FAQs on ICAI
(Merger and Demerger of CA Firms) Guidelines, 2024

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

FAQs on ICAI (Merger & Demerger of CA Firms) Guidelines, 2024

Committee for Aggregation of CA Firms
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

© THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Basic draft of this publication was prepared by CA. Sanjay Kumar Agarwal

First Edition	:	July, 2025
Committee/Department	:	Committee for Aggregation of CA Firms
E-mail	:	cacaf@icai.in
Website	:	www.icai.org
Price	:	₹/-
ISBN	:	978-93-48313-15-7
Published by	:	The Publication & CDS Directorate on behalf of The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002 (India)
Printed by	:	To be decided.

Foreword

In a world where professional rigor and accountability are increasingly vital, The Institute of Chartered Accountants of India (ICAI) has taken proactive steps to support Chartered Accountants in managing growth through a refined and contemporary approach to firm restructuring. The **revised ICAI (Merger & Demerger of CA Firms) Guidelines, 2024** are a testament to this commitment, embodying an adaptable, simplified and streamlined set of policies that align with the needs of today's CA firms.

The revision of these guidelines began with a keen understanding of the varied challenges faced by CA firms, such as the procedural impediments they face in coming forward to restructure the firms through mergers. The Committee for Aggregation of CA Firms (CACAF) of ICAI undertook a comprehensive review, engaging in extensive consultations and surveys with practicing members to ensure that the revisions are both practical and visionary.

This revision process was marked by detailed deliberations and a collaborative approach, including the release of an Exposure Draft for public commentary and multiple interactive sessions with stakeholders. This inclusive strategy ensured that the revised guidelines reflect the diverse perspectives and real-world challenges encountered by our practising members.

This document features a thorough set of FAQs aimed at addressing common questions and providing actionable guidance. These FAQs shall serve as a valuable tool for members, offering clear explanations to ensure smooth and efficient adoption of the revised guidelines. To further support firms in operationalizing mergers, a Model Merger Deed has been annexed with this publication which outlines key provisions such as terms of merger, management structure, dispute resolution mechanisms, client transition, and confidentiality safeguards designed to facilitate a seamless and legally compliant merger process for CA firms.

I extend my gratitude to CA. Sanjay Kumar Agarwal, Chairman, CACAF; CA. Babu Abraham Kallivayalil, Vice-Chairman, CACAF; and other members of the Committee for their vision, unwavering commitment, and thoughtful contributions. Their dedicated efforts have been instrumental in shaping this

comprehensive set of guidelines and supporting resources, which I am confident will serve as a vital enabler for CA firms striving for growth, consolidation, and excellence in the evolving professional landscape.

CA. Charanjot Singh Nanda
President, ICAI

Message from Vice- President

The release of this publication on the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024 marks a progressive milestone in our continued endeavor to empower CA firms to scale sustainably, collaborate meaningfully, and navigate the evolving contours of professional practice with foresight and confidence.

These revised guidelines are not merely procedural enhancements, they represent ICAI's broader vision to create an enabling environment where firm growth is structured, transitions are seamless, and core professional values such as independence, legacy, and continuity are preserved. In today's dynamic professional landscape, such a framework is essential for firms aspiring to expand their reach and strengthen institutional capacity.

The inclusion of a Model Merger Deed and a comprehensive set of curated FAQs further elevates the utility of this publication. Together, they provide members with ready-to-use, practical instruments that simplify decision-making, support legal and administrative compliance, and foster a culture of transparency and strategic planning within firms.

I extend my sincere appreciation to CA. Sanjay Kumar Agarwal, Chairman, Committee for Aggregation of CA firms; CA. Babu Abraham Kallivayalil, Vice-Chairman, Committee for Aggregation of CA firms; and other members of the Committee for this forward-looking and timely initiative. I am confident that this resource will serve as a valuable catalyst in driving firm consolidation, promoting collaborative excellence, and contributing to the long-term resilience and relevance of the profession.

New Delhi
July 2025

CA. Prasanna Kumar D
Vice-President, ICAI

Preface

In the realm of corporate restructuring, the Institute of Chartered Accountants of India (ICAI) has always strived to be at the forefront of providing clear, comprehensive, and progressive guidelines. The revised ICAI (Merger & Demerger of CA Firms) Guidelines, 2024 signify a critical evolution in our ongoing mission to support Chartered Accountants and their firms in navigating these intricate processes with precision and confidence. These enhancements aim to enable firms to manage growth, transformation, and restructuring with greater ease and flexibility.

The revised guidelines encapsulate both strategic and procedural advancements, designed to empower CA firms in navigating mergers and demergers seamlessly. Key improvements include streamlined procedures, new freezing options for managing firm identities post-merger or demerger, and mechanisms to preserve seniority and continuity. These refinements reflect ICAI's commitment to equip members with guidelines that meet modern professional demands while upholding the values of independence and integrity that define our profession. At the policy level, these revised guidelines introduce greater flexibility, enabling firms to demerge after 1 year and within 10 years from the date of merger, freeze their names upon request and retain their trade names post-unfreezing while preserving their original date of establishment and seniority. Importantly, procedural changes now allow authorized managing partners to complete filing with ease, supported by digital signatures that accommodate firms operating across diverse locations.

This publication on FAQs shall provide clarity on various aspects of the updated guidelines. Each question and response in this collection has been carefully crafted to offer practical solutions and facilitate a smooth transition to the revised policies. It is our hope that these resources will assist all Chartered Accountants in fully understanding and implementing these changes, ultimately fostering an environment where firms can thrive and deliver the highest standards of service. Further enhancing the utility of this document is the inclusion of a Model Merger Deed, that captures the essential legal and operational elements of a merger agreement, outlining provisions for the terms of merger, management structure, dispute resolution mechanisms, client transition, and confidentiality, providing firms with a

foundational template to initiate discussions and formalize agreements in a compliant and structured manner.

