

# **Guidance Note on Reports in Company Prospectuses (Revised 2016)**

Readers may note that this Guidance Note supercedes the Guidance Note on Reports in Company Prospectuses (Revised) issued by the ICAI in 2006.



**The Institute of Chartered Accountants of India**  
(Set up by an Act of Parliament)  
New Delhi

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## FOREWORD

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In 2006, the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India had issued the “Guidance Note on Reports in Company Prospectuses” to provide guidance to the members who undertake engagements requiring them to issue reports in company prospectuses. The Guidance Note was based on the provisions of the Companies Act, 1956 and the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 (DIP Guidelines 2000). Since 2006, a number of developments are taking place necessitating the need to revise this Guidance Note. The Companies Act, 1956 is replaced by the Companies Act 2013. Further, DIP Guidelines 2000 is also replaced by the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009.

It is heartening that the Auditing and Assurance Standards Board has brought out this revised Guidance Note on Reports in Company Prospectuses to provide appropriate guidance to the members. The Guidance Note has been written in an easy to understand language and contains detailed guidance on various issues involved in such engagements. I am happy that the Guidance Note is a comprehensive and self-contained reference document for the members.

I wish to compliment CA. Shyam Lal Agarwal, Chairman, CA. Sanjay Vasudeva, Vice-Chairman and other members of the Auditing and Assurance Standards Board for bringing out this Guidance Note for the benefit of the members.

I am sure that the members would find the Guidance Note immensely useful.

November 23, 2016  
New Delhi

**CA. M. Devaraja Reddy**  
President, ICAI



## PREFACE

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The Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India issued the 'Guidance Note on Reports in Company Prospectuses' in the year 2006. Since the issuance of this Guidance Note, a number of changes have occurred in the laws and regulations which deal with the matters to be included in the companies' prospectuses including the reports to be given by auditors/ chartered accountants therein. These changes include replacement of the Companies Act 1956 by the Companies Act 2013, replacement of the SEBI (Disclosure and Investor Protection) Guidelines, 2000 by the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, issuance of the Companies (Prospectuses and Allotment of Securities) Rules, 2014. These changes necessitated revision of this Guidance Note.

It gives me immense pleasure to place in your hands this thoroughly revised edition of the 'Guidance Note on Reports in Company Prospectuses' which incorporates the impact of these changes at appropriate places. The Guidance Note has been written in simple and easy to understand language and contains detailed guidance on various issues involved in the engagements to issue reports in companies' prospectuses.

At this juncture, I wish to place on record my gratitude to all the members of Study Group viz. CA. Vijay Agarwal (Convenor) and CA. Anup Kumar Sharma for sparing time out of their other preoccupations for revising the Guidance Note. I would also like to thank all the members of Jaipur Study Group viz. CA. Vishnu Mantri, CA. Bhupendra Mantri and CA. Sandeep Jhanwar for their dedicated efforts in reviewing and finalising the Guidance Note.

I wish to express my sincere thanks to CA. M. Devaraja Reddy, Honourable President, ICAI and CA. Nilesh S. Vikamsey, Vice President, ICAI for their guidance and support to the activities of the Board.

I wish to place on record high appreciation of CA. Sanjay Vasudeva, Vice Chairman of the Board and all the Board Members and also all the Council Members for their whole-hearted support in finalising this Guidance Note as well as other pronouncements of the Board. I also wish to thank CA. Megha Saxena, Secretary to the Board and other officers and staff of AASB for their continued co-operation.

I am confident that the revised Guidance Note would be well received by the members and other interested readers.

November 23, 2016  
New Delhi

**CA. Shyam Lal Agarwal**  
Chairman,  
Auditing and Assurance Standards Board

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## **Applicability of the Guidance Note**

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). 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 January 1, 2017. Earlier application is voluntary.

## **Legal Aspects**

1.1 The purpose of this Guidance Note is to provide guidance on compliance with the provisions of the Companies Act, 2013<sup>1</sup> (hereinafter referred to as "the Act" unless otherwise specified), and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended (hereinafter referred to as the "ICDR Regulations<sup>2</sup>"), relating to the

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<sup>1</sup> References to the Companies Act, 2013 in the Guidance Note refers to the extent notified.

<sup>2</sup> Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended includes references to Companies Act, 1956. However with the issuance of Companies Act, 2013, it is assumed that references made to Companies Act, 1956 in Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended refer to corresponding relevant sections and rules of Companies Act, 2013. This Guidance Note has been developed and issued considering the requirements of Companies Act, 2013 in relation to offerings to be made by the companies.

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reports required to be issued by chartered accountants in prospectus issued by the companies for the offerings made in India.

1.2 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;
- (f) Sections 387 to 393 – relating to prospectus issued by companies incorporated outside India; and
- (g) Companies (Prospectus and Allotment of Securities) Rules, 2014 containing guidelines for information to be stated and reports to be set out in prospectus and other matters and reports to be stated in prospectus.

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

1.3 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 shareholder(s) of the company. In order to enable the potential investors to take a well-informed decision in the matter, the Act and Chapter V of the ICDR Regulations spell out, in details, the information to be given in a prospectus. Furthermore, to ensure

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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.

1.4 Section 26 of the Act read with Companies (Prospectus and Allotment of Securities) Rules, 2014 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 Companies (Prospectus and Allotment of Securities) Rules, 2014 and Chapter V of the ICDR Regulations are to be complied with when a company invites the public to subscribe for its shares or debentures.

1.5 Companies (Prospectus and Allotment of Securities) Rules, 2014 deal with the reports to be set out in a prospectus. Rule 4 of the aforesaid Rules requires a report by the auditors of the company, containing the particulars specified in the said rule. Sub-rules (1) and (2) of Rule 5 of the aforesaid Rules under the circumstances specified therein require a report, containing the specified particulars, by chartered accountants, as named in the prospectus. Further paragraphs (1) to (5) of sub-item (B) of Item (IX) of Part A of Schedule VIII to the ICDR Regulations require the same reports to be set out in the prospectus as provided in Rules 4 and 5 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

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

1.6 The report to be included in a prospectus under Rule 4 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 and paragraphs (1) to (3) of sub-item (B) of Item (IX) of Part A of Schedule VIII to the ICDR Regulations should be made by the auditors of the Company in case of type of transactions covered in Part A. Auditors may refer to Part B, C, E of Schedule VIII to the ICDR Regulations for other type of issuances. In case the Company has joint auditors, the report should be signed by all the joint auditors in accordance with the principles enunciated in Standard on Auditing (SA) 299, "Responsibility of Joint Auditors". The report under Rule 5 of the Companies (Prospectus and

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Allotment of Securities) Rules, 2014 and paragraphs (4) and (5) of sub-item (B) of Item (IX) of Part A of Schedule VIII to the ICDR Regulations should be made by the chartered accountant(s) who shall be named in the prospectus. According to Note 1 and 2 to Item (IX) of Part A of Schedule VIII to the ICDR Regulations, the financial information specified in this item 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 this item must be re-audited for one full financial year and the stub period, by the chartered accountants certifying them. 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. The word "chartered accountants" has been interchangeably used as auditors in the Guidance Note.

1.7 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, the Act provides requirements in relation to eligibility, qualifications and disqualifications of auditors which need to be considered as applicable.

1.8 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**

1.9 Rule 4 of the Companies (Prospectus and Allotment of

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Securities) Rules, 2014 and paragraphs (1) to (3) of sub-item (B) of Item (IX) of Part A of Schedule VIII to the ICDR Regulations states that the report shall be made by the auditor(s) of the Company. An auditor appointed under Section 139 of the Act at the annual general meeting holds office until the conclusion of the sixth annual general meeting subject to ratification by members at every 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 up 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 making 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**

1.10 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, "Forming An Opinion and Reporting on Financial Statements", issued by the Institute of Chartered Accountants of India.

### **Consent Letter**

1.11 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. Section 26(1)(a)(v) of the Act

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requires that every prospectus issued by or on behalf of a public company either with reference to its formation or subsequently, or by or on behalf of any person who is or has been engaged or interested in the formation of a public company, shall be dated and signed and shall state consent of auditors, or from any person who is an expert in terms of Section 26(5) of the Act. 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(5), 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 the Guidance Note.

### **Comfort Letter**

1.12 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. 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 the Guidance Note.

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

1.13 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

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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.

1.14 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(5) or 26(1)(a)(v) or 26(7), 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).

1.15 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 Institute of Chartered

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Accountants of India. Since such types of engagements are subject to peer review requirements of the Institute of Chartered Accountants of India, the auditor should properly document all the working papers necessary to provide evidence of the procedures performed and the basis of his conclusions therefrom. The member would also need to ensure compliance with the requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.

### **Reports and Certificates**

1.16 Rule 4(1) of the Companies (Prospectus and Allotment of Securities) Rules, 2014 read with Section 26(1)(b)(i) of the Act begins with the words "a report by the auditor.....", but later in the proviso to Explanation to paragraph below sub-rule (1) of the said rule 4, the words "together with a certificate from the auditors" have been used. The certificate as to the correctness referred to therein is required to be issued in respect of broken period only. Accordingly, the auditor may be required to apply additional and/or more extensive procedures to be able to certify the correctness of the financial statements for the broken period. The concept of broken period has been explained further in paragraph 1.28.

1.17 Bankers may request auditors to issue certificates in respect of Non-GAAP measures or other financial information (items those 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



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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.

1.18 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.

1.19 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’.

1.20 The auditor should also comply with the requirements of the Standard on Auditing (SA) 720, “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements”, issued by the Institute of Chartered Accountants of India. It is the company’s responsibility to ensure that all the information included in the prospectus is accurate and factually correct. The auditor’s responsibility is to read the information (to the extent it relates to the information obtained

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during audit or review for reporting) and ensure that such information is properly included.

1.21 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.

1.22 Other information as defined in SA 720 refers to financial and non-financial information (other than the financial statements and the auditor's report thereon) which is included, either by law, regulation or custom, in a document containing audited financial statements and the auditor's report thereon.

### **Rights and Powers**

1.23 The next point for consideration is the rights and powers which a chartered accountant enjoys for performing his onerous duties in such engagement. In this connection it should be noted that only the report required by Rule 4 of Companies (Prospectus and Allotment of Securities) Rules, 2014 and paragraphs (1) to (3) of sub-item (B) of Item (IX) of Part A of schedule VIII to ICDR Regulations is to be made by the company's auditors; all other reports required by sub-rule (1) and (2) of Rule 5 of Companies (Prospectus and Allotment of Securities) Rules, 2014 and paragraphs (4) and (5) of sub-item (B) of Item (IX) of Part A of schedule VIII to the ICDR Regulations are to be made by chartered accountants to be named in the prospectus, and not necessarily by the company's auditors.

1.24 In cases falling under Rule 4 of Companies (Prospectus and Allotment of Securities) Rules, 2014, 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. As mentioned in sub-rules (1) and (2) of Rule 5 of Companies (Prospectus and Allotment of Securities) Rules, 2014 other reports are to be made by a chartered accountant but not an officer or a

servant of the company. It may also be noted that such chartered accountant has no statutory powers. Therefore, he should ensure that necessary authority is given to him by the Board of Directors to discharge his duties and must mention the need for such powers in the engagement letter issued by him for this engagement.

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

1.25 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.

### **Overview of Rules 4 and 5 of Companies (Prospectus and Allotment of Securities) Rules, 2014**

1.26 Rule 4 deals with report on statements of profit and loss and assets and liabilities of a company and its subsidiaries, if any. Rule 5(1) deals with the matters to be stated in relation to purchase of a business or purchase of interest in a business or purchase or acquisition of any immovable property. Rule 5(2) deals with acquisition of a subsidiary company.

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

1.27 Sub-section (b) of Section 26(1) of Companies Act, 2013 read with Sub-rule (1) of Rule 4 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 and paragraph (1) of sub-item (B) of Item (IX) of Part A of schedule VIII to the ICDR Regulations require that the prospectus issued by the issuer company should contain a report by its auditors with respect to:

- (a) profits and losses and assets and liabilities, in accordance with paragraph (2) or (3) of sub-item (B) of Item (IX) of Part A of schedule VIII to the ICDR Regulations as the case may require (these have been dealt with in paragraph 1.34 and 1.35, respectively); and
- (b) the rates of dividends, if any, paid by the issuer company in respect of each class of shares in the issuer company for each of the five financial years immediately preceding the

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issue of the prospectus, giving particulars of each class of shares on which such dividends have been paid and particulars of the cases in which no dividends have been paid in respect of any class of shares for any of those years.

Sub-rule (1) of Rule 4 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 and paragraph 1 of sub-item (B) of Item (IX) of Part A of schedule VIII of the ICDR Regulations also requires that where no accounts have been made up in respect of any part of the period of five years ending on a date three months before the issue of the prospectus, a statement of that fact should also be given. The report should also be accompanied by a statement of the account of the Issuer Company in respect of that part of the said period up to a date not earlier than six months of the date of issue of the prospectus indicating the profit or loss for that period and the assets and liabilities position as at the end of that period together with a certificate from the auditors that such account has been examined and found correct by them. The said statement may indicate the nature of provision or adjustments made or are yet to be made.

1.28 It may be noted that though the law requires the auditors to certify the correctness of the financial statements for the broken period, yet having regard to the fact that such financial statements would invariably involve accounting and other estimates, members should make it clear in their reports on prospectus that they have carried out their examination of the financial statements for the broken period in accordance with the Engagement and Quality Control Standards. The Engagement and Quality Control Standards require that the auditor plan and perform the audit to obtain reasonable assurance in respect of the subject financial statements/ information. Further, the Engagement and Quality Control Standards also provide that while performing the audit procedures to obtain such reasonable assurance, the auditor should also consider the concept of materiality.

1.29 In general, the requirement is to give the figures of profits and losses for the five financial years preceding the issue of the prospectus. If the entity has been carrying on business for less than five financial years, the figures are to be given for the actual

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period of its existence. Where the five financial years immediately preceding the issue of the prospectus cover a period less than five years, i.e., 60 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 five years, i.e., 60 months.

1.30 The Company Law Board in consultation with the Ministry of Law has clarified vide its communication no. 5/72, CL VI, 65 dated 11<sup>th</sup> November 1968, that the period of “five years” refers to simple period of five years ending on a date three months before the issue of the prospectus. Hence, every company will have to furnish in the prospectus, accounts up to a date not earlier than six months from the date of issue of the prospectus, irrespective of the fact whether or not the financial year of the company closes on a date three months before the issue of the prospectus.

1.31 To illustrate, suppose a company's accounting year ends on 31<sup>st</sup> March 2016 and it issues a prospectus when its accounts for the year ended March 2016 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 30<sup>th</sup> September 2016. The auditor is required to give his report on simple five years, equivalent to sixty 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 2014 - March 2015	:	12 months
II	June 2013 – March 2014	:	10 months
III	October 2012 - May 2013	:	8 months
IV	April 2012 - September 2012	:	6 months
V	October 2010 - March 2012	:	18 months
VI	April 2010 - September 2010	:	6 months

1.32 In present case immediately preceding five financial years end on with the period starting October 2010, the report should take into account another accounting year to complete period

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equivalent to 60 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 2009 (exceeding period of 60 months), the auditor will have to report for the entire accounting period i.e., upto October, 2009, and not restrict to the fraction of the year.

1.33 However, if the financial statements for the year ended March 2016 have not been made up, then if the prospectus is issued, say on 30<sup>th</sup> June 2016, the company would be required to give a statement of accounts made up to at least 31<sup>st</sup> December, 2015 and if the prospectus is issued on or after 1<sup>st</sup> July, 2016, say on 31<sup>st</sup> July, a statement of accounts made up to, at least, 31<sup>st</sup> January, 2016 is required to be given.

