Assurance EYe

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01 Roadmap of Ind AS for the insurance sector in India

The Insurance Regulatory and Development Authority of India (IRDAI) had recently issued a Consultation Paper and an Exposure Draft proposing amendments to the IRDAI (Actuarial, Finance and Investment Functions of Insurer) Regulations, 2026 (hereinafter, referred to as 'the Regulation') to require adoption of Indian Accounting Standards (Ind AS) across the insurance sector. In a landmark move, the Roadmap has been approved by the IRDAI in its meeting held on 30th March 2026. In accordance with the Roadmap, All Indian insurers viz. Life, General, Health and Reinsurers, will transition to Ind AS with effect from 1 April 2026. This transition aims to significantly enhance transparency, comparability, and investor confidence by aligning India's reporting framework with globally accepted IFRS accounting practices. Further to provide operational clarity, IRDAI has issued a circular dated 1 April 2026 titled "Clarifications on implementation of Indian Accounting Standards (Ind AS)" (hereinafter, referred as "the Circular"). Please note, this publication covers the circulars and press releases by IRDAI till 1 April 2026.

To facilitate smooth transition, for insurers facing challenges in immediately shifting to Ind AS, a provision has been made to grant forbearance for one-year. However, it should be noted that during this period, such insurers will continue to submit Financial Information i.e., Ind AS Proforma Financials to the IRDAI as per Schedule IIA of Insurance Regulatory and Development Authority of India (Actuarial, Finance and Investment Functions of Insurers), (Amendment) Regulations, 2026 on a quarterly basis.

The transition to Ind AS represents one of the most transformative accounting change for insurers, fundamentally reshaping how insurers measure liabilities, recognise profit, model cash flows, manage data and communicate financial performance. Moving from a rule based Indian GAAP framework to a market consistent, principles based Ind AS regime aligned with IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* introduces concepts such as fulfilment cash flows, contractual service margin (CSM), risk adjustment, discounting, expected credit loss (ECL) models and extensive disclosures. These changes will redefine profit computation, provide a more realistic view of insurance obligations and strengthen the basis for comparing Indian insurers with global peers.

At the same time, it should be noted that transition to Ind AS is highly complex and resource intensive exercise, requiring insurers to update systems, actuarial engines, data architecture, finance actuarial integration, internal controls and governance frameworks. The industry has made progress through gap assessments, proforma Ind AS submissions, and capacity building efforts, although varying degrees of gaps in systems, data granularity, and availability of skilled resources remain across some insurers.

Steps taken till date

Since 2022, the IRDAI has taken a structured and collaborative approach to support as well as prepare insurers for Ind AS adoption. The IRDAI had established a dedicated Mission Mode Team for Ind AS implementation to engage continuously with insurers and other stakeholders, study implementation practices across various jurisdictions and guide the industry toward a smooth adoption of Ind AS. In parallel, most insurers have created their own Ind AS Steering Committee to oversee preparation toward the effective implementation of Ind AS.

The implementation roadmap for insurers began with a gap assessment exercise. The IRDAI released a gap assessment template which has been completed by all the insurers. Insurers have initiated structured transformation programmes to address these gaps and have made progress toward implementation readiness through investments in technology, process redesign and capacity building.

As the next milestone, the IRDAI mandated insurers to submit Ind AS Proforma Financial Statements in a phased manner, depending on size of the insurer. The proforma financial statements for FY 2023-24 have been submitted by most insurers under Phase 1, Phase 2 and Phase 3 (with a few exceptions under Phase 3). Further, most insurers under Phase 1 and some insurers under Phase 2 have also submitted their Ind AS proforma financial statements for FY 2024-25.

The IRDAI has constituted a Joint Expert Group to examine and address issues arising during the implementation of Ind AS by insurers. The Group is chaired by the Whole Time Member (Finance & Investment), IRDAI, and include representatives from Institute of Chartered Accountants of India (ICAI), Institute of Actuaries of India (IAI), Securities and Exchange Board of India (SEBI) and National Financial Reporting Authority (NFRA), with the Head of Department (Finance & Investment), IRDAI acting as Member-Convener. Its functioning will be guided by IRDAI, and the Group will operate for two years or such extended period as specified.

