this can happen if the company has changed its accounting period), the report should

cover as many financial years as may be necessary, so that the aggregate period covered is not less than three years, i.e., 36 months.

1.33 To illustrate, suppose a company's accounting year ends on March 31, 2018 and it issues a prospectus when its accounts for the year ended March 2018 have been made up. In such case, no accounts for the part of the period are required to be given if the prospectus is issued before September 30, 2018. The auditor is required to give his report on simple three years, equivalent to thirty six months, irrespective of number of financial years, in case company changes its accounting period. To illustrate, let us assume that the accounting periods of the company are as follows:

I	April 2016- March 2017	:	12 months
II	June 2015- March 2016	:	10 months
III	October 2014- May 2015	:	8 months
IV	April 2014- September 2014	:	6 months

1.34 In the present case, immediately preceding three financial years end on with the period starting April 2014, the report should take into account another accounting year to complete period equivalent to 36 months. In this case, another accounting year consists of 6 months only. However, even if it consists of more than six months say 12 months, say ending on October 2013 (exceeding period of 36 months), the auditor will have to report for the entire accounting period i.e., upto October, 2013, and not restrict to the fraction of the year.

1.35 However, if the financial statements for the year ended March 2018 have not been made up, then, if the prospectus is issued, say on June 30, 2018, the company would be required to give a statement of accounts made up to at least December 31, 2017 and if the prospectus is issued on or after July 1, 2018, say on July 31, a statement of accounts made up to, at least, January 31, 2018 is required to be given.

1.36 Paragraph (B)(ii) of clauses (11)(I) and (11)(II) of Part A of Schedule VI to the ICDR Regulations also requires that in case

the proceeds, fully or partly, directly or indirectly, are to be used for acquisition of one or more material businesses or entities, the audited statements of balance sheets, profit and loss and cash flow for the latest three financial years and stub period (if available) prepared as per the framework applicable to the business or subsidiary proposed to be acquired shall be included in the draft offer document or offer document. As per the ICDR Regulations, business acquisition or subsidiary is considered material if it will make 20% or more contribution in aggregate to either turnover, or net worth or profit before tax in the latest annual consolidated financial statements of the issuer company. As clarified by the ICDR Regulations, the issuer company may voluntarily choose to provide financial statements of above mentioned acquisitions even if they are below the materiality threshold. As mentioned in the ICDR Regulations, such 20% or more contribution threshold should be considered in aggregate if there are multiple acquisitions. In such case, the issuer company should provide the audited statements of balance sheets, profit and loss and cash flow for the latest three financial years and stub period (if available) as mentioned above, for each acquisition separately.

The definition of “business” provided in Ind AS 103 “Business Combinations” should be used to determine business for complying with above mentioned requirements irrespective whether the issuer company presents restated financial information under Ind AS or Indian GAAP. Further to clarify, above requirement for preparation of proforma financial statements should not be applicable in case of acquisition of shareholdings in joint ventures or associates.

In cases where the general purpose financial statements of the businesses/entities to be acquired/divested are not available, combined/carved-out financial statements for that business/entity shall be prepared in accordance with “Guidance Note on Combined and Carve-Out Financial Statements” issued by the ICAI.

These combined/carved-out financial statements shall be audited by the auditor of the seller in accordance with applicable framework.

1.37 Further, in terms of the requirements of paragraph B(iii) of clauses (11)(I) and (11)(II) of Part A of schedule VI to the ICDR Regulations, the issuer company shall provide proforma financial statements, as certified by the statutory auditor, of all the subsidiaries or businesses material to the consolidated financial statements, where the issuer company or its subsidiaries have made an acquisition or divestment including deemed disposal after the latest period for which financial information is disclosed in the offer document but before the date of filing of the offer document. Deemed disposal may be considered as losing control (as defined under Ind AS 103 “Business Combinations”). For this purpose, the acquisition/divestment would be considered as material if acquired/ divested business or subsidiary in aggregate contributes 20% or more to turnover, net worth or profit before tax in the latest annual consolidated financial statements of the issuer. The Proforma financial statements shall be prepared for the period covering last completed financial year and the stub period (if any). The Proforma financial statements shall be prepared in accordance with “Guide to Reporting on Proforma Financial Statements” issued by ICAI and statutory auditor will report on it. The issuer company may voluntarily choose to provide proforma financial statements of acquisitions even when they are below the above materiality threshold. In case of one or more acquisitions or divestments, one combined set of Proforma financial statements should be presented. If the issuer company chooses to provide proforma financial information voluntarily, then such proforma financial information is not required to be certified by the statutory auditors. Where the businesses acquired/ divested does not represent a separate entity, general purpose financial statement may not be available for such business. In such cases, combined/ carved-out financial statements for such businesses shall be prepared in accordance with “Guidance Note on Combined and Carve-Out Financial Statements” issued by the ICAI.

Further, in case of non-material acquisitions/divestments disclosures in relation to the fact of the acquisition/divestment, consideration paid/received and mode of financing shall be certified by the statutory auditor of the issuer company.

In case of Carved-Out financial statements, generally the auditors of the acquiree entity should issue such report on the acquiree's financial information. The auditors of the acquirer entity should place reliance on the report issued by auditors of the acquiree entity. Reporting mentioned in paragraphs 1.36 and 1.37 can be done with the guidance as mentioned under SA 600 "Using the Work of Another Auditor" and in accordance with Guidance Note on Audit of Consolidated Financial Statements (Revised 2016) issued by ICAI. In case, the combined/carved-out financial statements have been prepared in accordance with generally accepted accounting principles other than Ind AS or Indian GAAP, the auditor of the issuer company or accountants may perform additional procedures to conform the generally accepted accounting principles as per Ind AS or Indian GAAP, as applicable.

### **Accounting and Auditing Aspects (read with Appendix 5 and Appendix 5.1)**

2.1 As stated earlier in preceding paragraphs, the statutory auditors are required to report on the restated consolidated financial information for the preceding three years, after making such restatements as explained in paragraph 2.2 below.

2.2 The Statement of Assets and Liabilities and Statement of Profit and Loss or any other financial information needs to be restated in the following manner.

- (a) Adjustments for all incorrect accounting practices or failure to make provisions or other adjustments, which resulted in qualified opinion, adverse opinion or disclaimer of opinion. It is relevant to note here that in case of prospectus, the statutory auditors reports on the Statement of Assets and Liabilities and the Statement of Profit and Loss extracted from the audited financial statements and approved by the board of directors to which further adjustments may be required. Accordingly, it is expected that all quantifiable adjustments are carried out and only non-quantifiable qualifications remain unadjusted. If the qualification cannot be quantified or estimated, appropriate disclosure should be made in the

notes to the restated financial information, explaining why the qualification cannot be quantified or estimated. Any non-quantifiable qualification should, however, be dealt with in the auditor's report appropriately in accordance with the provisions of SA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report".

- (b) As per ICDR Regulations, significant errors, non-provisions, regrouping, other adjustments, if any, relating to previous years should be adjusted in corresponding period while arriving at the profits or losses for the years to which they relate. The correction of errors, should be disclosed in accordance with the requirements of Ind AS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" or AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", as applicable. It has been clarified that changes in estimates, if any, need not be restated, as they are events of that corresponding year. Further it is to be noted if the restated financial information is prepared in accordance with the "Indian GAAP", the ICDR Regulations require that significant errors, non-provisions, regrouping, other adjustments, if any, should be reflected in the corresponding period. Other adjustments may include items like merger or similar transactions. In such cases, the issuer company should account for such transactions in the restated financial information as accounted in the annual statutory financial statements.
- (c) As required under the ICDR Regulations, the restated financial information (including for the stub period if applicable) should be restated to ensure consistency of presentation, disclosures and the accounting policies for all the periods presented in line with that of the latest financial year/stub period presented. Where there has been a change in accounting policy, the profits or losses of the earlier years (forming part of restated financial information) and of the year in which the change in accounting policy has taken place should be recomputed to reflect the profits or losses of those years that would have been if a uniform accounting policy was followed in each of these years. It is likely that the companies

would have changed accounting policies to comply with several of the Accounting Standards or amendments that have become mandatory in the recent past. The standards or amendments become applicable from a particular date specified in the standards or amendments and some standards or amendments have transitional provisions as well. In this regard, the date when the standards or amendments became applicable would not be relevant since same would tantamount to change in accounting policy and this would have to be applied throughout the period covered for the preparation of restated financial information (e.g. in case where issuer company has adopted Ind AS 115 "Revenue from Contracts with Customers" with modified approach). However, in certain cases like hedge accounting for which retrospective application is not allowed, the financial information should not be restated retrospectively if hedge accounting is followed from a specific date.

Further, it should be noted that as mentioned above, assume an issuer company has applied modified approach for adopting the new accounting standards or amendments from a particular date (say April 1, 2018) for the purpose of preparation of annual statutory financial statements for the year ending March 31, 2019 and it applies the requirements of new accounting standards or amendments retrospectively for the purpose of preparation of restated financial information for the years ended March 31, 2018 and 2017 (assuming these two years are presented as restated financial information with the latest financial statements for the year ending March 31, 2019). In this situation, there may be a possibility where restated equity balance as at the balance sheet date immediately prior to the date of adoption (i.e. March 31, 2018) of new accounting standards or amendments compared to the opening equity balance (as at April 1, 2018) of the annual statutory financial statements may be different due to applying transition provisions at different dates. In such case, the closing equity balance as at March 31, 2018 of the restated financial information should not be carried forward to opening equity balance as at transition date

(i.e. April 1, 2018) used for adopting modified approach for annual statutory financial statement reporting purpose. However, issuer company should provide appropriate disclosures in the offer document to explain the differences between the two.

It should be noted that, if for any of these years, the change is not quantifiable, appropriate disclosure should be made in the notes to the restated financial information, explaining why the impact due to change in accounting policies cannot be quantified or estimated. Any non-quantifiable impact due to change in accounting policies should, however, be dealt with in the auditor's report appropriately in accordance with the provisions of SA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report". The changes in accounting policy should be disclosed in accordance with the requirements of Ind AS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" or AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", as applicable.

Similarly, if there is any change in disclosure as per the requirements of any Ind AS or Indian GAAP, as applicable, such disclosures should be made for all the periods presented in the restated financial information to ensure consistency.

- (d) The ICDR Regulations require a reconciliation explaining the differences between:
  - i. the total equity as per the audited consolidated financial statements and total equity as per the restated consolidated financial information presented in a columnar format; and
  - ii. profit/(loss) after tax or total comprehensive income for the year as per audited consolidated financial statements and profit/(loss) after tax or total comprehensive income as per the restated consolidated financial information presented in a columnar format.
- (e) Restated consolidated financial information should also disclose list of related parties and all related party transactions of the consolidated entities (whether eliminated



on consolidated or not), which are required to be disclosed as per Ind AS 24 / AS 18 “Related Party Disclosures” and/or covered under section 188(2) of the Companies Act, 2013 (as amended), as disclosed in the separate financial statements of the consolidated entities. Issuer company should disclose the list of related parties and all related party transactions covered under both Ind AS 24 and section 188 (2) of the Act. It is further clarified in the ICDR Regulations that all funding arrangements including inter-se guarantees among the entities consolidated, except contribution to equity share capital, shall be disclosed. The important terms and conditions of the funding arrangement and fund transfer restrictions, if any, should be disclosed in the restated financial information. Generally, in consolidated financial statements, transactions which are eliminated at the time of consolidation are not disclosed in the related party disclosures. However, as per the ICDR Regulations, all such eliminated transactions are also required to be included as additional disclosure in the restated financial information.

Further, the term ‘funding arrangements’ is not defined in the ICDR Regulations or the Act. The issuer company should apply judgement in identifying the transactions that will fall within the term “Funding Arrangements” and to present those transactions which are, in substance, in the nature of Funding Arrangements such as borrowings, debentures, working capital funding, etc. which form part of financing activities in cash flow statement. The issuer company should also disclose details of undrawn facilities, if any.

- (f) The following disclosures shall be made in the restated financial information (where prepared in accordance with Indian GAAP) on the basis of amounts recognised and measured as per Indian GAAP and in accordance with the Guidance Note of the ICAI issued from time to time:
  - i. Disclosures as per AS 13 “Accounting for Investments”.
  - ii. Disclosures as per AS 14 “Accounting for Amalgamations”.

2.3 In addition to above, paras (A), (B) and (D) of clause (11)(I) and (11)(II) of Part A of schedule VI to the ICDR Regulations requires the following other information also to be disclosed by the issuer company:

- (i) The separate audited financial statements for past three full financial years immediately preceding the date of filing of offer document of the issuer company and all its material subsidiaries should be made available on issuer's website in accordance with the materiality thresholds in (b) below. Alternatively, relevant link should be provided to the financial statements of subsidiaries on the issuer's website. The link to the issuer's separate financial statements should be specified in the offer document. For this purpose, subsidiaries shall be identified based on definitions in the Act. The above requirements shall apply for the periods of existence of the parent-subsidiary relationship.
  - a. A certified English translated copy of the financial statements should be made available on the company's website for every entity consolidated whose financial statements are not presented in English.
  - b. The financial statements reported in any currency other than Indian Rupee shall be translated into Indian Rupee in accordance with Ind AS 21 "The Effects of Changes in Foreign Exchange Rates". (In para A(ii)(b) of clause (11)(II) of Schedule VI, relevant for Indian GAAP, reference to Ind AS 21 should read as reference to AS 11, "The Effects of Changes in Foreign Exchange Rates"). The financial statements of all foreign consolidated entities should be audited, unless they are not material to the Consolidated Financial Statements and the local regulation does not mandate audit. For this purpose, a consolidated entity shall be considered 'material' if it contributes 10% or more to the turnover or net-worth or profits before tax in the annual consolidated financial statements of the respective year. Additionally, total unaudited information included in the Consolidated Financial Statements shall not exceed 20% of the

turnover or net-worth or profits before tax of the Consolidated Financial Statements of the respective year. For the purpose of this clause, definition of turnover, net-worth and profits before tax should be as per the Act.

- c. The financial statements of foreign entities consolidated may be audited as per the requirements of local regulation applicable in the respective jurisdiction. However, in cases where the local regulation does not mandate audit, financial statements should be audited as per the auditing standards/ requirements applicable in India.
  - d. The financial statements of foreign subsidiaries may be acceptable in a GAAP other than Ind AS, if local laws require application of local GAAP.
- (ii) The accounting and other ratios for each of the accounting periods, for which the financial information is presented. These ratios, as explained below are computed on the basis of restated financial information. Some of the items are Non-GAAP measures and should be defined appropriately in the offer document and reconciled with the line items used in the restated financial information.
- a. *Earnings Per Share (Basic and Diluted)*: These ratios are calculated as per the provisions of Ind AS 33 “Earnings Per Share” or Accounting Standard (AS) 20, “Earnings Per Share”, as applicable.
  - b. *Return on Net Worth*: Section 2(57) of the Act defines net worth as the aggregate value of the paid-up share capital and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation. Return can be

considered as profit after tax line item. Both return and net worth should be computed before giving impact for non-controlling interest.

- c. *Net Asset Value Per Share*: Net asset means total assets minus total liabilities. Generally, this ratio is calculated excluding revaluation reserves. Further, this ratio should be presented for both existing outstanding number of shares and considering dilutive number of shares as denominators.
- (iii) *EBIDTA*: EBITDA stands for earnings before interest, taxes, depreciation and amortization. Issuer company should ensure that the term 'EBITDA' is appropriately defined in the offer document and reconciled with the line items used in the restated financial information.
- (iv) A Capitalisation Statement showing total borrowings, total equity, total capital and the non-current borrowings/ total equity ratio before and after the issue is made shall be incorporated. It shall be prepared on the basis of the restated financial information for the latest financial year or when applicable at the end of the stub period.

In case of any change in the share capital since the date as of which the financial information has been disclosed in the offer document, a note explaining the nature of the change shall be given.

As given in the ICDR Regulations, an illustrative format of the capitalisation statement is given in **Appendix 3** to this guidance note.

- (v) As the figures to be given in the financial information are to be given for three financial years (minimum of 36 months), therefore, there may be accounts which have not been audited by the auditor giving report at the time of issue of prospectus. Accordingly, in such cases, reports from the auditors of the respective periods covered in the period of 36 months will have to be taken and the same would be relied upon by the auditor giving the final report. The audit procedures to be followed in such case should be in line with

the procedures stated in the Standard on SA 600, “Using the Work of Another Auditor”. The fact that the financial statements audited by other auditors have been relied upon for reporting in the prospectus needs to be disclosed in the report given by the auditor.

- (vi) Similar disclosure as in (v) would also be required in case of branch accounts and accounts of project operations, associate companies, joint ventures, partnership firms and subsidiary companies which have been incorporated in the financial information or which have been stated in the report set out in the prospectus and which have been audited by the auditors other than those issuing the report in the prospectus.
- (vii) Report given by the accountant would also disclose reliance, if any, on the accounts audited by other auditor(s) as the accountant may not be the auditor of the company or the business/body corporate being purchased/acquired.

2.4 As explained in paragraph 1.31, it may become necessary to prepare accounts for part of the current accounting period. This need should be identified as early as possible so that there is adequate time to organise for the preparation of accounts for such broken/stub period and for their audit. In preparation of accounts for the broken/stub period, the principles laid down in AS 25, “Interim Financial Reporting” or Ind AS 34 “Interim Financial Reporting”, as applicable, should be applied. AS 25 or Ind AS 34 requires that an enterprise should apply the same accounting policies in its interim financial statements as are applied in its annual financial statements, except for accounting policy changes made after the date of most recent audited financial statements that are to be reflected in the next annual financial statements. The preparation of interim financial statements should not affect the measurement of its annual results. Revenues that are received seasonally or occasionally within a financial year should not be anticipated or deferred as of an interim date if anticipation or deferral would not be appropriate at the end of the enterprise’s financial year. Similarly, costs that are incurred unevenly during an enterprise’s financial year should be anticipated or deferred for the broken/stub period if, and only if, it is also appropriate to

anticipate or defer that type of cost at the end of the financial year. If it is identified during the preparation of the interim financial statement that there is a change in the accounting policy or that there is an error in the past, the same needs to be adjusted not only in the Statement of Profit or Loss or Statement of Assets and Liabilities or other financial information for the broken/stub period but also for the years being reported upon by the auditor/ accountant in line with the principles as set out in paragraph 2.2 above.

2.5 Refer **Appendix 5** to this guidance note also for guidance on restated financial information. An illustrative format of the report of auditors on restated financial information in company prospectuses is provided in **Appendix 4** to this guidance note.

2.6 In the interest of both issuer company and auditor, the auditor/reporting accountant should send an engagement letter, preferably before the commencement of the engagement, to help avoid any misunderstandings with respect to the engagement. In this regard, the auditor/ reporting accountant should conform to the requirements of SA 210, "Agreeing the Terms of Audit Engagements" issued by the ICAI. An illustrative format of the Engagement Letter is provided in **Appendix 12** to this guidance note.

2.7 The auditor should obtain evidence that management acknowledges its responsibility for the appropriate preparation and presentation of restated financial information and that management has approved the restated financial information including the restatement as detailed in paragraph 2.2 above. In this regard, the restated financial information should be adopted by the board of directors. The auditor should also obtain other representations from management, as considered appropriate in terms of Standard on Auditing (SA) 580, "Written Representations" issued by the ICAI. The auditor (whose reports are included) would, in due course, be required to give his consent to the inclusion of his report in the prospectus in the form and context in which it is so included. For this purpose, he should study the prospectus carefully and also take note of:

- (a) the manner in which the directors, in their estimate of current and future profits, would deal with figures shown in the accountant's report and with matters to which attention has been drawn in that report;
- (b) the manner in which the directors have dealt with any special circumstances, where the auditor has decided that no reference thereto is necessary in his report.

He should also obtain the necessary management certificates and representations as stated above and only after satisfying himself of the above, he should provide the company with the consent letter. An illustrative format of the Management Representation Letter is provided in **Appendix 13** to this guidance note.

2.8 If, after giving his report but before the issue of the prospectus, or after the issue of the prospectus and before allotment thereunder, the reporting accountant/auditor becomes aware of any important information which significantly affects the report given by him, he would need to consider whether he should withdraw his consent by writing to the company, the Registrar of Companies, the stock exchanges, and through suitable press publicity. The subject is complex and it will be prudent for the members to seek legal advice in case such a situation arises.

## Appendix 1

### Illustrative Format of the Consent Letter

(Refer paragraph 1.18)

[Date]

The Board of Directors

[Name and Address of the Company]

Dear Sirs / Madam,

**Proposed Offering of securities in India by [name of the issuer] (the "Issuer").**

We hereby consent to use in this [Draft Red Herring Prospectus/ the Red Herring Prospectus/ the Prospectus]<sup>1</sup> of [name of the issuer] (the "Issuer") prepared under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations") to be submitted/filed with [the Securities and Exchange Board of India (SEBI)/ and the Registrar of Companies (ROC)/ the Stock Exchanges] our reports dated [date] relating to (i.) [restated financial information, and (ii.)Statement of Tax Benefits, and *specify others*], which appear in such [Draft Red Herring Prospectus/ the Red Herring Prospectus/ the Prospectus].

We also consent to the references to us as ["Statutory Auditors"] or ["Reporting Accountant"]<sup>\*</sup> under the headings "[Definitions and Abbreviations]", "[General Information]", and "[other sections]" in such [Draft Red Herring Prospectus/ the Red Herring Prospectus/ the Prospectus] and references to us as required under Section 26 of the Companies Act, 2013 ( the "Act") read with the Regulations and as "Experts" as defined under Section 2(38) of the Act to the extent and in our capacity

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<sup>1</sup>Separate consent letter should be issued at each stage.

<sup>\*</sup> Chartered Accountants providing consents separately as "Auditors" and as "Reporting Accountant" should provide consents by issuing two separate consent letters.



as an auditor and in respect of our reports issued by us included in the DRHP of the Issuer. The following information in relation to us may be disclosed:

Statutory Auditors' Name:

Address:

Telephone Number:

Firm Registration Number:

E-mail:

Peer Review Certificate Number:

The above consents are subject to the condition that we do not accept any responsibility for any reports or matters (including information sent to Merchant Bankers) or letters included in the [Draft Red Herring Prospectus/ the Red Herring Prospectus/ the Prospectus]. Neither we nor our affiliates shall be liable to any investor or merchant bankers or any other third party in respect of the proposed offering. Further, the Company agrees to indemnify us and our affiliates and hold harmless from all third party (including investors and merchant bankers) claims, damages, liabilities and costs arising consequent to our giving consent.

Nothing in the preceding paragraph shall be construed to (i) limit our responsibility for or liability in respect of, the reports we have issued, covered by our consent above and are included in the [Draft Red Herring Prospectus/ the Red Herring Prospectus/ the Prospectus] or (ii) limit our liability to any person which cannot be lawfully limited or excluded under applicable laws or regulations or guidelines issued by applicable regulatory authorities.

We also authorise you to deliver a copy of this letter of consent pursuant to the provisions of the Companies Act, 2013 to SEBI, ROC, the stock exchanges or any other regulatory authorities as required by law.

For ABC and Co.  
Chartered Accountants  
Firm's Registration Number  
Signature  
[Name of the Member]  
Designation\*  
Membership Number

Place of Signature:

Date:

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\* Partner or proprietor, as the case may be.

## Appendix 2

### Comfort Letter

(Refer Paragraph 1.19)

1. A prospectus is issued with the intention of inviting the public to subscribe to the securities being offered by the issuer. The decision to invest in the securities is dependent to a large extent on the financial and other information contained in the prospectus. To help investors make an informed decision, the prospectus contains huge amounts of data, prepared with the help of a number of experts. Over the period, a number of mechanisms have developed in the securities market to provide the general public easier and fair access to securities of the issuer. The need for comfort letters has arisen mainly due to the emergence of the concept of underwriting. Therefore, before understanding the concept of “comfort letters” it may be useful to understand what is underwriting.

2. Underwriting involves selling of securities from the issuer to the public to ensure successful distribution. There can be two types of underwriting agreements, one, hard underwriting and two, soft underwriting. Hard underwriting is when an underwriter agrees to buy his commitment at its earliest stage. The underwriter guarantees a fixed amount to the issuer from the issue. Thus, in case the shares are not subscribed by investors, the issue is devolved on underwriters and they have to bring in the amount by subscribing to the shares. The risk borne by the underwriter in case of hard underwriting is much higher as compared to that in soft underwriting. Soft underwriting is when an underwriter agrees to buy the shares at later stages as soon as the pricing process is complete. He then, immediately places those shares with institutional players. The risk faced by the underwriter as such is reduced to a small window of time. Also, the soft underwriter has the option to invoke a *force majeure* clause in case there are certain factors beyond the control that can affect the underwriter’s ability to place the shares with the buyers.<sup>2</sup>

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<sup>2</sup>Source: SEBI.