1.34 In terms of paragraph (2) of sub-item (B) of item (IX) of Part A of Schedule VIII to the ICDR Regulations, if the issuer company has no subsidiaries/ joint ventures/ associates, the report issued should cover the following:

- (a) so far as regards profits and losses, deal with the profits or losses of the issuer company (distinguishing items of a non-recurring nature) for each of the five financial years immediately preceding the issue of the prospectus; and
- (b) so far as regards assets and liabilities, deal with the assets and liabilities of the issuer company at the last date to which the accounts of the issuer company were made up.

1.35 Paragraph (3) of sub-item (B) of item (IX) of Part A of Schedule VIII to the ICDR Regulations provides that if the issuer company has subsidiaries, the report issued should cover:

- (a) separately, the issuer company's profits or losses as provided above in paragraph 1.34 and in addition, deal either:
  - (i) as a whole with the combined profits or losses of its subsidiaries, so far as they concern the members of the issuer company; or
  - (ii) individually with the profits or losses of each subsidiary, so far as they concern the members of the issuer company.

### Guidance Note on Reports in Company Prospectuses

Alternatively, instead of dealing separately with the issuer company's profits or losses, the report may deal as a whole with the profits or losses of the issuer company, and with the combined profits or losses of its subsidiaries so far as they concern the members of the issuer company; and

- (b) separately, the issuer company's assets and liabilities as provided above in paragraph 1.34 and in addition, deal either:
  - (i) as a whole with the combined assets and liabilities of its subsidiaries, with or without the issuer company's assets and liabilities; or
  - (ii) individually with the assets and liabilities of each of the subsidiaries;

In addition, the report should also indicate as respects the assets and liabilities of the subsidiaries, the allowance to be made for persons other than the members of the issuer company.

1.36 From the provisions of the Act and the ICDR Regulations as stated in paragraph 1.35 above, it can be seen that there are various alternatives for incorporating the financial information of the issuer company and its subsidiaries in the prospectus.

1.37 The alternatives are outlined below:

- (a) Consolidated financial information in respect of the issuer company along with the issuer company's interest in the subsidiary companies, and stand-alone financial information of the issuer company; or
- (b) Information of the issuer company and issuer company's interest in the subsidiary companies be combined for all such subsidiaries; or
- (c) Information of the issuer company and issuer company's interest in the subsidiary companies to be given individually in respect of each such subsidiary.

However, presenting the information as per alternative (a) should be preferred as it is in line with the requirements of Accounting Standard (AS) 21, "*Consolidated Financial Statements*" or Indian Accounting Standard (Ind AS) 110, "*Consolidated Financial*

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*Statements*”, as applicable and the consolidation should be done in accordance with the principles outlined in AS 21 or Ind AS 110, as applicable.

1.38 It may be noted that the ICDR Regulations and the Act are silent as to the interest in partnership(s), joint ventures, and associates. Accounting in respect of investments in joint ventures and associates should be done as per the requirements of Accounting Standard (AS) 23 “*Accounting for Investments in Associates in Consolidated Financial Statements*” and Accounting Standard (AS) 27 “*Financial Reporting of Interests in Joint Ventures*” or Ind AS 28 “*Investments in Associates and Joint Ventures*”, as applicable. Interest in partnership firms should be accounted in standalone and consolidated financial statements as per the ICAI guidance and Ind AS as the case may be.

1.39 There may be cases where the holding company has been in existence for a period shorter than the subsidiary. In such cases, the figures have to be given for the holding company for the period it has been in existence, and for the subsidiary only for the period for which it has been such holding company's subsidiary company or partnership firm.

1.40 It may be noted that as per sub-item (C) of item (IX) of part A of schedule VIII to the ICDR Regulations, the issuer company is required to disclose information with respect to its group companies, but the auditor is not required to report on the same.

1.41 Sub-rule (1) of Rule 5 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 and paragraph 4 of sub-item (B) of item (IX) of Part A of Schedule VIII to the ICDR Regulations also require a report made by an accountant (who would be named in the prospectus) in case the proceeds, or any part of the proceeds, of the issue of the shares or debentures are, or is, to be applied directly or indirectly:

- (a) in the purchase of any business; or
- (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 company will become entitled to an interest as respects either the capital or



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profits and losses or both, in such business exceeding fifty percent, thereof.

The abovementioned report would cover the following aspects:

- (i) the profits or losses of the business of each of the five financial years immediately preceding the issue of the prospectus; and
- (ii) the assets and liabilities of the business at the last date to which the accounts of the business were made up, being a date not more than one hundred and twenty days before the date of the issue of the prospectus.

Generally, the auditors of the acquiree entity should issue such report. The auditors of the acquirer entity should place reliance on the report issued by auditors of the acquiree entity.

1.42 Further, in terms of the requirements of Sub-rule (2) of Rule 5 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 and paragraph 5 of sub-item (B) of Item (IX) of Part A of schedule VIII to the ICDR Regulations:

(a) If:

- (i) the proceeds, or any part of the proceeds, of the issue of the shares or debentures are or is to be applied directly or indirectly in any manner resulting in the acquisition by the issuer company of shares in any other body corporate; and
- (ii) by reason of that acquisition or anything to be done in consequence thereof or in connection therewith, that body corporate will become a subsidiary of the issuer company;

the prospectus should also contain a report made by accountants (who shall be named in the prospectus) upon:

- (i) the profits or losses of the other body corporate for each of the five financial years immediately preceding the issue of the prospectus; and

### Guidance Note on Reports in Company Prospectuses

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- (ii) the assets and liabilities of the other body corporate at the last date to which its accounts were made up.

Generally, the auditors of the acquiree entity should issue such report. The auditors of the acquirer entity may place reliance on the report issued by auditors of the acquiree entity.

1.43 The above provisions also require that the report should:

- (i) indicate how the profits or losses of the other body corporate dealt with by the report would, in respect of the shares to be acquired, have concerned members of the issuer company and what allowance would have fallen to be made, in relation to assets and liabilities so dealt with for holders of other shares, if the issuer company had at all material times held the shares to be acquired; and
- (ii) where the other body corporate has subsidiaries, deal with the profits or losses and the assets and liabilities of the body corporate and its subsidiaries in the manner provided by sub-clause (a)(ii) above in relation to the issuer company and its subsidiaries.

### **Accounting and Auditing Aspects (read with Appendix 6 and Appendix 6.1)**

2.1 As stated earlier in preceding paragraphs, the reporting auditor/accountant is required to report on the profits and losses (distinguishing items of non-recurring nature) for the preceding five years and on the assets and liabilities, after making such adjustments as explained in paragraph 2.2 below. The term non-recurring has not been defined either in the Act or in the ICDR Regulations. The auditor should therefore exercise judgement, and accordingly, his report should be made based on the information that he considers will be relevant. Since what constitutes “non-recurring” has been defined neither in the Act nor in the ICDR Regulations, members should draw guidance in this regard from the Accounting Standard (AS) 5, “Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies”.

2.2 The Statement of Assets and Liabilities and Statement of

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Profit and Loss or any other financial information needs to be adjusted in the following manner.

- (a) Adjustments for all incorrect accounting practices or failure to make provisions or other adjustments, which resulted in audit qualification. It is relevant to note here that in case of prospectus, the auditor/ accountant reports on the Statement of Assets and Liabilities and the Statement of Profit and Loss extracted from the audited financial statement 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. Any non-quantifiable qualification should, however, be dealt with in the auditor's/accountant's report appropriately in accordance with the provisions of SA 705, "Modifications to the Opinion in the Independent Auditor's Report".
- (b) As per ICDR Regulations, material amounts relating to adjustments for previous years should be adjusted in arriving at the profits for the years to which they relate irrespective of the year in which event triggering the profit or loss has occurred. In other words, where there are material facts which would have been taken into consideration while preparing the accounts for the respective years, had those facts been known at that time, the same should be considered in the year to which it relates. The auditor should, therefore, review the relevant information in respect of earlier years, such as, settlement of significant litigations items already reported as prior period adjustments, extraordinary items identified and adjusted in the respective years etc.
- (c) Where there has been a change in accounting policy, the profits or losses of the earlier years (required to be shown in the prospectus) 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 should be noted that, if for any of these years, the change is not quantifiable, the same needs to be brought

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out in the report of the auditor/accountant. It is likely that the companies would have changed accounting policies to comply with several of the Accounting Standards that have become mandatory in the recent past. The Standards become applicable from a particular date specified in the Standard and some Standards have transitional provisions as well. In this regard, the date when the Standard 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 by the auditor/accountant. However, in case of practical problems in adoption of a Standard in earlier years for making the adjustment, the fact should be adequately brought out in the auditor's/accountant's report as an emphasis of matter paragraph or a qualification, as may be necessary, depending upon the facts and circumstances of each case.

- (d) Statement of profit or loss should disclose the profit or loss arrived at before and after considering the profit or loss from extraordinary items. The turnover disclosed in the Statement of Profit and Loss Statement should be bifurcated into:
- (i) turnover of products manufactured by the issuer company;
  - (ii) turnover of products traded in by the issuer company; and
  - (iii) turnover in respect of products not normally dealt in by the issuer company but included in (ii) above, should be mentioned separately.

Further, in all cases where other income (net of related expenses) exceeds 20% of the net profit before tax, then the details of such income is also required to be disclosed. Such disclosure should include:

- (i) the sources and other particulars of such income; and
- (ii) an indication as to whether such income is recurring or non-recurring, or has arisen out of business activities/ other than the normal business activities.

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- (e) The statement of assets and liabilities should be prepared after deducting the balance outstanding on revaluation reserve account both from fixed assets and reserves and the net-worth arrived at after such deductions.

2.3 In addition to above, Part A of schedule VIII to the ICDR Regulations require the following other information also to be disclosed by the issuer Company:

- (i) the changes (with quantification, wherever possible) in the activities of the issuer company during last five years which may have had a material effect on the statement of profit/loss, including discontinuance of lines of business, loss of agencies or markets and similar factors.
- (ii) the accounting and other ratios for each of the accounting periods for which the financial information is given. These ratios, as explained below are computed on the basis of restated financial statement.
- a. *Earnings Per Share*: This ratio is calculated after excluding extra ordinary items and as per the provisions of Accounting Standard (AS) 20, "Earnings Per Share"<sup>3</sup>.
- b. *Return on Net Worth*: This ratio is calculated excluding revaluation reserves and extra ordinary items. 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 and securities premium 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.
- c. *Net Asset Value Per Share*: This ratio is calculated excluding revaluation reserves.

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<sup>3</sup> In case financials are prepared under Ind AS, Earnings Per Share should be computed as per the provisions of Ind AS 33, 'Earnings Per Share' as notified by the Companies (Indian Accounting Standards) Rules, 2015.

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- (iii) A Capitalisation Statement showing total debt, net worth, and the debt/equity ratios before and after the issue is made. The same is sometimes not possible as the post issue capitalisation can only be determined after final pricing of the issue based on the book building process and this fact needs to be disclosed. Also, in case of any change in the share capital since the date as of which the financial information has been disclosed in the prospectus, a note explaining the nature of the change should be given. An illustrative capitalisation statement is given in **Appendix 3** to the Guidance Note.
- (iv) As per paragraph 15 of sub-item (B) of item (IX) of schedule VIII to the ICDR Regulations, in case of change in standard denomination of equity shares, the compliance with the following shall be ensured while making disclosure in the offer document:
  - a. All the financial data affected by the change in denomination of shares shall be clearly and unambiguously presented in the offer document.
  - b. Comparison of financial ratios representing value per share and comparison of stock market data in respect of price and volume of securities shall be clearly and unambiguously presented in the offer document.
  - c. The capital structure incorporated in the offer document shall be clearly presented giving all the relevant details pertaining to the change in denomination of the shares.
- (v) As per paragraph 16 of sub-item (B) of item (IX) of Schedule VIII to the ICDR Regulations, the break-up of total outstanding unsecured loans taken by the issuer company along with the terms and conditions, including interest rates and the repayment schedule shall be given in the offer document. Further, the fact whether the loan can be recalled by the lenders at any time needs to be disclosed in the risk factors.
- (vi) As per paragraph 17 of sub-item (B) of item (IX) of Schedule VIII to the ICDR Regulations, the following disclosures along with explanations shall be given for understanding the future tax incidence on the Company:

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- (i) profits after tax are often affected by the tax shelters which are available.
- (ii) permanent differences and timing differences.
- (iii) timing differences which can be reversed in the future, for example, the difference between book depreciation and tax depreciation.

The term tax shelter has not been defined in any of the statutes. However, the dictionary meaning of the term is “an investment intended to reduce the income tax liability”. Tax shelter statement requires to disclose tax at the notional rate and other adjustments which could be in the nature of permanent and timing differences as identified in accordance with Accounting Standard (AS) 22, “Accounting for Taxes on Income” or adjustments which could be in the nature of temporary differences as defined in accordance with Ind AS 12 “Income Taxes”, as applicable. These adjustments may be verified with the income tax returns and other records giving effect of the appeal and other assessment orders in those respective assessment years. In nutshell, the tax shelter statement is a reconciliation between provision for tax according to the Income-tax Act, 1961 and tax expense as explained in AS 22 or Ind AS 12, as applicable after considering the effect of permanent differences under AS 22 or ‘initial recognition exception’ under Ind AS 12 .

- (vii) As per paragraph 18 of sub-item (B) of item (IX) of schedule VIII to the ICDR Regulations, the issuer Company, if it so desires, may include in the offer document, the financial statements prepared on the basis of more than one accounting practice, subject to disclosure of the material differences arising because of different accounting practices.
- (viii) The accountant will have to consider whether all the Significant Accounting Policies and Notes on Accounts appearing in the published accounts need to be reproduced. It may well be that many of them can be omitted. It may equally be found necessary to add certain new items. In any case, all significant accounting policies and standards followed in the

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preparation of the financial statements based on which the Statement of Assets and Liabilities and Statement of Profit and Loss has been extracted should be disclosed. It must be appreciated that the published Statement of Profit and Loss and Balance Sheet are general-purpose financial statements. While using such financial statements for a specific purpose, it may be necessary to make certain adjustments in view of the nature of information required. Such adjustments, however, do not imply any criticism of the accounts as originally drawn up since the adjustments are to be made because of the differences in requirements. While reporting on such adjustments, the accountant should exercise his professional judgment and independence.

- (ix) As the figures to be given in the financial information are to be given for five financial years (minimum of 60 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 60 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 Auditing (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.
- (x) Similar disclosure as in (ix) 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 that/those issuing the report in the prospectus.
- (xi) Report given by the accountant would also disclose reliance, if any, on the accounts audited by other auditor(s) as the



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accountant may not be the auditor of the Company or the business/body corporate being purchased /acquired.

- (xii) The law does not specify whether the report or the financial information included in the prospectus should show the profits before or after taxes. The usual practice, and the recommended procedure, is to show the profit before tax, the charge for tax, and the profit after tax.

2.4 As explained in paragraph 1.28, 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 period and for their audit. In preparation of accounts for the broken period, the recognition and measurement principles laid down in Accounting Standard (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 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 of 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 period but also in the years being reported upon by the auditor/ accountant in the same principles as set out in paragraph 2.2 above.

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2.5 The report on profits to be included in the prospectus is usually fairly detailed, starting from the sales turnover, and showing the cost of sales with varying degrees of detail, ending up with profits before tax, provision for taxation and profits after tax. The statement of assets and liabilities may be so arranged that liabilities are deducted from the assets ending with the owner's funds (share capital and reserves). Refer **Appendix 6** to the Guidance Note for guidance on restated financial information. An illustrative format of the report of auditors on standalone financial statements and information in company prospectuses is given as **Appendix 4** to this Guidance Note. Also, in case of a report by an accountant who is not the auditor, the same format can be modified as necessary. An illustrative format of the report of auditors on consolidated financial statements and information in the company prospectuses is given as **Appendix 5** to the Guidance Note.