Key takeaways and perspectives on the Roadmap

Discounting

Under Ind AS 117, measurement of insurance contract liabilities requires discounting future cash flows using an appropriate discount rate to reflect time value of money. The IRDAI has clarified in the Circular that discounting of insurance contract liabilities shall be carried out in accordance with the provisions of Ind AS 117 and illiquidity premium and the top-down approach shall be applicable. The risk-free rate for the purpose of such discounting shall be derived from the term structure of interest rates based on Government of India securities, using the zero-coupon yield curve published by the Clearing Corporation of India Limited (CCIL), or any other source as may be specified from time to time.

Solvency calculations

The IRDAI has clarified that existing solvency requirements will remain unchanged and will continue to be based on the existing framework. Further it is expected that implementation of Ind AS will provide a sound foundation for implementation of RBC (Risk Based Capital) Framework, on a go forward basis.

Policyholder and shareholder fund segregation

The Insurance Act mandates separate reporting of policyholder and shareholder funds in the financial statements while IFRS requires financial statements to be presented at the entity level. The IRDAI has prescribed an approach where compliance with IFRS and Insurance Act both can be done. To ensure alignment with global practices, insurers will prepare Balance Sheet, Statement of Profit and Loss, Statement of Changes in Equity and Statement of Cash Flows at the entity level. To ensure compliance with the Insurance Act, 1938, Insurers will prepare a separate Revenue Account representing the policyholder fund and shall include the same in Financial Statements.

However, preparation of the policyholder's revenue account in the given format may give rise to practical challenges, including bifurcation of non-attributable expenses between the Segments and the apportionment of taxes between shareholder and policyholder funds. In view of these complexities, insurers would benefit from additional guidance from IRDAI on the presentation of Financial Statements. The IRDAI has acknowledged these concerns in its "General statement of response to the public comments on Exposure draft" and indicated that further clarifications will be issued.

Annual cohort requirements

Ind AS 117 requires grouping of insurance contracts into portfolios and further into groups based on profitability and year of issuance, thereby mandating annual cohorting. Insurers have highlighted that applying annual cohorting to participating insurance business poses significant operational and system challenges and had requested exemption from annual cohort requirement from Participating business.

The exemption has not been provided and insurers to comply with annual cohorting requirements for participating insurance contracts post transition, in accordance with Ind AS 117. Transition relief, where applicable, shall be applied in accordance with Ind AS 117 provisions.

Distribution of surplus in participating insurance business

The IRDAI has proposed that actuarial surplus determined based on actuarial valuation of the participating fund in accordance with Insurance Act will continue to be the basis for distribution of surplus to participating policyholders and shareholders. Statutory limit of ten per cent of actuarial surplus for shareholder distribution will remain. Reconciliation between actuarial surplus and Ind AS 117 profit and other relevant disclosure will form part of notes to accounts. These details relating to Distribution of Surplus has been incorporated in the Regulation by the IRDAI. A separate line item for non-distributable retained earnings has been incorporated in the Statement of Changes in Equity. Further clarifications, if any, for determining actuarial surplus will be specified separately.

Parallel reporting

The regulation requires parallel reporting for a period of two years, where insurers will be required to submit Ind AS financial statements along with existing IGAAP based financial information. The new Ind AS framework will be considered as Statutory Financial Reporting and the existing IGAAP framework will be considered as Special-purpose regulatory submission.

	Financial Statements	Financial Information
Implementation - 1st April 2026	Ind AS - Schedule IIA	IGAAP - Schedule II
Forbearance granted	IGAAP - Schedule II	Ind AS - Schedule IIA

Reporting Requirements

Financial Statements and Financial Information shall be prepared and submitted on a quarterly basis in the formats as specified under Schedule - II and Schedule - IIA as applicable. As part of Financial Statements, Insurers shall provide appropriate reconciliation between Financial Statements and the Financial Information as per Ind AS 101.

For the financial year 2026-27, the Financial Statements and Financial Information for the first three quarters shall be submitted within a period of three months from the end of the respective quarter. However, for listed insurers, timelines for disclosures of Financial Statements will continue as per SEBI norms.

Audit Requirements

The Circular clarifies the audit requirements for insurers during the Ind AS transition. Financial Statements for the first three quarters shall be subject to limited review in accordance with the applicable Standards. Annual Financial Statements shall be subject to Audit as per provisions of Insurance Act, 1938 and Companies Act, 2013. Financial Information for all four quarters shall be subject to limited review in accordance with the applicable Standards.