We are grateful to all members of the CACAF for their thoughtful deliberations and unwavering commitment in shaping this document. The valuable insights and contributions from stakeholders and practicing professionals have significantly enriched the depth, relevance, and practical utility of these guidelines. We take this opportunity to compliment Ms. Parul Goel, Secretary, CACAF; Ms. Purnima Sharma; and the entire team, for their support and successful completion of this initiative. It is with great optimism that we present these FAQs as a guiding resource for CA firms across the country, confident that they will provide the clarity and direction needed to navigate an evolving professional landscape.

CA. Sanjay Kumar Agarwal
Chairman, CACAF

CA. Babu Abraham Kallivayalil
Vice-Chairman, CACAF

June, 2025

New Delhi

Disclaimer

Frequently Asked Questions (FAQs) provided here are intended to offer clarity and understanding regarding the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024 issued under Section 15(2) (fa) of the Chartered Accountants Act, 1949, [as amended by the Chartered Accountants, the Cost and Works Accountants and the Company Secretaries (Amendment) Act, 2022 (No. 12 of 22)]. These FAQs are subject to periodic updates and amendments by the Institute of Chartered Accountants of India (ICAI), reflecting changes in regulatory requirements or interpretations by the Institute.

Please note that while we strive to ensure the accuracy and relevance of the information presented, these FAQs are not exhaustive and should not be construed as legal advice or opinion. Users are advised to consult the official guidelines issued by ICAI.

The information provided in these FAQs is based on current guidelines and practices as understood at the time of publication.

Content

Chapter 1 : Introduction 1

Chapter 2 : Merger 3

Chapter 3 : Freezing & Unfreezing of Firm Name 7

Chapter 4 : Demerger 10

Chapter 5 : Miscellaneous 13

Annexure : Model Merger Deed 17

Chapter 1

Introduction

Q1. How merger is an important tool for aggregation for CA firms?

Mergers serve as an important tool for aggregation for CA firms as it enables the firms to combine resources, expertise, and client bases, thus enhancing service offerings and operational efficiency.

The Mergers help in developing core competencies and allow firms to provide a broader range of professional services across larger geographical areas. Mergers lead to economies of scale, reduced costs and a stronger market presence, attracting larger clients and projects.

Q2. I am an individual practitioner with full time COP and practicing for the past 25 years. Can I merge my practice with a partnership firm under these guidelines?

No, Individual practitioners (without firm/trade name) approval from the Institute are not covered under these guidelines. However, if the individual practitioner obtains Firm Registration Number (FRN) from the Institute, then the benefits under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024 can be availed.

Q3. We are A & Co. LLP, registered with ICAI. We wish to merge with a partnership firm under these guidelines. Can we do so?

At present LLP cannot merge with a sole proprietary or a partnership firm. LLP can only merge with other LLP subject to the applicable provisions of LLP Act, 2008.

Q4. Our firm A & Co. merged with B & Co.in 2016. Whether can we obtain the original firm name under revised Guidelines?

No, as per the transition clause, 6 (vi) of the revised guidelines, the benefit provided under these guidelines, can be availed only by those firms that got merged before the commencement of these guidelines & have not completed 5 years post-merger.

Q5. Are the Multi-Disciplinary Partnership Firms covered under these guidelines?

Under the revised guidelines, 'Firm' shall have the meaning assigned to it in section 2(ca) of the Chartered Accountants Act, 1949 and in section 4 of the Indian Partnership Act, 1932, and includes, -

i. the limited liability partnership as defined in clause (n) of subsection (1) of section 2 of the Limited Liability Partnership Act, 2008; or

ii. the sole proprietorship.

registered with the Institute.

Therefore, Multi-Disciplinary Partnership Firms are not covered under these guidelines at present.

Q6. Can a part-time COP holder avail the benefit of these guidelines?

No, only the Chartered Accountants holding full-time COP and practicing as the sole practitioners with Firm Registration Number or under sole proprietor firms, partnership firms and LLPs registered with the Institute are covered under these guidelines.

Q7. Who all are eligible under the revised Merger & Demerger Guidelines?

Sole practitioners with Firm Registration Number, sole proprietor firms, partnership firms and LLPs registered with the Institute fall under the ambit of these guidelines.

Chapter 2

Merger

Q8. Our partnership firm, XYZ & Co., wants to merge with another partnership firm that specializes in statutory audit. Can we proceed with this merger under these guidelines?

Yes, partnership firms can merge under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024. Further, it is advisable, to clearly state to the other merging firm/(s) about the restrictions of audit or non-audit works likely to arise from Section 141 and 144 of the Companies Act, 2013 as well as the non- permissibility of rotation of audit among the merging firms or any issue in code of conduct or ethics or in any Governing law applicable to the firms/LLP at the time of merger itself.

Q9. Can an LLP merge with another LLP that operates in a different state within India?

Yes, as per the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024, LLP can merge with other LLP irrespective of their location within India, subject to compliance of the applicable provisions of LLP Act, 2008, however freezing, unfreezing & Demerger chapter may please be referred for certain limitations in case of LLP Mergers.

Q10. We are a partnership firm, DEF &Co., interested in merging with an LLP. Is this merger permissible under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024?

Yes, under these Guidelines, the partnership firm can merge with an LLP registered with the Institute, however the partners of DEF & Co. will be required to become partners in the LLP & also, however freezing, unfreezing & Demerger chapter may please be referred for certain limitations in case of LLP Mergers.

Q11. Can an LLP merge with a non-CA firm that specializes in IT consulting services for a given assignment?

No, at present under these Guidelines, a CA firm cannot merge with a non-CA firm. Only sole practitioners with Firm Registration Number,

sole proprietor firms, partnership firms and LLPs registered with the Institute fall under the ambit of these guidelines.

Q12. Can an LLP merge with another LLP that operates in a foreign country?

No, at present these guidelines are only applicable on the LLPs registered with the Institute of Chartered Accountants of India.

Q13. Is the firm allowed to retain and use its old erstwhile firm name post-merger?

No, the firm with frozen name cannot do any professional activities until the same is unfreezed during demerger.