3. From the above, it is clear that the underwriters and lead managers (hereinafter referred to as “requesting parties”) to the issue face a lot of risk while dealing in public issues. Added to this is the fact that the regulator of the securities markets is normally very sensitive in the matters of ensuring free, fair and transparent issue process so that nobody is able to obtain an undue advantage of the offer. Accordingly, most of the securities regulations provide heavy penalties in case any of the market players is found wanting on the grounds of the issue process or the information provided to the investors in the prospectus. For example, Section 15HB of the Securities and Exchange Board of India Act, 1992 (as amended by the Securities Laws (Amendment) Act, 2014) provides for penalty which shall not be less than rupees one lac but may not extend to rupees one crore. As a consequence, underwriters and lead managers normally undertake a due diligence process on the information contained in the prospectus. As a part of that process, they also seek to obtain an added level of comfort from the auditors on various aspects of the prospectus (in the form of a comfort letter), in addition to the report of the auditors already contained in the prospectus. This comfort letter is not to be filed with the regulator/ stock exchange(s). Normally, the need for a comfort letter is set out as a precondition in the underwriting agreement itself.

4. Since the auditor’s association with the financial information contained in the prospectus is limited to the three financial years and the broken/stub period, the requesting parties usually seek comfort letters in respect of such financial information in respect of which there is no report by the auditor but where for the requesting parties need a due diligence to be carried out to ensure correctness of such information. The extent of examination required to be done in respect of such financial information as would satisfy the requesting parties would need to be decided by themselves. The auditor(s) should carefully read the underwriting agreement and the agreement with the lead manager(s) to ascertain the scope of the comfort letter.

5. The comfort provided by the auditor would, however, be subject to certain limitations. One of the major limitations is that

the auditor can comment in their professional capacity only on matters to which their professional expertise is substantially relevant. The second limitation is that the auditor would be able to provide only negative assurance on the information subjected to such examination. Thus, the requesting parties run a risk that the auditors might have provided negative assurance in respect of such conditions or matters that may later prove to have existed.

### **Process for Issuing a Comfort Letter**

6. The auditor should obtain a copy of the agreement containing the request for a comfort letter and the scope thereof to adjudge whether he will be able to furnish a comfort letter as desired in the agreement. The auditor should hold a meeting with the client as well as the requesting parties to discuss the scope of the comfort letter. Such a discussion would also help in clarifying as to the procedures that the latter expects to be followed by the auditor. The auditor should, however, make it clear that his acceptance of the engagement to provide a comfort letter does not in any way indicate his assurance about the sufficiency of the procedures that the requesting parties expect the auditor to perform. The fact should also be adequately brought out in the comfort letter issued by him. Further, the auditor should not agree to provide in the comfort letter any kind of assurance on his report already issued on the financial information contained in the prospectus.

7. In the interest of the auditor, client and the requesting parties, it is advisable that the auditor furnishes a draft comfort letter in accordance with the scope of such a letter as specified in the underwriting agreement. The auditor should consider obtaining a copy of [issue agreement] / [underwriting agreement] prior to issuance of comfort letter to the bankers. The draft comfort letter, to the extent possible, should cover all such matters as are to be covered in the final comfort letter, using exactly the same terms as to be used in the final comfort letter. The auditor should, however, make it adequately clear:

- (i) that the letter is a draft comfort letter; and

- (ii) that the comments that would be contained in the final comfort letter cannot be given until the auditor has performed the underlying procedures.

The draft comfort letter provides an opportunity to the concerned parties to discuss further the expected procedures to be followed by the auditor, as indicated in the draft comfort letter and request additional procedures. Where the additional procedures so requested are within the professional competence of the auditor, he would normally, be willing to perform them. It is advisable that the auditor then also furnishes a revised draft of the comfort letter. The fact that the requesting parties have accepted the draft comfort letter and subsequently, the final comfort letter, is an indication enough for the auditor that the former accept the auditor's procedures as being sufficient for their purposes. Thus, it is essential that the auditor's procedures are clearly set out in the draft as well as the final comfort letter. As mentioned earlier, the auditor does not undertake to assess the sufficiency or otherwise of the procedures that the underwriter/ lead manager expects the former to perform. Accordingly, statements, whether express or implied, to the effect that the auditor has carried out such procedures as they consider necessary should, normally, be avoided since this may create misunderstanding as to the responsibility for sufficiency of the procedures for the purposes of the requesting parties. Following is an illustrative wording of the necessary caveats that may be used in a draft comfort letter:

*"This draft is furnished solely for the purpose of indicating the form of letter that we would expect to be able to furnish to \_\_\_\_\_ [name of the Book Running Lead Managers/ Lead Managers/ Placement Agents] in response to their request, the matters expected to be covered in the letter, and the nature of the procedures that we would expect to carry out with respect to such matters. Based on our discussions with \_\_\_\_\_ [name of the Book Running Lead Managers/ Lead Managers/ Placement Agents], it is our understanding that the procedures outlined in this draft letter are those they wish us to follow. Unless [name of the Book Running Lead Managers/ Lead Managers/ Placement Agents] informs us otherwise, we shall assume that there are no*

*additional procedures they wish us to follow. The text of the letter itself will depend, of course, on the results of the procedures, which we would not expect to complete until shortly before the letter is given and in no event before the cutoff date indicated therein.”*

8. Further, before agreeing to provide a comfort letter, the auditor should also obtain a written representation from the requesting parties to the effect that they are aware of their responsibility to carry out a due diligence process and that and that the comfort letter provided by the auditor would not be a substitute for such a due diligence process required to be carried out by them. Thus, the representation letter issued by the requesting parties should, *inter alia*, clearly mention that:

- (a) the requesting parties are knowledgeable with respect to the due diligence review process required under Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended; and
- (b) in connection with the offering of Securities, the review process performed by the requesting parties is substantially consistent with the due diligence review process required under Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended.

This fact also should be brought out in the comfort letter. The representation letter may also make references to the review process to be undertaken by the requesting parties in connection with the prospectus. This specific reference is necessary because the extent of that review (carried out in accordance with the principles enunciated in Revised Standard on Review Engagements 2400, “Engagements to Review Historical Financial Statements”) is fairly well understood by chartered accountants, lead managers, lawyers etc., and would provide the auditors with an objective basis against which the auditor can determine the level of assurance that he is willing to provide to the underwriter, given the inherent legal risk involved in being associated with a

public offering of securities. Auditors should agree to provide negative assurance only where the requesting parties provide them with such a representation. In case the requesting parties refuse to provide such a representation, the auditors should, ordinarily, not undertake to provide a negative assurance in their comfort letters. In such a case, the procedures to be performed by the auditor should be agreed between the auditor and the requesting parties and adequately brought out in the engagement letter as well as the comfort letter. Thus, in the latter situation, the auditor would also need to bear in mind the principles enunciated in the Standard on Related Services 4400, “Engagements to Perform Agreed-upon Procedures Regarding Financial Information”. An illustrative format of representation letter is given in **Appendix 2.1** to this guidance note.

#### **Engagement/Arrangement Letter (Refer Appendix 2.5)**

9. The terms of the engagement letter should clearly mention that the procedures do not constitute an audit conducted in accordance with the Standards on Auditing issued by the ICAI and that accordingly, the same might not reveal all matters of significance. As a corollary, the engagement letter should clearly bring out the caveats associated with the procedures to be performed by the auditor, whether for providing a negative assurance as in case of a review or as agreed between the auditor and the requesting parties.

10. In case the comfort letter is being issued by a member who was not the auditor of the financial statements of the immediately preceding year, he should obtain knowledge about the internal controls of the company over financial reporting.

11. Comments regarding subsequent changes typically relate to whether there has been any change in paid up share capital, increase in long-term debt or decreases in other specified financial statement items<sup>3</sup> during a period, known as the “change period,”

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<sup>3</sup> Based on the facts and circumstances, the auditors may consider, as per their judgement, whether any such or additional balance sheet / profit and loss line items can be included for providing negative assurance.



subsequent to the date and period of the latest financial statements included in the Prospectus. These comments<sup>4</sup> would also address such matters as subsequent changes in the amounts of (a) share capital and (b) long term borrowing (including current maturities). The member will ordinarily be required to read minutes and other information and make inquiries of company officials relating to the whole of the change period. For the period between the date of the latest financial statements made available and the cutoff date, the auditors must base their comments solely on the limited procedures actually performed with respect to that period (which, in most cases, will be limited to the reading of minutes and the inquiries of company officials) and their comfort letter should make this clear.

12. The underwriting agreement or other arrangements with requesting parties usually specifies the dates as of which, and periods for which, data at the cutoff date and data for the change period (change period is period in which changes subsequent to the date and period of the latest balance sheet occurred and it ends on cut-off date) are to be compared. For balance sheet items, the comparison date is normally that of the latest balance sheet included (that is, immediately prior to the beginning of the change period).

13. For income statement items, the comparison period or periods might be one or more of the following:

- (a) the corresponding period of the preceding year,
- (b) a period of corresponding length immediately preceding the change period,
- (c) a proportionate part of the preceding fiscal year, or
- (d) any other period of corresponding length chosen by the underwriter. Whether or not specified in the underwriting agreement, the date and period used in comparison should be identified in the comfort letter in both draft and final form

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<sup>4</sup> Based on the facts and circumstances, the auditors may consider, as per their judgement, whether any such or additional balance sheet / profit and loss line items can be included for providing negative assurance.

so that there is no misunderstanding about the matters being compared and so that the underwriter can determine whether the comparison period is suitable for their purposes.

14. The member should ensure that comments are made only with respect to information:

- (a) that is expressed in reporting currency (or percentages derived from such rupee amounts) and that has been obtained from accounting records that are subject to the entity's controls over financial reporting or
- (b) that has been derived directly from such accounting records by analysis or computation. The member may also comment on quantitative information that has been obtained from an accounting record if the information is subject to the same controls over financial reporting as the reporting currency amounts.

15. The member generally should not comment on matters:

- (a) merely because they happen to be present and are capable of reading, counting, measuring, or performing other functions that might be applicable. Examples of matters that, unless subjected to the entity's controls over financial reporting (which is not ordinarily the case), should ordinarily not be commented on by the member include the square footage of facilities, number of employees (except as related to a given payroll period), etc.
- (b) like tables, statistics, and other financial information relating to an unaudited or un-reviewed period unless:
  - (i) they have performed an audit of the client's financial statements for a period including or immediately prior to the unaudited period or have completed an audit for a later period or
  - (ii) they have otherwise obtained knowledge of the client's internal control. For example for the proper understanding of the control they should take some additional procedures, like, opening balances. In

addition, the member should not comment on information subject to legal interpretation, such as beneficial share ownership.

Auditors are further advised to not include any such matter in the comfort letter, which is already covered in their report on the financial information contained in the prospectus.

16. To avoid ambiguity, the specific information commented on in the letter should be identified by reference to specific captions, tables, page numbers, paragraphs, or sentences. Descriptions of the procedures followed and the findings obtained may be stated individually for each item of specific information commented on.

17. In comments concerning tables, statistics, and other financial information, the expression “true and fair view” (or a variation of it, for example, “presented fairly”) should not be used, as it is not an audit. That expression, when used by member, ordinarily relates to presentations of financial statements and should not be used in commenting on other types of information.

18. At times, it may happen, there is a time lag between the date the reviewed or audited balance sheet / accounts and the cut-off date for the comfort letter is of more than 135 days. Since no review /audit have been applied on financial information flowing from this period, it is suggested that the review procedures should be carried out for this period (at least for the quarter subsequent to reported period) before concluding on the comfort letter. However, if the bankers request negative assurance as to subsequent changes in specified financial statement items as of a date 135 days<sup>5</sup> or more subsequent to the end of the most recent period for which the auditors have performed an audit or a review, the auditors may not provide negative assurance but the auditors reporting is limited to reporting procedures performed and findings obtained. In such scenario, auditors may consider providing

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<sup>5</sup>It is expected that generally a company should be able to prepare its interim financial statements within 45 days of end of last quarter, hence 135 days (90 days plus 45 days) is prescribed.

enquiry level of comfort stating “Those officials stated [mention the facts]”.

### **Use of Services of Other Auditors**

19. There may be situations in which more than one auditor is involved in the audit of the financial statements of an entity for various periods or in case of audit of divisions, branches, or subsidiaries/joint ventures/associates and in which the reports of more than one auditor appears in the Prospectus (including other type of filings). Further, there could be situations when the reports of the principal auditor only are included in the Prospectus (including other type of filings) in relation to audits of the financial statements of standalone company and the consolidated financial statements of the group. The principal auditor in its report relating to audit of the consolidated financial statements of the group draws a reference of the work done by other auditors, if applicable. For example, certain significant divisions, branches, or subsidiaries/joint ventures/associates may be audited by other auditors, or during the three years’ period there might have been a change in the auditors also. In such cases, following is applicable:

- (a) separate comfort letters in respect of such past years or such significant divisions, branches, or subsidiaries/joint ventures/associates are issued by the respective past auditors or respective auditors of such significant divisions etc. for submission as such to the requesting parties (addressed to the requesting parties(i.e. bankers) based on the format as used by the principal auditors);
- (b) in certain rare situation (e.g. auditor firm is not in practice any more for any reason or the signing partner is not alive in case of a sole proprietorship auditing firm, etc.), the past auditors or auditors of such significant divisions, branches, or subsidiaries/joint ventures/associates express their inability or are not in a position to provide comfort letters in respect of the financial statements of the past years or such significant divisions, branches, or subsidiaries/joint ventures/associates audited by them. In other situation, the past auditors or auditors of such significant divisions,

branches, or subsidiaries/joint ventures/associates should issue comfort letters to the bankers directly in respect of the financial statements of the past years or such significant divisions, branches, or subsidiaries/joint ventures/associates audited by them.

In case of (a) above, the client should, at the earliest practicable date, advise such other auditors as to the Comfort Letter that may be required from them and should arrange for them to receive a draft of the underwriting agreement so that they (other auditors) may make necessary arrangements at an early date for the preparation of a draft of their comfort letter (a copy of which should be furnished to the principal auditors) and for the performance of their procedures. The principal auditors (that is, those who report on the consolidated financial statements and, consequently, are asked to give a comfort letter with regard to information expressed on a consolidated basis) should read the comfort letters of the other auditors reporting on significant divisions, branches, or subsidiaries/joint ventures/associates audited by them and of the previous auditors. Such comfort letters to be issued by the other auditors and previous auditors should be addressed to the requesting parties (bankers) and should contain statements similar to those contained in the comfort letter prepared by the principal auditors, including statements about their independence. Further, while issuing such comfort letter to the requesting parties, the other auditors and previous auditors should state that their letters can be used by the [current] statutory auditors of the issuer in furnishing their letter to the requesting parties. The principal auditors should state in their comfort letters that (a) reading comfort letters of the other auditors was one of the procedures followed, and (b) the procedures performed by the principal auditors (other than reading the comfort letters of the other auditors) relate solely to companies audited by the principal auditors and to the consolidated financial statements as relates to the aggregation of the financial statements the Company/Issuer and its [subsidiaries/ joint ventures/ associates] and the consolidation adjustments thereof. The principal auditors should read the comfort letters of the other auditors as mentioned above while issuing comfort letter on consolidated financial information

as the consolidated financial information include the financials of the significant divisions, branches, or subsidiaries/joint ventures/associates. The principal auditors based on their judgement need to decide whether a division, branch, or subsidiary/joint venture/associate is significant or not based on both qualitative and quantitative factors. In case of (b) above, the principal auditors would need to carry out procedures necessary (additional audit procedures) to be able to give comfort in relation to financials to provide the comfort letter for all the past periods or for such significant divisions, branches, or subsidiaries/joint ventures/associates, including such years in which he was not the auditor.

The previous auditor may request the current auditors to issue a letter confirming that no subsequent event has come to the notice of current auditor during the course of their audit or review which might have an impact on the reports issued for previous periods by previous auditor. The current auditors based on its professional judgement and facts and circumstances may issue such letter of confirmation.

### **Providing Tick and Tie (Circle up) comfort**

20. Auditors should follow the guidance below while providing tick and tie comfort.

- The procedures that the auditors may perform in connection with comfort letters are limited to matters to which their professional expertise as independent accountants and auditors is relevant.
- They should only circle up information that has been obtained from accounting records that are subject to their client's internal control (of which they have obtained knowledge) as it relates to the preparation of financial information.
- The auditors may perform procedures and comment only on the following types of information:
  - i) Amounts or percentages derived from amounts obtained from accounting records that are subject to controls over financial reporting;

- ii) Information derived directly from such accounting records by analysis or computation; or
  - iii) Quantitative information obtained from the accounting records if such information is subject to the same internal control as the amounts.
- They should not simply compare specified items appearing in an Offering Circular with worksheets, analyses and schedules that have been prepared by employees in their client's accounting department. Rather they should also compare the specified items appearing in the worksheets, analyses and schedules to the appropriate accounting records.

Accordingly, they should not circle up the following:

- i) Size of the Plant/Office and Unit of Production/Capacities
  - ii) Sensitivity analysis and other similar information
  - iii) No. of Employees
  - iv) No. of Shareholders
  - v) Available lines of credits
- Circle up comfort is associated with only “numbers” and hence the auditors should not circle up any words, sentences or paragraphs.
  - Circle up comfort is meant to provide a tick and tie comfort for the numerical information contained in the offering circular extracted from:
    - i) The Financial Information contained on the F-pages (Financial Statements section) of the offering circular.
    - ii) The Audited/Unaudited Financial Statements which are not included in the offering circular.
    - iii) The Schedules/Analysis prepared by the Company from the accounting records.
    - iv) Ratios and Percentages calculated from the Financial Information contained on the F-Pages or from the Audited/Unaudited Financial Statements or from the information contained in the Schedules prepared by the Company from the accounting records.

- No circle comfort should be provided for F-pages (Financial Statements section) and Auditors should not provide any reproduction comfort of F-Pages in the prospectus. It should be the responsibility of the management of the company to ensure that audited / reviewed financials are appropriately reproduced in the prospectus.
- If the comparative financial information are audited by previous auditor and restated as per Ind AS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, the current auditor may provide appropriate circle up comfort (tracing to accounting records). However, in this case, the current auditor should highlight the fact that previous year financial information are audited by previous auditor and the current auditor has performed procedures relating to the restatement adjustments only. This guidance will not be applicable in case where restated financial information is prepared for initial public offer or similar purpose, in which case, the previous auditors will take the responsibility of restated financial information.
- The circle up comfort should be provided by the respective auditors/ accountants for the periods audited or reviewed by them.
- Issuer company may include non-GAAP financial measures or alternate performance measures in an offering document. Auditor should consider the following when requested to provide comfort on such measures. In situations where there are no regulations or guidance with regards to non-GAAP financial measures, auditors expectation is that offering documents not give more prominence to non-GAAP financial measures over GAAP measures and will include:
  - a) Definitions
  - b) Reconciliations to the most directly comparable GAAP measure
  - c) Explanations on the use of the non-GAAP measure in order to allow users to understand their relevance and reliability



- Auditors should not provide negative assurance, or any other form of assurance, that the disclosure of a non-GAAP financial measure complies with regulation or guidance.
- Auditor should expect there to be a reconciliation of a non-GAAP financial measure to the most directly comparable GAAP measure. Auditors may provide tick mark comfort on any element of the reconciliation that can be agreed to (a) financial statements that are audited or reviewed (b) the issuer company's accounting records that are subject to the issuer company's internal controls over financial reporting, or analysis prepared by the issuer company based on amounts from those financial statements or records.
- Auditors should not prove the arithmetic accuracy of the reconciliation of a non-GAAP financial measure unless they have provided tick mark comfort on every component of the non-GAAP financial measure.
- When auditors provide tick mark comfort on any elements of the reconciliation of a non-GAAP financial measure and/or non-GAAP measures included in the financial statements, comfort letter should include appropriate caveats. Refer Appendix 2.3 of this guidance note.
- Notwithstanding such caveat in the comfort letter, auditor should consider the context and manner in which the non-GAAP financial measure is presented and whether such presentation contains a material omission or is misleading, in which case the auditor may consider to decline to be associated with the securities offering.
- In certain circumstances, underwriters may request that auditors provide tick mark comfort that a non-GAAP financial measure presented in an offering document outside the reconciliation of the non-GAAP financial measure agrees to the non-GAAP financial measure within the reconciliation (i.e., an internal cross-reference of a non-GAAP financial measure within the offering document). If auditors have provided comfort on the arithmetic accuracy of the reconciliation (having provided comfort on every component of the non-GAAP

financial measure), auditor may provide tick mark comfort that the non-GAAP financial measure presented else-where in the offering document agrees to the non-GAAP financial measure within the reconciliation. Otherwise, the auditor should not agree any internal cross-reference of a non-GAAP financial measure within an offering document.

- If appropriate, auditor should use a separate tick mark when it agrees the non-GAAP financial measure within the offering document to the reconciliation of that non-GAAP financial measure. Refer Appendix 2.3 of this guidance note.

### **Comfort Letter Line Items**

21. In determining what, if any, line items will be provide comfort on, as well as the type of comfort the auditors will provide, the auditors should evaluate the information Management has utilised to arrive at their determination regarding any changes in the financial statement line items. In doing so, the auditors should consider the items such as the following (list is not intended to be exhaustive):

- Length of change period,
- Significance of trends,
- Volatility and complexity of business,
- Specific events which may have taken place during the period which would impact trend,
- History of closing/ audit adjustments,
- Status of audit of the financial statements as well as the audit procedures effecting the specific line item being evaluated (will it be substantially complete at the time comfort letter is issued),
- Ability of company to perform cutoff or closing procedures as of the cutoff date,
- Ability of company to perform a monthly hard close and prepare monthly financial statement of the same basis (i.e., consolidated) as those included in the document,
- Other procedures.

## Elements of a Comfort Letter

22. A comfort letter (**Refer Appendix 2.3**) normally includes the following elements:

- i) *Addressee* – The comfort letter should be addressed only to the client (for information purposes only) and the party requesting the comfort letter (for example, the underwriters).
- ii) A statement as to the independence of the auditors.
- iii) *Introductory paragraph* – The introductory paragraph of the comfort letter should draw attention to the report of the auditor on the financial information contained in the prospectus, adequately identifying the financial information as well in the prospectus. The auditor should not reproduce his opinion in the comfort letter. The introductory paragraph should also make a reference to any other report (such as reports on Proforma Financial Information and Interim Financial Information etc. based on which circle up comforts are provided) issued by the auditor in connection with the prospectus, identifying adequately the subject matter of the report.

When the report on the audited financial statements departs from the standard report, for instance, where one or more explanatory paragraphs or a paragraph to emphasise a matter regarding the financial statements have been added to the report, the auditors should refer to that fact in the comfort letter and discuss the subject matter of the paragraph. Similar principles will apply in case of qualified opinion on historical financial statements and the auditors should refer to the qualification in the opening paragraph of the comfort letter and discuss the subject matter of the qualification.

In case a review is performed - Auditors may comment in the form of negative assurance only when they have conducted a review of the interim financial information in accordance with Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The auditors may state in the comfort letter that they have performed the procedures in accordance with

Standard on Review Engagement 2410 for a review of interim financial information (see Appendix 2.3 - paragraph 3.a) or if the auditors have issued a report on the review, they may mention that fact in the comfort letter in the introductory paragraph section. When the accountants have not conducted a review in accordance with Standard on Review Engagement 2410, the accountants may not comment in the form of negative assurance and are, therefore, limited to reporting procedures performed and findings obtained.

- iv) *Scope paragraph* – This paragraph would outline the scope of work of the auditor and the procedures to be performed by him, as agreed with the client and the parties requesting the comfort letter. Any limitations, agreed among the parties, subject to which the procedures would be performed, should also be appropriately brought out in this paragraph. However, where the auditor has been requested to provide negative assurance (i.e., carry out a review) in respect of certain information, it is not necessary for the auditor to describe the procedures performed by him.
- v) *Report paragraph* – This paragraph should contain the findings or opinion reached by the auditor after performing the procedures outlined in the scope paragraph. Any limitations, in addition to those described in the scope paragraph should also be disclosed in the report paragraph along with the impact, if any, of such limitations.
- vi) *Concluding paragraph* – In order to avoid misunderstanding as to the purpose and intended use of the comfort letter, it is advisable that the comfort letter also includes a paragraph as to the purpose and intended use of the comfort letter.
- vii) Signature of the auditor
- viii) Date
- ix) Place

Bankers may request to issue a letter reaffirming comments in a previously issued comfort letter for which auditors can issue an

updated comfort letter (Bring Down Comfort Letter) (**Refer Appendix 2.4**).

### **Proforma Financial Statements/Information**

23. The ICDR Regulations lay down the certain requirements in relation to proforma financial statements as stated in paragraph 1.37 of this guidance note.

### **Comments on Pro Forma Financial Statements/Information in Comfort Letter**

If the auditors did previously report on the Pro Forma Financial Statements/ Information in accordance with SAE 3420 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus', they may refer in the introductory paragraph of the comfort letter to the fact that they have issued a report. In that circumstance, therefore, the procedures in paragraph 7 mentioned below ordinarily would not be performed, and the auditors should not separately comment on the Pro Forma Financial Statements/ Information, since that confirmation is encompassed in the auditors' report on the Pro Forma Financial Statements/ Information.

Auditors should not comment in a comfort letter on proforma financial information unless they have an appropriate level of knowledge of the accounting and financial reporting practices of the entity (or, in the case of a business combination, of a significant constituent part of the combined entity). This would ordinarily have been obtained by the auditors auditing or reviewing historical financial statements of the entity for the most recent annual or interim period for which the proforma financial information is presented.