In addition to the regular statutory audit, insurers must obtain an independent validation of their Ind AS financial statements from an auditor selected from the IRDAI empanelled list of auditors, specifically during the first year of implementation or for any additional period specified by the Authority. The scope and manner of such validation to be provided by the IRDAI in consultation with Joint Expert Group.

Under the current Indian GAAP framework, statutory auditors rely on the work of the Company's Appointed Actuary (AA) for actuarial liabilities and explicitly state this reliance in the audit reports. However, with Ind AS 117 coming into effect, more actuarial professional involvement is important and hence the auditor's role will consequently expand. Similar to global practice under IFRS 17, auditors may be required to directly involve actuarial specialists to independently review and audit key Ind AS 117 requirements. The IRDAI may also consider clarifying this requirement in future communications.

Expense of Management (EoM)

EoM refers to the regulatory limits on the expenses an insurance company is allowed to incur. The Circular clarifies that Expenses of Management, shall continue to be governed by the provisions of Schedule – II (IGAAP) of the Regulations.

Taxation

The IRDAI in its "General statement of response to the public comments on Exposure draft" has clarified that for tax purpose, applicable tax laws shall continue to apply. However, certain clarifications will be required. Such as, transition to Ind AS is expected to result in a one-time adjustment to net worth. However, tax treatment of this transition impact is unclear. Clear guidelines are required to ensure insurers understand how these adjustments will be taxed and timing of taxation, preventing uncertainty.

Also, under Ind AS, ongoing financial statements may include unrealised gains within reported profits. For general insurers, where 'profit before tax' forms basis for computing taxable income, tax treatment of unrealised gains remains uncertain. Clear guidance is needed to ensure consistent and appropriate taxation of these items in subsequent periods and to prevent unintended tax consequences for insurers.

Overview of Ind AS requirements

Ind AS 117 introduces a comprehensive and modern framework for accounting of insurance contracts in India, aligning closely with global principles under IFRS 17. It establishes robust measurement models such as the Building Block Model (General Measurement Model), the Premium Allocation Approach for short duration contracts and the Variable Fee Approach for participating contracts. Central to the standard is the concept of fulfilment cash flows – probability weighted estimates of future inflows and outflows, discounted for the time value of money and adjusted for non-financial risk. These fulfilment cash flows form the basis of liability measurement across all models.

The standard also introduces the Contractual Service Margin (CSM), representing unearned profit that is systematically recognised as insurance services are provided, ensuring transparency in performance reporting.

A key change under Ind AS 117 is the clear distinction between insurance service results and insurance finance results in profit or loss. This separation helps users distinguish underwriting performance from the effects of discount rate movements and financial assumptions.

The standard also requires insurers to separately recognise and present insurance contracts issued and reinsurance contracts held, without offsetting, thereby enhancing clarity around gross exposure and the effect of risk mitigation.

Ind AS vs. Indian GAAP: Other key differences

Aspect	IGAAP	Ind AS
Investment impairment	Recognized on an incurred loss basis	Recognized on an expected credit loss basis
General insurance liabilities (discounting)	Not allowed	Allowed to reflect the time value of money
Onerous Contract	Not explicitly identified	Losses recognized immediately when contracts are onerous
Acquisition cost of an insurance contract	Expensed immediately	Deferred only to the extent permitted under Ind AS 117 and amortized over the period of insurance service
Reinsurance contracts held	Netted against insurance liabilities	Insurance and reinsurance are presented separately
Profit Recognition	May be volatile due to timing of revenue and expenses	More stable and reflective of services rendered

Concluding remarks

During the gap-assessment phase, the industry identified gaps across data, systems and resourcing. Since then, there has been meaningful progress through policy deliberations, system reviews, vendor selection, and initial implementation activities. However, for many insurers, these areas continue to evolve.

Beyond subledger deployment, insurers are required to upgrade actuarial systems, redesign their general ledger, chart of accounts, and integrate various systems. Where such integrations are still progressing, insurers may continue to rely on manual adjustments outside the core systems for Financial Reporting under Ind AS in the initial years.

In summary, while the industry has produced Ind AS proforma financial statements, full implementation readiness is still evolving for several insurers.