However, the Demerged Firm/(s) is entitled to practice in its old erstwhile firm name, which existed at the time of merger after 1 year and within 10 years from the date of merger subject to the provisions contained in chapter 3 of these guidelines.

Q14. Are the signatures of all the partners mandatory in the written deed at the time of filing Merger with the Institute?

Yes, the signatures either original or digital of all the partners are mandatory in the written deed along with Form 'MDG 1' to be uploaded at the SSP portal during the merger.

Q15. Is there a specific requirement for executing the MDG-1?

Yes, the MDG-1 must be executed on a non-judicial stamp paper in accordance with 'The Indian Stamp Act, 1899'. Firms should ensure proper execution of the agreement to maintain its legal validity.

Q16. What is the procedure of merger to be followed under revised guidelines?

As per the revised guidelines, the procedure of merger is as follows-

- To effectuate merger, a merger agreement in Form 'MDG 1' is to be filed with the Institute within 30 days from the date of the Merger.
- The originally/digitally signed supporting papers along with Form 'MDG 1' will be required to be uploaded.

- The re-constitution agreement/partnership deed shall be filed with the Registrar of Firms/ROC as per the applicability.
- Moreover, upon the merger of the firm registered with the ICAI, on the request of merging firm/(s), the ICAI will freeze the names of the merging firm/(s) with reference to Section 20 B of the Chartered Accountants Act, 1949, unless the request for unfreezing of name with duly filled form "MDG 3" is received.
- Further, while filing Form 'MDG 1', each of the firm/(s) intending to merge will be required to authorize a Managing Partner and co-authorize a partner, by way of an undertaking, to authenticate the entire process of merger at the Self-Service Portal (SSP) through online mode.

Q17. A firm is intending to merge with an LLP of 15 partners. How many managing partners will be authorized to authenticate the merger process at the SSP portal under ICAI (Merger & Demerger of CA Firms) Guidelines, 2024?

As per the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024, while filing Form 'MDG 1', each of the firm/(s) intending to merge will be required to authorize a Managing Partner and co-authorize a partner, by way of an undertaking, to authenticate the entire process of merger at the Self- Service Portal (SSP) through online mode.

Accordingly, two managing partners, one from the firm and one from the LLP, will be authorized to authenticate the merger process.

Q18. Post merger, who will authorize joining or retirement of partner in the merged firm?

The authorized Managing Partner along with the partner joining or retiring from the merged firm will provide OTP for giving effect to the said change at the SSP portal.

Q19. What are the specific roles and responsibilities entrusted to the authorized Managing Partners under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024?

Under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024, the authorized Managing Partners of merging firms are entrusted with

specific roles and responsibilities during the merger process. They are required to:

i. authenticate the entire process of merger at the Self-Service Portal (SSP) through online mode. However, the originally/digitally signed supporting papers along with Form 'MDG 1' will be required to be uploaded.

ii. at all times possess all the documents pertaining to the firm/(s) practice like partnership deed, papers relating to resignation, retirement or joining of partners, employment and relieving of qualified assistants, papers and details regarding the approvals given for any constitution or reconstitution of the firm/LLP, firm/LLP property papers, tax returns, bank signatory details, etc. from time to time which may be called upon by the ICAI in case they are required for any dispute or any enquiry or confirmation required by the ICAI.

iii. clearly state to the other merging firms about the restrictions of audit or non-audit works likely to arise on account of Section 144 of the Companies Act, 2013 as well as the non-permissibility of rotation of audit among the merging firms or any issue in code of conduct or ethics or in any Governing law applicable to the firms at the time of merger itself.

iv. at the time of joining or retirement of a partner in the merged firm, the joining or the retiring partner will also provide OTP along with authorized managing partner to authenticate the entire process of merger at the SSP Portal through online mode.

Chapter 3

Freezing & Unfreezing of Firm Name

Q20. What is the procedure of freezing the firm name?

Upon the merger of the firm registered with the ICAI, on the request of merging firm/(s), the ICAI will freeze the names of the merging firm/(s) with reference to Section 20 B of the Chartered Accountants Act, 1949. A certificate of freezing of the firm name will be issued by the ICAI in Form 'F' to each firm comprising of the trail of every freezing/unfreezing of the given firm's name.

Q21. I wish to freeze my firm name without merging the same with another firm. Can I do so under ICAI (Merger & Demerger of CA Firms) Guidelines, 2024?

No, at present the facility of freezing the name of the firm/(s) is only for the purpose of Merger. That is, freezing of a firm name can be availed only when the firm is merging with another firm.

Q22. We are A & Co. LLP; we wish to merge with B & Co LLP. Can we freeze the name of our firm during this merger?

No, the process of merger among LLPs will be governed by the applicable provisions of the LLP Act, 2008, however if it is partnership firm the same is available in the guidelines.

Q23. Can a firm continue to provide professional services under the erstwhile firm name while the name is frozen, and the merger is active?

No, the firm with the frozen firm name cannot do any professional activities in such firm during the active merger.

Q24. Under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024, for how long a firm's name can be kept frozen?

As per the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024, the frozen name can be un-freezed by the merging firm during the demerger. The demerger can be demanded after 1 year and within 10 years from the date of merger subject to the fulfillment of the

provisions contained in the chapter 4 of the guidelines and other applicable provisions.

Q25. Is it mandatory to freeze the firm name under ICAI (Merger & Demerger of CA Firms) Guidelines, 2024?

Yes, it is mandatory to freeze the firm name under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024.

Q26. Can I unfreeze my erstwhile firm's name without demerger?

No, the erstwhile firm name cannot be unfreezed without demerger. As per the revised guidelines, for unfreezing the firm's name, a duly filled Form "MDG 3" is required to be filed by the demerging firms along with Form "MDG 2" post which a certificate confirming the unfreeze of the firm name will be issued separately by the ICAI along with the trail of every freezing/unfreezing of the given firm's name.