2.6 In the interest of both client 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 Standard on Auditing (SA) 210, "Agreeing the Terms of Audit Engagements" issued by the Institute of Chartered Accountants of India. An illustrative format of the Engagement Letter is given as **Appendix 7** to the Guidance Note.

2.7 The auditor should obtain evidence that management acknowledges its responsibility for the appropriate preparation and presentation of financial information and that management has approved the financial information including the restatement as detailed in paragraph 2.2 above. In this regard it is advisable to get the financial information 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 Institute of Chartered Accountants of India. 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

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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 given as **Appendix 8** to the 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.

2.9 For a further reading on some common issues associated with prospectus, readers are requested to refer **Appendix 9** to the Guidance Note, containing an extract of some frequently asked questions in respect of prospectus as prepared and answered by SEBI.

## Appendix 1

### Illustrative Format of the Consent Letter

(Refer paragraph 1.11)

[Date]

The Board of Directors

[Name and Address of the Company]

Dear Sirs,

**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>4</sup> of [name of the issuer] (the “Issuer”) 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.) [financial information, prepared under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 as amended (the “ICDR Regulations”) and Part I of Chapter III to the Companies Act, 2013], 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]. The following information in relation to us may be disclosed:

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<sup>4</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.

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Statutory Auditors' Name:

Address:

Telephone Number:

Fax Number:

Firm Registration Number:

E-mail:

We further consent to be named as an "expert" as defined under Section 2(38) of the Companies Act, 2013, read with Section 26(1)(a)(v) of the Companies Act, 2013, in relation to the above mentioned financial information, our report thereon, and the Statement of Tax Benefits included in the [Draft Red Herring Prospectus/ the Red Herring Prospectus/ the Prospectus].

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,

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ROC, the stock exchanges or any other regulatory authority as required by law.

For ABC and Co.  
Chartered Accountants

Firm's Registration Number

Signature  
[Name of the Member]  
Designation\*

Place of Signature:

Membership Number

Date:

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

## Appendix 2

### Comfort Letter

(Refer Paragraph 1.12)

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>5</sup>

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<sup>5</sup> Source: SEBI.

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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 no body 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 five financial years and the broken 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



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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

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- (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*

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*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, 2009, 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, 2009, 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

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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 Appendix.

### **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 Institute of Chartered Accountants of India 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>6</sup> during a period, known as the “change period,”

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<sup>6</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.

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subsequent to the date and period of the latest financial statements included in the Prospectus. These comments would also address such matters as subsequent changes in the amounts of (a) net current assets or stockholders' equity and (b) net sales<sup>7</sup>. 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>7</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.

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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

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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>8</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>8</sup> It is expected that generally a company should be able to prepare its interim financials within 45 days of end of last quarter, hence 135 days (90 days plus 45 days) is prescribed.

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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 5 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,



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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. 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,

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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.

### **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

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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.

#### **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,

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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 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

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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

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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. Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2010 lay down the following requirements in relation to proforma financial statements:

#### ***Requirements to disclose proforma financial statements / information***

The issuer shall disclose proforma financial statements in the offer document, if-

- (a) an acquisition or divestment is made by the issuer after the end of the latest disclosed annual financial results in the offer

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document, due to which certain companies become/cease to be direct or indirect subsidiaries of the issuer, and

- (b) the financial statements of such acquired or divested entity is material to the financial statements of the issuer company.

Explanation: The financial statements of the acquired or divested entity shall be “material” to the financial statements of the issuer if:

- (i) the total book value of the assets of the acquired/divested entity amounts to more than 20% of the pre-acquisition/pre-divestment book value of the assets of the issuer;

or

- (ii) the total income of the acquired / divested entity amounts to more than 20% of the pre-acquisition / pre-divestment total income of the issuer.

#### ***Period covered for proforma financial statements/ information***

Proforma financial statements shall be disclosed in respect of the following, namely:

- i. the last completed accounting year, and
- ii. the period beginning from the date of the end of the last completed accounting year and ending on the date on which financial statements of the issuer have been disclosed in the offer document.

Where the said acquisition or divestment does not fulfill the tests of materiality specified in clause 23(1)(b) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2010, the fact of the acquisition or divestment along with the consideration paid / received and the mode of financing such acquisition shall be disclosed.

#### ***Reporting requirements for proforma financial statements / information***

The information disclosed as per sub-clause (2) and (3) of clause 23 of Securities and Exchange Board of India (Issue of Capital

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and Disclosure Requirements) (Fourth Amendment) Regulations, 2010 above shall be certified by the statutory auditor of the issuer.

### **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



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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, 20X6, financial statements and have conducted a SRE 2410 review of the June 30, 20X6, interim financial information of the acquiring company. Other auditors conducted a review of the June 30, 20X6, 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, 20X6, and the unaudited pro forma condensed statements of profit and loss for the year ended March 31, 20X6, and the three-month period ended June 30, 20X6 (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

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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.”

### **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***

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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, 20X6, and for the year then ending.

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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:

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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.

### Guidance Note on Reports in Company Prospectuses

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- 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

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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:

[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, 2009, 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



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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>9</sup> for issuance of comfort letter**

[Name and Address of the Chartered Accountant]

Dear Sirs:

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 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 [.] , 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.
3. 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:

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<sup>9</sup> Such management representation letter to be obtained at each stage of issuance of comfort letter.

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<b>Particulars</b>	<b>As at XX XXX, 20x6</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)

We have no reason to believe that at the Cut-off Date, there was any decrease or increase in the issued and paid-up share capital or increase in long term debt (including current maturities) of the Company compared to the amounts shown in the [date] audited financial statements of the Company as referred in the Comfort Letter other than as stated above.

4. 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.

5. 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.

6. 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

### Guidance Note on Reports in Company Prospectuses

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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.

7. 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:

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").

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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, 20X6]. (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 [standalone]/ [consolidated]summary statement of assets and liabilities of the Company as of [dates] and the related restated [standalone]/ [consolidated] summary statement of profit and loss, and restated [standalone] / [consolidated] statement of cash flows 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 [Standalone]/ [Consolidated] Financial Statements”)

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each restated in accordance with the requirements of the Companies Act, 2013 read with the Companies (Prospectus and Allotment of Securities) Rules, 2014, to the extent applicable (together the “Companies Act”) and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended (the “ICDR Regulations”) and the “Guidance Note on Reports in Company’s Prospectuses (Revised 2016)” issued by the Institute of Chartered Accountants of India (ICAI), to the extent applicable, as amended from time to time (“Guidance Note”). The Audited [Standalone]/ [Consolidated] Financial Statements and our reports thereon form the basis of the Restated [Standalone]/ [Consolidated] Financial Statements. The Restated [Standalone]/ [Consolidated] Financial Statements 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 Statements for these entities are 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, 2009 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, 2009, as amended.[It is recognised that what is substantially consistent may vary from situation to situation and may not be the same

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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, 20x1] (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>10</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.
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].
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

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<sup>10</sup>The auditor may provide a reference to arrangement letter.



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[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”) 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] 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.

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- 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>11</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 Statements) as 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.

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:

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<sup>11</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.

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- 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>12</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:

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

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

<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.

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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>13</sup> of the Company as compared with amounts shown on the [latest interim review date] unaudited [standalone]/ [consolidated]<sup>14</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			
Long-term debt (including current maturities)			

<sup>13</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>14</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.

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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 [Standalone]/ [Consolidated] Financial Statements, 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.

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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. 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 (F) 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 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

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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, the comfort letter should include the following phrase at this point: "and for the use of the 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

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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>15</sup>  
Membership Number

Place of Signature:

Date:

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<sup>15</sup> Partner or proprietor, as the case may be.



## Appendix 2.4

### Illustrative Format of Bring Down Comfort Letter

[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:

We refer to our letter of [Insert Date], relating to the Prospectus of [Company] involving the sale of \_\_\_\_\_ [securities] of \_\_\_\_\_. We reaffirm<sup>16</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

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<sup>16</sup> The auditors should read the comfort letters in respect of entities audited by other auditors while issuing bring down comfort letter.

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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, the comfort letter should include the following phrase at this point: "and for the use of the 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].

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

Signature  
[Name of the Member]  
Designation<sup>17</sup>  
Membership Number

Place of Signature:

Date:

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<sup>17</sup> Partner or proprietor, as the case may be.

## Appendix 2.5

### Illustrative Format of Arrangement Letter

(to be 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,

[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, 2009, 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

### Guidance Note on Reports in Company Prospectuses

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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

### Guidance Note on Reports in Company Prospectuses

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. Any comfort letter issued pursuant to this arrangement letter will not have been provided in accordance with the professional standards of the US American Institute of Certified Public Accountants and accordingly should not be relied upon in connection with any obligations or responsibilities that you may have under any legislation, regulations and/or rule of law in the United States and, in the event of any such use in the United States, we accept no responsibility in this regard.

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.

### Guidance Note on Reports in Company Prospectuses

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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 subsequent to [date of last audited balance sheet]. The procedures we will use to perform the

### Guidance Note on Reports in Company Prospectuses

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

### Guidance Note on Reports in Company Prospectuses

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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>18</sup>

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<sup>18</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.



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[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>19</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>19</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).

## Guidance Note on Reports in Company Prospectuses

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>20</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>20</sup> It may not be appropriate to include this sentence if the arrangement letter is signed contemporaneously with the comfort letter.

### Guidance Note on Reports in Company Prospectuses

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).

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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@  
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.

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@ Partner or proprietor, as the case may be.

**Guidance Note on Reports in Company Prospectuses**

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Signed: .....

(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>21</sup>**

(Subject always to compliance with the requirements of Paragraph 2 of the arrangement letter<sup>22</sup>)

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<sup>21</sup> The legal name of each manager should be specified.

<sup>22</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(iii)]

[Para 14 of sub-item (B) of item (IX) of Part A of Schedule VIII of ICDR Regulations]

(Rupees in lacs)

	<i>Pre-issue as at 30.06.20x6</i>	<i>Post-issue position after adjustments*</i>
Short-Term Debt	1,870	
Long Term Debt	4,370	
Shareholders' Funds		
Share Capital	4,000	
Reserves	14,570	
Total Shareholders' Funds	18,570	
Long Term Debt/Equity	0.24:1	
Note:		

\* 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.

## Appendix 4

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

(on standalone financial information of the issuer Company)  
(Refer paragraph 2.5)

To

The Board of Directors,  
.....Ltd.

Dear Sirs,

- 1) We have examined<sup>23</sup> the attached Restated Standalone Financial Information of .....Ltd (*name of the Company*), which comprise of the Restated Summary Statement of Assets and Liabilities as at March 31, 20x6, 20x5, 20x4, 20x3 and 20x2, the Restated Summary Statement of Profit and Loss and the Restated Summary Statement of Cash Flows for each of the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and the Summary of Significant Accounting Policies as approved by the Board of Directors of the Company prepared in terms of the requirements of :
  - a) Section 26 of Part I of Chapter III of the Companies Act, 2013 ("the Act") read with Rules 4 to 6 of Companies (Prospectus and Allotment of Securities) Rules, 2014 ("the Rules"); and
  - b) the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 as amended from time to time in pursuance of provisions

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<sup>23</sup> Auditors should refer examination of both Indian GAAP and Ind AS financials (if applicable) in one examination report by providing appropriate references to such financials.



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of Securities and Exchange Board of India Act, 1992 ("ICDR Regulations").

The preparation of the Restated Standalone Financial Information [including the interim financial information mentioned in paragraph 4 below] is the responsibility of the Management of the Company for the purpose set out in paragraph 9 below. The Management's responsibility includes designing, implementing and maintaining adequate internal control relevant to the preparation and presentation of the Restated Standalone Financial Information. The Management is also responsible for identifying and ensuring that the Company complies with the Rules and ICDR Regulations.

- 2) We have examined such Restated Standalone Financial Information taking into consideration:
  - a) The terms of reference and terms of our engagement agreed upon with you in accordance with our engagement letter dated xx in connection with the proposed issue of equity shares of the Company; and
  - b) The Guidance Note on Reports in Company Prospectuses (Revised 2016) issued by ICAI ("The Guidance Note").
- 3) These Restated Standalone Financial Information have been compiled by the management from the Audited Financial Statements as at March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and for each of the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 which have been approved by Board of directors at their meetings held on [dates] respectively.

Audit for the financial years ended 20x3 and 20x2 was conducted by previous auditors, XYZ & Co., and accordingly reliance has been placed on the financial information

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examined by them for the said years<sup>@</sup>. The financial report included for these years, i.e., 20x3 and 20X2 are based solely on the report submitted by M/s XYZ & Co. M/s XYZ & Co. have also confirmed<sup>24</sup> that the restated standalone financial information:

- (a) have been made after incorporating adjustments for the changes in accounting policies retrospectively in respective financial years to reflect the same accounting treatment as per changed accounting policy for all the reporting periods;
- (b) have been made after incorporating adjustments for the material amounts in the respective financial years to which they relate; and
- (c) do not contain any extra-ordinary items that need to be disclosed separately [other than those presented] in the Restated Standalone Financial Information] and do not contain any qualification requiring adjustments.

(amend as applicable)

- 4) [We have also examined the financial information of the Company for the period XX.XX.2XX6 to XX.XX.2XX6 [the broken period ending not before 180 days from the date of prospectus] prepared and approved by the Board of Directors for the purpose of disclosure in the offer document of the Company.

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<sup>@</sup> Applicable only when some of the reported financial years were audited by an auditor other than the current auditor.

<sup>24</sup> Generally, the examination of past periods should be performed by the previous auditors 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 and previous auditors should consider such policies and other information for their examination. In case the previous auditors are not in a position to issue examination report for past periods due to practical issues, then the current auditors should perform adequate procedures to be able to take responsibility of past periods.

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Based on the above, we report that in our opinion and according to the information and explanations given to us, the above interim financial information are in accordance with the accounting principles generally accepted in India, including the Accounting Standards prescribed under section 133 of the Act, as applicable and the interim financial information are presented with the Restated Standalone Financial Information appropriately.]

- 5) In accordance with the requirements of Section 26 of Part I of Chapter III of the Act read with, Rules 4 to 6 of Companies (Prospectus and Allotment of Securities) Rules, 2014, the ICDR Regulations and the Guidance Note, we report that:
  - a) The Restated Summary Statement of Assets and Liabilities of the Company, including as at 20x3 and 20x2 examined and reported upon by M/s XYZ & Co., on which reliance has been placed by us, and as at June 30, 20x6, March 31, 20x6, 20x5 and 20x4 examined by us, as set out in Annexure to this report, have been arrived at after making adjustments and regrouping/reclassifications as in our opinion were appropriate and more fully described in Annexure – Summary Statement of Adjustments to the Audited Financial Statements.
  - b) The Restated Summary Statement of Profit and Loss of the Company, including for the years ended 20x3 and 20x2 examined by XYZ & Co. and who have submitted their report on which reliance has been placed by us, and for the quarter ended June 30, 20x6 and each of the years ended March 31, 20x6, 20x5 and 20x4 examined by us, as set out in Annexure to this report, have been arrived at after making adjustments and regrouping/reclassifications as in our opinion were appropriate and more fully described in Annexure – Summary Statement of Adjustments to the Audited Financial Statements.
  - c) The Restated Summary Statement of Cash Flows of the Company, including for the years ended 20x3 and 20x2

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examined by XYZ & Co. and who have submitted their report on which reliance has been placed by us, and for the quarter ended June 30, 20x6 and each of the years ended March 31, 20x6, 20x5 and 20x4 examined by us, as set out in Annexure to this report, have been arrived at after making adjustments and regrouping/reclassifications as in our opinion were appropriate and more fully described in Annexure – Summary Statement of Adjustments to the Audited Financial Statements.