Recognising this varied state of preparedness across the Industry, IRDAI has adopted a pragmatic pathway. Insurers that are ready will implement Ind AS from 1st April 2026 while insurers that are facing some challenges may avail a one-year forbearance. Importantly, Insurers opting for forbearance will continue to submit Ind AS based financial information to the IRDAI on a quarterly basis, ensuring sustained momentum toward adoption.

This approach reflects IRDAI's strong commitment to Ind AS implementation, firmly setting a definitive transition date while simultaneously providing operational flexibility to help insurers manage complexity without diluting the objective. It demonstrates the regulator's intent to support insurers through the transition, while maintaining regulatory discipline and forward progress.

It remains to be seen how many insurers will adopt Ind AS from 1 April 2026 and how many will opt for the forbearance period. However, one conclusion is unequivocal: whether in 2026 or 2027, the Indian insurance industry is moving towards Ind AS, marking a significant step toward global alignment, enhanced transparency, and more robust financial reporting.

02 Finance Act 2026: An overview of key accounting implications

The recently enacted Finance Act 2026, has made various amendments to both the old Income-tax Act, 1961 and the new Income Tax Act 2025 (w.e.f. 1 April 2026) as applicable to companies. Out of these amendments, the amendments related to (i) rationalization of Minimum Alternate Tax provisions, and (ii) taxation of buyback of shares which are made only to new Act, are likely to have material accounting implications for certain entities. In this article, we analyze key accounting implications likely to arise from these two amendments.

Rationalization of Minimum Alternative Tax (MAT) provisions

Pre-amendment MAT provisions applicable to domestic companies

- MAT is applicable to companies that have not opted to pay tax under the new regime as prescribed under section 115BAA[1] of the Income-tax Act, 1961 (as amended). In other words, MAT was applicable to companies paying tax under the old regime.
- MAT is calculated at 15% (plus applicable cess and surcharge) of the Book Profit of the Company, which is net profit shown in the Statement of Profit and Loss prepared under the Companies Act, 2013 (as amended), with specific additions and deductions as per Section 115JB of the Income-tax Act.
- Each company paying tax under the Old Regime is required to pay income tax for each financial/ tax year which is higher of (i) tax liability as per the normal provisions of the Income Tax Act, and (ii) MAT liability.
- If the MAT liability for any year is higher than the normal income tax-liability, the excess amount paid is carried forward as a credit to be set off against normal tax liability for up to 15 subsequent years following the year of origination.

Changes introduced by the Finance Act 2026 for domestic companies

- Companies paying tax under the old tax regime will continue to be liable to pay MAT.
- The tax rate of MAT has been reduced from 15% (plus applicable cess and surcharge) to 14% (plus applicable cess and surcharge).
- From tax year 2026-27 onward, MAT paid for any year will be considered as the final tax payable for the year and no new MAT credit will be allowed for additional tax paid vis-à-vis tax liability as per the normal provisions of the Income Tax Act 2025.

1. Or new manufacturing companies availing concessional tax rate u/s. 115BAB of Income-tax Act 1961 but the amendment discussed herein does not apply to such companies

- With regard to brought forward MAT credit accumulated till 31 March 2026, companies will be allowed to carry forward and offset the same if and only if they opt for new tax regime under Section 200 of the Income Tax Act 2025[2] from tax year 2026-27 or any subsequent tax year. In other words, set off of such carried forward MAT credit will no longer be available under the old regime from tax year 2026-27 onwards.
- Under the new tax regime, setting off previously accumulated MAT credit is subject to the limits/ restrictions:
    - Set off for any year is restricted to 25% of normal tax liability
    - The accumulated credit can be carried forward maximum up to 15 years from the year of its origination, i.e., up to the time limit prescribed for pre-amendment.

Key implications and accounting considerations

Considering the above changes, entities may need to evaluate the key accounting aspects below:

a) Under Ind AS 12 *Income Taxes,* an asset in respect of accumulated MAT credit entitlement is recognized only to the extent it is probable that the entity will be able to utilize the same for reduction in its normal tax liability within the period for which MAT credit is allowed to be carried forward. Deferred tax assets, including MAT credit entitlement, are reviewed at each reporting date and written down to the extent their realization is no longer probable.