However, there is an exception to this, in case of the removal of the linked and authorized MRN from the Register of Firms with reference to Section 20 C of the Chartered Accountants Act, 1949, the Institute will unfreeze the name without demerger.

Q27. What is the procedure of unfreezing the firm name?

The procedure for unfreezing the firm name is as follows:

i. A duly filled Form "MDG 3" will be filed by the demerging firms along with Form "MDG 2".

ii. For unfreezing the firm's name, consent of 75% of surviving partners is required.

iii. In case the partners retire or resign over a period of time, they need to intimate the ICAI for change in partners and shall also authorize the remaining partners by way of no objection certificate (NOC) for unfreezing the firm's name in future.

iv. Subsequently, a certificate confirming the unfreeze of the firm name will be issued separately by the ICAI along with the trail of every freezing/unfreezing of the given firm's name.

Q28. If a partnership firm after merger converts into an LLP. Whether it can unfreeze the firm name of erstwhile partnership firm.

In case the merged firm changes its entity type post-merger, then the unfreezing of original merged firm name/trade name can be requested upon submission of the demerger/dissolution of the post-merger entity along with duly filed Form 'MDG 3' and 'MDG 2'.

Chapter 4

Demerger

Q29. Can we demerge without having the merged firm?

No, at present, the demerger will be permitted only for such entities which have undergone merger in the past.

Q30. A firm that underwent a merger three years ago, combining three separate entities and one of the merged firms, wishes to demerge. Does this require a demerger, or is it sufficient for the partner to simply resign?

Yes, a demerger application is required to be filed by the firm intending to demerge. As per the revised guidelines, in case 75% or more of the continuing partners of one of the erstwhile firm/(s) are willing to demerge then they can do so after giving due notice in Form 'MDG 2' to the other partners and to the Institute. Every new joining and leaving of firm from the merged firm will attract all the due procedures as per the applicable provisions.

Q31. Three firms merged in a firm six years ago. Now, two partners are due for retirement and one partner wishes to leave the firm. Does this require a demerger?

No, in case the partners retire or resign over a period of time, they need to intimate the ICAI for change in partners and shall also authorize the remaining partners by way of no objection certificate (NOC) for unfreezing the firm's name in future.

Q32. What is the procedure of demerger to be followed under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024?

As per the revised guidelines, the procedure of demerger is as follows-

- The merger agreement itself shall contain the terms and conditions for demerger. Therefore, no concurrence/acceptance is required from the continuing partners. The merger agreement shall stipulate that notwithstanding anything contained in the partnership deed to the contrary, in case 75% or more of the continuing partners of one of the erstwhile firm(s) are willing to

demerge then they can do so after giving due notice in Form 'MDG 2' to the other partners and to the Institute.

- However, in case 75% or more of the continuing partners of one of the erstwhile merging firm/(s) have demerged after giving due notice to the other partners, then in such case, the merger shall come to an end for the demerging firm and if the remaining merging firms/partners of the merged firm/(s) decide to continue, then they should enter into a reconstituted Merger Agreement/ Partnership Deed.
- The applicable provisions of other allied laws like LLP Act, 2008 should be dealt with at the firm's end.

Q33. Who will authenticate demerger at the SSP portal in case of death of authorized managing partner?

In case the authorized Managing Partner deceases during the course of time, the partner co- authorized will authenticate the entire process of demerger at the SSP portal through online mode.

Q34. If 75% or more of the continuing partners of one of the erstwhile merging firm decide to demerge, does this demerger automatically terminate the merger for all the remaining firms in the merged firm under the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024?

No, in case 75% or more of the continuing partners of the said merging firm have demerged after giving due notice to the other partners, then in such case, the merger shall come to an end only for the demerging firm. If the remaining merging firms/partners of the merged firm/(s) decide to continue, then they should enter into a reconstituted Merger Agreement /Partnership Deed. Every new joining and leaving of firm from the merged firm will attract all the due procedures as per the applicable provisions.

Q35. We are A & Co. LLP, which underwent merger 6 months ago. We wish to demerge now. Are, we eligible to proceed with the demerger at this stage?

No, as per the revised guidelines, the demerger can be demanded after 1 year and within 10 years from the date of merger subject to the

fulfilment of the provisions contained in the chapter 4 of the guidelines and other applicable provisions.

Q36. We are E & Co., partnership firm merging with F & Co. LLP. If the authorized Managing Partner retires during the demerger process, how will the authentication be handled?

In case the authorized Managing Partner retires during the course of time, the partner co- authorized will authenticate the entire process of demerger at the SSP portal through online mode.

Further, it may be noted that in case the partners retire or resign over a period of time, they need to intimate the ICAI for change in partners and shall also authorize the remaining partners by way of no objection certificate (NOC) for unfreezing the firm's name in future.

Chapter 5

Miscellaneous

Q37. Is it possible for a firm to merge with another firm if its already part of a network?

Being part of a network does not preclude firm from merging with another firm. However, firm must ensure that it should be within the terms outlined in the arrangement of the Network.

Also, during the merger process, it's important to ensure that all legal and regulatory obligations regarding network affiliations are met. This includes any agreements or restrictions that may affect the merger or the operation of the newly merged entity post- merger. The provisions of the Partnership Act, 1932 & CA Act, 1949 are required to be complied with wherever required.

Q38. How should the remuneration be quantified for a partner receiving remuneration from two firms in the merged firm? What are the provisions under the revised guidelines on the same?

There are no provisions as regards the quantification of the remuneration of the partner common in two firms. It is an internal arrangement between the firms and the partner and is to be decided mutually amongst themselves subject to the condition that it should be not contrary to the Chartered Accountants Act, 1949, Chartered Accountants Regulations, 1988 and ICAI (Merger & Demerger of CA Firms) Guidelines, 2024.

Q39. Should Form ADT-3 be filed for the existing company where the firm is the auditor before the merger?