Auditors should not give negative assurance in a comfort letter on the application of proforma adjustments to historical amounts, the compilation of proforma financial information, whether the proforma financial information complies as to form in all material respects with the applicable accounting requirements or otherwise provide negative assurance with respect to proforma financial information unless they have obtained the required knowledge

described above and they have performed an audit of the annual financial statements, or a review in accordance with Standard on Review Engagements (SRE) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” of the interim financial statements, of the entity (or, in the case of a business combination, of a significant constituent part of the combined entity) to which the proforma adjustments were applied. In the case of a business combination, the historical financial statements of each constituent part of the combined entity on which the proforma financial information is based should be audited or reviewed.

This section is applicable when the auditors are asked to comment on the application of pro forma adjustments to historical amounts in the compilation of the pro forma financial statements/ information.

The following paragraph is intended to be inserted after paragraph 6 in Appendix 2.3. The auditors have audited the March 31, 20X8, financial statements and have conducted a SRE 2410 review of the June 30, 20X8, interim financial information of the acquiring company. Other auditors conducted a review of the June 30, 20X8, interim financial information of XYZ Company, the company being acquired. This section assumes that the auditors have not previously reported on the pro forma financial statements/ information. If the auditors did previously report on the pro forma financial statements/ information, they may refer in the introductory paragraph of the comfort letter to the fact that they have issued a report. In that circumstance, therefore, the procedures in 7b(i) and 7c mentioned below ordinarily would not be performed, and the auditors should not separately comment on the application of pro forma adjustments to historical financial statements/ information, since that assurance is encompassed in the auditors' report on pro forma financial statements/ information.

**Paragraph 7** - “At your request, we have—

- a. Read the unaudited pro forma condensed balance sheet as of June 30, 20X8, and the unaudited pro forma condensed statements of profit and loss for the year

ended March 31, 20X8, and the three-month period ended June 30, 20X8 (collectively, "Pro forma Financial Information"), included in the Prospectus.

- b. Inquired of certain officials of the company and of XYZ Company (the company being acquired) who have responsibility for financial and accounting matters about—
  - i) The basis for their determination of the pro forma adjustments, and
  - ii) Whether the unaudited pro forma condensed financial statements referred to in paragraph 7a. above comply with the pro forma adjustments as described in Note [xx] to the pro forma financial information.

Those officials stated, in response to our inquiry, that the proforma adjustments have been determined based on Note [xx] to the Proforma Financial Information.

- c. Proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the unaudited pro forma condensed financial statements.

The foregoing procedures are substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assumptions, the pro forma adjustments, and the application of those adjustments to historical financial information. Accordingly, we do not express such an opinion. The foregoing procedures would not necessarily reveal matters of significance with respect to the comments in the following paragraph. Accordingly, we make no representation about the sufficiency of such procedures for your purposes. Had we performed additional procedures or had we made an examination or review of the pro forma financial information, other matters might have come to our attention that would have been reported to you."

## **Financial Projections**

24. Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014, as amended and Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014, as amended laid down the following requirements in relation to financial forecasts:

***Requirements to disclose financial forecasts - Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014, as amended***

Projections of revenue and operating cash flows by Investment Infrastructure Trust (InvIT), project-wise over next three years including assumptions details as certified by the auditor.

***Requirements to disclose financial forecasts -Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014, as amended***

Projections of income of the Real Estate Investment Trust over next three years beginning the current financial year certified by the manager with respect to calculation and assumptions and certified by the auditor with respect to arithmetical accuracy.

## **Comments on Prospective Financial Information in Comfort Letter**

If the auditors did previously report on the prospective financial information in accordance with SAE 3400 'The Examination of Prospective Financial Information', they may refer in the introductory paragraph of the comfort letter to the fact that they have issued a report. In that circumstance, therefore, the procedures in paragraphs 7 and 8 mentioned below ordinarily would not be performed, and the auditors should not separately comment on the prospective financial information, since that assurance is encompassed in the auditors' report on prospective financial information.

This section is applicable when auditors are asked to comment on a financial projections (see paragraph above). The material in this section is intended to be inserted after paragraph 6 in Appendix



2.3. This section assumes that the auditors have previously not reported on the examination of the financial projections. For auditors to perform agreed-upon procedures on a financial projections and comment thereon in a comfort letter, they should obtain the knowledge of internal controls and then perform procedures prescribed in SAE 3400, 'The Examination of Prospective Financial Information'. Auditors may not provide negative assurance on the results of procedures performed.

**Paragraph 7** - "At your request, we performed the following procedure with respect to the forecasted consolidated [financial line items] as of March 31, 20X8, and for the year then ending. With respect to forecasted [items to be mentioned such as rental income], we compared the occupancy statistics about expected demand for rental of the housing units to statistics for existing comparable properties and found them to be the same [to be modified suitably].

8. Because the procedure described above does not constitute an examination of prospective financial statements in accordance with Standards on Auditing, we do not express an opinion on whether the prospective financial statements are presented in conformity with Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014 or Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014, as amended guidelines or on whether the underlying assumptions provide a reasonable basis for the presentation.

Had we performed additional procedures or had we made an examination of the forecast in accordance with standards established by ICAI, matters might have come to our attention that would have been reported to you. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We make no representations about the sufficiency of such procedures for your purposes."

## **Combined Financial Statements / Information**

25. Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014, as amended and Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014, as amended laid down the following requirements in relation to financials which may be required to be prepared on combined basis:

***Requirements to disclose combined financial statements - Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014, as amended***

Principles for preparation of combined financial statements:

1. For preparation of Combined Financial Statements, InvIT shall follow the following principles:

1.1. Period for which combined financial statements shall be disclosed:

When the InvIT has not been in existence for some portion or the entire portion of the reporting period of three years and interim period, if any, then the financial information must be provided through combined financial statements, showing the combined financial performance of all the proposed InvIT assets, for such period when InvIT was not in existence.

1.2. Assets/entities forming part of Combined Financial Statements:

All the assets or entities, which are proposed to be owned by the InvIT, as per the disclosures in the offer document / placement memorandum, shall collectively form part of combined financial statements.

1.3. Underlying assumption for preparation of Combined Financial Statements

Such combined financial statements shall be prepared based on an assumption that all the assets and/or entities, proposed to be owned by InvIT, were part of a single group for such period when InvIT was not in existence.

#### 1.4. Preparation of Combined Financial Statements:

- i. These statements shall be prepared on a combined basis and presented as if InvIT assets were a part of a single group since the first day of the reporting period for which information is being presented.
- ii. The principles for preparation of combined financial statements shall be same as the principles laid down in “Ind AS 110 Consolidated Financial Statements”, to the extent applicable. However, unlike consolidated financial statements, the combined financial statements shall not have the parent.
- iii. While preparing Combined Financial Statements, transactions between the entities proposed to be owned by InvIT (i.e. transactions between the entities which are forming part of the combined financial statements) shall be eliminated.

Further, all pertinent matters, such as non-controlling interests, foreign operations, different fiscal periods, or income taxes, etc. shall be treated in the same manner as in consolidated financial statements, to the extent applicable.

- iv. In cases where one or more of the underlying InvIT assets have been held by the sponsor or its associates or its group entities for a period lesser than the last three completed financial years, then such assets may be reflected in the Combined Financial Statements only from the date of holding by such entity.

However, if the discrete financial information for such assets is also available for the pre-holding period (i.e. the period before the acquisition by the sponsor or its associates or its group entities), then such assets shall be reflected in the Combined Financial Statements for such pre-holding period as well.

- v. If there are any assets for which the financial information is considered for a period lesser than three years and the

additional interim period, if any, then such fact shall be clearly disclosed in the offer document/placement memorandum, along with all pertinent details.

- vi. Assumptions made in preparation of the Combined Financial Statements shall be disclosed in 'Basis of Preparation' of such statements.
- vii. The basis of preparation shall also explain the principles of combination and elimination of transactions amongst entities that are included in the Combined Financial Statements.

2. In addition to the principles listed at paragraph '1' above, the InvIT/Investment Manager, while preparing the Combined Financial Statements of the InvIT, shall also be guided by the requirements laid down in the 'Guidance Note on Combined and Carve-Out Financial Statements' and any other pertinent guidance/directions issued by ICAI in this context.

**Comments on Combined Financial Statements / Information in Comfort Letter**

Auditors should not comment in a comfort letter on combined financial statements / Information unless they have an appropriate level of knowledge of the accounting and financial reporting practices of the entities involved. This would ordinarily have been obtained by the auditors auditing or reviewing of the combined financial statements / Information of the entities involved for the past periods or interim period for which the combined financial statements / Information is presented.

If the auditors did previously report on the combined financial statements / Information in accordance with SA 800 'Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks' and 'Guidance Note on Combined and Carve-Out Financial Statements' and any other pertinent guidance/directions issued by ICAI in this context, they may refer in the introductory paragraph of the comfort letter to the fact that they have issued a report.

### **Due Diligence Call with Bankers**

26. Bankers also request to do a due diligence call (as part of the issuance of comfort letter) with the auditors to obtain information in relation to (i) the financial statements/ information, (ii) audit or review reporting and (iii) confirmation on certain matters (such as independence, rotation policy of the firm, meeting with audit committee and internal auditors etc.). The auditors should attend such due diligence call and provide oral responses (no written response should be provided) to queries made by the bankers. Auditors' responses should be based on their audit or review procedures performed on financial information and internal controls (if applicable). On such calls, auditors should not confirm any matter in relation to prospective financial information.

## **Appendix 2.1**

### **Illustrative Format of Representation Letter from Bankers (ICDR Regulations Representation Letter)**

*(Refer paragraph 8 of Appendix 2)*

[Name and Address of the Chartered Accountant]

Dear Sirs / Madam,

[Name of the Bankers], each, as principal or agent, in the initial public offering of [identify securities] to be issued by [name of issuer] (the "Issuer"), will be reviewing certain information relating to the Issuer that will be included in the Draft Red Herring Prospectus/ Red Herring Prospectus/ Prospectus which may be accessible to prospective investors and utilised by them as a basis for their investment decision. This review process, applied to the information relating to the Issuer, is (will be) substantially consistent with the due diligence review process that we are required to perform in connection with the filing of the Draft Red Herring Prospectus/ Red Herring Prospectus/ Prospectus pursuant to the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations"). [It is recognised that what is substantially consistent may vary from situation to situation and may not be the same as that done in another offering of the same securities for the same Issuer. Whether the procedure being or to be followed will be 'substantially consistent' will be determined by the [Lead Managers] on a case-by-case basis.] We are knowledgeable with respect to the due diligence review process under the ICDR Regulations. We would require you to deliver us "comfort" letters as and when requested by us concerning the [financial statements] of the Issuer and certain statistical and other data included in the Draft Red Herring Prospectus/ Red Herring Prospectus/ Prospectus. We will contact you to identify the procedures we wish you to follow and the form we wish the comfort letters to take.

This letter is solely for the information and use of [name of the Chartered Accountant Firm] in issuing comfort letters in

connection with the proposed offering of securities in India of the Issuer and it is not to be used, circulated, quoted or otherwise referred to in the Draft Red Herring Prospectus/ Red Herring Prospectus/ Prospectus or any other document or disclose to any other person.

Yours sincerely,

[Name of the Lead Manager/ Underwriter]

[Name of the Lead Manager/ Underwriter]

As representatives of the several underwriters

Place

Date

## Appendix 2.2

### **Illustrative Format of Representation Letter from Management<sup>6</sup> for issuance of comfort letter**

[Name and Address of the Chartered Accountant]

Dear Sirs / Madam,

Proposed Offering by [.] (the “Issuer” or the “Company”) of [.] (the “Securities”)

In connection with the above issue of Securities, we confirm on behalf of the Board, and having made appropriate inquiries of other directors and officials of the Company and its subsidiaries (collectively, the “Group”), that

1. the facts as stated in your comfort letter dated [date] (“Comfort Letter”), are accurate in all material respects and any opinions attributable to us are fair and reasonable. We have made available to you all significant information relevant to your Comfort Letter of which we have knowledge and we are not aware of any matters relevant to your engagement letter dated [date] which have been excluded.
2. the unaudited financial information as at and for the [three/six/nine] month period ended [June/September/December XX, 20XX] are stated on a basis substantially consistent with that of the audited financial statements as of and for the year ended March 31, 20XX included in the [Draft Red Herring Prospectus/ Red Herring Prospectus/ Prospectus] and that no financial statements as of any date or for any period subsequent to [date] are available.
3. the minutes of meetings of the shareholders, the board of directors, audit committee and the compensation committee of the Company are set forth in minute books for the period from [date], up to and including [date] (the “Cut-off date”), except for the minutes relating to the meetings as mentioned in Appendix [.]

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<sup>6</sup>Such management representation letter to be obtained at each stage of issuance of comfort letter.



which was not approved in final form for which draft was provided to you and we confirm that such drafts include all substantive actions taken at such meeting.

4. details of changes in the issued and paid-up share capital and long term debt (including current maturities) of the Company as at the Cut-off Date as compared with [date] audited Financial Statement of the Company as referred in the Comfort Letter, are given below:

<b>Particulars</b>	<b>As at XX XXX, 20xX</b>	<b>As at the Cut-off Date</b>	<b>Increase/ (Decrease)</b>
Issued Share Capital			
Paid-up Share Capital			
Long Term Debt (including current maturities)			

(amend as appropriate if other items of profit or loss and balance sheet are considered)

5. we are not aware of any matters to which attention should be drawn in the Draft Red Herring Prospectus dated [date], that there has been material adverse change in the financial position or prospects of the Company since the date of its last published financial statements.

6. all the items compared by you for circle up comfort, set out in annexure xx, are accurate and properly drawn from accounting records or financial statements, as applicable.

7. we are responsible for the following:

- a. the preparation of the financial information [mention the period - subsequent to date of latest audit/ review period] and the fair presentation therein of the financial information of the Company/Group in

conformity with the accounting principles generally accepted in India.

- b. designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of such financial information which are free from material misstatements, whether due to fraud or error.

8. in connection with your report on F-xx and F-xx, set out in the F pages of the Offering Memorandum dated [date], we acknowledge as duly appointed officials of the Company our responsibility for the financials statements of the Company as of and for the years ended [dates]. The figures disclosed in the financial information are extracted from the audited financial statements as of and for the years ended [dates], approved by the Board of Directors on [dates].

Yours faithfully,

[For and on behalf of Board of Directors of XYZ Limited]

## Appendix 2.3

### Illustrative Format of Comfort Letter

*[This draft is furnished solely for the purpose of indicating the form of letter that we would expect to be able to furnish to \_\_\_\_\_ [name of Lead Managers] in response to their request, the matters expected to be covered in the letter, and the nature of the procedures that we would expect to carry out with respect to such matters. Based on our discussions with \_\_\_\_\_ [name of Lead Managers], it is our understanding that the procedures outlined in this draft letter are those they wish us to follow. Unless [name of Lead Managers] informs us otherwise, we shall assume that there are no additional procedures they wish us to follow. The text of the letter itself will depend, of course, on the results of the procedures, which we would not expect to complete until shortly before the letter is given and in no event before the cutoff date indicated therein.]*

The Board of Directors

[Name of the Company and Address]

and

[Name of LM1 & Address]

and

[Name of LM2 & Address]

and

[Name of LM3 & Address]

and

[Name of LM4 & Address]

[(The latter four addressees above are referred to herein as the "Lead Managers")]

Dear Sirs / Madam,

Proposed Offering of ..... Equity Shares of Rs..... each (the "Securities") pursuant to an Initial Public Offering in India of [Name of the Company] (the "Company").

We have audited the [standalone]/ [consolidated] financial statements of [Name of the Company] (the “Company”) [and its subsidiaries associates and jointly controlled entities (collectively, the “Group”) as of [dates] and also for each of the [no. of years] years in the period ended [last date audited] and [no. of months in interim period, if any] period ended (collectively, the “Audited [Standalone]/ [Consolidated] Financial Statements”)[and the adequacy and operating effectiveness of the Company’s internal financial controls over financial reporting as of March 31, 20XX]. (State number of years not audited by the Principal Auditor and state the reliance placed on the work done by other auditors). These Audited [Standalone]/ [Consolidated] Financial Statements and our reports thereon are not included in the Company’s [Draft Red Herring Prospectus / Red Herring Prospectus / Prospectus] dated [xxx] hereinafter referred to as the [DRHP / RHP/ Prospectus].

[We did not audit the financial statements of certain subsidiaries, whose financial statements reflect total assets of Rs. xxx as at [dates], total revenues of Rs. xxx and total cash flows of Rs. xxx for the years ended on [dates] respectively. Further, we did not audit the financial statements of associates and joint ventures whose financial statements reflect the consolidated entities’ share of profits of Rs. xxx for the years ended [dates] respectively. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of such subsidiaries, associates and joint ventures, is based solely on the report of the other auditors.]

We have examined [, as appropriate (refer paragraph below),] the restated [consolidated] financial information of the Company as of [dates] and for each of the [no. of years] years in the period ended [last date audited] and [no. of months in interim period, if any] period ended (collectively, together with the annexures thereto, the “Restated [Consolidated] Financial Information”) each restated in accordance with the requirements of the Companies Act, 2013 (the “Companies Act”) and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations,

2018 (the “ICDR Regulations”) and the “Guidance Note on Reports in Company’s Prospectuses (Revised 2018)” issued by the Institute of Chartered Accountants of India (ICAI), to the extent applicable, as amended from time to time (“Guidance Note”). The Audited [Consolidated] Financial Statements and our reports thereon form the basis of the Restated [Consolidated] Financial Information. The Restated [Consolidated] Financial Information and our report thereon are included in the [DRHP/RHP/ Prospectus].

[The restated financial information of the Company and the Group as of [dates] and also for each of the [no. of years] years in the period ended [last date audited] and of certain subsidiaries as of [dates] and also for each of the [no. of years] years in the period ended [last date audited] and [no. of months in interim period, if any] period ended (details furnished in Appendix xx) have been examined and reported upon by other auditors. Our examination, in so far as it relates to the amounts considered in the Restated Consolidated Financial Information for these entities is solely based on the report of other auditors.] (amend as applicable)

This letter is being furnished in reliance upon the Lead Managers representation to us that:

- a. The Lead Managers are knowledgeable with respect to the due diligence review process required under Securities and Exchange Board of India(Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended.
- b. In connection with the offering of Securities, the review process the Lead Managers have performed is substantially consistent with the due diligence review process required under Securities and Exchange Board of India(Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended.[It is recognised that what is substantially consistent may vary from situation to situation and may not be the same as that done in another offering of the same securities for the same Issuer. Whether the procedure being or to be followed will be 'substantially consistent' will be determined by the [Lead Managers] on a case-by-case basis.]

[This letter is being furnished in accordance with the terms of the arrangement letter dated [XX XXX, 20XX] (the "Arrangement Letter"), which have been agreed between us and govern the matters addressed by this comfort letter and its use in connection with the sale of the securities in India.]<sup>7</sup>

In connection with the [DRHP / RHP / Prospectus]:

1. We are independent chartered accountants with respect to the Company pursuant to the rules promulgated in Clause 4, Part I, The Second Schedule, of The Chartered Accountants Act, 1949 / [As at [insert date of the auditors/ accountants' most recent report on the standalone/consolidated financial statements] and during the period covered by the financial statements on which we reported, we were independent firm of Chartered Accountants with respect to the Issuer pursuant to the rules promulgated under Clause 4, Part I, The Second Schedule of The Code of Conduct of the Institute of Chartered Accountants of India]<sup>8</sup>.

2. We have not audited any financial statements of the Company as of any date or for any period subsequent to [latest audited date]; although we have conducted an audit for the year ended [latest audited date], the purpose and therefore the scope of the audit was to enable us to express an opinion on the [standalone]/ [consolidated] financial statements as of [latest audited date] and for the year then ended, but not on the financial statements for any interim period within that year. Therefore, we are unable to and do not express any opinion on the unaudited [standalone]/ [consolidated] balance sheet as of [latest interim review date] and the unaudited [standalone]/ [consolidated] statements of income and cash flows for the [no. of months for which limited review is done] periods ended [latest interim review date and the corresponding previous period date] in the [DRHP / RHP / Prospectus] or on the financial position, results of operations, or cash flows as of any date or for any period subsequent to [latest audited date].

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<sup>7</sup>The auditor may provide a reference to arrangement letter.

<sup>8</sup> Applicable in case of previous auditor

3. For the purposes of this letter, we have read the [year] minutes of the meetings of the shareholders, the Board of Directors and (include other appropriate committees, if any) of the Company [and its subsidiaries] as set forth in minute books as of [cut-off date – generally minimum 3 business days before date of comfort letter], officials of the Company having advised us that the minutes of all such meetings through that date were set forth therein [(except for the minutes of the [dates] Board of Directors meeting which were not approved in final form, for which drafts were provided to us; officials of the Company have represented that such drafts include a summary of the topics discussed at such meeting)] and have carried out other procedures to [cut-off date] (our work did not extend to the period from [cut-off date to date of comfort letter] inclusive) as follows:

- a) With respect to the [mention no. of months] periods ended [current period and corresponding previous period], we have performed the procedures specified by the Institute of Chartered Accountants of India as described in Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” on the unaudited condensed [standalone]/ [consolidated] balance sheet of the Company as of [latest interim review date] and the unaudited condensed [standalone]/ [consolidated] statements of profit and loss account and cash flow for the [no. of months for which limited review is done] periods ended [latest interim review date and the corresponding previous period date] (collectively “unaudited condensed [standalone]/ [consolidated] financial statements”<sup>9</sup>) prepared by the Company in accordance with Accounting Standard 25 “Interim Financial Reporting” or Ind AS 34 “Interim Financial Reporting”, as applicable.
- b) With respect to the period from [date after the latest interim review date] to [agreed month(s)period end], we have:
  - i. read the unaudited [standalone]/ [consolidated] financial statements/ information of the Company for the [periods]

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<sup>9</sup> These financials should be approved by the Board of Directors of the Company and should be attached to the comfort letter.

of both [latest year] and [previous year] furnished to us by the Company, officials of the Company having advised us that no such financial statements/ information as of any date or for any period subsequent to [agreed period end] were available. The financial information for [the periods] of both [latest year] and [previous year] is incomplete in that it omits the statements of cash flows and other disclosures.

- ii. inquired of certain officials of the Company who have responsibility for financial and accounting matters whether the unaudited financial statements/ information referred to in b(i) are stated on a basis substantially consistent with that of the restated [audited] financial statements included in the [DRHP / RHP/ Prospectus].
- c) We have read<sup>10</sup> the comfort letters of other auditors of the entities as mentioned in Appendix xx [and comfort letter(s) of the previous auditors]. The procedures performed by us and described in this letter (other than reading of comfort letters issued by other auditors [and previous auditors]) relate solely to the entities [and periods] audited by us, listed in Appendix xx, and the overall consolidated financial statements (which is based on reliance of comfort letters issued by other auditors in respect of certain entities, listed in Appendix xx, not audited by us and included in the Audited Consolidated Financial Statements/ Restated Consolidated Financial Information) as it relates to the aggregation of the financial statements the Company and its [subsidiaries/ joint ventures/ associates] and the consolidation adjustments thereof.

The foregoing procedures do not constitute an audit done in accordance with Standards on Auditing in India. Also, they would not necessarily reveal matters of significance with respect to comments in the following paragraph. Accordingly, we make no representations regarding the sufficiency of the foregoing procedures for your purposes.

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<sup>10</sup>In case previous auditors and components' auditors are involved, the previous auditors and components' auditors should issue comfort letters (directly to the bankers) in relation to the financial information for the periods audited/examined by them and the principal/ current auditor should read the comfort letters issued by previous auditors and components' auditors.



4. Nothing came to our attention as a result of the foregoing procedures [(which insofar in respect of certain entities listed in Appendix xx audited by other auditors listed in Appendix xx is concerned, consisted solely on the basis of reading of the comfort letters referred to in paragraph 3(c))], however, that caused us to believe that:

- i. Any material modifications should be made to the unaudited condensed [standalone]/ [consolidated] financial statements described in 3a for them to be in conformity with accounting principles generally accepted in India, {except that the detailed disclosure notes required by Accounting Standard 25 “Interim Financial Reporting” or Ind AS 34 “Interim Financial Reporting”, as applicable, have not been presented}.
- ii. At [agreed month(s)period end], there was any change in the [issued share capital] or increase in [long-term debt]<sup>11</sup>, of the Company on an [standalone]/ [consolidated] basis as compared with amounts shown in the [latest interim review date], [standalone]/ [consolidated] balance sheet included in the DRHP/RHP, [except for an increase in the long term debt that the DRHP/RHP discloses have occurred or may occur.]

OR

except as mentioned below:

<b>Particulars</b>	<b>As at [date (last balance sheet date)] (Rs. in million)</b>	<b>As at [date (agreed month(s) period end)] (Rs. in million)</b>	<b>Increase / (decrease) (Rs. in million)</b>
Paid up share capital			
Long-term debt (including current maturities)			

<sup>11</sup> Based on the facts and circumstances, the auditors may consider, as per their judgement, whether additional financial statements line items can be included for providing negative assurance.