- d) Based on the above and according to the information and explanations given to us, and also as per the reliance placed on the reports submitted by the previous auditors, XYZ & Co. for the respective years, we further report that the Restated Standalone Financial Information:
  - (i) have been made after incorporating adjustments for the changes in accounting policies retrospectively in respective financial years to reflect the same accounting treatment as per changed accounting policy for all the reporting periods;
  - (ii) have been made after incorporating adjustments for the material amounts in the respective financial years to which they relate; and
  - (iii) do not contain any extra-ordinary items that need to be disclosed separately [other than those presented] in the Restated Standalone Financial Information] and do not contain any qualification requiring adjustments.

(amend as applicable)

- 6) We have also examined the following restated standalone financial information of the Company set out in the Annexures prepared by the management and approved by the Board of Directors on [date] for the quarter ended June 30, 20x6 and for the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2. In respect of the years ended March 31, 20x3 and 20x2 these information have been included based upon the reports

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submitted by previous auditors, XYZ & Co. and relied upon by us:

(amend as appropriate)

- (a) Annexure 1 - Summary Statement of Adjustments to the Audited Financial Statements
- (b) Annexure 2- Summary Statement of Related Party Transactions
- (c) Annexure 3- Summary Statement of Net Worth
- (d) Annexure 4 - Summary Statement of Secured and Unsecured Loans
- (e) Annexure 5- Summary Statement of Capitalisation
- (f) Annexure 6- Summary Statement of Accounting Ratios
- (g) Annexure 7- Summary Statement of tax shelter
- (h) Annexure 8 – Summary Statement of Dividend paid/proposed
- (i) Annexure 9- Others

(Amend as applicable)

According to the information and explanations given to us and also as per the reliance placed on the reports submitted by the previous auditors, XYZ & Co., in our opinion, the Restated Standalone Financial Information and the above restated financial information contained in Annexures xx to xx accompanying this report, read with Summary of Significant Accounting Policies disclosed in Annexure xx, are prepared after making adjustments and regroupings as considered appropriate and have been prepared in accordance with Section 26 of Part I of Chapter III of the Companies Act, 2013 read with Rules 4 to 6 of Companies (Prospectus and Allotment of Securities) Rules, 2014, ICDR Regulations and the Guidance Note.

[According to the information and explanations given to us and also as per the reliance placed on the reports submitted by the previous auditors, XYZ & Co., in our opinion, the

### Guidance Note on Reports in Company Prospectuses

Proforma Financial Information<sup>25</sup> of the Company as at March 31, 20xX and for the year[s] ended March 31, 20xX, read with Summary of Significant Accounting Policies disclosed in Annexure xx, are prepared after making proforma adjustments as mentioned in Note [xx] and have been prepared in accordance with Section 26 of Part I of Chapter III of the Companies Act, 2013 read with Rules 4 to 6 of Companies (Prospectus and Allotment of Securities) Rules, 2014, ICDR Regulations and the Guidance Note.]

- 7) 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, nor should this report be construed as a new opinion on any of the financial statements referred to herein.
- 8) We have no responsibility to update our report for events and circumstances occurring after the date of the report.
- 9) Our report is intended solely for use of the management for inclusion in the offer document to be filed with Securities and Exchange Board of India [relevant stock exchanges and Registrar of Companies, [State]] in connection with the proposed issue of equity shares of the Company. Our report should not be used, referred to or distributed for any other purpose except with our prior consent in writing.

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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<sup>25</sup> Pro forma Financial Information as mentioned in Questions 3 and 8 in Appendix 6.1.

@ Partner or proprietor, as the case may be.

## Appendix 5

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

(on consolidated financial information of the issuer Company)

(Refer paragraph 2.5)

To

The Board of Directors,  
.....Ltd.

Dear Sirs,

- 1) We have examined<sup>26</sup> the attached Restated Consolidated Financial Information of .....Ltd (*name of the Company*), and its subsidiaries and joint ventures (*include as applicable*) (collectively known as "Group"), which comprise of the Restated Consolidated Summary Statement of Assets and Liabilities as at March 31, 20x6, 20x5, 20x4, 20x3 and 20x2, the Restated Consolidated Summary Statement of Profit and Loss and the Restated Consolidated Summary Statement of Cash Flows for each of the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and the Summary of Significant Accounting Policies as approved by the Board of Directors of the Company prepared in terms of the requirements of:
  - a) Section 26 of Part I of Chapter III of the Companies Act, 2013 ("the Act") read with Rules 4 to 6 of Companies (Prospectus and Allotment of Securities) Rules, 2014 ("the Rules"); and
  - b) the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 as amended from time to time in pursuance of

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<sup>26</sup> Auditors should refer examination of both Indian GAAP and Ind AS financials (if applicable) in one examination report by providing appropriate references to such financials.

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provisions of Securities and Exchange Board of India Act, 1992 ("ICDR Regulations").

The preparation of the Restated Consolidated Financial Information [including the interim financial information mentioned in paragraph 4 below] is the responsibility of the Management of the Company for the purpose set out in paragraph 10 below. The Management's responsibility includes designing, implementing and maintaining adequate internal control relevant to the preparation and presentation of the Restated Consolidated Financial Information. The Management is also responsible for identifying and ensuring that the Company complies with the Rules and ICDR Regulations.

- 2) We have examined such Restated Consolidated Financial Information taking into consideration:
  - a) The terms of reference and terms of our engagement agreed upon with you in accordance with our engagement letter dated xx in connection with the proposed issue of equity shares of the Company; and
  - b) The Guidance Note on Reports in Company Prospectuses (Revised 2016) issued by ICAI ("The Guidance Note").
- 3) These Restated Consolidated Financial Information have been compiled by the management from the audited consolidated financial statements as at March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and for each of the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 which have been approved by Board of directors at their meetings held on [dates] respectively.

Audit for the financial years ended 20x3 and 20x2 was conducted by previous auditors, XYZ & Co., and accordingly reliance has been placed on the consolidated financial information examined by them for the said years. The financial report included for these years are based solely on the report submitted by them.



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- 4) [We have also examined the consolidated financial information of the Company and its subsidiaries, joint ventures and associates (as applicable) for the period XX.XX.2XX6 to XX.XX.2XX6 [the broken period ending not before 180 days from the date of prospectus] prepared and approved by the Board of Directors for the purpose of disclosure in the offer document of the Company.

Based on the above, we report that in our opinion and according to the information and explanations given to us, the above interim financial information are in accordance with the accounting principles generally accepted in India, including the Accounting Standards prescribed under section 133 of the Act, as applicable and the interim financial information are presented with the Restated Consolidated Financial Information appropriately.

We did not audit the financial statements of the subsidiaries, joint ventures and associates (as applicable) for the period ended XX.XX.2XX6 whose Financial Statements reflect total assets of Rs. XXX, total revenue of Rs. XXX and net cash flows of Rs. XXX and Group's share of net profit/loss of Rs. XXX. These financial statements have been audited by another firm of Chartered Accountants, M/s ABC & Co., whose reports have been furnished to us and our opinion in so far as it relates to the amounts included in these Consolidated Summary Statement of Asset and Liabilities and Summary Statement of Profit and Loss Account are based solely on the report of other auditors.]

- 5) We did not audit the financial statements of certain subsidiaries, joint ventures and associates (as applicable) for the financial years ended March 31, 20x5, 20x4, 20x3 and 20x2 whose share of total assets, total revenues, and net cash flows and Group's share of net profit/loss, included in the Restated Consolidated Financial Information, for the relevant years is tabulated below: (amend as applicable)

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(Amounts)

<b>Particulars</b>	<b>March 31, 20x5</b>	<b>March 31, 20x4</b>	<b>March 31, 20x3</b>	<b>March 31, 20x2</b>
Total Assets				
Revenues				
Net Cash Inflows				
Group's share of net profit/loss				

These financial statements have been audited by another firm of Chartered Accountants ABC & Co., whose reports have been furnished to us and our opinion in so far as it relates to the amounts included in these Restated Consolidated Financial Information are based solely on the report of other auditors.

These other auditors, as mentioned in paragraphs 3, 4 and 5 (of the Company/Group, Subsidiaries, Joint Ventures and associates), have confirmed<sup>27</sup> that the restated consolidated financial information:

- (a) have been made after incorporating adjustments for the changes in accounting policies retrospectively in respective financial years to reflect the same accounting treatment as per changed accounting policy for all the reporting periods;

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<sup>27</sup> Generally, the examination of past periods of the group and of the material subsidiaries/joint ventures/ associates should be performed by the previous auditors and other auditors of such 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 are not in a position to issue examination report for past periods due to practical issues, then the current auditors should perform adequate procedures to be able to take responsibility of past periods.

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- (b) have been made after incorporating adjustments for the material amounts in the respective financial years to which they relate; and
- (c) do not contain any extra-ordinary items that need to be disclosed separately [other than those presented] in the Restated Consolidated Financial Information] and do not contain any qualification requiring adjustments.

(amend as applicable)

- 6) Based on our examination in accordance with the requirements of Section 26 of Part I of Chapter III of the Act read with, Rules 4 to 6 of Companies (Prospectus and Allotment of Securities) Rules, 2014, the ICDR Regulations and the Guidance Note, we report that:
  - a) The Restated Consolidated Summary Statement of Assets and Liabilities of the Group, including as at 20x3 and 20x2 examined and reported upon by M/s XYZ & Co., on which reliance has been placed by us, and as at June 30, 20x6, March 31, 20x6, 20x5 and 20x4 examined by us, as set out in Annexure to this report, have been arrived at after making adjustments and regrouping/reclassifications as in our opinion were appropriate and more fully described in Annexure – Summary Statement of Adjustments to the Audited Consolidated Financial Statements.
  - b) The Restated Consolidated Summary Statement of Profit and Loss of the Group, including for the years ended 20x3 and 20x2 examined by XYZ & Co. and who have submitted their report on which reliance has been placed by us, and for the quarter ended June 30, 20x6 and each of the years ended March 31, 20x6, 20x5 and 20x4 examined by us, as set out in Annexure to this report, have been arrived at after making adjustments and regrouping/reclassifications as in our opinion were appropriate and more fully described in Annexure – Summary Statement of Adjustments to the Audited Consolidated Financial Statements.
  - c) The Restated Consolidated Summary Statement of Cash Flows of the Group, including for the years ended 20x3

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and 20x2 examined by XYZ & Co. and who have submitted their report on which reliance has been placed by us, and for the quarter ended June 30, 20x6 and each of the years ended March 31, 20x6, 20x5 and 20x4 examined by us, as set out in Annexure to this report, have been arrived at after making adjustments and regrouping/reclassifications as in our opinion were appropriate and more fully described in Annexure – Summary Statement of Adjustments to the Audited Consolidated Financial Statements.

- d) Based on the above, and according to the information and explanations given to us, and also as per the reliance placed on the reports submitted by the previous auditors, XYZ & Co. for the respective years, we further report that the Restated Consolidated Financial Information:
- i) have been made after incorporating adjustments for the changes in accounting policies retrospectively in respective financial years to reflect the same accounting treatment as per changed accounting policy for all the reporting periods;
  - ii) have been made after incorporating adjustments for the material amounts in the respective financial years to which they relate; and
  - iii) do not contain any extra-ordinary items that need to be disclosed separately [other than those presented] in the Restated Consolidated Financial Information] and do not contain any qualification requiring adjustments.

(amend as applicable)

- 7) We have also examined the following restated consolidated financial information of the Group set out in the Annexures prepared by the management and approved by the Board of Directors on [date] for the quarter ended June 30, 20x6 and for the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2. In respect of the years ended March 31, 20x3 and 20x2 these information have been included based upon the reports

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submitted by previous auditors, XYZ & Co. and relied upon by us:

(Amend as applicable)

- (a) Annexure 1 - Summary Statement of Adjustments to Audited Financial Statements
- (b) Annexure 2- Summary Statement of Related Party Transactions
- (c) Annexure 3- Summary Statement of Net Worth
- (d) Annexure 4 - Summary Statement of Secured and Unsecured Loans
- (e) Annexure 5- Summary Statement of Capitalisation
- (f) Annexure 6- Summary Statement of Accounting Ratios
- (g) Annexure 7 – Summary Statement of Dividend paid/proposed
- (h) Annexure 8 - Others

(Amend as applicable)

According to the information and explanations given to us and also as per the reliance placed on the reports submitted by the previous auditors, XYZ & Co., in our opinion, the Restated Consolidated Financial Information and the above restated consolidated financial information contained in Annexures xx to xx accompanying this report, read with Summary of Significant Accounting Policies disclosed in Annexure xx, are prepared after making adjustments and regroupings as considered appropriate and have been prepared in accordance with Section 26 of Part I of Chapter III of the Companies Act, 2013 read with Rules 4 to 6 of Companies (Prospectus and Allotment of Securities) Rules, 2014, ICDR Regulations and the Guidance Note.

[According to the information and explanations given to us and also as per the reliance placed on the reports submitted by the previous auditors, XYZ & Co., in our opinion, the

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Proforma Financial Information<sup>28</sup> of the Group as at March 31, 20xX and for the year[s] ended March 31, 20xX, read with Summary of Significant Accounting Policies disclosed in Annexure xx, are prepared after making proforma adjustments as mentioned in Note [xx] and have been prepared in accordance with Section 26 of Part I of Chapter III of the Companies Act, 2013 read with Rules 4 to 6 of Companies (Prospectus and Allotment of Securities) Rules, 2014, ICDR Regulations and the Guidance Note.]

- 8) 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, nor should this report be construed as a new opinion on any of the financial statements referred to herein.
- 9) We have no responsibility to update our report for events and circumstances occurring after the date of the report.
- 10) Our report is intended solely for use of the management for inclusion in the offer document to be filed with Securities and Exchange Board of India [relevant stock exchanges and Registrar of Companies, [State]] in connection with the proposed issue of equity shares of the Company. Our report should not be used, referred to or distributed for any other purpose except with our prior consent in writing.

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

[

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

Place of Signature:

Date:

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<sup>28</sup> Pro forma Financial Information as mentioned in Questions 3 and 8 in Appendix 6.1.

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

## **Appendix 6**

### **Restated Financial Information**

*(Refer Paragraph 2.5)*

#### **Existing reporting requirements under ICDR Regulations**

Securities and Exchange Board of India (“SEBI”) (Issue of Capital and Disclosure Requirements (“ICDR”)) Regulations, 2009, as amended (hereinafter referred to as the “ICDR Regulations”) require issuer companies to disclose financial information for historical five financial years immediately preceding the filing of their offer documents, while following uniform accounting policies for each of the financial years.

Paragraph 9 of sub-item (B) of Item (IX) of Part A of Schedule VIII to ICDR Regulations further requires that Statements of Assets and Liabilities and Profit and Loss or any other financial information shall be incorporated after making the following adjustments, wherever quantification is possible:

- a) Adjustments/rectification for all incorrect accounting practices or failures to make provisions or other adjustments which resulted in audit qualifications. Audit qualifications, which have not been given effect to, if any, shall be highlighted along with the management comments. If the impact of non-provisions is not considered ascertainable, then a statement to that effect by the auditors;
- b) Material amounts relating to adjustments for previous years shall be identified and adjusted in arriving at the profits of the years to which they relate irrespective of the year in which the event triggering the profit or loss occurred;
- c) Where there has been a change in accounting policy, the profits or losses of the earlier years (required to be shown in the offer document) and of the year in which the change in the accounting policy has taken place shall be recomputed to reflect what the profits or losses of those years would have been if a uniform accounting policy was followed in each of these years;

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- d) If an incorrect accounting policy is followed, the re-computation of the financial statements shall be in accordance with correct accounting policies; and
- e) Statement of profit or loss shall disclose the profit or the loss arrived at before considering extraordinary items and after considering the profit or loss from extraordinary items.