If the firm which has been appointed as the auditor of the company continues its operation under the same name post-merger, then the filing of Form ADT-3 is not required. However, if during the merger, the firm opts to continue under different name and FRN as well as freezes its name with the Institute, then it may be required for the merged firm to file Form ADT-3 and adherence to other compliances as per the applicable laws at their end.

Q40. What will be the status of ongoing audit assignments post-merger of CA Firms? Will the merged firm automatically continue these engagements?

No, ongoing audit assignments of a merging firm do not automatically continue with the merged firm. As per present guidelines, if the merger takes place before the cut-off date prescribed for empanelment by authorities such as the Office of the Comptroller and Auditor General of India (CAG) or the Professional Development Committee (PDC), ICAI for MEF, the merging firm becomes inactive and is not eligible to apply for empanelment. Consequently, its ongoing assignments do not continue with the merged firm.

Illustration:

For instance, if A & Co. (FRN 001000C) merges into B & Co. (FRN 020001W) before 1st January 2025 (cut-off date for empanelment with CAG for FY 2025–26), only B & Co. will be able to apply for empanelment. If A & Co. had an ongoing CAG audit assignment for FY 2024–25 at the time of merger, it does not automatically continue with the merged firm.

However the matter will be taken up by different auditees like – RBI, CAG to give clarification in this regard.

Q41. If two empanelled firms merge, what will be the eligibility criteria for retaining their empanelment status post-merger?

The eligibility of a merged firm for retaining or applying for empanelment depends on the timing of the merger in relation to the cut-off dates prescribed for Empanelment with the Office of the Comptroller and Auditor General of India (O/o CAG) and also for Empanelment with Professional Development Committee (PDC), ICAI for MEF which becomes base for Bank Branch Auditors' Panel submitted to RBI.

In case of a merger, only the merged firm will be eligible to apply for empanelment, subject to whether the merger has taken place before or after the prescribed cut-off date. The merging firm becomes inactive post-merger and cannot apply separately. The merged firm must declare any change in constitution to the respective bank, especially if

the merger takes place after second verification or audit allotment, as non-disclosure may affect continuation or reappointment.

Illustration:

In case of empanelment in MEF for Bank Branch Auditors Panel- For the empanelment for Bank Branch Auditors for the audit for financial year say 2025-26 (to be conducted in March-April, 2026) ICAI prepares the panel based on cutoff date of 1st July, 2025 with second verification of data which generally takes place in the month of October/November. Allotment for Bank Branch audit is generally done in the month of March next year. In this case:

- If A & Co. (say FRN 001000C) mergers into B & Co. (say FRN 020001W) before 1st July 2025, B & Co. (say FRN 020001W) will only be able to apply for MEF.
- If merger takes place after second verification of the data, any change in constitution of the firm is required to be declared by the firm to the respective Bank at the time appointment /reappointment as Bank Branch Auditor.
- If the merger takes place after allotment of Bank Branch audit in March,2026 but before the completion of audit in April,2026, it will need review by respective Bank branch.

Q42. What will be the upper ceiling of the audit assignments in case of a merger imposed by ICAI, SEBI, RBI and O/o CAG respectively?

Post-merger, only the merged firm remains active while the merging firm(s) becomes inactive. The upper ceiling on audit assignments applicable to the merged firm will be governed by the respective regulations and guidelines prescribed by respective regulatory authority.

Q43. Who holds the authority to allot and re-allot statutory audits in such cases— the auditee, the bank, or the RBI?

The authority to allot and re-allot statutory audits lies with the respective regulatory authority. As per the prevailing guidelines and circulars issued by RBI, O/o CAG:

- For statutory audits of Public Sector Banks (PSBs), the Reserve Bank of India (RBI) has the authority to approve the audit assignments proposed by the respective banks.
- For other statutory audits, the auditee or the concerned regulatory body— such as the Office of the CAG or SEBI—will have the final authority.

  These decisions are also guided by the applicable norms on appointment and reappointment of auditors issued by the respective regulator or auditee as the case may be.

Q44. After the completion of the audit assignment by the CA Firm, the implications of the same and the stipulated tenure for which the same may impact its prospective merger with other CA Firms basis the eligibility cited by the RBI and O/o CAG.

There are different guidelines followed by RBI and CAG in respect of merged firms for their partners/paid employees/year of establishment etc. Member has to refer to the respective guidelines for details such as Policy of CAG for empanelment of CA Firms/LLP, Eligibility norms for audit firms to be appointed as SCA or SBA of PSBs etc.

Annexure

Model Merger Deed

This merger deed (hereinafter referred to as "Deed") is made and entered into as on

……

BETWEEN

1.

AND

2.

WHEREAS the Parties desire to merge their respective firms to expand the service offerings, core competencies and create synergies from combined strength with enhanced geographical presence.

Now, therefore, in consideration of the mutual covenants and agreements herein contained, the parties hereby agree as follows:

1. NAME OF THE FIRM

That the name of the merged firm will be……., and its date of establishment shall be the date of the establishment of the oldest/older firm i.e……. The merger shall come into force w.e.f. ……

At the effective time, and subject to and upon the terms and conditions of this deed and in accordance with applicable laws, shall be merged with and into the……., whereby the separate existence of shall cease, and the ……. shall continue its existence as the surviving entity. If the name of the merging firm(s)/ sole practitioners with Firm Registration Number is frozen at the time of the merger, it shall remain in effect until the completion of any subsequent demerger process, at which point the name may be unfrozen subject to the conditions mentioned in the 'ICAI (Merger and Demerger of CA Firms) Guidelines, 2024', and the merging firm(s)/ sole practitioners with Firm Registration may resume their original names, thereby reinstating their separate existence.

That the merging firm(s) /sole practitioners with Firm Registration Number affirms its understanding of the facility provided by ICAI regarding the

freezing of name and the partners/proprietor/practitioner practicing in individual name (with Firm Registration Number (FRN)) of frozen Firm cannot do any professional activities in such firm.

The Frozen Name can be later un-freezed by the merging firm during the demerger, subject to the conditions given in the guidelines, allowing it to continue to operate in the same name as before the merger, so that it can safeguard the firm's own name along with seniority.