5. As mentioned in 3b, Company officials have advised us that no [standalone]/ [consolidated] / [consolidated] financial statements/ information as of any date or for any period subsequent to [agreed period end], are available; accordingly the procedures carried out by us with respect to changes in financial statement items after [agreed period end], have, of necessity, been even more limited than those with respect to the periods referred to in 3. We have inquired of certain officials of the Company who have responsibility for financial and accounting matters whether (i) at [cut-off date] there was any change in the paid-up share capital and increase in long term debt<sup>12</sup> of the Company as compared with amounts shown on the [latest interim review date] unaudited [standalone]/ [consolidated]<sup>13</sup> balance sheet included in the [DRHP / RHP/ Prospectus]. On the basis of these inquiries and our reading of the minutes as described in paragraph 3(a) above [and the comfort letters of the other auditors as mentioned Appendix xx in respect of certain entities listed in Appendix xx], nothing came to our attention that caused us to believe that there was any such change, increase, or decrease, [except for an increase in the long term debt that the [DRHP/RHP] discloses have occurred or may occur.]

OR

[except as mentioned below:

<b>Particulars</b>	<b>As at [date (last balance sheet date)] (Rs. in million)</b>	<b>As at [date (cut-off date)] (Rs. in million)</b>	<b>Increase / (decrease) (Rs. in million)</b>
Paid up share capital			

<sup>12</sup> Based on the facts and circumstances, the auditors may consider, as per their judgement, whether additional financial statements line items can be included for providing negative assurance.

<sup>13</sup> Auditors should not provide comfort on a consolidated basis unless they are auditing **all** components of the Group or are able to read the comfort letters of **all** other auditors of the group entities.

Long-term debt (including current maturities)			
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6. For the purposes of this letter we have, at your request, also read the items identified by you on the attached pages of the [DRHP/RHP], in respect of which one of the following tests were applied in each case as indicated by the corresponding letter (i.e. reference to the relevant sub-paragraph below) shown against the items:

A. Compared the amount identified to a corresponding amount in the Company's Restated [Consolidated] Financial Information, included in the [DRHP / RHP/ Prospectus] for the period indicated and found such amount to be in agreement.[However, we make no comment as to the appropriateness with respect to reasons given for changes between periods.]

[B. Compared the amount identified to a corresponding amount in the Company's Audited [Standalone]/ [Consolidated] Financial Statements") for the period indicated and found such amount to be in agreement. [However, we make no comment as to the appropriateness with respect to reasons given for changes between periods.]]

C. Compared the amount identified to a corresponding amount included in the Company's accounting records for the period indicated and found such amount to be in agreement.[However, we make no comment as to the appropriateness with respect to reasons given for changes between periods.]

D. Compared the amounts identified to a schedule prepared and derived by the officials of the Company from its accounting records for the period indicated and found such amounts to be in agreement and we determined that the schedule was mathematically correct, but in relation to which no other tests whatsoever such as definitions, reasonableness and presentation

have been performed. [We have not traced the information to the accounting records themselves.] Further, we make no comments whether the compared number read in isolation is useful for any purpose or misleading.

E. Recomputed the mathematical accuracy of the amounts, total, percentage and ratio for the period indicated from amounts appearing in [DRHP / RHP/ Prospectus]. However, we make no comment as to the appropriateness with respect to classification of such item and with respect to reasons given for changes between periods.

F. Compared the specific components of [insert non-GAAP measure(s)] (in each case, as defined in the [DRHP / RHP/ Prospectus]) (“Non-GAAP measures”) to either (i) the Restated [Consolidated] Financial Information of the Company as described in the introductory paragraph above, (ii) a schedule or report prepared by the Company using information derived from the accounting records as described in tick mark D above which we agreed to the accounting records, and found them to be in agreement, and proved the arithmetic accuracy of the calculation used to compute the Non-GAAP measure(s).

It should be understood that (1) we make no representations regarding the Company’s determination and presentation of the Non-GAAP measures of financial performance and (2) we provide no assurance that the adjustments to arrive at these Non-GAAP measures reflect non-underlying costs or similar adjustments of the business, (3) the Non-GAAP measures presented may not be comparable to similarly titled measures reported by other companies and (4) we do not provide any assurance as to the completeness, accuracy or appropriateness of the adjustments used to arrive at these Non-GAAP measures. Further, it should be noted that [insert name of non-GAAP measure(s)] is not a measure of operating performance or liquidity defined by generally accepted accounting principles and may not be comparable to similarly titled measures presented by other companies. We make no comment about the Company’s definition, calculation or presentation of [in-sert name of non-GAAP measure(s)], its

manner of presentation or its appropriateness or usefulness for any purposes.

G. Proved the arithmetic accuracy of the conversion of the corresponding amount in Rupees to US Dollars (as rounded off), or vice versa, at the applicable exchange rate and found them to be in agreement. We make no representation as to the appropriateness of the rate applied.

**[Member should exercise judgment on what level of comfort i.e. item (A) to (G) above can be given to a particular information according to the circumstance of each case. Additional level of comfort can be included based on agreement with the bankers]**

For purposes of the above symbols, the following definitions apply:

- The phrase “compared” means compared and found to be in agreement unless otherwise noted. Such agreed amounts or percentages are deemed to be in agreement if differences are attributable to rounding.
- The phrase “recomputed” means recalculated to determine mathematical accuracy and compared the result to the amount shown and found the amounts to be in agreement unless otherwise noted. Such recomputed amounts or percentages are deemed to be in agreement if differences are attributable to rounding.

7. Our audit / [examination] of the [standalone] / [consolidated] financial statements for the periods referred to in the introductory paragraph of this letter comprised audit tests and procedures deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. For none of the periods referred therein, or any other period, did we perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above and accordingly, we express no opinion thereon.

8. It should be understood that we make no representations regarding questions of legal interpretation or regarding sufficiency for your purposes of the procedures enumerated in the preceding paragraph 6; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, we have addressed ourselves solely to the foregoing data as set forth in the [DRHP / RHP/ Prospectus] and make no representations regarding the adequacy of disclosure or regarding whether any material facts have been omitted. It should be noted that certain information contained in the [DRHP / RHP/ Prospectus] are not measures of operating performance or liquidity as defined by generally accepted accounting principles and may not be comparable to similarly titled measures presented by other companies. We make no comment about the Company's definitions, calculations or usefulness for any purpose.

9. This letter is solely for the information of the addressees and to assist the Lead Managers in conducting and documenting their investigation of the affairs of the Company / [Group] in connection with the proposed offering of securities covered by the [DRHP / RHP/ Prospectus] solely in India, [when the comfort letter is furnished by the auditors for a branch/subsidiary/joint venture entity/associate and they are not also accountants for the parent company or if the comfort letter is issued by the previous statutory auditor of the issuer company, the comfort letter should include the following phrase at this point: "and for the use of the [current] statutory auditors for [name of issuer] in furnishing their letter to the Lead Managers,"] and it is not to be used circulated or quoted or otherwise referred to for any other purposes, including but not limited to the registration, purchase or sale of securities, nor is it to be filed with or referred to in whole or in part in the [DRHP / RHP/ Prospectus] or any other document, except that reference may be made to it in [the Issue Agreement/ Offer Agreement/ Underwriting Agreement] or [any list of closing documents] pertaining to the proposed offering of securities covered by the [DRHP / RHP/ Prospectus].

10. This letter has not been prepared in connection with, nor is it intended for use in any connection with, any offer or sale of

securities outside India. We will accept no duty or responsibility to and deny any liability to any party in respect of any use of this letter in connection with an offer or sale of the Securities outside India.

For ABC and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
[Name of the Member]  
Designation<sup>14</sup>  
Membership Number

Place of Signature:

Date:

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<sup>14</sup>Partner or proprietor, as the case may be.

## Appendix 2.4

### Illustrative Format of Bring Down Comfort Letter

*[This draft is furnished solely for the purpose of indicating the form of letter that we would expect to be able to furnish to \_\_\_\_\_ [name of Lead Managers] in response to their request, the matters expected to be covered in the letter, and the nature of the procedures that we would expect to carry out with respect to such matters. Based on our discussions with \_\_\_\_\_ [name of Lead Managers], it is our understanding that the procedures outlined in this draft letter are those they wish us to follow. Unless [name of Lead Managers] informs us otherwise, we shall assume that there are no additional procedures they wish us to follow. The text of the letter itself will depend, of course, on the results of the procedures, which we would not expect to complete until shortly before the letter is given and in no event before the cutoff date indicated therein.]*

[Insert date]

[Name of the Company and Address]

and

[Name of LM1 & Address]

and

[Name of LM2 & Address]

and

[Name of LM3 & Address]

and

[Name of LM4 & Address]

Dear Sirs / Madam,

We refer to our letter of [Insert Date], relating to the Prospectus of [Company] involving the sale of \_\_\_\_\_ [securities]



of \_\_\_\_\_. We reaffirm<sup>15</sup> as of the date hereof (and as though made on the date hereof) all statements made in that letter except that, for the purposes of this letter—

- a. The Prospectus to which this letter relates is as amended on [Insert date].
- b. The reading of minutes described in paragraph XX of that letter has been carried out through [Insert date].
- c. The procedures and inquiries covered in paragraph XX of that letter were carried out to [Insert date] (our work did not extend to the period from [Insert date] to [Insert date], inclusive).
- d. The period covered in paragraph XX of that letter is changed to the period from [date], to [date], officials of the Company having advised us that no such financial statements as of any date or for any period subsequent to [date], were available.
- e. The references to [date], in paragraph XX of that letter are changed to [date].
- f. The references to [date], in paragraph XX of that letter are changed to [Insert date].

This letter is solely for the information of the addressees and to assist the Lead Managers in conducting and documenting their investigation of the affairs of the Company/ [Group] in connection with the proposed offering of securities covered by the [DRHP / RHP/ Prospectus] solely in India, [when the comfort letter is furnished by the auditors for a branch/subsidiary/joint venture entity/associate and they are not also accountants for the parent company or if the comfort letter is issued by the previous statutory auditor of the issuer company, the comfort letter should include the following phrase at this point: "and for the use of the [current] statutory auditors for [name of issuer] in furnishing their letter to the Lead Managers,"] and it is not to be used circulated or quoted or otherwise referred to for any other purposes, including but not

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<sup>15</sup>The auditors should read the comfort letters in respect of (i) entities audited by other auditors and (ii) periods audited by previous auditors while issuing bring down comfort letter.

limited to the registration, purchase or sale of securities, nor is it to be filed with or referred to in whole or in part in the [DRHP / RHP / Prospectus] or any other document, except that reference may be made to it in [the Issue Agreement/ Offer Agreement/ Underwriting Agreement] or [any list of closing documents] pertaining to the proposed offering of securities covered by the [DRHP / RHP / Prospectus].

For ABC and Co.  
Chartered Accountants  
Firm's Registration Number  
Signature  
[Name of the Member]  
Designation<sup>16</sup>  
Membership Number

Place of Signature:

Date:

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<sup>16</sup> Partner or proprietor, as the case may be.

## Appendix 2.5

### Illustrative Format of Arrangement Letter

(to be drafted / amended based on mutual agreement among the parties)

The Board of Directors

[Name of the Company & Address]

The Lead Manager (name and address)

("Lead Manager")

and the other Managers (as defined in Paragraph 2 below)

[Date]

Dear Sirs / Madam,

[Proposed] Equity Issue by [Issuer's Name] ("The Issuer")

#### *Introduction*

1. This arrangement letter sets out the scope and limitations of the work to be performed by us in connection with the above transaction, namely the proposed issue of [ ] ("the Issue") which will involve the preparation by the Issuer, and for which the Issuer will be solely responsible, of a Draft Red Herring Prospectus ("DRHP"), a Red Herring Prospectus ("RHP") and a Prospectus, and any amendments and supplements thereto (collectively, the "Offering Circular") [in accordance with the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended ("ICDR Regulations")]. This letter is written in the context of the respective roles of the directors of the Issuer, the Lead Manager ("the Lead Manager"), the other Managers (as defined in Paragraph 2 below) and ourselves.

#### *Addressees*

2. This arrangement letter is addressed to the directors of the Issuer, to the Lead Manager and to each of the managers who have agreed or, prior to the issue of our comfort letter, will agree to participate in the proposed Issue and who have or, prior to the

issue of our comfort letter, will have validly authorised the Lead Manager to sign this arrangement letter on their behalf. Their legal names are set out in Appendix 2.5.1 to this arrangement letter and, together with the Lead Manager, are referred to in this arrangement letter as “the Managers”.

3. By signing and accepting the terms of this arrangement letter, the Lead Manager confirms that it will ensure that it receives prima facie authority from each Manager identified in Appendix 2.5.1 authorising it to enter into this arrangement letter on the relevant Manager’s behalf. However, the Lead Manager makes no representation as to whether such prima facie authority actually confers the necessary authority.

4. Up to the date of the relevant comfort letter, a Manager may be added to Appendix 2.5.1 by the Issuer or by the Lead Manager by written notice to us and the Issuer or the Lead Manager. A Manager may also be deleted from Appendix 2.5.1 where the Manager withdraws from the Issue and/or advises the Lead Manager that it does not wish to receive the benefit of the comfort letter or for this arrangement letter to be signed on its behalf or where the Lead Manager does not receive authority to sign this arrangement letter on behalf of the relevant Manager. The revised managers shall then, together with the Lead Manager, be referred to in this arrangement letter as “the Managers”.

#### *Comfort Letter*

5. The Lead Managers will be reviewing certain information relating to the Company that will be included in the Offering Circular, which may be accessible to investors and utilised by them as a basis for their investment decision. The Lead Managers are knowledgeable with respect to the due diligence review process required under the ICDR Regulations. This review process, applied to the information relating to the issuer, will be substantially consistent with the due diligence review process required under the ICDR Regulations. It is recognised that what is substantially consistent may vary from situation to situation and may not be the same as that done in another offering of the same

securities for the same issuer. Whether the procedure being or to be followed will be 'substantially consistent' will be determined by the [Lead Managers] on a case-by-case basis.

6. Our comfort letter will be provided to the addressees of this letter solely in the context of the due diligence procedures that you undertake, or procure to be undertaken, pursuant to the guidance referred to in Paragraph 5 above in connection with the contents of the Offering Circular for the purpose of any defence in such context that you may wish to advance in any claim or proceeding in connection with the contents of the Offering Circular. Accordingly our comfort letter will be addressed to you for that purpose and may not be relied on by you for any other purpose.

7. For the avoidance of doubt and subject to the limitations or exclusions which are contained in or referred to in Paragraphs 8, 9, 27, 33 and 34 of this letter, nothing in this letter shall preclude the Managers from obtaining compensation from us in respect of any liability that the Managers incur to an investor arising out of the contents of the Offering Circular to the extent that such liability arises because the work undertaken pursuant to this arrangement letter or the comfort letter was undertaken negligently.

8. Our comfort letter will not be prepared in connection with, nor is it intended for use in any connection with, any offer or sale of securities outside India. We will accept no duty or responsibility to and deny any liability to any party in respect of any use of our comfort letter in connection with an offer or sale of securities outside India.

9. Our work and findings shall not in any way constitute advice or recommendations (and we accept no liability in relation to any advice or recommendations) regarding any commercial decisions associated with the Issue, including, in particular, but without limitation, any which may be taken by the Managers (or any person connected to the Managers or any one of them) in the capacity of investor or in providing investment advice to their clients.

10. Our comfort letter will be provided solely for your private information and should not be used for any purpose other than as

set out in Paragraph 6. Our comfort letter may not be referred to in any other document (except that reference may be made to its existence in any contract or other communication between the Issuer and/or the Managers, and/or ourselves), nor made available to any other party (except that a copy may be included in the bible of transaction documents memorialising the Issue prepared for the Issuer and the Managers).

11. Nothing in Paragraphs 8 and 10 shall prevent you from disclosing our comfort letter to your professional advisers or as may be required by law or regulation, and/or referring to and/or producing our comfort letter in court proceedings relating to the Issue or the Offering Circular. Provided that you first obtain our prior written consent, you may disclose our comfort letter to third parties where to do so would reasonably be necessary in the interest of a resolution of a dispute with that third party.

12. Other than to those who have validly accepted this arrangement letter, we will not accept any responsibility to any party to whom our comfort letter is shown or into whose hands it may come.

13. You may only rely on information and comments set out in our comfort letter on the basis of this arrangement letter.

#### *Work and procedures*

14. Our work will, where appropriate, be conducted in accordance with Standards on Auditing in India. In other jurisdictions, standards and practice relevant to reporting accountants may be different and may not provide for reporting in the manner contemplated herein. Accordingly our report should not be relied on as if it had been provided in accordance with the standards and practice of any professional body in any other jurisdiction.

15. We have not carried out an audit in accordance with any generally accepted auditing standards of any financial information relating to the Issuer for any period prior to [date of the 1<sup>st</sup> day of the financial year which was audited by current auditor] and subsequent to [date of last audited balance sheet]. The procedures we will use to perform the work set out in this

arrangement letter will not constitute an audit or review made in accordance with any generally accepted auditing standards. Furthermore, they will not necessarily reveal matters of significance with respect to any material misstatement of the information referred to below.

16. The procedures that we plan to conduct have been discussed between and agreed to by the Issuer, the Lead Manager and us and will be recorded in the comfort letter itself. If during the course of carrying out such procedures as are planned and agreed upon under this letter, and solely as a result of information provided to us in so doing, we conclude that there has been any withholding, concealment or misrepresentation in relation to such information, (or otherwise we conclude that such information contains an inconsistency which clearly indicates that there may have been such a withholding, concealment or misrepresentation), we will discuss with you whether further procedures can be designed to seek to resolve the matter. Where such procedures are agreed between us, we will carry them out and amend the comfort letter accordingly.

17. We will only carry out those verification procedures expressly provided for in the comfort letter. Accordingly, we make no representations as to the sufficiency for your purposes of such procedures and, therefore, our responsibility shall be limited to performing the work agreed upon in this arrangement letter and/or recorded in the comfort letter with due skill, care and attention. If we were to perform additional procedures or if we were to conduct an audit or review of the financial statements of the Issuer in accordance with auditing standards generally accepted in India, other matters might come to our attention which we would report to you. The procedures to be performed by us should not be taken to supplant any additional enquiries or procedures that may be appropriate in the performance of your role under the proposed offering.

18. In relation to the contents of the Offering Circular, we will address ourselves solely to such financial information in the Offering Circular as is identified in the comfort letter and we will make no representations as to the adequacy of disclosure in the

Offering Circular or as to whether any material facts have been omitted by the Issuer.

19. Any opinions expressed on financial information outside the context of this arrangement letter were or are expressed solely in the context of the specific terms and conditions governing their preparation. In particular, the terms of this arrangement letter and any action pursuant to it shall be additional to and shall not detract from or change in any way any legal rights which any party to this letter may otherwise have acquired, whether in contract or in tort, in connection with our audits of the financial statements of the Issuer.

20. Save as may be expressly recorded in the comfort letter, we do not accept any responsibility for any other reports or letters beyond any responsibility that we owed to those to whom our reports or letters were addressed at the date of their issue.

#### *Contents of the Comfort Letter*

21. We will prepare and expect to issue a comfort letter addressed to the Issuer and the Managers in connection with their due diligence enquiries in connection with the contents of the Offering Circular on the basis described above. [Based upon our present understanding of your requirements we expect to be able to provide you with a comfort letter substantially in the form contained in Appendix 2, setting out the procedures that we expect to carry out prior to issuing our comfort letter.] Your acceptance of our comfort letter in final form constitutes your agreement to the scope and extent of such procedures.

[22. We would be grateful if you would review the draft comfort letter that we expect to be able to provide you with and let us have any amendments you propose to the procedures as soon as possible, so that we can provide you with a revised draft for your further consideration and approval.]<sup>17</sup>

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<sup>17</sup>The first draft of the arrangement letter will include the form of comfort letter in Appendix xx. The final arrangement letter will include these sentences if it predates the issuance of the comfort letter. If the arrangement letter and the comfort letter are signed contemporaneously, these sentences will be omitted.



[23. Once an advanced draft of the Offering Circular is available and you have identified, and we have agreed, the detailed financial information whose extraction or calculation you require to be covered in the comfort letter, we will provide you with a further revised draft of the comfort letter for your approval of its scope prior to finalisation.]

24. For the avoidance of doubt, we will not comment on, or otherwise give comfort in relation to, the prospects or trading position or, save as expressly stated in the comfort letter, comment on or provide any opinion or other conclusion as to the current overall financial position of the Issuer.<sup>18</sup>

#### *Drafts*

25. During the course of the arrangement we may show drafts of, or report orally on, our comfort letter to you. In so far as any such draft or oral report is inconsistent with the subsequent final comfort letter, it will be deemed to be superseded by such final comfort letter.

#### *Audit Opinion*

26. The Issuer may not include our audit opinion in the Offering Circular without our prior written approval.

#### *Meetings*

27. It [will be] [has been] necessary for us to receive copies of the draft Offering Circular as it [is] [was] produced and it [may be] [has been] necessary for us to attend meetings (including, but not limited to, meetings with the Issuer, and its directors and/or employees, and the Lead Manager and its employees or agents) at which the Offering Circular [is] [has been] discussed and drafted or at which other related matters [are] [have been] discussed. We [shall answer] [have answered] queries raised at such meetings on an informal basis but you should neither act nor refrain from acting on the basis of such informal answers unless

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<sup>18</sup> If specific procedures and appropriate terms (e.g. as to timing) are agreed between all parties, the auditors may undertake additional work (for example in relation to the Issuer's current overall financial position).

and until they are confirmed in writing by us, whether in the final comfort letter or otherwise. In the absence of such written confirmation we shall have no liability to you in contract or in tort (including negligence) for our answers.

28. Unless otherwise specifically agreed between the parties, we are authorised by the Issuer to speak to the Managers and other professional advisers advising on the proposed Issue. In connection with our work pursuant to this arrangement letter, we may release to the Managers and such other professional advisers any information relating to the Issuer, whether confidential or not and obtained during the course of our work or otherwise and shall not be liable to the Issuer for any use subsequently made of that information.

#### *Timetable*

29. [We will endeavour to carry out our work in accordance with a timetable to be agreed between all parties that will satisfy the requirements of the Issue.]. We [intend to provide] [are providing] [(i) a comfort letter on each of the date of (a) the filing of the Draft Red Herring Prospectus with SEBI, (b) the filing of the Red Herring Prospectus with the Registrar of the Companies in India (“ROC”), (c) the filing of the Prospectus with the ROC and (ii) a bring down comfort letter on the date of the closing of the Issue i.e. the date of allotment,] or on such other date as may be agreed in writing among the Issuer, the Lead Managers and us. [We will discuss with you any difficulties we encounter with this arrangement or with meeting the timetable as soon as any problems arise.]<sup>19</sup>

#### *Applicable law and jurisdiction*

30. This arrangement letter shall be governed by, and construed in accordance with the laws of India.

The Courts of India shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the arrangement letter

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<sup>19</sup>It may not be appropriate to include this sentence if the arrangement letter is signed contemporaneously with the comfort letter.

or any comfort letter and any matter arising from them. Each party irrevocably waives any right it may have to object to an action being brought in any of those Courts, to claim that the action has been brought in an inconvenient forum or to claim that those Courts do not have jurisdiction.

*Fees*

31. Our fees will be the responsibility of and will be paid by the Issuer.

*Representations from the Issuer*

32. We will ask the Board of Directors to provide us with appropriate representations at the date of the comfort letter either by means of a board minute or by letter of representation from a duly authorised director of the Issuer. A draft will be provided separately, which will reflect the specific issues on which we are required to provide a comfort letter.

*Other Terms and Conditions*

33. In no circumstances shall we be liable, other than in the event of our bad faith or wilful default, for any loss or damage, of whatsoever nature, arising from information material to our work being withheld or concealed from us or misrepresented to us by the directors, employees, or agents of the Issuer or any other person of whom we may make enquiries, unless detection of such withholding, concealment or misrepresentation should reasonably have been expected because the fact of such withholding, concealment or misrepresentation was evident without further enquiry from the information provided to us or required to be considered by us pursuant to the procedures finally agreed upon under this letter. This clause, and any assessment of our work made pursuant to it, will have regard to the limited scope of procedures agreed under this letter.

34. The terms and conditions, which are attached as Appendix [this should be as per auditor's requirements], also form part of this arrangement letter. These terms and conditions shall apply, as indicated in such terms and conditions, to us, the Issuer and the Managers (as the case may be).

35. In the event of any inconsistency between this arrangement letter and such terms and conditions, the terms of this letter shall prevail as between the relevant parties.

*Prohibition on Assignment*

36. No party may assign any of its rights in relation to this arrangement letter without the prior written consent of the others against whom the rights may be asserted, save that any Manager may assign any of such rights, or such rights may pass by operation of law, to any successor to all or part of its business without such consent, provided that notice is given to us prior to any step being taken by you to enforce any rights hereunder.

*Entire Agreement*

37. This arrangement letter and the Appendices to it constitute the entire agreement between us and, save as provided in this arrangement letter, no change in the terms of our agreement will be effective unless agreed in writing and signed by all parties to this arrangement letter or their respective attorney.