Before applicability of Ind AS, a company in the process of listing is required to disclose financial information for historical five financial years in accordance with Indian GAAP.

### **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 (the ‘Rules’), as amended that set out the text of 39 Indian Accounting Standards (Ind AS) applicable to certain class of companies and set out the dates of applicability. The Rules as amended in March 2016 set out 40 Ind ASs.

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 “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.

### **PHASE I COMPANIES**

For companies falling under Phase I, i.e. companies that will prepare Ind AS financial statements for accounting periods beginning on or after April 1, 2016, the following framework of accounting shall be applicable for disclosing financial information\*\* in their offer document:



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<b>Period of filing of offer document #</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>	<b>Second earliest financial year</b>	<b>Earliest financial year</b>
Upto March 31, 2017\$	Indian GAAP (FY 2015-16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)	Indian GAAP (FY 2011-12)
Between April 1, 2017 and March 31, 2018	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	Ind AS* (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)
Between April 1, 2018 and March 31, 2019	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013-14)
Between April 1, 2019 and March 31, 2020	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	Indian GAAP (FY 2014-15)
On or after April 1, 2020	Ind AS (FY 2019-20)	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)

\*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 3 and 5* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**)

\*\* (Refer *Question 4* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**)

#(Refer *Question 7* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**)

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\$(Refer *Question 1* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**)

**Phase II Companies**

For companies falling under Phase II, i.e. companies that will prepare 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>	<b>Second earliest financial year</b>	<b>Earliest financial year</b>
Upto March 31, 2018\$	Indian GAAP (FY 2016-17)	Indian GAAP (FY 2015-16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)
Between April 1, 2018 and March 31, 2019	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Ind AS* (FY 2015-16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013-14)
Between April 1, 2019 and March 31, 2020	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Indian GAAP (FY 2015-16)	Indian GAAP (FY 2014-15)
Between April 1, 2020 and March 31, 2021	Ind AS (FY 2019-20)	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Indian GAAP (FY 2015-16)
On or after April 1, 2021	Ind AS (FY 2020-21)	Ind AS (FY 2019-20)	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)

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\*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 3 and 5* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**)

\*\* (Refer *Question 4* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**)

# (Refer *Question 7* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**)

\$(Refer *Question 1* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**)

### **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 6.1**)

#### ***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 historical five 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 6.1**)

#### **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

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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) When historical or comparative financial information in accordance with Indian GAAP is presented in any Ind AS financial statements, the company in the process of listing shall:
  - i) Label the previous GAAP information prominently as not being prepared in accordance with Ind AS; and
  - ii) Disclose the nature of the main adjustments that would make it comply with Ind AS, although quantification of such adjustments is not required.
- b) 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.

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- c) 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 *Question 6* of “Key reporting considerations while preparing financial statements to be included in offer documents” in **Appendix 6.1**).
- 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 6.1**.

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

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

#### **1. Presentation of Restated Financial Information**

In absence of the specific requirements in relation to Restated Financial Information, the companies should follow the presentation requirements as mentioned in Schedule III to the Companies Act, 2013 'General instructions for preparation of balance sheet and statement of profit and loss of a Company as applicable to the respective accounting standards (existing accounting standards or Ind AS) to be followed.

#### **2. Notes to the Restated Financial Information**

In absence of the specific requirements in relation to Restated Financial Information, at a minimum, the companies should present notes for the line items appearing in the balance

sheet, Statement of profit and loss and Cash Flow Statement as reported for annual reporting.

**3. Disclosures to the Restated Financial Information**

In absence of the specific requirements in relation to Restated Financial Information, at a minimum, the companies should present disclosures as required by the applicable accounting standards.

**4. Principles to be used while preparing Restated financial Information**

- The companies should use the principles enumerated in Indian Accounting Standard 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' as notified by Companies (Indian Accounting Standards) Rules, 2015 ('Ind AS 8') in relation to the accounting treatment for change in accounting policies, estimates and errors;
- Any re-classification for the periods covered by the re-stated financial statements needs to be assessed in accordance with the principles enumerated in Ind AS 8;
- Any material re-classification and material prior period adjustment needs to be disclosed separately as a note in the Restated Financial Information; and
- Any item qualified in auditors' report and Companies Auditors' Report Order, 2016 (including the Orders applicable for previous periods) report for the periods covered by the re-stated financial statements needs to be assessed in accordance with the principles enumerated in Ind AS 8. Companies should explain the adjustments being made to the Restated Financial Information in relation to the items qualified in auditors' report and Companies Auditors' Report Order, 2016 (including the Orders applicable for previous periods) report in the notes to Restated Financial Information.

**5. 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

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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.

**6. 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 6.1

### 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 five 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) for filing under Companies Act, 2013. In accordance with Ind AS roadmap and Ind AS 101, these companies would require their first Ind AS financial statements for the year ending March 31, 2017 and present the comparative financial information for the preceding financial year ending March 31, 2016 and an opening Ind AS transition balance sheet as at the transition date i.e. April 1, 2015.

For Phase I issuer companies which are in the process of listing upto March 31, 2017, the circular requires presentation of historical five years financial statements in accordance with Indian GAAP as mentioned below:

Period of filing of offer document	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
Upto March 31, 2017	Indian GAAP (FY 2015-16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)	Indian GAAP (FY 2011-12)

#### Phase II companies

For issuer companies falling under Phase II of Ind AS roadmap, the similar principles should be followed with time lag of one year.



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

**Response:**

Phase I companies

*Scenario 1 – Period of filing of offer document upto March 31, 2017*

The 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. This means that companies that disclose interim financial information for an interim period ending prior to March 31, 2017 shall be required to disclose interim financial information as per Indian GAAP, being the accounting framework followed for the latest financial year i.e. year ended March 31, 2016.

As per Ind AS roadmap issued by MCA, companies which are covered in Phase I are required to adopt Ind AS for financial statements for the accounting periods beginning on or after April 1, 2016 (i.e. year ended March 31, 2017). MCA does not require interim financial statements and Ind AS is applicable for full financial year. For smooth transition to Ind AS, SEBI requires companies that disclose financial information for an interim period ending prior to March 31, 2017 to prepare interim period financial information in accordance with Indian GAAP. Although, it may lead to duplication of efforts for companies which have already adopted Ind AS accounting principles from April 1, 2016 and started reporting internally.

In case a company disclose financial information for an interim period ending prior to March 31, 2017, it should be prepared in accordance with Indian GAAP.

*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 July 31, 2016 and intends to present financial information for interim period (quarter ended June 30, 2016) and for historical five financial years. The accounting framework applicable for the preparation of financial statements for the interim period and historical five financial years shall be as follows:

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Period of filing of offer document	Interim period	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
<b>Upto March 31, 2017</b>	Indian GAAP (Quarter ended June 30, 2016)	Indian GAAP (FY 2015-16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)	Indian GAAP (FY 2011-12)

#### Scenario 2 – Period of filing of offer document after March 31, 2017

In case a company discloses financial information for an interim quarter ending after March 31, 2017 (for example, in financial year 2017-18), 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, 2017.

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 July 31, 2017 and intends to present financial information for interim period (quarter ended June 30, 2017) and for historical five financial years. The accounting framework applicable for the preparation of financial statements for the interim period and historical five financial years shall be as follows:

Period of filing of offer document	Interim period	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
<b>Between April 1, 2017 and March 31, 2018</b>	Ind AS (Quarter ended June 30, 2017)	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	Ind AS (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)

Phase II companies

For issuer companies falling under Phase II of Ind AS roadmap, the similar principles should be followed with time lag of one year.

**Question 3: How should the Ind AS financials for the earliest of the three years be prepared by companies?**

**Response:**

Phase I companies

Assuming that Phase I issuer companies which are in the process of listing during the period from April 1, 2017 to March 31, 2018 would have prepared Ind AS financial statements for FY 2016-17 and FY 2015-16 for filing under Companies Act, 2013. Also, these companies would have prepared Indian GAAP financial statements for FY 2014-15 for filing under Companies Act, 2013. But, the circular requires these companies to prepare an additional Ind AS financial statements for FY 2014-15 for inclusion in the offer document.

For the purpose of preparing Ind AS financial statements for the FY 2014-15, 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, 2015) following accounting policies consistent with that used at the date of transition to Ind AS (i.e. April 1, 2015). It seems that the intent of the circular is not to push back the transition date (i.e. April 1, 2015) to April 1, 2014 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, 2015) while preparing financial statements for the FY 2014-15 and accordingly suitable restatement adjustments in the accounting heads need to be made. The financial statements for the FY 2014-15 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:

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<b>Period of filing of offer document</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>	<b>Second earliest financial year</b>	<b>Earliest financial year</b>
<b>Between April 1, 2017 and March 31, 2018</b>	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	<i>Proforma Ind AS financial statements</i> (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)

There may be a possibility where equity balance computed under Proforma Ind AS financial statements for the year ended March 31, 2015 (i.e. equity under Indian GAAP as at April 1, 2014 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, 2015 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, 2015), prepared for filing under Companies Act, 2013, differs due to restatement adjustments made as at April 1, 2014. In such case, the closing equity balance as at March 31, 2015 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, 2014 and for the year ended March 31, 2015 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

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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, 2014 to March 31, 2015).

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. Cases where there are no exemptions (e.g. amortised cost accounting using effective rate of interest method and functional currency, etc.) available under Ind AS 101, companies are required to Ind AS principles retrospectively and make necessary adjustments as at transition date (i.e. 1<sup>st</sup> April, 2015). 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:

### ***1. Business combination:***

Ind AS 103 - Business combinations ("Ind AS 103") provides for the accounting principles to be applied in case of business combination (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, 2015), or

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- ii) Re-state all the business combinations that occurred before the transition date (i.e. April 1, 2015), 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, the 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):*

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, 2015). Therefore as per the circular, 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, 2014 and March 31, 2015. 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, 2015).

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 as at April 1, 2014 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

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(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, 2015) and use that fair value as deemed cost as at April 1, 2015;
- 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, 2015) 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, 2015) as per Indian GAAP and use that carrying amount as deemed cost as at April 1, 2015. 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

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(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, 2014. Considering the practical challenges in determining the independent fair value at April 1, 2014, the company should arrive at the carrying value at April 1, 2014 using the fair value as at 1 April, 2015 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.  $90/9 \times 10$  years = Rs. 100 crore).

#### Scenario 2 – Revalued amount as deemed cost:

Assume a company acquires a factory building for Rs. 360 crore on April 1, 2010 with an expected remaining useful life of 40 years at that date. The building is revalued on April 1, 2012 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.  $390 - 390/38 \times 2$  years) on April 1, 2014 and Rs. 359.21 crore (i.e.  $390 - 390/38 \times 3$  years) on April 1, 2015. 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, 2014) 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, 2015 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, 2015).



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Therefore, the Company should adopt the carrying value of Rs. 364 crore (i.e.  $350/25 \times 26$  years) as the opening value (i.e. on April 1, 2014) for preparing Proforma Ind AS financial statements. If this option is availed, 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, 2015), 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, 2015), but during the period covered by the first Ind AS financial statements (i.e. from April 1, 2016 to March 31, 2017), 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, 2017. Its date of transition is April 1, 2015. At June 30, 2016, 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, 2012 with remaining useful life of 30 years (recognised under Indian GAAP)	Rs. 750 crore
Fair value of assets at March 31, 2012 less accumulated	Rs. 675 crore (Rs. 750 less $750/30 \times 3$ years)

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depreciation to April 1, 2015 (determined in accordance with Ind AS)	
Fair value of assets at March 31, 2012 less accumulated depreciation to June 30, 2016 (determined in accordance with Ind AS)	Rs. 637.50 crore (Rs. 750 less 750/30*4.5 years)
Fair value of assets at June 30, 2016	Rs. 1,000 crore

Under paragraph D8(b) of Ind AS 101, the fair value at June 30, 2016 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, 2015), and account for the assets under Ind AS from the transition date (i.e. April 1, 2015) to June 30, 2016. 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, 2012 recognised under previous GAAP as the deemed cost at that date and establish the carrying amount at April 1, 2015 by adjusting the March 31, 2012 fair value for subsequent depreciation. When this option is taken, in the first Ind AS financial statements, depreciation recognised from April 1, 2015 to June 30, 2016 will be based on the deemed cost at March 31, 2012 (Rs. 750 crore).

If the fair value at June 30, 2016 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, 2016 (Rs. 637.50 crore) and the fair value of the assets at June 30, 2016 (Rs. 1,000 crore) is

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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, 2016) is based on the uplifted value. No adjustment is made to the depreciation recognised under Ind AS for the period from April 1, 2015 to June 30, 2016.

For preparation of Proforma Ind AS financial statements for the year ended March 31, 2015, 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, 2014 (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, 2015) as well as on April 1, 2014. 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

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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. 2014-15), the company should follow the same accounting principles as adopted at transition date (i.e. April 1, 2015) 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, 2015. 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, 2014) and the reporting date (i.e. March 31, 2015) 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

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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, 2015 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, 2014 as zero and recognise the translation differences arising for the year ended March 31, 2015 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 as at April 1, 2014 and hence it will not pose any challenge.

#### Phase II companies

For issuer companies falling under Phase II of Ind AS roadmap, the similar principles should be followed with time lag of one year.

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### **Question 4: How should the Ind AS and Indian GAAP financials for last five years be presented by Phase I companies when filing is between 1 April 2017 and 31 March 2018?**

Assume that a Phase I company is filing its offer document between April 1, 2017 and March 31, 2018 and it is required to present following financial information. A practical presentation consideration needs to be looked into i.e. whether Ind AS financials and Indian GAAP financials should be presented together or separately in offer document as the presentation and classification of financial statements line items (e.g. extraordinary items, classification of financial assets and financial liabilities and presentation of equity vs. liability etc.) may differ significantly under both the GAAPs.

<b>Period of filing of offer document</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>	<b>Second earliest financial year</b>	<b>Earliest financial year</b>
Between April 1, 2017 and March 31, 2018	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	<i>Proforma Ind AS financial statements</i> (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)

Further, there will be challenges in presenting two sets of accounting policies and notes (i.e. Ind AS and Indian GAAP) together, as they may differ significantly. Considering such classification and presentation issues and presentation of two sets of accounting policies and notes, it is recommended that the company should present its 5 years financial statements in two sections (one for Ind AS financials and second for Indian GAAP financials).

#### Phase II companies

For issuer companies falling under Phase II of Ind AS roadmap, the similar principles should be followed with time lag of one year.

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

**Response:**

Phase I companies

The Phase I 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, 2017 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, 2015) and adopted revaluation model for the first Ind-AS financial statements for the year ended March 31, 2017. In this case, the company should follow revaluation model while preparing Proforma Ind AS financial statements for the year ended March 31, 2015.

Phase II companies

For issuer companies falling under Phase II of Ind AS roadmap, the similar principles should be followed with time lag of one year.

**Question 6: How should the change in accounting policies, estimates and errors be accounted for preparation of restated past five years of financial statements?**

**Response:**

Ind AS 8 requires material prior period errors to be corrected retrospectively by restating the comparative amounts for prior period presented in which the error occurred or if the error occurred before the earliest prior period presented, by restating the opening balance sheet and, if relevant, statement of changes in equity.

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The issuer companies should follow the following principles while preparing historical five year financial statements (including presentation of Indian GAAP financial statements):

- i. The companies should use the principles prescribed in Ind AS 8 in relation to the accounting treatment for change in accounting policies, estimates and errors.

The companies should not apply hind sight while accounting estimates and any change in accounting estimates should be treated prospectively for the purpose of preparation of restated financial information to be included in the offer documents. This is also applicable for restated Indian GAAP financials that need to be presented as part of the historical 5 years of financial information.