For unfreezing the firm's name, consent of 75% of the surviving partners who originally/digitally applied for freezing firm's name is required in the form prescribed by the ICAI. In case the partners retire or resign over a period of time, they need to intimate the ICAI for change in partners and shall also authorize the remaining partners by way of no objection certificate (NOC) for unfreezing the firm's name in future.

2. REGISTERED OFFICE

That the registered office of the merged firm, ……..., shall be situated at ……., as determined and registered in accordance with the applicable laws and regulations governing registration.

That upon completion of the merger process, all the branches, offices, or places of business previously operated by the merging firms shall be merged into the operations of the merged firm. The merged entity may designate one or more locations as its principal place(s) of business, where necessary facilities and infrastructure shall be established to conduct the operation of the firm effectively.

That the compliance with Section 27 of the Chartered Accountants Act, 1949, is mandatory. Accordingly, the merged firm shall ensure that all the changes in the address of the registered office and any branch office(s) are duly communicated to the Council of the Institute of Chartered Accountants of India.

3. TERMS OF THE MERGER

That the parties hereby agree to merge their respective firms under the terms and conditions set forth in this deed.

4. TRANSFER OF THE ASSESTS AND LIABILITIES

That upon the effective date of the merger, all the activities, operations, assets, liabilities and obligations of …….. as long as they are

still maintained or not yet closed; as a result of merger, are assigned by law to and will be operated/carried out by ....., subject to the express consent of the respective clients involved.

5. MANAGEMENT STRUCTURE

The authorized Managing partner/(s) or co-authorized partner/ legal heir (in case of retirement/decease of Managing Partner/(s) respectively) should at all times possess all the documents pertaining to the firm/(s) practice like partnership deed, papers relating to resignation, retirement or joining of partners, employment and relieving of qualified assistants, papers and details regarding the approvals given for any constitution or re-constitution of the firm/LLP, firm/LLP property papers, tax returns, bank signatory details, etc. from time to time which may be called upon by the ICAI in case they are required for any dispute or any enquiry or confirmation required by the ICAI.

The authorized Managing partner/(s) or co-authorized partner (in case of retirement/decease of Managing Partner/(s) respectively) should also clearly state to the other merging firms about the restrictions of audit or non-audit works likely to arise on account of Section 144 of the Companies Act, 2013 as well as the non- permissibility of rotation of audit among the merging firms or any issue in code of conduct or ethics or in any Governing law applicable to the firms at the time of merger itself.

Each of the firm/(s) intending to merge will be required to authorize a Managing Partner and co-authorize a partner, by way of an undertaking, to authenticate the entire process of merger at the Self-Service Portal (SSP) through online mode.

That in the event of demerger, the authorized Managing partner/(s) or co-authorized partner/legal heir shall ensure the seamless completion of ongoing assignments in accordance with the contractual obligations and professional standards. The demerged firm shall diligently and competently fulfil all the obligations associated with the ongoing assignments, ensuring continuity of service and maintaining the satisfaction of the clients involved.

That every outgoing partner of the surviving firm/merged firm who is exiting shall be required to co-authorize and provide a No Objection Certificate (NOC) for unfreezing the firm's name in future or any matter associated with the firm to the remaining partner(s).

That the co-authorization and NOC provided by the outgoing partner shall signify their consent and approval for the transfer of all the rights, authorities, and responsibilities related to the firm to the remaining partner(s) of the firm. The co-authorization and NOC provided by the outgoing partner shall be irrevocable and binding upon execution. Once provided, the outgoing partner shall relinquish all claims and rights pertaining to the firm.

That the administrative costs incurred in connection with the merger, including but not limited to the cost and fees of the professionals who provide their services in connection with the Merger, including fees for legal counsel, advisory fees, registration fees and any other related expenses, shall be borne jointly and equally by the merging firm(s) /sole practitioners with Firm Registration Number, unless otherwise agreed by the parties. Similarly, the administrative cost incurred in connection with any subsequent demerger, including but not limited to legal fees, advisory fees, registration fees and any other related expenses, shall be borne jointly and equally by the merging firm(s) /sole practitioners with Firm Registration Number, unless otherwise agreed by the parties.

That all partners of the merged firm may designate or authorize one or more managing partners to oversee day-to-day operations and strategic direction of the firm. The managing partners shall have the authority to make a decision on behalf of the firm, subject to the consent or authorization of partners of the merged firms.

That the managing partners shall have the authority to address the renumeration of senior partners involved in the merged firm. The renumeration shall be determined based on the senior partner's respective specialization, expertise, and experience. The managing partners shall ensure a fair and reasonable renumeration structure, taking into account prevailing market standards and the financial position of the merged firm. That the managing partners shall have the discretion to allocate work and determine the timings of the merged firm, subject to the mutual understanding of the partners. The managing partners shall make reasonable efforts to ensure that work allocation is aligned with the partner's area of expertise, skills, and professional interests. Any decisions regarding that shall aim to optimize resource utilization, deliver high-quality service to clients, and promote a collaborative work environment.

That the net profit of the merged firms shall be allocated among the merging firm(s)/ sole practitioners with Firm Registration Number based on their respective contributions and profit-sharing ratios shall be adjusted annually as mutually decided, with distributions made quarterly and any undistributed profits shall be retained for the working capital of the merged firm. Taxation reserves and record keeping shall be managed as required by law or deemed necessary by the merging firm(s) /sole practitioners with Firm Registration Number for the stability and growth of the firm.

Every new joining and leaving of firm from the merged firm will attract all the due procedures as per the applicable provisions. However, events of decease or retirement of a partner shall not amount to demerger. The authorized Managing Partners of the constituent firms will ensure that the incumbent firm is well versed with the original terms and conditions of the merger and demerger and shall get them signed originally/digitally by the said incumbent firm along with submission of Form 'MDG 1' during merger.