For ABC and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
[Name of the Member]  
Designation<sup>@</sup>  
Membership Number

Place of Signature:

Date:

Acknowledgement and Acceptance

[by the Issuer and Lead Manager]

I hereby confirm the agreement of the company stated below my signature to the terms set out above.

Signed: .....

<sup>@</sup> Partner or proprietor, as the case may be.

(Director of [Issuer])

Name: .....

For and on behalf of Board of Directors of [Issuer]

.....

Date:.....

Signed: .....

(Director of [Lead Manager])

Name: .....

For and on behalf of [Lead Manager] and the managers listed in  
Appendix 2.5.1

Date: .....

## **Appendix 2.5.1**

### **Names of the Managers<sup>20</sup>**

(Subject always to compliance with the requirements  
of Paragraph 2 of the arrangement letter<sup>21</sup>)

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<sup>20</sup> The legal name of each manager should be specified.

<sup>21</sup> In the case of a change in the identity of a Manager, the procedure set out in Paragraph 4 of this letter must be complied with.

## Appendix 3

### Illustrative Capitalisation Statement

[Refer Paragraph 2.3(iv)]

[Para (D) of clause (11)(I) of Part A of Schedule VI to ICDR Regulations]

(Rupees in crores)

	<i>Pre-issue as at (latest financial year or stub period, as applicable)</i>	<i>As adjusted for the proposed issue*</i>
<b>Total borrowings</b>		
Current borrowings#		
Non-current borrowings (including current maturity)#		
<b>Total equity</b>		
Equity share capital#		
Other equity#		
Total Capital		
Ratio: Non-current borrowings/ Total equity		
# These terms shall carry the meaning as per Schedule III to the Companies Act, 2013 (as amended).		

\*In case the issue price of share is not known at the time of bringing out the prospectus (at initial stages) then post issue position cannot be presented. In such case footnote explaining the same should be given. Auditors may issue a report as per Standard on Related Services 4400, "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" on the revised capitalisation statement to be inserted at the final Prospectus stage.

Note:

The above is the illustrative capitalisation statement where Ind AS is applicable for the latest period presented in the restated financial information. In the illustrative capitalisation statement given in para (D) of clause (11)(II) of part A of Schedule VI to ICDR Regulations which is relevant when Indian GAAP is applicable.



## Appendix 4

### Illustrative Auditor's Examination Report on Financial Information in Relation to Prospectus

(on financial information of the issuer Company)

*(Refer paragraph 2.5)*

#### **INDEPENDENT AUDITOR'S/[PRACTICIONER'S]<sup>22</sup> EXAMINATION REPORT ON RESTATED [CONSOLIDATED] FINANCIAL INFORMATION**

The Board of Directors  
[ABC Limited]/[Component name]

Dear Sirs,

1. We have examined the attached Restated [Consolidated] Financial Information of [ABC Limited] (Formerly known as [company's old name]) (the "Company" [or the "Issuer"]) and its subsidiaries (the Company and its subsidiaries together referred to as the "Group"), its associates and its joint ventures, comprising the Restated [Consolidated] Statement of Assets and Liabilities as at [June/September/December XX, 20XX, March 31, 20XX, 20XX and 20XX], the Restated [Consolidated] Statements of Profit and Loss (including other comprehensive income), the Restated [Consolidated] Statement of Changes in Equity, the Restated [Consolidated] Cash Flow Statement for the [three/six/nine month period ended June/September/December XX, 20XX and for the years ended March 31, 20XX, 20XX and 20XX], the Summary Statement of Significant Accounting Policies, and other explanatory information (collectively, the "Restated [Consolidated] Financial Information"), as approved by the Board of Directors of the Company at their meeting held on [Date] [for the purpose of inclusion in the [Draft Red Herring Prospectus/Red Herring Prospectus/ Prospectus ("DRHP/RHP/Prospectus")]] prepared by the Company in connection with its proposed Initial Public Offer of equity

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<sup>22</sup> In case of previous auditors.

shares ("IPO")<sup>23</sup> prepared in terms of the requirements of:

- a) Section 26 of Part I of Chapter III of the Companies Act, 2013 (the "Act");
  - b) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended ("ICDR Regulations"); and
  - c) The Guidance Note on Reports in Company Prospectuses (Revised 2018) issued by the Institute of Chartered Accountants of India ("ICAI"), as amended from time to time (the "Guidance Note").
2. The Company's Board of Directors is responsible for the preparation of the Restated [Consolidated] Financial Information for the purpose of inclusion in the [DRHP/RHP/Prospectus] to be filed with Securities and Exchange Board of India, [relevant stock exchanges and Registrar of Companies, [State]] in connection with the proposed IPO. The Restated [Consolidated] Financial Information have been prepared the management of the Company on the basis of preparation stated in note [.] to the Restated [Consolidated] Financial Information. The [respective] Board of Directors of the [companies included in the Group and of its associates and joint ventures]/[Company] responsibility includes designing, implementing and maintaining adequate internal control relevant to the preparation and presentation of the Restated [Consolidated] Financial Information. The [respective] Board of Directors are also responsible for identifying and ensuring that the [Group and its associates and joint ventures]/[Company] complies with the Act, ICDR Regulations and the Guidance Note.
3. We have examined such Restated [Consolidated] Financial Information taking into consideration:
- a) The terms of reference and terms of our engagement

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<sup>23</sup> When the examination report is furnished by the auditors for a branch/subsidiary/joint venture entity/associate or if examination report is issued by the previous auditors of the Issuer, the examination report should include the following phrase at this point: "for the purpose of providing information to [ABC Limited (the "Issuer") to enable them to prepare the Restated [Consolidated] Financial Information in connection with the Issuer's proposed Initial Public Offer of equity shares ("IPO")."

agreed upon with you in accordance with our engagement letter dated [Date] in connection with the proposed IPO of equity shares of the Issuer/[Company];

- b) The Guidance Note. The Guidance Note also requires that we comply with the ethical requirements of the Code of Ethics issued by the ICAI;
  - c) Concepts of test checks and materiality to obtain reasonable assurance based on verification of evidence supporting the Restated [Consolidated] Financial Information; and
  - d) The requirements of Section 26 of the Act and the ICDR Regulations. Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Act, the ICDR Regulations and the Guidance Note in connection with the IPO.
4. These Restated [Consolidated] Financial Information have been compiled by the management from:
- a) [Audited special purpose interim [consolidated] Ind AS financial statements of the Group and its associates and joint ventures as at and for the [three/six/nine] month period ended [June/September/December XX, 20XX] prepared in accordance with Indian Accounting Standard (Ind AS) 34 "Interim Financial Reporting", specified under section 133 of the Act and other accounting principles generally accepted in India (the "Special Purpose Interim [Consolidated] Ind AS Financial Statements") which have been approved by the Board of Directors at their meeting held on [Date]].
  - b) Audited [Consolidated] Ind AS financial statements of the Group and its associates and joint ventures as at and for the year ended March 31, 20XX, prepared in accordance with the Indian Accounting Standards (referred to as "Ind AS") as prescribed under Section 133 of the Act read with Companies (Indian Accounting Standards) Rules 2015, as amended, and other accounting principles generally accepted in India, which have been approved by the Board of Directors at their meeting held on [Date]. [The comparative information for the year ended March 31, 20XX included in such financial statements have been

prepared by making Ind AS adjustments to the audited [consolidated] financial statements of the Company as at and for the year ended March 31, 20XX, prepared in accordance with the accounting standards notified under the section 133 of the Act (“Indian GAAP”) which was approved by the Board of directors at their meeting held on [Date]]<sup>24</sup>.

OR

Audited [Consolidated] Ind AS financial statements of the [Group and its associates and joint ventures]/[Company] as at and for the years ended March 31, 20XX, 20XX [and 20XX] prepared in accordance with the Indian Accounting Standards (referred to as “Ind AS”) as prescribed under Section 133 of the Act read with Companies (Indian Accounting Standards) Rules 2015, as amended, and other accounting principles generally accepted in India, which have been approved by the Board of Directors at their meeting held on [Date].

- c) [The Restated [Consolidated] Financial Information also contains the proforma [consolidated] Ind AS financial information as at and for the year ended March 31, 20XX. The proforma [consolidated] Ind AS financial information have been prepared by making Ind AS adjustments to the audited Indian GAAP financial statements as at and for the year ended March 31, 20XX which have been approved by the Board of Directors at their meeting held on [Date] as described in Note [.] to the Restated [Consolidated] Financial Information.]<sup>25</sup>
5. [We have audited the special purpose [consolidated] financial information of the [Group and its associates and joint ventures]/[Company] for the year ended March 31, 20XX prepared by the Company in accordance with the Ind AS for the limited purpose of complying with the requirement of getting its financial statements audited by an audit firm holding a valid peer review certificate issued by the “Peer Review Board” of the ICAI as required by ICDR Regulations in relation

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<sup>24</sup> Applicable when comparative year's underlying financial statements were prepared under Indian GAAP by the management.

<sup>25</sup> Applicable when the earliest third financial year's financial statements were prepared under Indian GAAP.

to proposed IPO. We have issued our report dated [Date] on these special purpose [consolidated] financial information to the Board of Directors who have approved these in their meeting held on [Date].<sup>26</sup>

6. For the purpose of our examination, we have relied on:
- a) Auditors' reports issued by us dated [date] and [date] on the [consolidated] financial statements of the Group as at and for the [three / six / nine month period ended June / September / December XX, 20XX] and as at and for the year ended March XX, 20XX as referred in Paragraph [4] above; and
  - b) Auditors' Report issued by the Previous Auditors dated [date] and [date] on the [consolidated] financial statements of the Group as at and for the years ended March 31, 20XX and 20XX, as referred in Paragraph [4] above.

The audits for the financial years ended March 31, 20XX and 20XX were conducted by the Company's previous auditors, [XYZ1 & Co.], (the "Previous Auditors"), and accordingly reliance has been placed on the restated [consolidated] statement of assets and liabilities and the restated [consolidated] statements of profit and loss (including other comprehensive income), statements of changes in equity and cash flow statements, the Summary Statement of Significant Accounting Policies, and other explanatory information and (collectively, the "20XX and 20XX Restated [Consolidated] Financial Information") examined by them for the said years. The examination report included for the said years is based solely on the report submitted by the Previous Auditors. They have also confirmed that the 20XX and 20XX Restated [Consolidated] Financial Information:

- a) [have been prepared after incorporating adjustments for the changes in accounting policies, material errors and regrouping/reclassifications retrospectively in the

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<sup>26</sup> This paragraph is applicable if underlying latest audited financial year presented is required to be re-audited by an auditor holding a valid peer review certificate to comply with ICDR Regulations.

financial year ended March 31, 20XX to reflect the same accounting treatment as per the accounting policies and grouping/classifications followed as at and for the [three/six/nine month period ended June/September/December XX, 20XX];

- b) [have been prepared after incorporating proforma Ind AS adjustments to the audited Indian GAAP financial statements as at and for the year ended March 31, 20XX as described in Note [.] to the Restated [Consolidated] Financial Information];
  - c) [have been made after giving effect to the matter(s) giving rise to modifications mentioned in paragraph [7] below] / [do not require any adjustments for the matter(s) giving rise to modifications mentioned in paragraph [7] below]; and
  - d) have been prepared in accordance with the Act, ICDR Regulations and the Guidance Note.]
7. The audit reports on the [consolidated] financial statements issued by [us]/[Previous Auditors] were modified and included following matter(s) giving rise to modifications on the financial statements as at and for the years ended March 31, 20XX, 20XX and 20XX:

[include matter(s) giving rise to modifications here]

8. [As indicated in our audit reports referred above:
- a) we did not audit the financial statements of [.] branches and [.] joint operations included in the [consolidated] financial statements of the companies included in the Group whose financial statements share of total assets and total revenues included in the [consolidated] financial statements, for the relevant years is tabulated below, which have been audited by other auditors, [XYZ2 & Co. and XYZ3 & Co.], and whose reports have been furnished to us by the Company's management and our opinion on the [consolidated] financial statements, in so far as it relates to the amounts and disclosures included in respect

of these components, is based solely on the reports of the other auditors:

(Rs in million)

<b>Particulars</b>	<b>As at/ for the [three/six/nine] month period ended [June/ September/December XX, 20XX]</b>	<b>As at/ for the year ended March 31, 20XX</b>
Total assets	[.]	[.]
Total revenues	[.]	[.]

- b) we did not audit financial statements of [.] subsidiaries, [.] associates and [.] joint ventures whose share of total assets, total revenues, net cash inflows / (outflows) and share of profit/ loss in its associates and joint ventures included in the consolidated financial statements, for the relevant years is tabulated below, which have been audited by other auditors, [XYZ4 & Co. and XYZ5 & Co.], and whose reports have been furnished to us by the Company's management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these components, is based solely on the reports of the other auditors:

(Rs in million)

<b>Particulars</b>	<b>As at/ for the [three/six/nine] month period ended [June/ September/ December XX, 20XX]</b>	<b>As at/ for the year ended March 31, 20XX</b>
Total assets	[.]	[.]
Total revenue	[.]	[.]
Net cash inflow/ (outflows)	[.]	[.]

Particulars	As at/ for the [three/six/nine] month period ended [June/ September/ December XX, 20XX]	As at/ for the year ended March 31, 20XX
Share of profit/ loss in its associates	[.]	[.]
Share of profit/ loss in its joint ventures	[.]	[.]

c) [The comparative financial information of the Company for the year ended March 31, 20XX and the transition date opening balance sheet as at April 1, 20XX prepared in accordance with Ind AS included in these [consolidated] Ind AS financial statements have been audited by the previous auditors. The report of the previous auditors on the comparative financial information and the said opening balance sheet dated [Date] expressed an unmodified opinion.]

Our opinion on the consolidated Ind AS financial statements is not modified in respect of these matters.

[amend as applicable]

These other auditors of the branches, joint operations, subsidiaries, associates and joint ventures, as mentioned above, have examined the restated [consolidated] financial information and have confirmed that the restated [consolidated] financial information:

a) [have been prepared after incorporating adjustments for the changes in accounting policies, material errors and regrouping/reclassifications retrospectively in the financial year ended March 31, 20XX to reflect the same accounting treatment as per the accounting policies and grouping/classifications followed as at and for the [three/six/nine month period ended June/



September/December XX, 20XX];

- b) [have been prepared after incorporating proforma Ind AS adjustments to the audited Indian GAAP financial statements as at and for the year ended March 31, 20XX as described in Note [.] to the Restated [Consolidated] Financial Information];
  - c) [have been made after giving effect to the matter(s) giving rise to modifications mentioned in paragraph [7] above] / [do not require any adjustments for the matter(s) giving rise to modifications mentioned in paragraph [7] above]; and
  - d) have been prepared in accordance with the Act, ICDR Regulations and the Guidance Note.]
9. Based on examination report dated [Date] provided by the Previous Auditors, the audit reports on the [consolidated] financial statements issued by the Previous Auditors included following other matters:
- a) We did not audit the financial statements of [.] branches and [.] joint operations included in the [consolidated] financial statements of the companies included in the Group whose financial statements share of total assets and total revenues included in the [consolidated] financial statements, for the relevant years is tabulated below, which have been audited by other auditors, [XYZ2 & Co. and XYZ3 & Co.], and whose reports have been furnished to us by the Company's management and our opinion on the [consolidated] financial statements, in so far as it relates to the amounts and disclosures included in respect of these components, is based solely on the reports of the other auditors:

(Rs in million)

<b>Particulars</b>	<b>As at/ for the year ended March 31, 20XX</b>	<b>As at/ for the year ended March 31, 20XX</b>
Total assets	[.]	[.]
Total revenues	[.]	[.]

b) We did not audit financial statements of [.] subsidiaries, [.] associates and [.] joint ventures whose share of total assets, total revenues, net cash inflows / (outflows) and share of profit/ loss in its associates and joint ventures included in the Consolidated Financial Statements, for the relevant years is tabulated below, which have been audited by other auditors, [XYZ4 & Co. and XYZ5 & Co.], and whose reports have been furnished to us by the Company's management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these components, is based solely on the reports of the other auditors:

(Rs in million)

<b>Particulars</b>	<b>As at/ for the year ended March 31, 20XX</b>	<b>As at/ for the year ended March 31, 20XX</b>
Total assets	[.]	[.]
Total revenues	[.]	[.]
Net cash inflows/ (outflows)	[.]	[.]
Share of profit/ loss in its associates	[.]	[.]
Share of profit/ loss in its joint ventures	[.]	[.]

Our opinion on the consolidated Ind AS financial statements is not modified in respect of these matters.

[amend as applicable]

10. Based on our examination and according to the information and explanations given to us [and also as per the reliance placed on the examination report submitted by the Previous

Auditors and other auditors<sup>27</sup> for the respective periods/years], we report that the Restated [Consolidated] Financial Information:

- a) [have been prepared after incorporating adjustments for the changes in accounting policies, material errors and regrouping/reclassifications retrospectively in the financial years ended March 31, 20XX and 20XX to reflect the same accounting treatment as per the accounting policies and grouping/classifications followed as at and for the [three/six/nine month period ended June/September/December XX, 20XX];
  - b) [have been prepared after incorporating proforma Ind AS adjustments to the audited Indian GAAP financial statements as at and for the year ended March 31, 20XX as described in Note [.] to the Restated [Consolidated] Financial Information];
  - c) [have been made after giving effect to the matter(s) giving rise to modifications mentioned in paragraph [7] above] / [do not require any adjustments for the matter(s) giving rise to modifications mentioned in paragraph [7] above]; and
  - d) have been prepared in accordance with the Act, ICDR Regulations and the Guidance Note.]
11. The Restated [Consolidated] Financial Information do not reflect the effects of events that occurred subsequent to the respective dates of the reports on the special purpose interim [consolidated] Ind AS financial statements and audited [consolidated] financial statements mentioned in paragraph [4] above.

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<sup>27</sup> Generally, the examination of past periods of the group and of the material branches/joint operations/subsidiaries/joint ventures/ associates should be performed by the previous auditors and other auditors of such branches, joint operations, subsidiaries, joint ventures and associates and an examination report should be submitted to company/ current auditor based on their work performed. The company should communicate the current policy and other required information to previous auditors/ other auditors and previous auditors/ other auditors should consider such policies and other information for their examination. In case the previous auditors and other auditors are not in a position to issue examination report for past periods and for components due to practical issues, then the current auditors should perform adequate procedures to be able to take responsibility of past periods and for components.

12. This report should not in any way be construed as a reissuance or re-dating of any of the previous audit reports issued by us [or the Previous Auditors], nor should this report be construed as a new opinion on any of the financial statements referred to herein.
13. We have no responsibility to update our report for events and circumstances occurring after the date of the report.
14. Our report is intended solely for use of the Board of Directors for inclusion in the [DRHP/RHP/Prospectus] to be filed with Securities and Exchange Board of India, [relevant stock exchanges and Registrar of Companies, [State]] in connection with the proposed IPO. Our report should not be used, referred to, or distributed for any other purpose except with our prior consent in writing. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

OR

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and for the use of [current] statutory auditors of the Issuer in connection with their examination of the restated [consolidated] financial information in connection with the Issuer's proposed IPO. As a result, the special purpose restated [consolidated] financial information may not be suitable for any other purpose. Our report should not be used, referred to or distributed for any other purpose except with our prior consent in writing. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.<sup>28</sup>

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

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<sup>28</sup> This paragraph to be used when the report is issued by previous auditor or components' auditors.

Signature  
[Name of the Member]  
Designation<sup>29</sup>  
Membership Number

Place of Signature:

Date:

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<sup>29</sup> Partner or proprietor, as the case may be.

## **Appendix 5**

### **Restated Financial Information**

*(Refer Paragraph 2.5)*

#### **Reporting requirements under ICDR Regulations**

Securities and Exchange Board of India (“SEBI”) (Issue of Capital and Disclosure Requirements (“ICDR”)) Regulations, 2018, as amended (hereinafter referred to as the “ICDR Regulations”) require issuer companies to disclose restated consolidated financial information for three financial years immediately preceding the filing of their offer documents, while following uniform accounting policies, presentation and disclosures for each of the financial years.

#### **Applicability of Ind AS to disclosures in offer documents**

On February 16, 2015, the Ministry of Corporate Affairs (“MCA”) notified the Companies (Indian Accounting Standards) Rules, 2015, as amended that set out the text of Indian Accounting Standards (Ind AS) applicable to certain class of companies and set out the dates of applicability.

In response to applicability of Ind AS, on March 31, 2016, SEBI issued circular (reference no. SEBI/HO/CFD/DIL /CIR/P/2016/47) (the “SEBI Circular”) clarifying the applicability of Ind AS to the financial statements to be included in the offer document. The circular specifies the following requirements:

#### **Applicability on Phase I and Phase II companies**

The circular is applicable to companies falling under either Phase I or Phase II of the MCA roadmap for implementation of Ind AS (“Ind AS roadmap”), and are filing offer document on or after April 1, 2016. The SEBI Circular had provided reporting requirements for Phase I and Phase II companies based on the reporting requirements applicable as on the date of issuance of this circular. Subsequently, on September 11, 2018, SEBI revised the reporting requirements for issuer companies. In the revised ICDR regulations, SEBI clarified that in case where Ind AS are not applicable to the company for any of the years the principles laid

down in Circular No SEBI/HO/CFD/DIL/CIR/P/2016/47 of March 31, 2016 or any other relevant circular issued by the Board from time to time, shall apply. Accordingly, the guidance included in this guidance note is updated assuming the revised requirements of the ICDR Regulations are applicable to the SEBI Circular.

The insurance companies, banking companies and non-banking finance companies should follow similar guidance, as applicable.

### **Phase I companies**

Companies falling under Phase I, i.e. companies that have prepared Ind AS financial statements for accounting periods beginning on or after April 1, 2016, shall be required to present all the three years and the stub period (if applicable) in accordance with Ind AS for filing of offer documents on or after November 10, 2018.

### **Phase II Companies**

For companies falling under Phase II with a transition date as at April 1, 2016, i.e. companies that have prepared Ind AS financial statements for accounting periods beginning on or after April 1, 2017, the following framework of accounting shall be applicable for disclosing financial information in their offer document:

<b>Period of filing of offer document \$</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
Upto March 31, 2019	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Proforma Ind AS* (FY 2015-16)
On or after April 1, 2019	Ind AS (FY 2018-19)#	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)

\*To be disclosed by making suitable restatement adjustments to the accounting heads from their values as on the date of transition following accounting policies consistent with that used at the date of transition to Ind AS. (Refer *Questions 4 and 5 of "Key reporting considerations while preparing financial statements to be included in offer documents"* in **Appendix 5.1**)

\$(Refer *Question 1* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 5.1**)

#Ind AS financial information for the year 2018-19 to be presented assuming, the issuer company will not present interim stub period financial information for financial year 2018-19. If the issuer company plans to present interim stub period (say, nine month period ended December 31, 2018) financial information for financial year 2018-19, the following framework of accounting shall be applicable for disclosing financial information in their offer document:

<b>Period of filing of offer document</b>	<b>Interim period</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
On or after April 1, 2019 (including Stub period)	Ind AS (Nine month period ended December 31, 2018)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Proforma Ind AS (FY 2015-16)

**Additional guidance for Phase I and Phase II companies:**

***Disclosure in case of Interim Periods***

Disclosures of the interim financial information in the offer document (if any), shall be made in line with the accounting policies followed for the latest financial year. (Refer *Question 2* of “Key reporting considerations while preparing financial statements to be included in offer documents ” in **Appendix 5.1**)

***Voluntary use of Framework for the Preparation and Presentation of Financial Statements under Ind AS (“Ind AS Framework”)***

SEBI has permitted companies to voluntarily prepare financial statements for all three financial years preceding the filing in



accordance with Ind AS framework. (Refer Question 8 of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 5.1**)

#### **Additional disclosures**

Companies in the process of listing shall clearly disclose the fact that the financial information has been disclosed in accordance with Ind AS while suitably explaining the difference between Ind AS and the previously applicable accounting standards, and the impact of transition to Ind AS.

SEBI has mandated the compliance with the requirements of paragraphs 22 to 26 and paragraph 32 of Ind AS 101 - First time adoption of the Indian Accounting Standards (“Ind AS 101”) for this purpose which has been detailed below:

- a) The company in the process of listing is required to explain how the transition from the previous GAAP to Ind AS affected its balance sheet, financial performance and cash flows and to comply with the same, annual financial statements presented in the offer document shall include:
  - i) Reconciliation of its equity reported in accordance with the previous GAAP to its equity in accordance with Ind AS;
  - ii) Reconciliation of its total comprehensive income/profit or loss under the previous GAAP to its total comprehensive income in accordance with Ind AS;
  - iii) Disclosures required under Ind AS 36 – Impairment of Assets (“Ind AS 36”) if the company has recognised or reversed any impairment losses for the first time in preparing its opening Ind AS Balance Sheet;
  - iv) Explanation of the material adjustments to the statement of cash flows if presented under the previous GAAP; and
  - v) The company should distinguish errors (if any under previous GAAP) from the change in accounting policies while providing the above reconciliations.
- b) Similar transitional disclosures are required in the interim financial statements presented in the offer document.