- ii. Any re-classification for the periods covered by the re-stated financial statements needs to be assessed in accordance with the principles prescribed in Ind AS 8;
- iii. Any material re-classification and material prior period adjustment needs to be disclosed separately as a note in the restated Financial Information; and
- iv. Any item qualified in auditors' report and Companies Auditors' Report Order, 2015 report for the periods covered by the re-stated financial statements needs to be assessed in accordance with the principles enumerated in Ind AS 8.

**Question 7: Which framework of accounting to be followed by companies if DRHP and RHP are filed in different financial years?**

**Response:**

#### Phase I companies

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 five year financial statements under



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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 2016-17, company is required to prepare historical five year financial statements as per the accounting framework as mentioned below:

<b>Period of filing of offer document</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>	<b>Second earliest financial year</b>	<b>Earliest financial year</b>
Upto March 31, 2017	Indian GAAP (FY 2015-16)	Indian GAAP (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)	Indian GAAP (FY 2011-12)

If the same company files RHP in FY 2017-18, company needs to file historical five year financial statements as per the accounting framework as mentioned below:

<b>Period of filing of offer document</b>	<b>Latest financial year</b>	<b>Second latest financial year</b>	<b>Third financial year</b>	<b>Second earliest financial year</b>	<b>Earliest financial year</b>
Between April 1, 2017 and March 31, 2018	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	Proforma Ind AS financial statements (FY 2014-15)	Indian GAAP (FY 2013-14)	Indian GAAP (FY 2012-13)

The preparation of historical five 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.

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**Question 8: How should the financials be prepared if a company which has adopted Ind AS as per roadmap chooses to present past five years' financials under Ind AS framework of accounting as allowed under the Circular?**

**Response:**

### Phase I companies

SEBI has permitted companies to voluntarily prepare financial statements for all historical five financial years preceding the filing in accordance with Ind AS. Companies covered in Phase I will have to prepare Ind AS financial statements for the FY 2015-16 and FY 2016-17 for filing under Companies Act, 2013 and similarly Phase II companies will have to prepare Ind AS financial statements for FY 2016-17 and FY 2017-18. Companies which chose to present historical five year financial statements in accordance with Ind AS, should prepare Proforma Ind AS financial statements for the remaining years prior to the date of transition (i.e. remaining three years).

Example: Company covered in Phase I is planning to file offer document in FY 2017-18 and voluntarily prepares financial statements for all the historical five years in accordance with Ind AS. Assuming, company would have prepared Ind AS financial statements for the FY 2015-16 and FY 2016-17 for filing under Companies Act, 2013, for remaining three years, company should prepare Proforma Ind AS financial statements by making suitable restatement adjustments that are consistent with the accounting policies used on transition i.e. April 1, 2015.

The same has been summarised below:

Period of filing of offer document	Latest financial year	Second latest financial year	Third financial year	Second earliest financial year	Earliest financial year
Between April 1, 2017 and March 31, 2018	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	Proforma Ind AS financial statements (FY 2014-15)	Proforma Ind AS financial statements (FY 2013-14)	Proforma Ind AS financial statements (FY 2012-13)

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Between April 1, 2018 and March 31, 2019	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	Proforma Ind AS financial statements (FY 2014-15)	Proforma Ind AS financial statements (FY 2013-14)
Between April 1, 2019 and March 31, 2020	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)	Proforma Ind AS financial statements (FY 2014-15)
On or after April 1, 2020	Ind AS (FY 2019-20)	Ind AS (FY 2018-19)	Ind AS (FY 2017-18)	Ind AS (FY 2016-17)	Ind AS (FY 2015-16)

It has been assumed that the companies filing offer document upto March 31, 2017 may not voluntarily adopt to prepare historical five year Ind AS financial statements as the company will have Indian GAAP financial statements prepared for filing under Companies Act, 2013. It may involve undue cost and effort to prepare the Ind AS financial statements for the historical five financial years. However, it is recommended that the company filing offer document upto March 31, 2017 should provide reconciliations as required by paragraph 24 of Ind AS 101 while filing offer document (as discussed earlier).

Further, companies must consider the key reporting considerations (as discussed earlier) while preparing Proforma Ind AS financial statements.

**Phase II companies**

For issuer companies falling under Phase II of Ind AS roadmap, the similar principles should be followed with time lag of one year.

**Question 9: How should the last five years' financials be presented by companies for which Ind AS accounting framework is not applicable but choose to early adopt Ind AS?**

**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

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phases. However, Ind AS roadmap allows companies to voluntarily adopt Ind AS for filing under Companies Act, 2013.

Assuming if an issuer company having net worth of Rs. 230 crore, voluntarily adopts Ind AS in FY 2017-18 and is in the process of listing in the said financial year, it is recommended that the company should apply the same principles as applicable for Phase I companies (as discussed in this appendix) since going forward after getting listed the company will be required to prepare Ind AS financial statements for filing under Companies Act, 2013.

## Appendix 7

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

(refer paragraph 2.6)

Date

Name of Company

Address

#### Letter of Engagement

Dear Sirs,

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”), dated \_\_\_\_\_ *[Date]* 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 each of the five years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 along with the adjusted profits (i.e., after adjustments as required by the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended (the "ICDR Regulations") for each of the five years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 in a

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manner consistent with the accounting policies being adopted for the year ended March 31, 20x6. Further, the Company will prepare Consolidated Financial Information of the Company, its subsidiaries and associates (together referred to as the "Group") for each of the five years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 along with the restated financial information (as per the ICDR Regulations) for each of the 5 years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 in a manner consistent with the accounting policies being adopted for the year ended March 31, 20x6. 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 following information to be included in the offer document of the Company (together with the 'Financial Information') as required by Sub-clauses (i) and (iii) of clause (b) of sub-section (1) of section 26 of the Companies Act, 2013 ("the Act") read with Rule 4 of Companies (Prospectus and Allotment of Securities) Rules, 2014 ("the Rules):
- (a) The Summary Statements of Restated Standalone Assets and Liabilities of the Company as at March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and significant accounting policies and notes/annexures thereto;
  - (b) The Summary Statements of Restated Standalone Profit and Loss of the Company for the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and significant accounting policies and notes/annexures thereto;
  - (c) The Summary Statements of Restated Standalone Cash Flows of the Company for the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and significant accounting policies and notes/annexures thereto;
  - (d) Summary Statement of Related Party Transactions;
  - (e) Summary Statement of Net Worth;
  - (f) Summary Statement of Secured and Unsecured Loans;
  - (g) Summary Statement of Capitalisation;

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- (h) Summary Statement of Dividend Paid / Proposed on Equity Shares;
- (i) Summary Statement of Accounting Ratios;
- (j) Summary Statement of Tax Shelters; and
- (k) [include others]

[We will also examine the similar information (as listed above) prepared on consolidation basis for each of the five years ended March 31, 20x6.]

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

- i) Certificate on Tax Benefits as required under ICDR Regulations; 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 2016), 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 adjusted 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

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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



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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:

Name of subsidiaries	Audit report's date
Name of joint ventures	
Name of associates	

- 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.

Name of subsidiaries	Name of the Auditors
Name of Joint Ventures	
Name of Associates	

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

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<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

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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 and Other 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

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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

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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 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]

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Designation@  
Membership Number

Place of Signature:

Date:

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

[Name]

\_\_\_\_\_  
[Title]

\_\_\_\_\_  
[Date]

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@ Partner or proprietor, as the case may be.

## Appendix 8

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

*(Refer Paragraph 2.7)*

[Name and Address of the Chartered Accountant]

Dear Sirs:

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

This representation letter is provided in connection with your examination of restated standalone financial information of [company's name] (the 'Company') and the restated consolidated financial information of the Company, its subsidiaries and associates (together referred to as the 'Group' ) as at March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and each of the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 (the restated standalone and consolidated financial information is together referred to as 'Restated Financial Statements') contained in Annexures xx to xx and Annexure x to xx respectively, read with significant accounting policies and notes annexed to the Restated Financial Statements, which as approved by the Board of Directors of the Company at their 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, prepared in terms of the requirements of Part I of Chapter III of the Companies Act, 2013 ("the Act") read with Rule 4 of Companies (Prospectus and Allotment of Securities) Rules, 2014 ("the Rules) and the Securities and Exchange Board Of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended ("SEBI-ICDR Regulations"). In particular we confirm that we are responsible for the following:

1. 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.

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2. Restated financial information contained in the above mentioned Annexures have been prepared by the Company in accordance with the requirements of Section 26 of the Companies Act, 2013, to the extent applicable, read with the applicable provisions within Rule 4 and 6 of the Companies (Prospectus and Allotment of Securities) Rules, 2014, to the extent applicable, (together, the “Companies Act”), read with the general circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act, 2013, the SEBI ICDR Regulations and the Guidance Note on Reports in Company Prospectuses (Revised 2016) issued by ICAI, amended from time to time (the “Guidance Note”).
3. Restated Financial Statements have been compiled from the audited standalone and consolidated financial statements as at March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and each of the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 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 Annexure xx to Restated Financial Statements. Also confirmed that there is no need to change our representation letters provided to you for the audit of respective financial years and they are still valid as of the date of the signing of this letter.
4. Restated Summary Statement of Assets and Liabilities of the Company and the Group as at March 31, 20x6, 20x5, 20x4, 20x3 and 20x2, as set out in Annexure-xx, have been arrived at after making adjustments and regrouping as appropriate and more fully described in Annexure xx – Restated Summary Statement of adjustments to audited financial statements.
5. Restated Summary Statement of Profit and Loss of the Company and the Group for each of the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2, as set out in Annexure-xx, have been arrived at after making adjustments and



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regrouping as appropriate and more fully described in Annexure xx – Restated Summary Statement of adjustments to audited financial statements.

6. Restated Summary Statement of Cash Flows of the Company and the Group for each of the years ended March 20x6, 20x5, 20x4, 20x3 and 20x2, as set out in Annexure-xx, have been arrived at after making adjustments and regrouping as appropriate and more fully described in Annexure xx – Restated Summary Statement of adjustments to audited financial statements.
7. The Summary of Significant Accounting Policies and Notes to Accounts of the Company and the Group for each of the years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2, as set out in Annexure-xx, have been arrived at after making adjustments and regrouping as appropriate and more fully described in Annexure xx – Restated Summary Statement of adjustments to audited financial statements.
8. Restated Financial Statements have been made after incorporating adjustments for the material amounts in the respective financial years/period to which they relate.
9. There are no changes in the accounting policies adopted by the Company which would require adjustment in the Restated Financial Statements, other than the adjustments and regrouping as more fully described in Annexure xx to Restated Financial Statements.
10. There are no extra-ordinary items that need to be disclosed separately in the accounts requiring adjustments. [modify as applicable]
11. There are no qualifications in auditor's reports which would require an adjustment in the Restated Financial Statements, other those disclosed in the Restated Financial Statements. [modify as applicable]
12. Restated Financial Statements are free of material misstatements, including omissions. We have considered the

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errors and have determined that they are individually and collectively not material to the Restated Financial Statements.

13. In the statement of tax shelter (Annexure xx to Restated Standalone Financial Statements), the permanent/ timing differences for the years ended 31 March [modify as applicable] have been computed based on the acknowledged copies of income-tax returns of the respective years.
14. Contingencies and Commitments
  - a. We have disclosed in the Annexure xx to the Restated Financial Statements 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 Statements 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 Statements. 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

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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 Statements. 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 accounts.
  - (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.

#### 15. 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 five years ended March 31, 20x6, 20x5, 20x4, 20x3 and 20x2 and Restated Financial Information.
- b. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Restated Financial Statements that have been

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communicated to us by employees, former employees, analysts, regulators or others.

16. 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.
17. No events have occurred subsequent to [date] which requires adjustment of or disclosure in the Restated Financial Statements.

Yours faithfully,

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

## Appendix 9

### Some Frequently Asked Questions on Public Issues

(refer paragraph 2.9)

**Note:** *The following questions and answers have been extracted from the website of the Securities and Exchange Board of India (SEBI) and have been included in this publication for the ease of understanding and knowledge of the readers. The Institute of Chartered Accountants of India is not liable for any action taken or not taken on the basis of these questions and answers. The complete text of the following and other related questions can be found at the website of SEBI ([www.sebi.gov.in](http://www.sebi.gov.in)).*

#### 1. Different kinds of issues

**What are the different kinds of issues which can be made by an Indian company in India?**

Primarily, issues made by an Indian company can be classified as Public, Rights, Bonus and Private Placement. While right issues by a listed company and public issues involve a detailed procedure, bonus issues and private placements are relatively simpler. The classification of issues is as illustrated below:

- a) Public issue
  - (i) Initial Public offer (IPO)
  - (ii) Further Public offer (FPO)
- b) Rights issue
- c) Composite Issue
- d) Bonus issue
- e) Private placement
  - (i) Preferential issue
  - (ii) Qualified institutional placement
  - (iii) Institutional Placement Programme

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- (a) *Public issue*: When an issue / offer of shares or convertible securities is made to new investors for becoming part of shareholders' family of the issuer (Entity making an issue is referred as "Issuer") it is called a public issue. Public issue can be further classified into Initial public offer (IPO) and Further public offer (FPO). The significant features of each type of public issue are illustrated below:
- (i) Initial public offer (IPO): When an unlisted company makes either a fresh issue of shares or convertible securities or offers its existing shares or convertible securities for sale or both for the first time to the public, it is called an IPO. This paves way for listing and trading of the issuer's shares or convertible securities on the Stock Exchanges.
  - (ii) Further public offer (FPO) or Follow on offer: When an already listed company makes either a fresh issue of shares or convertible securities to the public or an offer for sale to the public, it is called a FPO.
- (b) *Rights issue (RI)*: When an issue of shares or convertible securities is made by an issuer to its existing shareholders as on a particular date fixed by the issuer (i.e. record date), it is called a rights issue. The rights are offered in a particular ratio to the number of shares or convertible securities held as on the record date.
- (c) *Composite issue*: When the issue of shares or convertible securities by a listed issuer on public cum-rights basis, wherein the allotment in both public issue and rights issue is proposed to be made simultaneously, it is called composite issue.
- (d) *Bonus issue*: When an issuer makes an issue of shares to its existing shareholders without any consideration based on the number of shares already held by them as on a record date it is called a bonus issue. The shares are issued out of the Company's free reserve or share premium account in a particular ratio to the number of securities held on a record date.

- (e) *Private placement*: When an issuer makes an issue of shares or convertible securities to a select group of persons not exceeding 49, and which is neither a rights issue nor a public issue, it is called a private placement. Private placement of shares or convertible securities by listed issuer can be of three types:
- (i) *Preferential allotment*: When a listed issuer issues shares or convertible securities, to a select group of persons in terms of provisions of Chapter VII of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, it is called a preferential allotment. The issuer is required to comply with various provisions which inter-alia include pricing, disclosures in the notice, lock-in etc, in addition to the requirements specified in the Companies Act.
  - (ii) *Qualified institutions placement (QIP)*: When a listed issuer issues equity shares or non-convertible debt instruments along with warrants and convertible securities other than warrants to Qualified Institutions Buyers only, in terms of provisions of Chapter VIII of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, it is called a QIP.
  - (iii) *Institutional Placement Programme (IPP)*: When a listed issuer makes a further public offer of equity shares, or offer for sale of shares by promoter/promoter group of listed issuer in which the offer, allocation and allotment of such shares is made only to qualified institutional buyers in terms of Chapter VIIIA of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 for the purpose of achieving minimum public shareholding, it is called an IPP.