6. LIABILITY

That the liability of each partner of the merged firm, whether managing partner or otherwise, shall be limited to the extent permitted by law and as set forth in the deed/agreement governing the merged firm.

That the merged firm shall indemnify and hold harmless its partners and employees from and against any and all claims, liabilities, losses, damages, costs, and expenses arising out of or relating to the operation of the merged firm, except to the extent caused by the willful misconduct or gross negligence of such individuals.

That notwithstanding any provision to the contrary, the partners of the merged firm shall be jointly and severally liable for any obligations, debts, or liabilities incurred by the merged firm to the extent not covered by the limited liability provisions set forth in this clause.

That the merged firm may obtain and maintain appropriate insurance coverage, including but not limited to professional liability insurance, to protect its partners and employees arising from the conduct of the firm's operations/ arising out of their professional activities within the scope of their engagement with the merged firm, provided that such insurance coverage is in compliance with any legal requirement or regulations governing professional liability insurance.

That the merged firm shall ensure that all the contracts, agreements and obligations entered into on/or behalf of the firm are duly authorized and executed, and that any liability arising therefrom is within the scope of the authorized activities of the merged firm. In any proceedings or claim against the merged firm, the liability of the merged firm shall be reduced to or eliminated in proportion to the extent that any other party contributed to the loss or damage suffered. That nothing in this clause shall limit or exclude liability for fraud, intentional misconduct, or breach of fiduciary duty, or any other liability that cannot be excluded or limited under applicable law.

7. EMPLOYEE/PARTNER MATTERS

That the parties have informed about the merger to their employees. The employees of the Merging firm/sole practitioners with Firm Registration Number who approve the Merger shall continue employment relationship with the merged firm, subject to the willingness of the partners.

8. CLIENT TRANSITION

That the parties shall jointly develop and implement a client transition plan to ensure seamless continuity of services for the client of the firms.

9. REGULATORY COMPLIANCE

That the parties shall ensure that all aspects of the merger are conducted in compliance with applicable laws and regulations. The following provisions are illustrative and indicative of the regulatory framework to be considered as follows:

- The parties shall acknowledge and affirm their compliance with Regulation 190 of the Chartered Accountants Regulations, 1988, regarding the authorization for the utilization of trade or firm appellations.
- All compliances stipulated under section 20C of the Chartered Accountants Act, 1949, shall be duly examined prior to the merger.

That the parties to this deed acknowledge and agree to be bound by and to comply with all the applicable provisions of the Chartered Accountants Act, 1949, the Chartered Accountants Regulations, 1988, and any other relevant guidelines, notifications, circulars, and decisions issued or to be issued by the Institute of Chartered Accountants of India (ICAI) from time to time.

That the parties further agree that they shall adhere to and be governed by the 'ICAI (Merger & Demerger of CA Firms) Guidelines, 2024' issued by ICAI, including any amendments, modifications or supplements thereto that may be promulgated or issued by ICAI from time to time.

That it is expressly understood and agreed that all the rules, regulations, standards and professional guidelines by the ICAI, including but not limited to those relating to ethics and conduct, shall be binding upon each of the parties thereto.

10. DISCLOSURE

That each party shall provide full and accurate disclosure of all financial documents, statements, records pertaining to their respective firms, including but not limited to balance sheets, income statements, tax returns and any other relevant financial information. Each party shall ensure compliance with all applicable income tax laws, regulations and filings including timely submission of income tax returns, payments of taxes and maintenance of necessary records.

That each party shall generate and maintain Unique Document Identification Numbers (UDINs) for all professional documents and certificates issued by them, as required by the Institute of Chartered Accountants of India.

That each party to this merger deed hereby represents and warrants that it has disclosed to the other party any ongoing disciplinary cases or investigations pending before the regulatory bodies, professional associations or Disciplinary Committee.

That each party represents and warrants that it has obtained clearance if any from the National Financial Reporting Authority (NFRA), and has disclosed any findings, penalties or restrictions imposed by such authority.

That in the event of any changes to the status of ongoing disciplinary cases or NFRA clearance during the merger process, each party shall promptly inform the other party of such changes.

That each party agrees to indemnify and hold harmless the other party from any losses, damages or liabilities arising from the non-disclosure of the ongoing disciplinary cases or NFRA clearance, except to the extinct such disclosure was unintentional and promptly remedied upon discovery.

11. SEVERABILITY

That if a term or condition in this Merger Deed, based on the provisions of the prevailing laws or a court order, is declared invalid, illegal or not feasible, under no condition will the matter affect or reduce the validity, legality and implementation of other terms and conditions in this Merger Deed, the other terms and conditions will remain legally valid and binding to the parties under this Merger Deed.

12. CONFIDENTIALITY

That in order to execute this Merger Deed, each merging firms /sole practitioners with Firm Registration Number explicitly covenants and binds itself to each other not to conduct these following actions:

- Convey or notify to other party, unless as required by the provisions of prevailing regulations, or to experts or other professionals who provide and give their services to and for the interests of the Merged Firm in order to make or execute this Merger Deed or agreement or document made based on this Merger Deed.
- Misuse or use for other interests other than for the purpose of Merger, as elaborated in this Merger Deed, all the information, materials, documents and or explanation, which are obtained either verbally or in writing, regarding any matter related to each organizational structure or condition (including financial condition), which are obtained by the Merged Firms, both either directly as well as indirectly from other party herein, or from the experts or professionals whose services are utilized by Merged Firms for the purpose of creating or implementing the document regarding or related to this Merger, or from any party;

That excluded from the above provision is the material, information or document concerning a party in this Deed of Merger which has been or become known by the public:

i. not due to a breach by or not in the capacity of each of the Parties herein; or

ii. jointly announced by Merging Firm(s); or

iii. as a consequence, or related to the implementation of prevailing laws and regulations.

That the Parties agree to the above-mentioned provision shall remain binding and effective although this Merger Deed has expired or cancelled, or such Merger referred to in this Deed does not occur for any reason whatsoever.