## **Other Requirements**

- a) All the financial information disclosed in the offer document for any particular year should be in accordance with consistent accounting policies (whether Ind AS or Indian GAAP). (Refer paragraph 2.2 of this guidance note).
- b) All other requirements of ICDR Regulations for disclosure of financial information in the offer documents, including the audit/review requirements shall remain the same.

Issuer companies under transition phase to Ind AS may face certain practical challenges with regard to preparation of historical financial statements to be included in offer documents. Some of the key reporting considerations have been discussed in **Appendix 5.1**.

## **Requirements of SEBI in general for preparation of restated historical financial statements**

While preparing the Restated Financial Information, the issuer companies should consider the following:-

### **1. Disclosures in the Restated Financial Information**

The ICDR Regulations require that the issuer companies should prepare the restated financial information as per Companies Act, 2013 (as amended). Accordingly, the issuer companies should present disclosures as required by the applicable accounting standards and Schedule III of the Companies Act, 2013 (as amended) as presented in the statutory financial statements of the issuer company.

### **2. Matters relating to Companies Auditors' Report Order, 2016 while preparing Restated financial Information**

Any item qualified in auditors' report and report under the Companies Auditors' Report Order, 2016 (including the Orders applicable for previous periods) for the periods covered by the restated financial statements needs to be assessed in accordance with the principles enumerated in Ind AS 8. Companies should explain the adjustments made in the Restated Financial Information in relation to the items qualified in auditors' report and the report under

the Companies Auditors' Report Order, 2016 (including the Orders applicable for previous periods) in the notes to Restated Financial Information.

**3. Signing of restated financial information**

The preparation of restated financial information in accordance with the requirements of the ICDR regulations, which is to be included in the offer document is the responsibility of the management of the company and should be approved by the board of directors of the issuer company. Therefore, the restated financial information should be signed by the persons authorised by the board of directors of the issuer company to sign on behalf of them.

**4. Deferred tax implication in relation to adjustments made in preparation of restated financial information**

Issuer companies should make suitable deferred tax adjustments in relation to adjustments made in preparation of restated financial information in accordance with the applicable accounting standards.

## **Appendix 5.1**

### **Key Reporting Considerations while preparing Financial Statements to be included in Offer Documents**

**Question 1: Which framework of accounting to be followed by companies for furnishing financial information for three years in offer documents?**

**Response:**

#### Phase I companies

Companies covered in Phase I of Ind AS roadmap are required to prepare Ind AS financial statements for the accounting period beginning on or after April 1, 2016 (i.e. for the financial year ended March 31, 2017 and subsequent financial years) for filing under Companies Act, 2013. In accordance with Ind AS roadmap and Ind AS 101, these companies were required to prepare their first Ind AS financial statements for the year ended March 31, 2017 and present the comparative financial information for the preceding financial year ended March 31, 2016 and an opening Ind AS transition balance sheet as at the transition date i.e. April 1, 2015.

Companies falling under Phase I, i.e. companies that have prepared Ind AS financial statements for accounting periods beginning on or after April 1, 2016 shall be required to present all the three years and the stub period (if applicable) in accordance with Ind AS for filing of offer documents on or after November 10, 2018.

#### Phase II companies (transition date on April 1, 2016)

*Scenario 1 - Period of filing of offer document after March 31, 2019*

In case a company plans to file after March 31, 2019 (for example, in financial year 2019-20), it should be prepared in accordance with Ind AS, being the accounting framework followed for the latest financial year i.e. year ended March 31, 2019.

Example: XYZ Ltd. is an issuer company and is covered under Phase II of Ind AS roadmap with a transition date April 1, 2016. The company is planning to file offer document on May 31, 2019 and intends to present financial information for three financial years. The accounting framework applicable for the preparation of financial statements for the three financial years shall be as follows:

<b>Period of filing of offer document</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
Between April 1, 2019 and March 31, 2020	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)

Phase II companies (transition date after April 1, 2016, say April 1, 2018)

*Scenario 1 - Period of filing of offer document between April 1, 2019 to March 31, 2020*

In case a company plans to file after March 31, 2019 (for example, in financial year 2019-20), it should be prepared in accordance with Indian GAAP, being the accounting framework followed for the latest financial year i.e. year ended March 31, 2019.

Example: XYZ Ltd. is an issuer company and is covered under Phase II of Ind AS roadmap with a transition date April 1, 2018. The company is planning to file offer document on May 31, 2019 and intends to present financial information for three financial years. The accounting framework applicable for the preparation of financial statements for the three financial years shall be as follows:

<b>Period of filing of offer document</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
Between April 1,	Indian GAAP	Indian GAAP	Indian GAAP

2019 and March 31, 2020	(FY 2018-19)	(FY 2017-18)	(FY 2016-17)
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*Scenario 2 - Period of filing of offer document between April 1, 2020 and March 31, 2021*

In case a company plans to file after March 31, 2020 (for example, in financial year 2020-21), it should be prepared in accordance with Ind AS, being the accounting framework followed for the latest financial year i.e. year ended March 31, 2020.

Example: XYZ Ltd. is an issuer company and is covered under Phase II of Ind AS roadmap with a transition date April 1, 2018. The company is planning to file offer document on May 31, 2020 and intends to present financial information for historical three financial years. The accounting framework applicable for the preparation of financial statements for the historical three financial years shall be as follows:

Period of filing of offer document	Latest financial year	Second latest financial year	Third financial year
Between April 1, 2020 and March 31, 2021	Ind AS (FY 2019-20)	Ind AS (FY 2018-19)	Proforma Ind AS financial statements (FY 2017-18)

*Scenario 3 - Period of filing of offer document after March 31, 2021*

Refer guidance provided under Scenario 1 under section “Phase II companies (transition date on April 1, 2016)” mentioned under this question.

**Question 2: Which framework of accounting to be followed by companies for preparing interim financial information?**

**Response:**

Phase I companies

*Period of filing of offer document after March 31, 2018*

The SEBI Circular states that the disclosures of an interim period financial information (if any), in the offer document shall be made in line with the accounting policies followed for the latest financial year. In case a company discloses financial information for an interim six month period ending after March 31, 2018 (for example, in financial year 2018-19), it should be prepared in accordance with Ind AS, being the accounting framework followed for the latest financial year i.e. year ended March 31, 2018. Example: XYZ Ltd. is an issuer company and is covered under Phase I of Ind AS roadmap. The company is planning to file offer document on January 31, 2019 and intends to present financial information for interim period (six month period ended September 30, 2018) and for historical three financial years. The accounting framework applicable for the preparation of financial statements for the interim period and historical three financial years shall be as follows:

<b>Period of filing of offer document</b>	<b>Interim period</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
Between April 1, 2018 and March 31, 2019	Ind AS (Six month period ended September 30, 2018)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)

Phase II companies (transition date on April 1, 2016)

*Scenario 1 - Period of filing of offer document upto March 31, 2019*

In case a company discloses financial information for an interim six month period ended after March 31, 2018 (for example, in financial year 2018-19), it should be prepared in accordance with

Ind AS, being the accounting framework followed for the latest financial year i.e. year ended March 31, 2018.

Example: XYZ Ltd. is an issuer company and is covered under Phase II of Ind AS roadmap with a transition date April 1, 2016. The company is planning to file offer document on January 31, 2019 and intends to present financial information for interim period (six month period ended September 30, 2018) and for historical three financial years. The accounting framework applicable for the preparation of financial statements for the interim period and historical three financial years shall be as follows:

<b>Period of filing of offer document</b>	<b>Interim period</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
Between April 1, 2018 and March 31, 2019	Ind AS (Six month period ended September 30, 2018)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Proforma Ind AS financial statements (FY 2015-16)

*Scenario 2 - Period of filing of offer document after March 31, 2019*

In case a company discloses financial information for an interim six month period ended after March 31, 2019 (for example, in financial year 2019-20), it should be prepared in accordance with Ind AS, being the accounting framework followed for the latest financial year i.e. year ended March 31, 2019.

Example: XYZ Ltd. is an issuer company and is covered under Phase II of Ind AS roadmap with a transition date April 1, 2016. The company is planning to file offer document on January 31, 2020 and intends to present financial information for interim period (six month period ended September 30, 2019) and for historical three financial years. The accounting framework applicable for the



preparation of financial statements for the interim period and historical three financial years shall be as follows:

<b>Period of filing of offer document</b>	<b>Interim period</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
Between April 1, 2019 and March 31, 2020	Ind AS (Six month period ended September 30, 2019)	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)

Phase II companies (transition date after April 1, 2016, say April 1, 2017)

*Scenario 1 -Period of filing of offer document upto March 31, 2019*

In case a company discloses financial information for an interim six month period ended after March 31, 2018 (for example, in financial year 2018-19), it should be prepared in accordance with Indian GAAP, being the accounting framework followed for the latest financial year i.e. year ended March 31, 2018.

Example: XYZ Ltd. is an issuer company and is covered under Phase II of Ind AS roadmap with a transition date April 1, 2017. The company is planning to file offer document on January 31, 2019 and intends to present financial information for interim period (six month period ended September 30, 2018) and for historical three financial years. The accounting framework applicable for the preparation of financial statements for the interim period and historical three financial years shall be as follows:

<b>Period of filing of offer document</b>	<b>Interim period</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
Between April 1, 2018 and March 31,	Indian GAAP (Six month period	Indian GAAP (FY 2017-18)	Indian GAAP (FY 2016-17)	Indian GAAP (FY 2015-16)

2019	ended September 30, 2018)			
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*Scenario 2 - Period of filing of offer document between April 1, 2019 and March 31, 2020*

Refer guidance provided under Scenario 1 under section “Phase II companies (transition date on April 1, 2016)” mentioned under this question.

*Scenario 3 - Period of filing of offer document after March 31, 2020*

Refer guidance provided under Scenario 2 under section “Phase II companies (transition date on April 1, 2016)” mentioned under this question.

**Question 3: If the company has presented Indian GAAP restated financial information during the listing process, which accounting framework is required to be followed by the company for the subsequent interim reporting after the listing?**

**Response:**

Example: XYZ Ltd. is an issuer company and has reported under Indian GAAP for latest financial year. The company is planning to file offer document on May 31, 2019 with Indian GAAP financial statements and completes the listing process by August 31, 2019. In this case, since Ind AS will become applicable for the company from financial year 2019-20 onwards, the company is required to file interim financial results with SEBI for the quarter and half year ended September 30, 2019 in accordance with applicable Ind AS framework.

**Question 4: How should the proforma Ind AS financial information be prepared by companies?**

**Response:**

Phase I companies

Refer the guidance provided under Question 1. Phase I companies will not be required to present proforma Ind AS financial information as these companies have already reported under Ind AS for historical three financial years.

#### Phase II companies

Assuming that Phase II issuer companies are in the process of listing during the period from April 1, 2018 to March 31, 2019 and would have prepared Ind AS financial statements for interim period 2018-19 and FY 2017-18 with comparatives for FY 2016-17 for filing under Companies Act, 2013. Also, these companies would have prepared Indian GAAP financial statements for FY 2015-16 and 2016-17 for filing under Companies Act, 2013. But, the circular requires these companies to prepare an additional Ind AS financial statements for FY 2015-16 for inclusion in the offer document (in addition to using Ind AS comparatives for FY 2016-17).

For the purpose of preparing Ind AS financial statements for the FY 2015-16, the circular requires suitable restatement adjustments (both re-measurements and reclassifications) to be made in accounting heads from their values as on the date of transition (i.e. April 1, 2016) following accounting policies consistent with that used at the date of transition to Ind AS (i.e. April 1, 2016). It seems that the intent of the circular is not to push back the transition date (i.e. April 1, 2016) to April 1, 2015 and re-adopt Ind AS 101 provisions again. Therefore, these companies are required to follow the same accounting policy choices (both mandatory exceptions and optional exemptions availed as per Ind AS 101) as initially adopted on transition date (i.e. April 1, 2016) while preparing financial statements for the FY 2015-16 and accordingly suitable restatement adjustments in the accounting heads need to be made. The financial statements for the FY 2015-16 should be prepared on proforma basis (i.e. "Proforma Ind AS

financial statements”) for the purpose of inclusion in the offer document.

The same is summarised in the table below:

<b>Period of filing of offer document</b>	<b>Interim period</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>
Between April 1, 2018 and March 31, 2019	Ind AS	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	<i>Proforma Ind AS financial statements</i> (FY 2015-16)

There may be a possibility where equity balance computed under Proforma Ind AS financial statements for the year ended March 31, 2016 (i.e. equity under Indian GAAP as at April 1, 2015 adjusted for impact of Ind AS 101 items as suggested later in this section and after considering profit or loss for the year ended March 31, 2016 with adjusted impact due to Ind-AS principles applied on proforma basis) and equity balance computed in opening Ind AS Balance sheet as at transition date (i.e. April 1, 2016), prepared for filing under Companies Act, 2013, differs due to restatement adjustments made as at April 1, 2015. In such case, the closing equity balance as at March 31, 2016 of the Proforma Ind AS financial statements should not be carried forward to opening Ind AS Balance sheet as at transition date already adopted for reporting under Companies Act, 2013. However, companies should provide appropriate disclosures in the offer document to explain the differences between the two. Companies should include all disclosures as required by Ind AS for the Proforma Ind AS financial statements unless it is impracticable. Companies should also include details of proforma adjustments (including the basis) made as at April 1, 2015 and for

the year ended March 31, 2016 as part of the notes in the restated financial information.

*Recommendations– while preparing the Proforma Ind AS Financial Statements*

For the purpose of preparing Proforma Ind AS Financial statements, the companies would have to evaluate how the adjustments should be made in some areas such as items that are measured at fair value (e.g. derivative or revalued assets, where such fair value information is not available at the earlier dates), items of property plant and equipment that took deemed cost exemption (using the fair value option), or the transactions that were exempt from the retrospective restatement on first time adoption of Ind AS (e.g. business combinations that occurred during the period from April 1, 2015 to March 31, 2016).

Companies are required to analyse all mandatory exceptions and optional exemptions available under Ind AS 101 on case to case basis for the first-time adoption (including comparatives) and accordingly need to make restatement adjustments in line with the same in the Proforma Ind AS financial statements. For cases where there are no exemptions (e.g. functional currency) available under Ind AS 101, companies are required to Ind AS principles retrospectively and make necessary adjustments as at transition date (i.e. April 1, 2016). Similar adjustments should be made to prepare opening balance sheet of Proforma Ind AS financial statements to be in line with the requirements of paragraph 10 of Ind 101. Some of the major challenges on application of certain mandatory exceptions and optional exemptions have been discussed below:

***I. Business combination:***

Ind AS 103 - Business combinations ("Ind AS 103") provides for the accounting principles to be applied in case of business combinations (like acquisition method accounting using fair values of the assets transferred, liabilities incurred to the previous owners of the acquire, equity interests issued and contingent consideration). Considering the complexities involved in application of Ind AS 103 and for providing relaxation to the first

time adopters of Ind AS, Ind AS 101 provides for following options to be made at transition date:

- i) Not to apply Ind AS 103 retrospectively to past business combinations that occurred before the transition date (i.e. April 1, 2016), or
- ii) Re-state all the business combinations that occurred before the transition date (i.e. April 1, 2016), or that occurred from a particular date (pre-transition date) till the date of transition and accordingly apply Ind AS 103.

**Reporting Consideration:**

To comply with the requirement of the circular for preparation of Proforma Ind AS financial statements, companies are required to consider the roll-back restatement adjustments to be made depending upon the option availed at transition date. Different scenarios have been discussed below:

Scenario 1 – *Where the company has availed Ind AS 101 exemption at transition date (i.e. not to apply Ind AS 103 retrospectively):*

The Company has opted for optional exemption for not applying retrospectively Ind AS 103 accounting principles for business combinations that occurred before the transition date (i.e. April 1, 2016). Therefore, the company should adopt the same accounting policy choice for preparing Proforma Ind AS financial statements as adopted initially at the transition date and accordingly not to apply Ind AS 103 for business combinations that have occurred between the period April 1, 2015 and March 31, 2016. However, the company has to consider the adjustments required by paragraph C4 of Appendix C 'Exemptions for business combinations) to Ind AS 101 for business combinations that have occurred during the said period which the company have already evaluated on transition date (i.e. April 1, 2016).

Scenario 2 –*Where the company has not availed Ind AS 101 exemption at transition date (i.e. apply Ind AS 103 retrospectively):*

As the company has applied Ind AS 103 principles retrospectively, it is assumed that the company would have necessary information

to be able to apply the new accounting requirements retrospectively and hence it will not pose any challenge.

**II. Deemed cost:**

Ind AS 101 includes an optional exemption that relieves first-time adopters from the requirement to recreate cost information for property, plant and equipment (“PP&E”), investment property (other than option based on fair value or revaluation) and intangible assets. When the exemption is applied, deemed cost is the basis for subsequent depreciation and impairment tests. Following are the options available under Ind AS 101 at transition date:

- i) Fair value as “Deemed Cost” - Measure an item of PP&E at fair value at transition date (i.e. April 1, 2016) and use that fair value as deemed cost as at April 1, 2016;
- ii) Revalued amount as “Deemed Cost” - Value an item of PP&E arrived on revaluation on the date of revaluation and use the carrying value as at transition date (i.e. April 1, 2016) based on that revaluation as deemed cost;
- iii) Carrying amount as “Deemed Cost” - Carry an item of PP&E at carrying amount as at transition date (i.e. April 1, 2016) as per Indian GAAP and use that carrying amount as deemed cost as at April 1, 2016. However, this carrying amount needs to be adjusted to make necessary adjustments in relation to decommissioning liability. This option, if availed, should be extended to all items of PP& E;
- iv) Event driven fair value as “Deemed Cost” – Carry an item of PP&E as deemed cost measured in previous GAAP based on fair value at the date of events such as privatisation or initial public offerings; and
- v) Apply Ind AS 16 retrospectively.

**Reporting consideration:**

To comply with the requirements of the circular for preparation of Proforma Ind AS financial statements, companies are required to consider the roll-back restatement adjustments to be made

depending upon the option availed at transition date. Different scenarios have been discussed below:

Scenario 1 –Fair value as deemed cost:

Assume a company had measured an item of its property, plant and equipment (say, building) at transition date at its fair value (say, Rs. 90 crore with remaining useful life of 9 years) and use that fair value as deemed cost at that date.

As per the circular, the company should adopt the same accounting policy choice for preparing Proforma Ind AS financial statements as adopted at transition date and accordingly determine fair value of the building at April 1, 2015. Considering the practical challenges in determining the independent fair value at April 1, 2015, the company should arrive at the carrying value at April 1, 2015 using the fair value as at April 1, 2016 as a base. Therefore, the company should consider the same fair value as considered at transition date subject to adjustment of depreciation for one year (i.e.  $90/9*10 = \text{Rs. } 100$  crore).

Scenario 2 – Revalued amount as deemed cost:

Assume a company acquires a factory building for Rs. 360 crore on April 1, 2011 with an expected remaining useful life of 40 years at that date. The building is revalued on April 1, 2013 to Rs. 390 crore and the resulting adjustment is recognised in equity. The building has a depreciated carrying amount of Rs. 369.47 crore (i.e.  $390 \text{ less } 390/38*2$ ) on April 1, 2015 and Rs. 359.21 crore (i.e.  $390 \text{ less } 390/38*3$ ) on April 1, 2016. Assuming the depreciation method under previous GAAP is acceptable under Ind AS 16 and the revaluation is broadly comparable to fair value at the date of revaluation. The company has opted to adopt revalued carrying amount as deemed cost at transition date.

Therefore, the company should adopt the carrying value of Rs. 369.47 crore (on April 1, 2015) as the opening value for preparing Proforma Ind AS financial statements.

Scenario 3 –Previous GAAP carrying amount as deemed cost:



Assume that the company has adopted cost model under previous GAAP and the carrying amount of the factory building is Rs. 350 crore as at April 1, 2016 with remaining useful life of 25 years. Assuming the depreciation method under previous GAAP is acceptable under Ind AS 16. The company has opted to adopt previous GAAP carrying amount as deemed cost at transition date (i.e. April 1, 2016).

Therefore, the company should adopt the carrying value of Rs. 364 crore (i.e.  $350/25 \times 26$ ) as the opening value (i.e. on April 1, 2015) for preparing Proforma Ind AS financial statements. If this option is available, previous GAAP carrying amount of all items of PP & E on the date of transition should be treated as their deemed cost on that date.

#### Scenario 4 – Event driven fair value as deemed cost

The option to use an event-driven value is only available if that value was recognised in the company's financial statements under Indian GAAP. If the measurement date is at or before the transition date (i.e. April 1, 2016), the company may use such event-driven fair value measurements as deemed cost for Ind AS at the date of that measurement. If the measurement date is after the transition date (i.e. April 1, 2016), but during the period covered by the first Ind AS financial statements (i.e. from April 1, 2017 to March 31, 2018), the event-driven value may be used as deemed cost when the event occurs. A company should recognise the resulting adjustments directly in retained earnings (or if appropriate, another category of equity) at the measurement date. However, on the date of transition, the company should measure the deemed cost by applying other options permitted in Ind AS 101.

Example: Company ABC is adopting Ind AS for the first time in its financial statements for the year ending March 31, 2018. Its date of transition is April 1, 2016. At June 30, 2017, in producing financial information for an initial public offering (IPO), Company ABC establishes fair values for property, plant and equipment.

The following information is relevant.

Fair value of assets established at March 31, 2013 with remaining useful life of 30 years (recognised under Indian GAAP)	Rs. 750 crore
Fair value of assets at March 31, 2013 less accumulated depreciation to April 1, 2016 (determined in accordance with Ind AS)	Rs. 675 crore (Rs. 750 less $750/30 \times 3$ years)
Fair value of assets at March 31, 2013 less accumulated depreciation to June 30, 2017 (determined in accordance with Ind AS)	Rs. 637.50 crore (Rs. 750 less $750/30 \times 4.5$ years)
Fair value of assets at June 30, 2017	Rs. 1,000 crore

Under paragraph D8(b) of Ind AS 101, the fair value at June 30, 2017 may be used as the deemed cost of the assets at that date for the purposes of the entity's first Ind AS financial statements. However, Company ABC would still need to establish the carrying amount of the assets at the transition date (i.e. April 1, 2016), and account for the assets under Ind AS from the transition date (i.e. April 1, 2016) to June 30, 2017. For this purpose, Company ABC has the usual options to establish the carrying amount of the assets by applying Ind AS 16 retrospectively or by reference to a deemed cost in accordance with paragraphs D5 to D7 of Ind AS 101.

For example, using the exemption available under paragraph D6 of Ind AS 101, Company ABC could use the fair value at March 31, 2013 recognised under previous GAAP as the deemed cost at that date and establish the carrying amount at April 1, 2016 by adjusting the March 31, 2013 fair value for subsequent depreciation. When this option is taken, in the first Ind AS financial statements, depreciation recognised from April 1, 2016 to June 30, 2017 will be based on the deemed cost at March 31, 2013 (Rs. 750 crore).

If the fair value at June 30, 2017 is used as deemed cost for the assets at that date, the difference of Rs. 362.50 crore between the carrying amount at June 30, 2017 (Rs. 637.50 crore) and the fair value of the assets at June 30, 2017 (Rs. 1,000 crore) is recognised in retained earnings. This is not considered to be a revaluation of the property, plant and equipment for the purposes of Ind AS 16 (and does not result in a requirement for subsequent regular revaluations). Subsequent depreciation (after June 30, 2017) is based on the uplifted value. No adjustment is made to the depreciation recognised under Ind AS for the period from April 1, 2016 to June 30, 2017.

For preparation of Proforma Ind AS financial statements for the year ended March 31, 2016, Entity ABC should adopt the same accounting policy choice for preparing Proforma Ind AS financial statements as adopted at transition date and accordingly, determine the value at opening balance sheet date as at April 1, 2015 (i.e. Rs. 750 less  $750/30 \times 2$  years = Rs. 700 crore).

Scenario 5 – Apply Ind AS 16 principles retrospectively.

Since the company has already applied Ind AS 16 principles retrospectively, the company must be having the requisite information and documentation as considered at transition date (i.e. April 1, 2016) as well as on April 1, 2015. Therefore, in this scenario the company should not have any challenge.

**III. Hedge accounting:**

A first-time adopter is not permitted to retrospectively designate transactions as hedges for hedge accounting in accordance with Ind AS 109 – Financial Instruments (“Ind AS 109”). The basis for this exception is that the retrospective designation of a transaction as a hedge with the benefit of hindsight might be used by an entity in order to achieve a specific result. The exception therefore requires an entity to apply hedge accounting prospectively only.

Under the exception, a first-time adopter is required in its opening Ind AS balance sheet to recognise all derivatives at fair value and to eliminate against retained earnings all deferred gains and losses arising on derivatives that were reported under previous GAAP as assets and liabilities. The designation and

documentation of the hedging relationship must be completed on or before the date of transition if it is to qualify under Ind AS 109 for hedge accounting. Designation and documentation of a hedge relationship under previous GAAP that is compliant with the hedging requirements of Ind AS 109 would be considered acceptable.