## **2. Types of Offer Documents (ODs)**

### **(a) What is an offer document?**

'Offer document' is a document which contains all the relevant information about the company, promoters, projects, financial

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details, objects of raising the money, terms of the issue, etc. and is used for inviting subscription to the issue being made by the issuer.

'Offer Document' is called "Prospectus" in case of a public issue and "Letter of Offer" in case of a rights issue.

**(b) I hear various terms like draft offer document, Red Herring prospectus, etc, what are they and how are they different from each other?**

Terms used for offer documents vary depending upon the stage or type of the issue where the document is used. The terms used for offer documents are defined below:

- (i) **Draft offer document** is an offer document filed with SEBI for specifying changes, if any, in it, before it is filed with the Registrar of companies (ROCs). Draft offer document is made available in public domain including websites of SEBI, concerned stock exchanges, or concerned Merchant Banker for enabling public to give comments, if any, on the draft offer document.
- (ii) **Red herring prospectus** is an offer document used in case of a book built public issue. It contains all the relevant details except that of price or number of shares being offered. It is filed with RoC before the issue opens.
- (iii) **Prospectus** is an offer document in case of a public issue, which has all relevant details including price and number of shares or convertible securities being offered. This document is registered with RoC before the issue opens in case of a fixed price issue and after the closure of the issue in case of a book built issue.
- (iv) **Letter of offer** is an offer document in case of a Rights issue of shares or convertible securities and is filed with Stock exchanges before the issue opens.
- (v) **Abridged prospectus** is an abridged version of offer document in public issue and is issued along with the application form of a public issue. It contains all the salient features from the prospectus.



- (vi) **Abridged letter of offer** is an abridged version of the letter of offer. It is sent to all the shareholders along with the application form.
- (vii) **Shelf prospectus** is a prospectus which enables an issuer to make a series of issues within a period of 1 year without the need of filing a fresh prospectus every time. This facility is available to public sector banks, scheduled banks and Public Financial Institutions.
- (viii) **Placement document** is an offer document for the purpose of Qualified Institutional Placement and contains all the relevant and material disclosures.

### **3. Issue Requirements**

#### **(a) Are there any entry requirements for an issuer to make an issue / offer to public? If yes, what are these?**

SEBI has laid down entry norms for entities making a public issue/ offer. The same are detailed below

Entry Norms: Entry norms are different routes available to an issuer for accessing the capital market by way of a public issue. They are meant for protecting the investors by restricting fund raising by companies if they do not satisfy the entry requirements.

- (i) An unlisted issuer making a Public Issue (i.e. IPO) is required to satisfy the following provisions:

Entry Norm I (commonly known as “Profitability Route”)

The Issuer Company shall meet the following requirements:

- (a) Net Tangible Assets of at least Rs. 3 crores in each of the preceding three full years of which not more than 50% are held in monetary assets. However, the limit of fifty percent on monetary assets shall not be applicable in case the public offer is made entirely through offer for sale.
- (b) Minimum of Rs. 15 crores as average pre-tax operating profit in at least three of the immediately preceding five years.

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- (c) Net worth of at least Rs. 1 crore in each of the preceding three full years.
- (d) If the company has changed its name within the last one year, at least 50% revenue for the preceding 1 year should be from the activity suggested by the new name.
- (e) 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

To provide sufficient flexibility and also to ensure that genuine companies are not limited from fund raising on account of strict parameters, SEBI has provided the alternative route to the companies not satisfying any of the above conditions, for accessing the primary Market, as under:

#### Entry Norm II (Commonly known as “QIB Route”)

Issue shall be through book building route, with at least 75% of net offer to the public to be mandatory allotted to the Qualified Institutional Buyers (QIBs). The company shall refund the subscription money if the minimum subscription of QIBs is not attained.

- (ii) A listed issuer making a public issue (i.e. FPO) is required to satisfy the following requirements:
  - (a) If the company has changed its name within the last one year, at least 50% revenue for the preceding 1 year should be from the activity suggested by the new name.
  - (b) 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

Any listed company not fulfilling these conditions shall be eligible to make a public issue (i.e. FPO) by complying with QIB Route as specified for IPOs i.e. issue shall be

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through book building route, with at least 75% to be mandatory allotted to the Qualified Institutional Buyers (QIBs).

**(b) Is a listed company making a rights issue required to satisfy any entry norm?**

No, there is no entry norm for a listed company making a rights issue

**(c) Besides entry norms, are there any mandatory provisions which an issuer is expected to comply before making an issue?**

An issuer making a public issue is required to inter-alia comply with the following provisions:

**Minimum Promoter's contribution and lock-in:** In a public issue by an unlisted issuer, the promoters shall contribute not less than 20% of the post issue capital which should be locked in for a period of 3 years. "Lock-in" indicates a freeze on the shares. The remaining pre issue capital of the promoters should also be locked in for a period of 1 year from the date of listing. In case of public issue by a listed issuer [i.e. FPO], the promoters shall contribute not less than 20% of the post issue capital or 20% of the issue size. In cases where the promoters contribution has been brought in and utilized, then a cash flow statement disclosing the use of funds in the offer document should be included. This provision ensures that promoters of the company have some minimum stake in the company for a minimum period after the issue or after the project for which funds have been raised from the public is commenced.

**IPO Grading:** IPO grading is the grade assigned by a Credit Rating Agency registered with SEBI, to the initial public offering (IPO) of equity shares or other convertible securities. The grade represents a relative assessment of the fundamentals of the IPO in relation to the other listed equity securities. Disclosure of "IPO Grades", so obtained is mandatory for companies coming out with an IPO. For more details on IPO Grading please refer to the sub-section on "IPO Grading".

**(d) Whether I will get allotment of shares/convertible securities in case sufficient number of prospective allottees is not found?**

No, the company cannot allot any shares or convertible securities unless there are at least 1000 prospective allottees in the public issue.

**(e) Can I be entitled to make an application for convertible securities in the company, if the company has not issued shares to the public and get it listed in stock exchange?**

Yes, you can make application for public issue of convertible securities even if the company has not listed its shares.

**3A. Transfer equity shares to employees**

**Can the Trusts meant for implementing the employee stock option schemes (ESOS) or employee stock purchase schemes (ESPS) transfer equity shares to employees in pursuance of Page 10 of 32 of such schemes, during the said lock-in period?**

In terms of regulation 37 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, the entire pre-issue capital held by persons other than promoters needs to be locked-in for a period of one year, subject to certain exemptions provided thereunder including that for equity shares allotted to employees under an employee stock option or employee stock purchase scheme of the issuer prior to the initial public offer. The Trusts meant for implementing the aforesaid schemes may transfer the equity shares to employees, upon exercise of vested option or under an ESPS, during the period of lock-in. However, the equity shares so received by the employees shall be subject to lock-in provisions as specified under the SEBI (Share Based Employee Benefits) Regulations, 2014.

**4. Pricing of an Issue**

**(a) Who fixes the price of securities in an issue?**

Indian primary market ushered in an era of free pricing in 1992. SEBI does not play any role in price fixation. The issuer in consultation with the merchant banker on the basis of market demand decides the price. The offer document contains full disclosures of the parameters which are taken into account by

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Merchant Banker and the issuer for deciding the price. The Parameters include EPS, PE multiple, return on net worth and comparison of these parameters with peer group companies.

**(b) What is the difference between “Fixed price issue” and “Book Built issue”?**

On the basis of Pricing, an issue can be further classified into Fixed Price issue or Book Built issue.

Fixed Price Issue: When the issuer at the outset decides the issue price and mentions it in the Offer Document, it is commonly known as “Fixed price issue”.

Book built Issue: When the price of an issue is discovered on the basis of demand received from the prospective investors at various price levels, it is called “Book Built issue”.

**(c) Where can I see the price and price band?**

Issuer may disclose them in draft prospectus in case of a fixed price issue and floor price or price band in the red herring prospectus in case of a book built issue. The issuer is required to announce the floor price or price band at least five working days before the opening of the issue (in case of an initial public offer) and at least one working day before the opening of the issue (in case of a further public offer), in all the newspapers in which the pre issue advertisement was released.

**(d) How many days before the opening of issue, price band should be published by the issuer?**

Issuers are required to disclose information pertaining to the price band at least 5 working days prior to opening of an issue.

**(e) How does it aid in decision making by the investors?**

By providing the price band information sufficient number of days before issue opening, the market gets adequate time to absorb the same and factor that in the decision making process.

**(f) I came across an offer from the Issuer at initial public offer stating that it is issuing shares/ convertible securities to retail individual investors and employees of the company at a price 10% lesser than the price offered to others, Can I apply?**

Yes you can apply, if the company has offered so.

## **5. Understanding book building**

### **(a) What is Book Building?**

Book building is a process of price discovery. The issuer discloses a price band or floor price before opening of the issue of the securities offered. On the basis of the demands received at various price levels within the price band specified by the issuer, Book Running Lead Manager (BRLM) in close consultation with the issuer arrives at a price at which the security offered by the issuer, can be issued.

### **(b) What is a price band?**

The price band is a range of price within which investors can bid. The spread between the floor and the cap of the price band shall not be more than 20%. The price band can be revised. If revised, the bidding period shall be extended for a further period of three days, subject to the total bidding period not exceeding ten days.

### **(c) How does Book Building work?**

Book building is a process of price discovery. A floor price or price band within which the bids can move is disclosed at least five working days before opening of the issue in case of an IPO and at least one day before opening of the issue in case of an FPO. The applicants bid for the shares quoting the price and the quantity that they would like to bid at.

After the bidding process is complete, the 'cut-off' price is arrived at based on the demand of securities. The basis of Allotment is then finalized and allotment/refund is undertaken. The final prospectus with all the details including the final issue price and the issue size is filed with ROC, thus completing the issue process. Only the retail investors have the option of bidding at 'cut-off'.

### **(d) How does "cut-off" option works for investors?**

"Cut-off" option is available for only retail individual investors i.e. investors who are applying for securities worth up to Rs 2,00,000/- only. Such investors are required to tick the cut-off option which

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indicates their willingness to subscribe to shares at any price discovered within the price band. Unlike price bids (where a specific price is indicated) which can be invalid, if price indicated by applicant is lower than the price discovered, the cut-off bids always remain valid for the purpose of allotment

### **(e) Can I (retail investor) change/revise my bid?**

Yes, you can change or revise the quantity or price in the bid using the form for changing/revising the bid that is available along with the application form. However, the entire process of changing or revising the bids shall be completed within the date of closure of the issue.

### **(f) Can I (retail investor) cancel my Bid?**

Yes, you can cancel your bid anytime before the finalization of the basis of allotment by approaching/ writing/ making an application to the registrar to the issue.

### **(g) What proof can I request from a trading member or a syndicate member for entering bids?**

The syndicate member returns the counterfoil with the signature, date and stamp of the syndicate member. You can retain this as a sufficient proof that the bids have been accepted by the trading / syndicate member for uploading on the terminal.

### **(h) When is the company mandated to go for compulsory book building issue?**

If the company does not satisfy any of the conditions stipulated in Chapter III, Part I, Clause 26 (I) of the ICDR Regulations 2009, then it has to compulsorily go through the book built route.

## **6. Categories of Investors**

### **(a) What are the categories of investors in primary market? How the allotment is made to different categories of investors?**

Investors are broadly classified under following categories:-

- (i) Retail individual Investor (RIIs)

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(ii) Non-Institutional Investors (NIIs)

(iii) Qualified Institutional Buyers (QIBs)

“Retail individual investor” means an investor who applies or bids for securities for a value of not more than Rs. 2,00,000.

“Qualified Institutional Buyer” shall mean:

- (i) a mutual fund, venture capital fund and foreign venture capital investor registered with the Board;
- (ii) a foreign institutional investor and sub-account (other than a sub-account which is a foreign corporate or foreign individual), registered with the Board;
- (iii) a public financial institution as defined in Section 4A of the Companies Act, 1956;
- (iv) a scheduled commercial bank;
- (v) a multilateral and bilateral development financial institution;
- (vi) a state industrial development corporation;
- (vii) an insurance company registered with the Insurance Regulatory and Development Authority;
- (viii) a provident fund with minimum corpus of twenty five crore rupees;
- (ix) a pension fund with minimum corpus of twenty five crore rupees;
- (x) National Investment Fund set up by resolution no. F. No. 2/3/2005-DDII dated November 23, 2005 of the Government of India published in the Gazette of India;
- (xi) insurance funds set up and managed by army, navy or air force of the Union of India;
- (xii) insurance funds set up and managed by the Department of Posts, India

Investors who do not fall within the definition of the above two categories are categorized as “Non-Institutional Investors”

Allotment to various investor categories is detailed below:



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In case of Book Built issue

1. In case an issuer company makes an issue of 100% of the net offer to public through voluntary book building process under profitability route:
  - a) Not less than 35% of the net offer to the public shall be available for allocation to retail individual investors;
  - b) Not less than 15% of the net offer to the public shall be available for allocation to non-institutional investors i.e. investors other than retail individual investors and Qualified Institutional Buyers;
  - c) Not more than 50% of the net offer to the public shall be available for allocation to Qualified Institutional Buyers.
2. In case of compulsory Book-Built Issues
  - a) at least 75% of net offer to public being allotted to the Qualified Institutional Buyers (QIBs), failing which the full subscription monies shall be refunded.
  - b) Not more than 15% of the net offer to the public shall be available for allocation to non-institutional investors
  - c) Not more than 10% of the net offer to the public shall be available for allocation to retail individual investors In case of fixed price issue

The proportionate allotment of securities to the different investor categories in a fixed price issue is as described below:

1. A minimum 50% of the net offer of securities to the public shall initially be made available for allotment to retail individual investors.
2. The balance net offer of securities to the public shall be made available for allotment to:
  - a. Individual applicants other than retail individual investors, and
  - b. Other investors including corporate bodies/ institutions irrespective of the number of securities applied for.

**(b) Which are the investor categories to whom reservations can be made in an initial public issue on competitive basis?**

Reservation on competitive basis can be made in a public issue to the following categories:

- i. Employees of the company
- ii. Shareholders of the promoting companies in the case of a new company and shareholders of group companies in the case of an existing company
- iii. persons who, as on the date of filing the draft offer document with the Board, are associated with the issuer as depositors, bondholders or subscribers to services of the issuer

In a public issue by a listed company, the reservation on competitive basis can be made for retail individual shareholders and in such cases the allotment to such shareholders shall be on proportionate basis

**(c) Is there any discretion while doing the allotment amongst various investor categories as per the permissible allocations?**

No, there is no discretion in the allotment process.

All allottees except anchor investors and retail individual investors are allotted shares on a proportionate basis within their respective investor categories. The allotment to each retail individual investor shall not be less than the minimum bid lot, subject to availability of shares in retail individual investor category, and the remaining available shares, if any, shall be allotted on a proportionate basis.

**7. Investment in public Issues/ rights issues**

**(a) Where can I get application forms for applying/ bidding for the shares?**

Application forms for applying/bidding for shares are available with all syndicate members, collection centers, the brokers to the issue, stock exchange website and the bankers to the issue. In case you intend to apply through APPLICATIONS SUPPORTED BY BLOCKED AMOUNT (ASBA), you may get the ASBA

application forms from the Self Certified Syndicate Banks. For more details on “ASBA process” please refer to the sub-section titled “Understanding Applications Supported by Blocked Amount (ASBA) Process”

**(b) Whom should I approach if the information disclosed in the offer document appears to be factually incorrect?**

Merchant Banker(s), are required to do the due diligence while preparing an offer document. The draft offer document submitted to SEBI is put on website for public comments. In case, you find any instance of incorrect information/ lack of information, you may send your complaint to Lead Manager to the issue and/ or to SEBI at <http://scores.gov.in/>.

