

**FROM FY22** Audit trail of all transactions, funds in cryptocurrencies, relationship with struck off companies, loans to related parties among host of other disclosures

# New MCA Rules Make Crypto, Benami, Loan Disclosures Must

## Our Bureau

New Delhi: India Inc will have to declare investments in cryptocurrencies, relationships with dissolved companies and loans extended to related parties, among a host of other disclosures mandated by the government to improve transparency.

Starting April 1, companies must state if they have been declared wilful defaulters by banks, financial institutions or other lenders.

The ministry of corporate affairs announced a new set of disclosures rules under the Companies Act on Wednesday, significantly enhancing financial and general reporting requirements for companies.

The ministry also mandated companies to record audit trails of their accounts. Firms using accounting software to maintain their books need to use features that can record the audit trail of each transaction and create an edit log, including the date of such changes.

Amending the Companies (Accounts) Rules, the ministry said firms must ensure the audit trail feature on the accounting software cannot be disabled. The move is aimed at curbing backdated entries and will affect mainly smaller companies as the bigger ones already use such software, according to Shalu Kedia, a partner at Nangla & Co.

Additional disclosures to be made under schedule III of the Companies Act, 2013, relate to matters such as corporate social responsibility

## No Hiding

### MCA INCREASES DISCLOSURE REQUIREMENTS FOR COMPANIES FROM FY22

#### KEY DISCLOSURES

Dealings in cryptocurrencies

Details of benami properties, dealing and why not disclosed

Wilful default if any and details

Loans to promoters, directors & related parties

#### AUDIT TRAIL

Firms have to use accounting software with audit trail feature

#### WHAT EXPERTS SAY

These disclosures will make it easier for govt to track non-compliances

Govt can take suitable action on defaulting companies

Greater responsibility on auditors

ILLUSTRATION ANIRBAN BORA

spending, cryptocurrency dealings, benami property, relationship with struck-off, or dissolved, companies, and ageing of payables & receivables with vendors.

These disclosures will make it easier for the government to track non-compliance and take action against defaulting companies, experts said.

“Earlier, the companies were only required to disclose trade payables and receivables, but there was no requirement to provide ageing details. This disclosure will mandate the company to disclose the ageing payment cycle for MSMEs and non-MSME vendors,” said Nischal Arora, a partner at Nangla Andersen LLP.

Dealings in cryptocurrencies must be disclosed with details of

the profit or loss on such transactions, amounts of such currency held and deposits or advances from any person for trading or investing in these currencies.

“While the government is already working on a bill on cryptocurrency, the disclosure for such currency has made it clear that the government wants to gather data on cryptocurrency,” said Arora.

Another important change was related to the disclosure of any benami property holdings.

“This disclosure is another step to improve transparency for the stakeholders as they will have to disclose any proceeding that has been initiated or pending against the company for holding any benami property and also provide a reasoning and view on the same,”

said Amit Maheshwari, a partner at AKM Global.

The additional disclosures will make it mandatory for companies to provide details of shortfall in CSR spending for the previous years, including reasons for not meeting targets.

Loans granted to promoters, directors and related parties that are repayable on demand or without specific repayment terms from companies must be declared in terms of amount and percentage to total loans granted.

While this will push firms to regularly service their loans, it “will be helpful for the investor and other lenders to be aware about these types of companies before making any investment or lending the money,” Maheshwari said.

# India Inc told to disclose crypto investments

Govt asks companies to also reveal CSR spend, *benami* property transactions from FY22

SHRIMI CHOUDHARY & INDIVIAL DHASMANA  
New Delhi, 25 March

**T**he Ministry of Corporate Affairs (MCA) has made amendments to rules in the Companies Act, mandating firms to disclose their investments in cryptocurrencies, spend on corporate social responsibility (CSR), and *benami* property transactions, among others, in their financial statements from the next financial year.

Companies will also have to disclose their relationship with struck-off firms and the details of title deeds of immovable property not held in the name of the company.

Nischal S Arora, partner at Nangia Anderson, said companies would have to disclose cryptocurrencies in which they had traded; profit and losses in such trades; and deposits or advances taken from other persons in these currencies. "While the government is already working on a Bill on cryptocurrencies, the rules on disclosures have made it clear that the government wants to gather data on digital currencies," he said.

A few other amendments focused on broadening the scope of audit reporting. Now, management representations on advances, loans, and investments, etc, will have to be reported. One of these changes requires companies to use those accounting software for maintaining its books that allow it to record the audit trail of every transaction.



## KEY CHANGES IN REPORTING NORMS

- **Nature of loans granted to promoters, directors, related parties**
- **Current maturity of long-term borrowings to be disclosed separately**
- **Benami property;** if company declared a wilful defaulter
- **Compliance with approved schemes of arrangements**
- **Management's representation on inflow and outflow of funds and utilisation to board**
- **Mandatory use of accounting software that can record audit trail**

# India Inc told to disclose crypto investments



Companies will also have to disclose insolvency and bankruptcy matters and information relating to the valuation of the company's assets in the board's report. The new rules come into effect from April 1, 2021.

"The new set of rules introduced by the MCA will require the management and auditors to play a greater role as far as the flow of information and representations is concerned," said Mahendra Singh, associate partner at Economic Laws Practice.

Companies will also have to disclose the expenditure on CSR activities of the previous years as well, including reasons for any shortfall. Till now, CSR spend has been part of the directors' report, but now companies will have to disclose it in their financial statements.

In that sense, there is some mismatch between the penal provisions for CSR -- introduced from January this year -- and the reporting of such spend, Arora said.

Kapil Rana, founder and chairman of HostBooks, said the amendments required companies to ensure that the board report contained the application or any proceeding pending under the Insolvency and Bankruptcy Code (IBC) during a year, along with their status at the end of the financial year.

The report should also contain the details of the dif-

ference between the amount of valuation of related assets done at the time of one-time settlement and the valuation done while taking a loan from the banks or financial institutions, along with the reason thereof, he said.

From next year, the audit report will have to disclose the information cited above if those were not revealed in notes to accounts. Also, it has to be disclosed whether dividend declared or paid was in compliance with Section 123 of the Companies Act. The section mandates companies to declare dividend only out of profit or money given by the governments in lieu of guarantees given by them.

Prateek Agarwal, partner at Nangia and Co, said some of these requirements had significant implications for smaller businesses in case the existing accounting software did not support them. "We expect that the Institute of Chartered Accountants of India (ICAI) will soon issue detailed guidance on these to consider the same in the audit reports," he said.

On the new requirement of software, Singh said this might prove to be a challenge for companies that didn't use software with such compliant features.

Rana said companies were also mandated to create the edit log of each change made in account books with the proper dates.