If, before the date of transition to Ind ASs, a transaction had been designated as a hedge but the hedge is not a relationship type that would qualify for hedge accounting under Ind AS 109, or it does not meet that Standard's conditions for hedge accounting (i.e. documentation, designation and assessment of effectiveness), the requirements of Ind AS 109 should be applied to discontinue hedge accounting.

Accounting for hedges designated under previous GAAP on first-time adoption is dependent on the classification of the hedge as either a fair value hedge or a cash flow hedge.

**Reporting consideration:**

Assume a company has designated a hedging instrument and a hedged item in a hedging relationship under previous GAAP (i.e. Indian GAAP) and the documentation and designation made under Indian GAAP are in compliance with the requirements of Ind AS 109. It is further assumed, that the company has not followed hedge accounting under Indian GAAP. The company has followed the mandatory exception provided under Ind AS 101 and accordingly applied the principles of hedge accounting prospectively with regard to that relationship. Considering the requirement of the circular for preparation of proforma Ind AS financial statements for third financial year (i.e. 2015-16), the company should follow the same accounting principles as adopted at transition date (i.e. April 1, 2016) and accordingly cannot apply hedge accounting for the transactions designated as hedge under Indian GAAP in line with principles of Ind AS 109 for the year ended March 31, 2016. However, the company should measure the hedging instrument at fair value for the third financial year and accordingly account for the gain/losses arising at the opening balance sheet date of third financial year (i.e. April 1, 2015) and the reporting date (i.e. March 31, 2016) for preparing Proforma Ind AS financial statements.

#### ***IV. Cumulative translation differences:***

Foreign currency translation differences, such as those arising on a monetary item that forms part of reporting entity's net investment in a foreign operation, are recognised in other comprehensive income under Ind AS 21, 'The Effects of Changes in Foreign Exchange Rates'. The exemption in Ind AS 101 allows the cumulative translation difference to be set to zero at the date of transition for all foreign operations and the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the transition date and shall include later translation differences.

#### **Reporting consideration:**

To comply with the requirement of the circular for preparation of Proforma Ind AS financial statements, Companies are required to consider the roll-back restatement adjustments to be made depending upon the option availed at transition date. Different scenarios have been discussed below:

#### **Scenario 1 – *Where the company has availed Ind AS 101 exemption at transition date:***

Example: Company Y has translated its net investment in foreign subsidiary under Indian GAAP and the cumulative translation difference appearing in the Balance sheet as at March 31, 2016 is Rs. 10 crore. At transition date, the Company Y has opted for the exemption and accordingly set the amount appearing under foreign currency translation reserve ('FCTR') account as zero. As per the circular, the Company should adopt the same accounting policy choice for preparing Proforma Ind AS financial statements as adopted initially at transition date and accordingly set the amount appearing under FCTR account at April 1, 2015 as zero and recognise the translation differences arising for the year ended March 31, 2016 as FCTR under the head Equity.

#### **Scenario 2 – *Where the company has not availed Ind AS 101 exemption at transition date:***

As the company has applied Ind AS 21 principles retrospectively, it is assumed that the company would have necessary information to be able to apply the accounting requirements retrospectively and hence it will not pose any challenge.

**Question 5: Which accounting policies should be followed while preparing the Ind AS financials (i.e. “Proforma Ind AS financials”)?**

**Response:**

Phase II companies

The Phase II issuer companies should adopt the same accounting policies, as adopted for the preparation of first Ind AS financial statements, for the preparation of Proforma financial statements.

Example: An issuer company which has prepared its first Ind-AS financial statements for the year ended March 31, 2018 should apply the same accounting policies for the preparation of Proforma Ind AS financial statements as adopted for the preparation of the first Ind-AS financial statements. Assume a company has opted for previous GAAP carrying amount as deemed cost at transition date (i.e. April 1, 2016) and adopted revaluation model for the first Ind-AS financial statements for the year ended March 31, 2016. In this case, the company should follow revaluation model while preparing Proforma Ind AS financial statements for the year ended March 31, 2016.

**Question 6: Which framework of accounting should be followed by companies if DRHP and RHP are filed in different financial years?**

**Response:**

Companies with transition date on or after April 1, 2017

There may be a scenario that the period of filing Draft Red Herring Prospectus (“DRHP”) and Red Herring Prospectus (“RHP”) falls in two different financial years. In such case, the company is required to prepare historical three year financial statements under different accounting frameworks for the purpose of inclusion in DRHP and RHP. It has been further elaborated below.

If a company files DRHP in FY 2018-19, company is required to prepare historical three year financial statements as per the accounting framework as mentioned below:

Period of filing of offer document	Interim period*	Latest financial year	Second latest financial year	Third financial year
Between April 1, 2018 and March 31, 2019	Indian GAAP	Indian GAAP (FY 2017-18)	Indian GAAP (FY 2016-17)	Indian GAAP (FY 2015-16)

\* Assuming that DRHP will be filed after September 30, 2018.

If the same company files RHP in FY 2019-20, company needs to file historical three year financial statements as per the accounting framework as mentioned below:

Period of filing of offer document	Latest financial year	Second latest financial year	Third financial year
Between April 1, 2019 and March 31, 2020	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Proforma Ind AS financial statements (FY 2016-17)

The preparation of historical three year financial statements under different accounting frameworks for the purpose of inclusion in DRHP and RHP may require undue cost and effort. Therefore, it is recommended that the companies planning for listing should plan the timings of filing the DRHP and RHP.

**Question 7: How should the last three years' financials be presented by companies for which Ind AS accounting framework is not applicable till latest reported financial year and is in the process of listing in the subsequent year?**

**Response:**

As per Ind AS roadmap, companies which are unlisted and having net worth less than Rs. 250 crore are not covered in either of the phases.

Assuming if an issuer company having net worth of Rs. 230 crore, currently reporting under Indian GAAP and is in the process of listing during the financial year 2021-22. Based on MCA Roadmap, the company's transition date for Ind AS adoption would be April 1, 2020 as the company is in the process of listing. In this case, the company should apply the same principles as applicable for Phase II companies (as discussed in this appendix).

**Question 8: How should the last three years' financials be presented by companies for which Ind AS accounting framework is not applicable till latest reported financial year but choose to voluntarily present under Ind AS for all the historical periods?**

**Response:**

As per Ind AS roadmap, companies which are unlisted and having net worth less than Rs. 250 crore are not covered in either of the phases. SEBI has permitted companies to voluntarily prepare financial statements for all historical three financial years preceding the filing in accordance with Ind AS.

Example: XYZ Ltd. is an issuer company and currently Ind AS is not applicable. The company has reported under Indian GAAP till March 31, 2019 for statutory reporting purpose. The company is planning to file offer document on May 31, 2019 and intends to voluntarily present financial information for historical three financial years under Ind AS. In this case, the company should prepare special purpose financial statements for latest financial year (financial year 2018-19) under Ind AS. Based on MCA Roadmap, the company's transition date for Ind AS adoption would be April 1, 2018 as the company is in the process of listing. While preparing the special purpose financial statement for the latest financial year (financial year 2018-19) under Ind AS, the company should use April 1, 2018 as transition date (which is the same transition date that will be applicable for statutory reporting purposes). The accounting framework applicable for the



preparation of financial statements for the historical three financial years shall be as follows:

Period of filing of offer document	Latest financial year*	Second latest financial year	Third financial year
Between April 1, 2019 and March 31, 2020	Ind AS (FY 2018-19)	<i>Proforma Ind AS financial statements</i> (FY 2017-18)	<i>Proforma Ind AS financial statements</i> (FY 2016-17)

\* These financials will be used as comparative financials for the financial year 2019-20 which will be used for statutory filings by the company.

**Question 9: The ICDR Regulations require the issuer company to present restated consolidated financial information. In this case, whether the issuer company is required to prepare restated standalone financial information?**

**Response:**

Though the ICDR Regulations require the issuer companies to present only restated consolidated financial information in the offer document, the issuer company should prepare special purpose restated standalone financial information as well to enable them to prepare restated consolidated financial information. Also, the branches, subsidiaries, associates, joint ventures and joint operations should prepare special purpose financial information which will be used to prepare restated consolidated financial information. The respective auditors should also report on such standalone and components' special purpose restated financial information. In this case, the principal auditor should use requirements of Standard on Auditing (SA) 600 "Using the Work of Another Auditor" for relying on reporting done by components' auditors.

**Question 10: Whether the financial information of material businesses or entities to be acquired from the proceeds should be provided as per audited financial statements or restated financial information?**

**Response:**

Paragraph B(ii) of clauses (11)(I) and 11(II) of Part A of Schedule VI to the ICDR Regulations requires that in case the proceeds, fully or partly, directly or indirectly, are to be used for acquisition of one or more material businesses or entities, the audited statements of balance sheets, profit and loss and cash flow for the latest three financial years and stub period (if available) prepared as per the framework applicable to the business or subsidiary proposed to be acquired shall be included in the draft offer document or offer document.

The issuer company should present only audited statements of balance sheets, statement of profit and loss and cash flow statement which can be extracted from the financial statements audited for statutory purposes or otherwise. However, the issuer company may voluntarily present complete set of audited financial statements of such businesses or entities for the benefit of readers.

Also, if the above audited statements are not available for the Stub period, the issuer company may not provide such information for stub period even if the latest full financial year included in the offer document is older than six months from the date of filing of the draft offer document/offer document. However, it is recommended to provide the above mentioned statements for stub period as well for the benefit of readers.

**Question 11: Can the foreign entity consolidated in the restated consolidated financial information of the issuer company get its financial statement audited in accordance with International Standards on Auditing (“ISA”) or other similar standards, if local regulations of that foreign entity does not mandate the audit?**

**Response:**

The ICDR Regulations require the financial statements of foreign entities consolidated may be audited as per the requirements of local regulation applicable in the respective jurisdiction. However,

in cases where the local regulation does not mandate audit, financial statements should be audited as per the auditing standards/ requirements applicable in India (“Indian GAAS”).

It is recommended that if the auditor is not conversant with Indian GAAS then should be performed as per the GAAS of that jurisdiction if similar to Indian GAAS. If there are differences between Indian GAAS and GAAS of that jurisdiction, then the auditor of holding company in India should discuss with management of the holding company and follow the principles of the Guidance Note on Audit of Consolidated Financial Statements and SA 600.

**Question 12: Whether the information related to the Earnings per share (Basic and Diluted), Return on net worth, Net Asset Value per share and Earnings before interest, tax, depreciation and amortization be presented on the basis of audited financial statements or restated consolidated financial information?**

**Response:**

These information should be presented based on the restated consolidated financial information in the manner specified in section 2.3 of this guidance note.

**Question 13: If the issuer company has already filed its DRHP/RHP in accordance with Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended, can such issuer company continue to follow Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 after November 10, 2018?**

**Response:**

There could be certain issuer companies who have filed the DRHP/RHP before November 10, 2018 in accordance with Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended and plans to file RHP/Prospectus on or after November 10, 2018. In these situations, the issuer company may file the RHP/Prospectus in accordance with Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended to ensure consistency in the

DRHP/RHP/Prospectus. Additionally, the statutory auditor may issue reports in accordance with the Guidance Note on Reports in Company Prospectuses (Revised 2016) as followed during previous filings.

**Question 14: Which eliminated related party transactions should be disclosed in the restated consolidated financial information?**

**Response:**

The ICDR Regulations require that list of the related parties and all related party transactions of the consolidated entities (whether eliminated on consolidation or not), which require disclosure under Ind AS 24 and/ or covered under section 188(2) of the Companies Act, 2013 (as amended), as disclosed in the separate financial statements of the consolidated entities, should be disclosed in the restated financial information.

It is clarified that for meeting above requirement, the issuer company should provide details of all eliminated entries for transactions/balances (including elimination entries for consolidation of step down entities) considered for preparing restated consolidated financial information to its auditor so that they can examine the details resulting in related party disclosures including eliminated transactions in the restated consolidated financial information. Elimination entries considered for entities accounted with equity method should also be disclosed. The respective auditors of components of the issuer company should examine details of above eliminated entries while examining the restated financial information of such entities. The auditors of the issuer company should place reliance on such reports issued by the component auditors.

**Question 15: How should the translated financial information of the material foreign entities be presented on the issuer company's website?**

**Response:**

In relation to material foreign entities, the ICDR Regulations require that the financial statements reported in any currency other than Indian Rupee shall be translated into Indian Rupee in

accordance with Ind AS 21 “The Effects of Changes in Foreign Exchange Rates”. It is clarified that the issuer company may also translate such financial statements using the closing exchange rate of a particular financial year for convenience of the readers. Further, the issuer company should present the audited financial statements of material foreign entities for which financial statements are reported in a currency other than Indian Rupee on the issuer company’s website.

**Question 16: Can an auditor use a lower level of threshold i.e. below 20% for the purpose of issuing report on restated consolidated financial information?**

**Response:**

As specified in the ICDR Regulations, total unaudited information included in the Consolidated Financial Statements shall not exceed 20% of the turnover or net-worth or profits before tax of the consolidated financial statements of the respective year.

It is clarified that an auditor, based on its professional judgement, may use a lesser threshold i.e. below 20% to be able to report on restated consolidated financial information to comply the guidance provided in “Guidance Note on Audit of Consolidated Financial Statements (Revised 2016)” issued by ICAI.

**Question 17: If a subsidiary is acquired or disposed during a financial year and parent-subsidiary relationship exist for a part of the year, whether the financial statements of such subsidiary be presented for complete financial year in accordance with the requirements of the ICDR Regulations?**

**Response:**

As specified in the ICDR Regulations, the separate audited financial statements for past three full financial years immediately preceding the date of filing of offer document of the issuer company and all its material subsidiaries should be made available on issuer’s website in accordance with the materiality thresholds mentioned in the ICDR Regulations. Alternatively, relevant link should be provided to the financial statements of subsidiaries on the issuer’s website. The link to the issuer’s separate financial statements should be specified

in the offer document. For this purpose, subsidiaries shall be identified based on definitions in the Act. The above requirements shall apply for the periods of existence of the parent-subsidiary relationship.

It is clarified that, in cases where parent-subsidiary relationship exist for a part of the year during past three completed years, subsidiary's financial statements should be made available for the full financial years if the subsidiary existed for three years or for lesser period if the subsidiary existed for a period less than three years.

## Appendix 6

### **Illustrative Format of Independent Auditor's Report on the promoters' contribution received before opening of the issue**

The Board of Directors  
[Name of the Company]  
[Company Address]

Dear Sirs / Madam,

1. This report is issued in accordance with the terms of our agreement dated [●].
2. In connection with the proposed Initial Public Offer (IPO) of [Name of the Company] (the "Company"), the Company is required to obtain a certificate from the Statutory Auditors, with regard to receipt of the promoters contribution, as required by Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations").
3. The accompanying statement of promoters' contribution contains details of promoters' contribution received by the Company as per the requirement of the ICDR Regulations (the "Statement") is prepared by the Management of the Company, which we have initialed for identification purposes only.

#### **Managements' Responsibility for the Statement**

4. The preparation of the accompanying Statement is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation.
5. The Management is also responsible for ensuring:
  - a) identification and completeness of listing of promoters;
  - b) determining the amount of contribution required to be received from each promoter;
  - c) receipt of promoters' contributions;

- d) the accuracy of the names and addresses of the promoters who have contributed to the promoters' contribution;
- e) that the amount has been paid and credited to the Company's bank account by each of these promoters towards such contribution; and
- f) compliance with the requirements of the ICDR Regulations.

**Auditor's Responsibility**

- 6. Pursuant to the requirements of Sub para 9(d) of para 25 of Part VI of chapter II of the ICDR Regulations, it is our responsibility to obtain limited assurance and conclude as to whether the details provided in the Statement is in agreement with the [audited]/[unaudited] books of accounts and other records for the period from [date] to [date].
- 7. The audited books of accounts referred to in paragraph [6] above, have been audited by us/audited by another firm of chartered accountants on which we/ the other auditors issued an unmodified/modified audit opinion vide our/their reports dated [Date]. Our/Their audits of these financial statements were conducted in accordance with the Standards on Auditing specified under Section 143(10) of the Companies Act, 2013. Those standards require that we/the other auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our /Their audits were not planned/required to be planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.
- 8. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
- 9. We have complied with the relevant applicable requirements of the 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.

10. A limited assurance engagement includes performing procedures to obtain sufficient appropriate evidence that vary in nature, timing and extent than a reasonable assurance. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we have performed the following procedures in relation to the Statement:
- a. Obtained certified list of promoters of the Company from the management/ Company secretary;
  - b. Obtained the bank statements of the Company for the period [Date] to [Date] and traced the amounts received into the bank accounts of the Company from the bank statements to the Statement; and
  - c. Obtained the shareholders' register and other records for the period [Date] to [Date] and traced the name of promoters as mentioned in the Statement to the shareholders' register and other records.

[amend as applicable]

#### **Conclusion**

11. Based on our examination as above, and the information and explanations given to us, nothing has come to our attention that causes us to believe that the details provided in the Statement are not in agreement with the [audited]/[unaudited] books of accounts and other records for the period from [date] to [date].

#### **Restriction on Use**

12. This report is addressed to and provided to the Board of Directors of the Company solely for the purpose of further submission to the Securities and Exchange Board of India and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other

person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Assurance Report)  
(Designation<sup>30</sup>)  
Membership Number

Place of Signature  
Date

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<sup>30</sup> Partner or Proprietor, as the case may be.

## Appendix 7

### **Illustrative Format of Independent Auditor's Report on the cash flow statement and liquidity position of the issuer company**

The Board of Directors  
[Name of the Company]  
[Company Address]

Dear Sirs / Madam,

1. This report is issued in accordance with the terms of our agreement dated [●].
2. In connection with the proposed issue of Convertible Debt Instruments and Warrants of [Name of the Company] (the "Company"), the Company is required to obtain a certificate from the Statutory Auditors, with regard to cash flow statement and liquidity position, as required by Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations").
3. The accompanying statement of cash flow for the period from [date] to [last date of latest audited period] and liquidity position as at [last date of latest audited period] of the Company as per the requirement of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations") (the "Statement") is prepared by the Management of the Company, which we have initialed for identification purposes only.

#### **Managements' Responsibility for the Statement**

4. The preparation of the accompanying Statement is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

5. The Management is also responsible for ensuring:
- a) preparation of the cash flow statement for the period from [date] to [last date of latest audited period];
  - b) preparation of the liquidity position<sup>31</sup> as at [last date of latest audited period]; and
  - c) compliance with the requirements of the ICDR Regulations.

#### **Auditor's Responsibility**

6. Pursuant to the requirements of [Sub- para 1(b) of para 64 of Part II of chapter III]/[Sub- para (b) of para 108 of Part II of chapter IV] of the ICDR Regulations, it is our responsibility to obtain reasonable assurance and form an opinion as to whether the details provided in the Statement are in agreement with the audited financial statements as at and for the period from [date] to [last date of latest audited period] and whether liquidity position<sup>32</sup> as at [last date of latest audited period] is positive or negative.
7. The audited financial statements referred to in paragraph [6] above, have been audited by us on which we issued an unmodified audit opinion vide our reports dated [month][date][year]. Our audits of these financial statements were conducted in accordance with the Standards on Auditing specified under Section 143(10) of the Companies Act, 2013. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits were not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.

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<sup>31</sup> Liquidity position may be considered as "current assets minus current liabilities".

<sup>32</sup> Liquidity position may be considered as "current assets minus current liabilities".

8. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
9. We have complied with the relevant applicable requirements of the 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.
10. We have performed the following procedures with respect to the Statement:
  - a. Traced the amounts appearing in the Statement to the audited financial statements as at and for the period ended [date]; and
  - b. Verified the arithmetical accuracy of the Statement.

[amend as applicable]

### **Opinion**

11. Based on our examination as above, and the information and explanations given to us, we are of the opinion that the details provided in the Statement are in agreement with the audited financial statements as at and for the period from [date] to [last date of latest audited period] and the liquidity position of the Company as at [last date of latest audited period] is [positive]/[negative].

### **Restriction on Use**

12. This report is addressed to and provided to the Board of Directors of the Company solely for the purpose of further submission to the Securities and Exchange Board of India and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other

person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Assurance Report)  
(Designation<sup>33</sup>)  
Membership Number

Place of Signature  
Date

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<sup>33</sup> Partner or Proprietor, as the case may be.

## Appendix 8

### **Illustrative Format of Independent Auditor's Report on the compliance with conditions of proposed preferential issue**

The Board of Directors  
[Name of the Company]  
[Company Address]

Dear Sirs / Madam,

1. This report is issued in accordance with the terms of our agreement dated [●].
2. In connection with the proposed preferential issue of [Name of the Company] (the "Company"), the Company is required to obtain a certificate from the Statutory Auditors, with regard to compliance with the conditions of the proposed preferential issue, as required by Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations").
3. The accompanying statement contains details of proposed preferential issue being made (the "Statement"), as required by the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations") is prepared by the Management of the Company, which we have initialed for identification purposes only.

#### **Managements' Responsibility for the Statement**

4. The preparation of the accompanying Statement is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.
5. The Management is also responsible for ensuring that the Company complies with the below requirements of the ICDR Regulations:

- i) Determine the relevant date, being the date thirty days prior to the date on which the meeting of shareholders is held to consider the proposed preferential issue;

OR

Determine the relevant date, being either of the date thirty days prior to the date on which the holders of the convertible securities become entitled to apply for the equity shares / the date thirty days prior to the date on which the meeting of shareholders is held to consider the proposed preferential issue;

- ii) Determination of the minimum price of equity shares:

Higher of:

- a. the average of the weekly high and low of the volume weighted average price of the related equity shares quoted on the recognised stock exchange during the twenty six weeks preceding the relevant date; or
- b. the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date<sup>34</sup>;

OR

- a. the price at which equity shares were issued by the issuer in its initial public offer or the value per share arrived at in a scheme of compromise, arrangement and amalgamation under sections 391 to 394 of the Companies Act, 1956 or sections 230 to 234 the Companies Act, 2013, as applicable, pursuant to which the equity shares of the issuer were listed, as the case may be; or
- b. the average of the weekly high and low of the volume weighted average prices of the related equity shares

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<sup>34</sup> If the equity shares of the issuer have been listed on a recognised stock exchange for a period of twenty six weeks or more as on the relevant date



- quoted on the recognised stock exchange during the period the equity shares have been listed preceding the relevant date; or
- c. the average of the weekly high and low of the volume weighted average prices of the related equity shares quoted on a recognised stock exchange during the two weeks preceding the relevant date<sup>35</sup>; and
- iii) compliance with the requirements of the ICDR Regulations.

#### **Auditor's Responsibility**

6. Pursuant to the requirements of Sub para 2 of para 163 of Part III of chapter V of the ICDR Regulations, it is our responsibility to obtain limited assurance and conclude as to whether the details of the proposed preferential issue provided in the Statement is in accordance with the requirements of the ICDR Regulations.
7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
8. We have complied with the relevant applicable requirements of the 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.
9. A limited assurance engagement includes performing procedures to obtain sufficient appropriate evidence that vary in nature, timing and extent than a reasonable assurance. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the

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<sup>35</sup> If the equity shares of the issuer have been listed on a recognised stock exchange for a period of less than twenty six weeks as on the relevant date

assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we have performed the following procedures in relation to the Statement:

- a. Ensured the relevant date, being the date thirty days prior to the date on which the meeting of shareholders is held to consider the proposed preferential issue;

OR

Ensured the relevant date, being either of the date thirty days prior to the date on which the holders of the convertible securities become entitled to apply for the equity shares / the date thirty days prior to the date on which the meeting of shareholders is held to consider the proposed preferential issue;

- b. Verified the calculation of the minimum price of the equity shares to be allotted in preferential issue;
- c. Obtained and verified statutory registers of the Company to note equity shares are fully paid up;
- d. Obtained and read copy of shareholders resolution; and
- e. Obtained confirmation from the registrar of the Company confirming all shares are held in dematerialized form.

[amend as applicable]

#### **Conclusion**

10. Based on our examination as above, and the information and explanations given to us, nothing has come to our attention that causes us to believe that the details of the proposed preferential issue provided in the Statement are not in accordance with the requirements of the ICDR Regulations.

#### **Restriction on Use**

11. This report is addressed to and provided to the Board of Directors of the Company solely for the purpose of further submission to the [stock exchanges] and should not be used by any other person or for any other purpose. Accordingly, we

do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Assurance Report)  
(Designation<sup>36</sup>)  
Membership Number

Place of Signature  
Date

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<sup>36</sup> Partner or Proprietor, as the case may be.

## Appendix 9

### **Illustrative Format of Independent Auditor's Report on the receipt of consideration of specified securities in connection with proposed preferential issue**

The Board of Directors  
[Name of the Company]  
[Company Address]

Dear Sirs / Madam,

1. This report is issued in accordance with the terms of our agreement dated [●].
2. In connection with the proposed preferential issue of [Name of the Company] (the "Company"), the Company is required to obtain a certificate from the Statutory Auditors, with regard to receipt of consideration of specified securities proposed preferential issue, as required by Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations").
3. The accompanying statement contains details of receipt of consideration against allotment of specified securities as required by Sub para (4) of para 169 of Part VI of chapter V of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations") in respect of the proposed preferential issue (the "Statement") is prepared by the Management of the Company, which we have initialed for identification purposes only.