That In relation to the above matter, the Merging Firm(s) /sole practitioners with Firm Registration Number shall not duplicate or disclose in any way whatsoever any of such material or document or information above to any unentitled/unauthorized third party, without joint written approval from all the parties herein.

13. DISPUTE RESOLUTION MECHANISM

That the parties intend that this provision will be valid, binding, enforceable, exclusive and irrevocable and that it shall survive any termination of this Deed.

That upon any dispute, controversy or claim arising out of or relating to this Deed or the enforcement, breach, termination or validity thereof ("Dispute"), the party raising the Dispute will give written notice to the other parties to the Dispute describing the nature of the Dispute following which the parties to such Dispute shall attempt for a period of ten (10) Business Days from receipt by the parties of notice of such dispute to resolve such dispute by negotiation between representatives of the parties hereto who have authority to settle such dispute. All such negotiations shall be confidential and any statements or offers made therein shall be treated as compromise and settlement negotiations for purposes of any applicable rules of evidence and shall not be admissible as evidence in any subsequent proceeding for any purpose.

That if the dispute is not resolved through the negotiation, the parties may agree to escalate the matter to the Dispute Resolution Board with the Merged Firm. The Board is constituted by mutual agreement between the parties, comprising authorised Managing Partners or co-authorized partner/legal heir in case of retirement/decease of Managing Partner/(s). The Board shall convene to review the matter and endeavour to reach a mutually acceptable resolution within a reasonable timeframe.

14. ARBITRATION

That if the disputes persist even after the intervention of Board or is not resolved pursuant to the above-mentioned provision, either party may initiate the arbitration proceedings and in accordance with the provisions of Arbitration and Conciliation Act, 1996. The Arbitration and Conciliation Act, 1996 and any statutory modification or re- enactment thereof, shall apply to these arbitration proceedings. The matter shall be referred to the sole arbitrator to be appointed mutually by the parties. Arbitration proceedings shall be held at_____and the language of the arbitration proceeding shall be English. The arbitral award shall be final and binding upon both the parties. All arbitration awards shall be in writing and shall state the reasons therefor.

15. JURISDICTION

Subject to the above clause no. 14, any dispute between the parties arising out of or in connection with this Deed shall be subject to the exclusive jurisdiction of the Courts at ..... only.

That all the negotiation and arbitration proceedings, as well as any information disclosed during these procedures, shall be treated as confidential by all the parties involved. The parties shall not disclose any such information unless required by law or with the written consent of the other party.

That each party shall bear its own costs and expenses incurred in connection with the dispute resolution process including the costs related to the arbitration proceeding including the arbitrator fees, legal representation, and administrative expenses, unless agreed upon by the parties.

16. DEMERGER

That the parties shall hereby agree that notwithstanding anything contained in the partnership deed to the contrary, in case 75% or more of the continuing partners of one of the erstwhile firm(s) are willing to demerge then they can do so after giving due notice in Form 'MDG 2' to the other partners and to the Institute. The applicable provisions of other allied laws like LLP Act, 2008 should be dealt with at the firm's end.

In case 75% or more of the continuing partners of one of the erstwhile merging firm/(s) have demerged after giving due notice to the other partners, then in such case, the merger shall come to an end for the demerging firm

and if the remaining merging firms/partners of the merged firm/(s) decide to continue, then they should enter into a reconstituted Merger Agreement/Partnership deed.

In the event of demerger, the firms which had merged, can unfreeze their erstwhile names, allowing them to obtain their original firm name/trade name subject to the provisions contained in chapter 3 of the ICAI (Merger & Demerger of CA Firms) Guidelines, 2024.

For unfreezing the firm's name, a duly filled form "MDG 3" will be filed by the demerging firms along with Form "MDG 2" post which a certificate confirming the unfreeze of the firm name will be issued separately by the ICAI along with the trail of every freezing/unfreezing of the given firm's name.

For unfreezing the firm's name, consent of 75% of the surviving partners who originally/digitally applied for freezing firm's name is required. In case the partners retire or resign over a period of time, they need to intimate the ICAI for change in partners and shall also authorize the remaining partners by way of no objection certificate (NOC) for unfreezing the firm's name in future.

While filing Form 'MDG 2', each of the authorized Managing Partner at the time of merger by way of an undertaking or any change updated by way of Form 'MDG 3', will be required to authenticate the entire process of demerger at the SSP portal through online mode. However, the originally/digitally signed supporting papers along with Form 'MDG 2' will be required to be uploaded. In case the authorized Managing Partner retires/ deceases the partner co-authorized will authenticate the entire process of demerger at the SSP portal through online mode.

The demerger can be demanded after 1 year and within 10 years from the date of merger subject to the fulfillment of the provisions contained in the chapter 4 of the guidelines issued by ICAI in this regard and other applicable provisions.

17. GOODWILL

That the parties acknowledge and agree that the goodwill associated with the firms of the merging firm(s)/ sole practitioners with Firm Registration Number is a valuable asset and shall be preserved and combined for the benefit of the merged firm.

That the parties agree that the goodwill of each merging firm(s)/ sole practitioners with Firm Registration Number shall be attributed to the merged

firm and shall be reflected in the financial statements and operations of the merged firm. The value of the combined goodwill shall be determined by an independent valuation expert selected jointly by the parties, taking into account factors such as reputation, client relationships, brand recognition and other intangible assets.

That the parties agree to treat the combined goodwill as an asset of the merged firm and to allocate any future benefits or liabilities arising from the goodwill in accordance with the terms of Merger Deed.

That the parties shall take all necessary steps to maintain and enhance the goodwill of the Merged firm, including but not limited to maintaining high standards of service, preserving client relationships and upholding the reputation of the merged firm in the marketplace.

IN WITNESS WHEREOF, the Partners of the Merged firm M/s ..... hereto set their hands on this Deed in the presence of the witnesses.

i. .....

ii. .....

iii. .....

iv. .....

v. .....

Partners of M/s.....

WITNESS:

1.

2.

ISBN: 978-93-48313-15-7



www.icai.org