**(c) Is it compulsory for me to have a Demat Account?**

As per the requirement, all the public issues of size in excess of Rs.10 crore, are to be made compulsorily in demat mode. Thus, if you intend to apply for an issue that is being made in a compulsory demat mode, you are required to have a demat account and also have the responsibility to put the correct DP ID and Client ID details in the bid/application forms.

**(d) Is it compulsory to have PAN?**

Yes, it is compulsory to have PAN. Any investor who wants to invest in an issue should have a PAN which is required to be mentioned in the application form. It is to be distinctly understood that the photocopy of the PAN is not required to be attached along with the application form at the time of making an application.

**(e) For how many days an issue is required to be kept open?**

The period for which an issue is required to be kept open is:

For Fixed price public issues: 3-10 working days

For Book built public issues: 3-7 working days extendable by 3 days in case of a revision in the price band

For Rights issues : 15-30 days.

**(f) When do I get the refund of money?**

Companies are required to refund the money within 15 days from the closure of the issue. In case of any delay the issuer company is required to pay interest at the rate of 15%.

**(g) How can I know about the demand for an issue at any point of time?**

The status of bidding in a book built issue is available on the website of BSE/NSE on a consolidated basis. The data regarding bids is also available investor category wise. After the price has been determined on the basis of bidding, the public advertisement containing, inter alia, the price as well as a table showing the number of securities and the amount payable by an investor, based on the price determined, is issued.

However, in case of a fixed price issue, information is available only after the closure of the issue through a public advertisement, issued within 10 days of dispatch of the certificates of allotment/ refund orders.

**(h) How will I get my refund in an issue?**

You can get refunds in an issue through various modes viz. registered/ordinary post, Direct Credit, RTGS (Real Time Gross Settlement), ECS (Electronic Clearing Service) and NEFT (National Electronic Funds Transfer).

As stated above, if you are residing in one of the specific centers as specified by Reserve Bank of India, then you will get refunds through ECS only except where you are otherwise disclosed eligible under Direct Credit and RTGS. If you are residing at any other center, then you will continue to get refunds through registered/ordinary post. You are therefore advised to read the instructions given in the prospectus/ abridged prospectus/ application form about centers. For more details, you may read subsection on "Electronic Clearing Scheme for Refunds".

**(i) When will the shares allotted to me get listed?**

Listing of shares will be done within 12 days after the closure of the issue.

**(j) How will I know which issues are coming to the market?**

The information about the forthcoming issues may be obtained from the websites of Stock Exchanges. Further the issuer coming with an issue is required to give issue advertisements in an English national Daily with wide circulation, one Hindi national

newspaper and a regional language newspaper with wide circulation at the place where the registered office of the issuer is situated.

**(k) Where do I get the copies of the offer document?**

The soft copies of the offer documents are put up on the website of Merchant banker and on the website of SEBI under Offer Documents section at the following link:

<http://www.sebi.gov.in/sebiweb/home/list/3/15/0/1/Public-Issues>

Copies of the offer documents in hard form may be obtained from the merchant banker.

**(l) How do I find the status of offer documents filed by issuers with SEBI?**

SEBI updates the processing status of offer documents on its website every week under the section Offer Documents on SEBI website at the following link:

<http://www.sebi.gov.in/sebiweb/home/list/3/14/8/0/Issues>

The draft offer documents are put up on the website under Reports/Documents section. The final offer documents that are filed with SEBI/ROC are also put up for information under the same section.

**(m) Whom do I approach if I have grievances in respect of non-receipt of shares, delay in refund etc.?**

You can approach the compliance officer of the issue, whose name and contact number is mentioned on the cover page of the Offer Document. You can also address your complaints to SEBI at <http://scores.gov.in/>. Alternately, you may write to SEBI at the following address: Office of Investor Assistance & Education, Securities & Exchange Board of India, C4-A, G Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400051.

**8. Intermediaries involved in the Issue Process**

**(a) Which are the intermediaries involved in an issue?**

Intermediaries which are registered with SEBI are Merchant Bankers to the issue (known as Book Running Lead Managers (BRLM) in case of book built public issues), Registrars to the issue, and Bankers to the issue & Underwriters to the issue who

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are associated with the issue for different activities. Their addresses, telephone/fax numbers, registration number, and contact person and email addresses are disclosed in the offer documents.

(i) Merchant Banker: Merchant banker does the due diligence to prepare the offer document which contains all the details about the company. They are also responsible for ensuring compliance with the legal formalities in the entire issue process and for marketing of the issue.

(ii) Registrars to the Issue: They are involved in finalizing the basis of allotment in an issue and for sending refunds, allotment details, etc.

(iii) Bankers to the Issue: The Bankers to the Issue enable the movement of funds in the issue process and therefore enable the registrars to finalize the basis of allotment by making clear funds status available to the Registrars.

(iv) Underwriters: Underwriters are intermediaries who undertake to subscribe to the securities offered by the company in case these are not fully subscribed by the public, in case of an underwritten issue.

### **9. Guide to understand an Offer Document**

This sub-section attempts to inform the structure of presentation of the content in an offer document. The basic objective is to help the reader to navigate through the content of an offer document.

#### **(a) Cover Page**

Under this head, full contact details of the Issuer Company, lead managers and registrars, the type of issue, number of shares offered, price and issue size, and the particulars regarding listing, Other details such as IPO Grading, risks in relation to the first issue, etc. are also disclosed, if applicable.

#### **(b) Risk Factors**

Under this head the management of the issuer company gives its view on the Internal and external risks envisaged by the company and the proposals, if any, to address such risks.

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This information is disclosed in the initial pages of the document and also in the abridged prospectus. It is generally advised that the investors should go through all the risk factors of the company before making an investment decision.

#### (c) Introduction

Under this head a summary of the industry in which the issuer company operates, the business of the Issuer Company, offering details in brief, summary of consolidated financial statements and other data relating to general information about the company, the merchant bankers and their responsibilities, the details of brokers/syndicate members to the Issue, credit rating (in case of debt issue), debenture trustees (in case of debt issue), monitoring agency, book building process in brief, IPO Grading in case of First Issue of Equity capital and details of underwriting agreements are given. Important details of capital structure, objects of the offering, funds requirement, funding plan, schedule of implementation, funds deployed, sources of financing of funds already deployed, sources of financing for the balance fund requirement, interim use of funds, basic terms of issue, basis for issue price, tax benefits are also covered in this section.

#### (d) About us

Under this head a review of the details of business of the company, business strategy, competitive strengths, industry-regulations (if applicable), history and corporate structure, main objects, subsidiary details, management and board of directors, compensation, corporate governance, related party transactions, exchange rates, currency of presentation and dividend policy are given.

#### (e) Financial Statements

Under this head financial statement and restatement as per the requirement of the Guidelines and differences between any other accounting policies and the Indian Accounting Policies (if the Company has presented its Financial Statements also as per either US GAAP/IFRS) are presented.

#### (f) Legal and other information

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Under this head outstanding litigations and material developments, litigations involving the company, the promoters of the company, its subsidiaries, and group companies are disclosed. Also material developments since the last balance sheet date, government approvals/licensing arrangements, investment approvals (FIPB/RBI etc.), technical approvals, and indebtedness, etc. are disclosed.

#### (g) Other regulatory and statutory disclosures

Under this head, authority for the Issue, prohibition by SEBI, eligibility of the company to enter the capital market, disclaimer statement by the issuer and the lead manager, disclaimer in respect of jurisdiction, distribution of information to investors, disclaimer clause of the stock exchanges, listing, impersonation, minimum subscription, letters of allotment or refund orders, consents, expert opinion, changes in the auditors in the last 3 years, expenses of the issue, fees payable to the intermediaries involved in the issue process, details of all the previous issues, all outstanding instruments, commission and brokerage on previous issues, capitalisation of reserves or profits, option to subscribe in the issue, purchase of property, revaluation of assets, classes of shares, stock market data for equity shares of the company, promise vis-à-vis performance in the past issues and mechanism for redressal of investor grievances is disclosed.

#### (h) Offering information

Under this head Terms of the Issue, mode of payment of dividend, face value and issue price, rights of the equity shareholder, market lot, nomination facility to investor, issue procedure, book building procedure in details along with the process of making an application, signing of underwriting agreement and filing of prospectus with SEBI/ROC, announcement of statutory advertisement, issuance of confirmation of allocation note("can") and allotment in the issue, designated date, general instructions, instructions for completing the bid form, payment instructions, submission of bid form, other instructions, disposal of application and application moneys, interest on refund of excess bid amount, basis of allotment or allocation, method of proportionate allotment,



dispatch of refund orders, communications, undertaking by the company, utilization of issue proceeds, restrictions on foreign ownership of Indian securities, are disclosed.

(i) Other Information

This covers description of equity shares and terms of the Articles of Association, material contracts and documents for inspection, declaration, definitions and abbreviations, etc.

**10. SEBI's Role in an Issue**

**What is SEBI's role in an issue?**

Any company making a public issue or a rights issue of securities of value more than Rs 50 lakhs is required to file a draft offer document with SEBI for its observations. The validity period of SEBI's observation letter is twelve months only i.e. the company has to open its issue within the period of twelve months starting from the date of issuing the observation letter.

There is no requirement of filing any offer document / notice to SEBI in case of preferential allotment and Qualified Institution Placement (QIP). In QIP, Merchant Banker handling the issue has to file the placement document with Stock Exchanges for making the same available on their websites.

Given below are few clarifications regarding the role played by SEBI:

- (a) Till the early nineties, Controller of Capital Issues used to decide about entry of company in the market and also about the price at which securities should be offered to public.

However, following the introduction of disclosure based regime under the aegis of SEBI, companies can now determine issue price of securities freely without any regulatory interference, with the flexibility to take advantage of market forces.

- (b) The primary issuances are governed by SEBI in terms of (Issue of Capital and Disclosure Requirements) Regulations, 2009.

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SEBI framed its Disclosures and Investor Protection (DIP) guidelines initially for public offerings which were later converted into Regulations i.e. in 2009 by way of ICDR Regulations. The SEBI DIP Guidelines, and subsequently ICDR Regulations, over the years have gone through many amendments in keeping pace with the dynamic market scenario. It provides a comprehensive framework for issuing of securities by the companies.

- (c) Before a company approaches the primary market to raise money by the fresh issuance of securities it has to make sure that it is in compliance with all the requirements of Issue of Capital and Disclosure Requirements) Regulations, 2009. The Merchant Banker are those specialised intermediaries registered with SEBI, who perform the due diligence and ensures compliance with ICDR Regulations before the document is filed with SEBI.
- (d) Officials of SEBI at various levels examine the compliance with ICDR Regulations and ensure that all necessary material information is disclosed in the draft offer documents.

Still there are certain mis-conceptions prevailing in the mind of investors about the role of SEBI which are clarified hereinunder:

### **(a) Does SEBI recommend any Issue?**

It should be distinctly understood that SEBI does not recommend any issue nor does it take any responsibility either for the financial soundness of any scheme or the project for which the issue is proposed to be made.

### **(b) Does SEBI approve the contents of an issue?**

Submission of offer document to SEBI should not in any way be deemed or construed that the same has been cleared or approved by SEBI. The Lead manager certifies that the disclosures made in the offer document are generally adequate and are in conformity with SEBI guidelines for disclosures and investor protection in force for the time being. This requirement is to facilitate investors to take an informed decision for making investment in the proposed issue.

**(c) If SEBI has issued observations on the offer document, does it mean that my investment is safe?**

The investors should make an informed decision purely by themselves based on the contents disclosed in the offer documents. SEBI does not associate itself with any issue/issuer and should in no way be construed as a guarantee for the funds that the investor proposes to invest through the issue. However, the investors are generally advised to study all the material facts pertaining to the issue including the risk factors before considering any investment.

**11. Other Terms**

**(a) Green-shoe Option**

Green Shoe Option is a price stabilizing mechanism in which shares are issued in excess of the issue size, i.e. a maximum of 15%. It is a mechanism to stabilize the issue price post listing.

**(b) Safety Net**

In a safety net scheme or a buy back arrangement the issuer company in consultation with the lead merchant banker discloses in the RHP that if the price of the shares of the company post listing goes below a certain level the issuer will purchase back a specific number of shares from original resident retail individual allottees at the issue price.

**(c) Open book/closed book**

In an open book building system the merchant banker along with the issuer ensures that the demand for the securities is displayed online on the website of the Stock Exchanges.

Here, the investor can be guided by the movements of the bids during the period in which the bid is kept open. Indian Book building process provides for an open book system.

In the closed book building system, the book is not made public and the bidders will have to take a call on the price at which they intend to make a bid without having any information on the bids submitted by other bidders.

**(d) Hard underwriting**

Hard underwriting is when an underwriter agrees to buy his commitment of shares before the issue opens. The underwriter guarantees a fixed amount to the issuer. 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 underwriter bears a risk which is much higher than soft underwriting.

**(e) Soft underwriting**

Soft underwriting is when an underwriter agrees to buy the shares at stage after the issue is closed. The risk faced by the underwriter as such is reduced to a small window of time.

**(f) Differential pricing**

When one category of investors is offered shares at a price different from the other category it is called differential pricing.

The following are the different categories of investors to whom shares can be issued at differential pricing:

- a) Retail investors: An issuer company can allot the shares to retail individual investors at a discount of maximum 10% to the price at which the shares are offered to other categories of public.
- b) Employees: An issuer company can offer the shares to employees at a discount of maximum 10% to the floor price at which the shares are offered to other categories of public.

**(g) Basis of Allocation/Basis of Allotment**

After the closure of the issue, the bids received are aggregated under different categories i.e., firm allotment, Qualified Institutional Buyers (QIBs), Non-Institutional Investors (NIIs), Retail Individual Investors (RII), etc. Allotment to QIBs and NIIs is done on a proportionate basis. However, the allotment to each retail individual investor shall not be less than the minimum bid lot, subject to availability of shares in retail individual investor category, and the remaining available shares, if any, shall be allotted on a proportionate basis.

**(h) Fast Track Issues (FTI)**

SEBI has introduced FTI in order to enable well-established and compliant listed companies satisfying certain specific entry norms/conditions to access Indian Primary Market in a time effective manner. Such companies can proceed with FPOs / Right Issues by filing a copy of RHP / Prospectus with the RoC or the Letter of Offer with designated Stock Exchanges and SEBI. Such companies are not required to file Draft Offer Document for SEBI comments and to Stock Exchanges. Entry Norms for companies seeking to access Primary Market through Fast track route:

- (i) The shares of the company have been listed on any stock exchange having nationwide terminals for a period of at least three years immediately preceding the date of filing of offer document with RoC/ SE.
- (ii) The “average market capitalisation of public shareholding” of the company is at least Rs.3000 crores;
- (iii) The annualized trading turnover of the shares of the company during six calendar months immediately preceding the month of filing of offer document with RoC/ SE has been at least two percent of the weighted average number of shares listed during the said six months period:

Provided that for issuers, whose public shareholding is less than fifteen per cent of its issued equity capital, the annualised trading turnover of its equity shares has to be at least two per cent of the weighted average number of equity shares available as free float during such six months' period

- (iv) The company has redressed at least 95% of the total shareholder / investor grievances or complaints received till the end of the quarter immediately preceding the month of the date of filing of offer document with RoC/ SE.
- (v) The company has complied with the listing agreement for a period of at least three years immediately preceding the filing of offer document with RoC/ SE.
- (vi) The impact of auditors' qualifications, if any, on the audited accounts of the company in respect of the financial years for

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which such accounts are disclosed in the offer document does not exceed 5% of the net profit/ loss after tax of the company for the respective years.

- (vii) No prosecution proceedings or show cause notices issued by the Board are pending against the company or its promoters or whole time directors as on the date of filing of offer document with RoC/ SE and
- (viii) The entire shareholding of the promoter group is held in dematerialised form as on the reference date.