#### **Managements' Responsibility for the Statement**

4. The preparation of the accompanying Statement is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate

basis of preparation; and making estimates that are reasonable in the circumstances.

5. The Management is also responsible for ensuring:
  - a) the consideration of specified securities is received from respective allottee's bank account;
  - b) the consideration of specified securities is received from the bank account of the person whose name appears first in the application;
  - c) maintenance of relevant records in relation to point (a) and (b) above; and
  - d) compliance with the requirements of the ICDR Regulations.

#### **Auditor's Responsibility**

6. Pursuant to the requirements of Sub para (5) of para 169 of Part VI of chapter V of the ICDR Regulations, it is our responsibility to obtain limited assurance and conclude as to whether the details provided in the Statement is in accordance with by Sub para (4) of para 169 of Part VI of chapter V of the ICDR Regulations and the relevant documents thereof are maintained by the Company as on [date of certification].
7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
8. We have complied with the relevant applicable requirements of the 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.

9. A limited assurance engagement includes performing procedures to obtain sufficient appropriate evidence that vary in nature, timing and extent than a reasonable assurance. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we have performed the following procedures in relation to the Statement:

- a) Obtained listing of allottees and verified that the consideration of specified securities is received from the bank account of the person whose name appears first in the application; and
- b) Obtained bank statement of the Company for the period [date] to [date] and traced the amounts appearing in the Statement to the bank statements.

[amend as applicable]

### **Conclusion**

10. Based on our examination as above, and the information and explanations given to us, nothing has come to our attention that causes us to believe that the details provided in the Statement are not in accordance with the requirements of Sub para (4) of para 169 of Part VI of chapter V of the ICDR Regulations and the relevant documents thereof are maintained by the Company as on [date of certification].

### **Restriction on Use**

11. This report is addressed to and provided to the Board of Directors of the Company solely for the purpose of further submission to the [stock exchanges] and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report

is shown or into whose hands it may come without our prior consent in writing.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Assurance Report)  
(Designation<sup>37</sup>)  
Membership Number

Place of Signature  
Date

---

<sup>37</sup> Partner or Proprietor, as the case may be.

## Appendix 10

### **Illustrative Format of Independent Auditor's Report on the cash flow statement disclosing the use of funds received from promoters contribution for the stated objects**

The Board of Directors  
[Name of the Company]  
[Company Address]

Dear Sirs / Madam,

1. This report is issued in accordance with the terms of our agreement dated [●].
2. In connection with the proposed offer of [Name of the Company] (the "Company"), the Company is required to obtain a certificate from the Statutory Auditors, with regard to the cash flow statement disclosing the use of funds received from promoters contribution for the stated objects, as required by Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations").
3. The accompanying statement of cash flow disclosing the use of funds received during the period from [date] to [date] from promoters contribution for the stated objects of the Company as per the requirement of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations") (the "Statement") is prepared by the Management of the Company, which we have initialed for identification purposes only.

#### **Managements' Responsibility for the Statement**

4. The preparation of the accompanying Statement is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate



basis of preparation; and making estimates that are reasonable in the circumstances.

5. The Management is also responsible for ensuring:
  - a) preparation of the cash flow statement for the period from [date] to [date]; and
  - b) compliance with the requirements of the ICDR Regulations.

#### **Auditor's Responsibility**

6. Pursuant to the requirements of Clause (9)(F)(2) of Part A of Schedule VI of the ICDR Regulations, it is our responsibility to obtain limited assurance and conclude as to whether the details provided in the Statement is in agreement with the [audited]/[unaudited] books of accounts and other records for the period from [date] to [date].
7. The audited financial statements referred to in paragraph [6] above, have been audited by us on which we issued an unmodified audit opinion vide our reports dated [month][date][year]. Our audits of these financial statements were conducted in accordance with the Standards on Auditing specified under Section 143(10) of the Companies Act, 2013. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits were not planned and performed in connection with any transactions to identify matters that may be of potential interest to third parties.
8. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
9. We have complied with the relevant applicable requirements of the 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.

10. A limited assurance engagement includes performing procedures to obtain sufficient appropriate evidence that vary in nature, timing and extent than a reasonable assurance. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we have performed the following procedures in relation to the Statement:
  - a. Obtained list of promoters and contribution made by such promoters and traced the contribution amount mentioned in the Statement to the bank statement of the Company for the period [Date] to [Date];
  - b. Obtained details of application of funds out of contribution received from promoters and traced the amount of application of funds mentioned in the Statement to the books of accounts for the period [Date] to [Date]; and
  - c. Obtained certified copy of board of directors resolution stating the object for which promoter contribution has been received.

[amend as applicable]

#### **Conclusion**

11. Based on our examination as above, and the information and explanations given to us, nothing has come to our attention that causes us to believe that the details provided in the Statement are not in agreement with the [audited]/[unaudited] books of accounts and other records for the period from [date] to [date].

#### **Restriction on Use**

12. This report is addressed to and provided to the Board of Directors of the Company solely for the purpose of further submission to the Securities and Exchange Board of India

and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Assurance Report)  
(Designation<sup>38</sup>)  
Membership Number

Place of Signature  
Date

---

<sup>38</sup> Partner or Proprietor, as the case may be.

## Appendix 11

### **Illustrative Format of Independent Auditor's Report on the receipt of consideration [paid]/[received] and mode of financing in case of non-material [acquisition]/[divestments]**

The Board of Directors  
[Name of the Company]  
[Company Address]

Dear Sirs / Madam,

1. This report is issued in accordance with the terms of our agreement dated [●].
2. In connection with the proposed Initial Public Offer (IPO) of [Name of the Company] (the "Company"), the Company is required to obtain a certificate from the Statutory Auditors, with regard to [payment]/[receipt] of consideration and mode of financing for such non-material [acquisition]/[divestments], as required by Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations").
3. The accompanying statement contains details of [payment]/[receipt] of consideration in respect of non-material [acquisition]/[divestments] of [subsidiary/business] (the "Statement") is prepared by the Management of the Company, which we have initialed for identification purposes only.

#### **Managements' Responsibility for the Statement**

4. The preparation of the accompanying Statement is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.
5. The Management is also responsible for ensuring:

- a) the [payment]/[receipt] of consideration amount with respect to [acquisition]/[divestment] is [made]/[received] from [Company's]/[acquirer's] bank account;
- b) the mode of financing such consideration paid with respect to acquisition; and
- c) compliance with the requirements of the ICDR Regulations.

#### **Auditor's Responsibility**

- 6. Pursuant to the requirements of Clause (11)[(I)/(II)](B)(iii) of Part A of Schedule VI of the ICDR Regulations, it is our responsibility to obtain limited assurance and conclude as to whether the details provided in the Statement is in agreement with the unaudited books of accounts and other records for the period from [date] to [date].
- 7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.
- 8. We have complied with the relevant applicable requirements of the 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.
- 9. A limited assurance engagement includes performing procedures to obtain sufficient appropriate evidence that vary in nature, timing and extent than a reasonable assurance. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we have performed the following procedures in relation to the Statement:

- a) [Obtained the details of acquisition and verified that the consideration amount has been paid from the bank account of the Company];
- b) [Obtained the details of divestment and verified that the consideration amount has been received in the bank account of the Company];
- c) Obtained details of mode of financing of such consideration paid with respect to acquisition; and
- d) Obtained bank statement of the Company for the period [date] to [date] and traced the amounts appearing in the Statement to the bank statement.

[amend as applicable]

#### **Conclusion**

- 10. Based on our examination as above, and the information and explanations given to us, nothing has come to our attention that causes us to believe that the details provided in the Statement are not in agreement with the [unaudited books] of accounts and other records for the period from [date] to [date].

#### **Restriction on Use**

- 11. This report is addressed to and provided to the Board of Directors of the Company solely for the purpose of further submission to the [Securities and Exchange Board of India] and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For XYZ and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
(Name of the Member Signing the Assurance Report)

Place of Signature  
Date

(Designation<sup>39</sup>)  
Membership Number

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<sup>39</sup> Partner or Proprietor, as the case may be.

## Appendix 12

### Illustrative Format of the Engagement Letter for the Entire Engagement to Issue Report on the Prospectus

(refer paragraph 2.5)

Date

Name of Company

Address

#### Letter of Engagement

Dear Sirs / Madam,

We are writing to confirm our understanding of the scope and limitations of the work to be performed by us in connection with \_\_\_\_\_ *[Draft Red Herring Prospectus/Red Herring Prospectus/Prospectus* (“DRHP/RHP/Prospectus”)(collectively, the “Offer Document”), prepared in connection with the filing of an offer document a proposed issue of \_\_\_\_\_ *[Insert name and type of security]* (the “Equity Shares/Notes/Security”) by \_\_\_\_\_ *(name of the company)* (the “Company”) with the Securities and Exchange Board of India (“SEBI”) and the Registrar of Companies, \_\_\_\_\_ *[Insert name of the State]*.

This letter is not to be used in connection with the sale of securities in the \_\_\_\_\_ *(name of the Country)*. We accept no duty or responsibility to and deny any liability to any party in respect of any use of this letter in connection with the sale of securities in the \_\_\_\_\_ *(name of the country)*.

As part of the offer document, the Company will prepare financial information for the [six] month period ended September 30, 20XX and for each of the three years ended March 31, 20XX, 20XX and 20XX (after adjustments as required by the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations") in a manner consistent with the accounting policies



being adopted for the latest financial period/year presented. Further, the Company will prepare Consolidated Financial Information of the Company and its subsidiaries (together referred to as the "Group") and share of profit /(loss) of associates and joint ventures for [six] month period ended September 30, 20XX and for each of the three years ended March 31, 20XX, 20XX and 20XX (after adjustments as required by the ICDR Regulations) in a manner consistent with the accounting policies being adopted for the latest financial period/year presented. The Company will prepare other financial information to be included in the offer document as required by the ICDR Regulations.

A. Accordingly, we will examine the restated [consolidated] financial information to be included in the offer document of the Company as required by the ICDR Regulations

[Additionally, we would also issue following certificates/reports:

- i) [mention details of certificates]; and
- ii) Comfort letters (will enter into a separate arrangement letter)]

(amend as applicable)

In connection with the offering of Equity Shares/Notes/Security, we will perform all necessary procedures, in order to issue an auditors' report to the Company, in accordance with the Guidance Note on Reports in Company Prospectuses (Revised 2018), issued by the ICAI ('the Guidance Note').

Our work and findings shall not in any way constitute advice or recommendations (and we accept no liability in relation to any advice or recommendations) regarding any commercial decisions associated with the issue of the \_\_\_\_\_ (*name of the security*).

B. Upon completion of our examination, we will provide you with our report on the Restated [Consolidated] Financial Information referred to above, and bring to your attention any

material errors of which we become aware during our examination.

- C. It should be understood that we make no representation regarding questions of legal interpretation or regarding the sufficiency for your purposes of the procedures enumerated above; also, such procedures would not necessarily reveal any material misstatement of the amounts or percentages listed above. Further, we will address ourselves solely to the foregoing data as set forth in the offer document and will make no representation regarding the adequacy of disclosure or regarding whether any material facts have been omitted or appropriateness of comparative information for evaluation.
- D. We will conduct our examination in accordance with the Guidance Note. We will plan and perform our engagement to obtain reasonable assurance that the Financial Information, are free of material misstatement whether caused by errors or fraud. However, having regard to the test nature of our examination, persuasive rather than conclusive nature of audit evidence together with any inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements of the Financial Information, resulting from fraud, and to a lesser extent error, if either exists, may remain undetected. Also, our examination is not designed to detect error or fraud that is immaterial to the Financial Information.

As part of our examination, we will consider, solely for the purpose of planning our work and determining the nature, timing, and extent of our audit procedures, the Company's internal control environment. This consideration will not be sufficient to enable us to provide assurance on internal control or to identify all reportable conditions.

We will determine that appropriate members of management are informed of fraud and illegal acts, unless they are clearly inconsequential, of which we become aware in the regular course of our examination focused on the Financial Information. In addition, we will inform appropriate members

of management of significant adjustments and of reportable conditions noted during our examination.

- E. For our examination, we will place reliance on the following:
- i) The financial statements of ABC Ltd for the financial years ended -----, which have been audited and reported upon by us, vide our reports dated - -----, respectively.
  - ii) The financial statements of ABC Ltd for the financial years ended -----, which have been audited and reported upon by -----, Chartered Accountants hereafter referred as ----- . {if required}
  - iii) The financial statements of below mentioned subsidiaries/ joint ventures/ associates for the year ended -----, which have been audited and reported by us, vide our reports mentioned there against, hereafter referred as the -----Subsidiaries Financial Statements:

<b>Name of subsidiaries</b>		<b>Audit report's date</b>
<b>Name of joint ventures</b>		
<b>Name of associates</b>		

- iv) The financial statements of the below mentioned subsidiaries/ joint ventures/ associates of ABC Ltd which have been audited and reported upon by their auditors, the names of which and the period of their audit are mentioned there against.

<b>Name of subsidiaries</b>	<b>Name of the Auditors</b>
<b>Name of Joint Ventures</b>	
<b>Name of Associates</b>	

- v) The un-audited financial statements of below mentioned subsidiaries/ joint ventures/ associates of ABC Ltd. for the quarter ended -----.

<b>Name of subsidiaries</b>
<b>Name of Joint Ventures</b>
<b>Name of Associates</b>

Our audit of the financial statements for the period referred to in paragraphs E(i) and E(iii) of this letter comprises such audit tests and procedures as deemed necessary for the purpose of expressing an opinion on such financial statements taken as a whole. For none of the other periods referred to in paragraph E we will perform audit tests for the purpose of expressing an opinion on individual balances of accounts or summaries of selected transactions such as those enumerated above and accordingly, we express no opinion thereon.

F. *Consent Letters*

We will issue consent letters to act as an auditor and to permit the inclusion of our report in the offer document.

In connection with the issuance of our consent, we will perform certain procedures as required by professional standards. These include, but are not limited to, the following:

- (a) Reading the offer document; and
- (b) Obtaining a representation letter from management (and other matters as appropriate)

Based on the results of our procedures, we will consider whether the Financial Information referred above and/or our auditors' report needs to be modified in order to consent to the inclusion of our reports in the offer document.

G. *Management's responsibilities and representations*

The financial information are the responsibility of the management of the Company, which is also responsible for establishing and maintaining effective internal control, for properly recording transactions in the accounting records, for safeguarding assets, for prevention and detection of fraud and error, for complying with accounting standards and for the overall fair presentation of the Financial Information. Management of the Company is also responsible for identifying and ensuring that the Company complies with the laws and regulations applicable to its activities.

Management is responsible for adjusting the Financial Information to correct material misstatements and for affirming to us in its representation letter that the effects of any unadjusted differences identified by us during the work are immaterial, both individually and in the aggregate, to the Financial Information taken as a whole.

As an integral part of our procedures and as required by auditing standards generally accepted in India, and the Guidance Note, we will request letters of representation from officers and other executives, including the chief executive, financial, and accounting officers, responsible for financial and accounting matters of the Company. This includes making specific inquiries of management about the representations contained in the Financial Information and the effectiveness of the internal control structure.

The responses to those inquiries, written representations and the results of our examination tests comprise the evidential matter we intend to rely upon in forming an opinion on the Financial Information. Because of the importance of management's representations to effective examination and review, the Company agrees to release [Auditor's Name], chartered accountants and its personnel from any liability and costs relating to our services under this letter attributable to any misrepresentations by management.

In order to enable us to fulfil our responsibilities, you agree on request, to provide us with complete, accurate and timely information and to carry out any obligations ascribed to or undertaken by you or others under your control. Management's failure to provide requisite information on a timely basis may cause us to delay our report, modify our procedures, or even terminate our engagement.

You agree that any commercial decisions that you make, are not within the scope of our duty of care and in taking such decisions you should take into account the restrictions on the scope of our work and other factors, commercial and otherwise, of which you and your other advisers are, or should be, aware from sources other than our work.

H. *Other Terms*

- (a) If you intend to publish or otherwise reproduce the Financial Information together with our report (or otherwise make reference to our firm) in a document other than that which contains other information, you agree to (i) provide us with a draft of the document to read, and (ii) obtain our approval for inclusion of our report, before it is printed and distributed.
- (b) Under this arrangement, we have no responsibility to update our reports for events and circumstances occurring after the date of our report.
- (c) The working papers prepared in conjunction with our examinations are the property of our firm, constitute confidential information and will be retained by us in accordance with our firm's policies and procedures.
- (d) We shall inform you separately on our scope of work as may be required for the interim period subsequent to March 31, 20xx.

I. *Fees and Billing arrangements*

Our fees for the engagement covered under this letter of engagement will be \_\_\_\_\_ *[insert amount]*. We will also charge for any expenses incurred during the

engagement and we will add applicable taxes to charges and expenses.

Any fee estimate agreed with you is necessarily based on the assumption that the information required for our work is made available in accordance with agreed timetables, and that your key executives and personnel are available during the course of our work. If delays or other unanticipated problems which are beyond our control occur this may result in additional fees for which invoices will be raised.

Should the scope of our work require any modification, including reporting on the financial statements or financial information for any broken/stub period subsequent to [insert period-end date], we will discuss the matter with you immediately and only proceed to incur additional fees with your prior approval.

We will be entitled to submit invoices for services provided and expenses incurred on an interim basis as the work progresses. Invoices are payable upon presentation. We reserve the right, where fees have been invoiced and payment is outstanding to us, to exercise a lien in respect of those outstanding fees over any documents belonging to you which may be in our possession.

Our billing is payable upon the presentation of our fee note. Our fees, expenses and applicable taxes are payable by the Company.

We shall be grateful if you will acknowledge receipt of this letter by signing and returning to us the duplicate copy of this letter, which is enclosed. If the contents are not in accordance with your understanding of our agreement, we shall be pleased to receive your further observations and to give you any further information you require.

For ABC and Co.  
Chartered Accountants  
Firm's Registration Number

Signature  
[Name of the Member]  
Designation<sup>®</sup>  
Membership Number

Place of Signature:

Date:

By: \_\_\_\_\_

[Name]

\_\_\_\_\_

[Title]

\_\_\_\_\_

[Date]

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<sup>®</sup> Partner or proprietor, as the case may be.



## Appendix 13

### **Illustrative Format of Representation Letter from Management for Issuance of Examination Report**

*(Refer Paragraph 2.6)*

[Name and Address of the Chartered Accountant]

Dear Sirs / Madam,

Proposed Offering by [.] (the "Issuer" or the "Company") of [.] (the "Securities")

This representation letter is provided in connection with your examination of the restated [consolidated] financial information of [company's name] (the 'Company'), its subsidiaries (together referred to as the 'Group' ) and share of profit of associates and joint ventures comprising the Restated [Consolidated] Statement of Assets and Liabilities as at [June/September/December XX, 20XX, March 31, 20XX, 20XX and 20XX], the Restated [Consolidated] Statements of Profit and Loss (including other comprehensive income), the Restated [Consolidated] Statement of Changes in Equity, the Restated [Consolidated] Cash Flow Statement for the [three/six/nine month period ended June/September/December XX, 20XX and for the years ended March 31, 20XX, 20XX and 20XX], the Summary Statement of Significant Accounting Policies, and other explanatory information (collectively, the "Restated [Consolidated] Financial Information") prepared in terms of the requirements of Section 26 of Part I of Chapter III of the Companies Act, 2013 ("the Act"), the Securities and Exchange Board Of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations") and the Guidance Note on Reports in Company Prospectuses (Revised 2018) (the "Guidance Note"), as approved by the Board of Directors of the Company at the meeting held on [date] for the purpose of inclusion in the offer document prepared by the Company in connection with the proposed initial public offering (IPO) of its equity shares. In particular we confirm that we are responsible for the following:

1. we have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [date], for the preparation of the Restated Financial Information in accordance with the requirements of the Act, ICDR Regulations and the Guidance Note.
2. designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of restated financial information which are free from material misstatements, whether due to fraud or error.
3. Restated [Consolidated] Financial Information have been compiled from (i) the audited special purpose interim [consolidated] Ind AS financial statements of the Group and its associates and joint ventures as at and for the [three/six/nine] month period ended [June/September/December XX, 20XX] and (ii) the audited [consolidated] financial statements as at March 31, 20XX, 20XX and 20XX and for each of the years ended March 31, 20XX, 20XX, and 20XX which have been approved by Board of directors at their meetings held on [dates], respectively. We confirm that there have been no events and circumstances for which the financial statements for the respective years need to be changed, other than the adjustments and regrouping as more fully described in Note [xx] to Restated Financial Information. Also confirmed that there is no need to change our representation letters provided to you for the audit of respective financial periods/ years and they are still valid as of the date of the signing of this letter.
4. There are no changes in the accounting policies adopted by the Company which would require adjustment in the Restated Financial Information, other than the adjustments and regrouping as more fully described in Note [xx] to Restated Financial Information.
5. The Restated [Consolidated] Financial Information have been prepared after incorporating adjustments for the changes in accounting policies, material errors and regrouping/reclassifications retrospectively in the financial years ended March 31, 20XX and 20XX to reflect the same accounting treatment as per the accounting policies and

grouping/classifications followed as at and for the [three/six/nine month period ended June/September/December XX, 20XX.

6. The Restated [Consolidated] Financial Information have been prepared after incorporating proforma Ind AS adjustments to the audited Indian GAAP financial statements as at and for the year ended March 31, 20XX as described in Note [.] to the Restated [Consolidated] Financial Information.
7. There are no matter(s) which require modifications in auditor's reports which would require adjustments in the Restated Financial Information, other than those disclosed in the Restated Financial Information. [modify as applicable]
8. Restated Financial Information are free of material misstatements, including omissions. We have considered the errors and have determined that they are individually and collectively not material to the Restated Financial Information.
9. Contingencies and Commitments
  - a. We have disclosed in the Annexure xx to the Restated Financial Information all guarantees which we have given to third parties and all other contingent liabilities and commitments.
  - b. Contingent liabilities disclosed in the Annexure xx to the Restated Financial Information do not include any contingencies which are likely to result in a loss and which, therefore, require adjustment of assets or liabilities.
  - c. We confirm that for each class of contingent liability, the estimated financial effect, the uncertainties relating to any outflow, the possibility of any reimbursement and any asset recognised therefor have been appropriately disclosed in the financial statements except in respect of cases where the Company is unable to disclose this information because it is not practicable to do so, which fact has also been disclosed in the financial statements.

- d. There are no significant claims for which the Company would be contingently liable in respect of litigation, if any, which may be pending against the Company except those disclosed in Annexure xx to the Restated Financial Information. There is no litigation pending against any of the employees of the Company for which the Company would be contingently liable either directly or indirectly.
- e. The Company is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material. So far as the Management is aware, no such litigation or arbitration proceedings are pending or threatened.
- f. There were no outstanding commitments for capital expenditure excepting those disclosed in note to the financial statements.
- g. There were no other outstanding commitments for the Company excepting those disclosed in Annexure xx to the Restated Financial Information. We confirm that, in making this disclosure, all significant commitments have been compiled duly considering all the contractual/other arrangements that the Company has entered into as at the Balance Sheet date.
- h. Except as provided for or disclosed in the Restated [Consolidated] Financial Information:
  - (a) There were no commitments for the purchase or sale of investments.
  - (b) There were no other commitments or obligations which might adversely affect the Company.
  - (c) There were no defaults in principal, interest, sinking fund or redemption provisions with respect to any issue of share or loan capital or credit arrangement, or any breach of covenant of an agreement.

10. Fraud:

- a. We are not aware of any significant facts relating to any frauds or suspected frauds known that may have involved (i) Management;(ii) Employees who have significant roles in internal control; or (iii) Others where the fraud could have a material effect on the financial statements, other than those already disclosed in the audited financial statements as at and for each of the three years ended March 31, 20XX, 20XX and 20XX and Restated Financial Information.
  - b. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Restated Financial Information that have been communicated to us by employees, former employees, analysts, regulators or others.
11. We have made available to you minutes of all meetings of the shareholders and the board of directors and committees of the board up to [date] and summaries of actions of recent meetings for which minutes have not yet been prepared.
  12. No events have occurred subsequent to [date] which requires adjustment of or disclosure in the Restated Financial Information.
  13. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when Restated [Consolidated] Financial Information.
  14. We have disclosed to you the identity of the company's related parties and all the related party relationships and transactions (including funding arrangements) in accordance with the requirements of the ICDR Regulations.
  15. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the Restated [Consolidated] Financial Information such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the examination; and

- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

16. [Proforma Financial Information:

- We are responsible for preparation of Proforma Financial Information as required under ICDR Regulations;
- In compiling the Proforma Financial Information, we are responsible for the basis of determination of the proforma adjustments;
- In compiling the Proforma Financial Information, we have identified all appropriate proforma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration; and
- The Proforma Financial Information has been compiled, in all material respects, on the basis of proforma adjustments as described in Note [xx] to the Proforma Financial Information.]

[amend as applicable]

Yours faithfully,

[For and on behalf of Board of Directors of XYZ Limited]