   Companies having accumulated MAT credit up to financial year 2025–26 will need to reassess realization/ utilization of the accumulated amount, considering their broader tax planning strategy, including their plans to adopt the new tax regime and future profitability. They will need to write down the deferred tax asset arising from accumulated MAT credit to the extent its realization is no longer probable. The amount written down in this manner will be recognized as income-tax expense in the Statement of Profit and Loss (but not allowable as a deduction for normal tax or MAT purposes).

   With regard to any new MAT paid from tax year 2026-27 onward, no MAT credit is allowed and therefore, the amount will be recognized as income-tax expense in the Statement of Profit and Loss immediately. The Company cannot consider the excess amount paid for the recognition of Deferred Tax Asset.

b) Under Ind AS 12, deferred tax assets and liabilities are measured at tax rates and tax laws that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

   It is our understanding that even after enactment of the new tax regime as prescribed under section 115BAA of the Income-tax Act, 1961 (as amended), many companies continued to pay under the old tax regime, primarily considering accumulated MAT credit and ensuring its utilization. These companies were expected to adopt the new tax regime after utilization of accumulated MAT credit. The amendments in MAT provisions introduced by the Finance Act 2026 imply that these companies may potentially adopt new tax regime in a period earlier than originally anticipated/ planned.

   Considering the above, entities may need to remeasure previously recognized deferred tax assets and liabilities. The resulting remeasurement impact, if any, will be recognized as income-tax expense in the Statement of Profit and Loss.

Taxation of buyback of shares

Pre-amended provisions of the Income-tax Act, 1961

The Finance (No.2) Act 2024 made significant changes to the taxation of buyback of shares made by a company under section 68 of the Companies Act 2013 (as amended). In accordance with the pre-amended provisions, the entire consideration received by a shareholder on buyback of shares by a company is treated as dividend income under section 2(22)(f) of the Income-tax Act, 1961 and taxed accordingly. At the same time, the cost of acquisition of the shares extinguished pursuant to the buyback is recognized separately as a capital loss under section 46A of the Income-tax Act, 1961. Accounting considerations relating to changes introduced by the Finance (No.2) Act 2024 have been discussed in the October 2024 edition of Assurance EYe.

Changes introduced by the Finance Act, 2026 in the new Income-tax Act, 2025 w.e.f 1 April 2026

In accordance with the Finance Act, 2026, the buyback of shares will be treated akin to the sale of shares for the buyback price, in the hands of the shareholder. Consequently,

2. Comparable to s.115BAA of Income-tax Act 1961

consideration received on buyback of shares less acquisition cost will be taxed under the head "Capital Gains," instead of treating the same as dividend income. While the non-promoter shareholders will be taxed at the rates applicable to capital gains on sale of shares, an additional tax rate has been levied for promoter shareholders. The table below captures the applicable tax rates (excluding surcharge and cess):

Sr. No.	Nature	Applicable tax rate		
		Non-promoter	**Promoter is a domestic company**	**Promoter is not a domestic company**
1	Short-term capital gain on listed shares	20%	22%	30%
2	Short-term capital gain on unlisted shares	Applicable rates	Applicable rates	Applicable rates
3	Long-term capital gain on listed/ unlisted shares	12.5%	22%	30%

The amendment will take effect from tax year 2026-27 onward.

Accounting consideration

Considering changes in the law, accounting considerations discussed in the October 2024 edition of Assurance EYe will not apply. Since the buyback of shares is treated at par with the sale of shares, entities having investment in shares will evaluate difference, if any, between the carrying amount of investment and their tax base (acquisition cost) for recognition of deferred tax asset/ liability in accordance with Ind AS 12 requirements. To the extent a promoter shareholder is expected to realize shares through buyback, then they will need to measure deferred tax asset/ liability, if any, using such higher rate.

Concluding remarks

The amendments introduced through the Finance Act, 2026, may have a significant impact on the measurement of deferred tax assets/ liabilities and, consequently, income-tax expense, for many entities. It is imperative that entities make an appropriate evaluation of likely impact and ensure due adjustment.

03 Nature-dependent electricity: An overview of upcoming amendments to Ind AS 109 and Ind AS 107

Introduction

The National Financial Reporting Authority (NFRA), at its meeting held on 14 January 2026, has recommended amendments to Ind AS 109 *Financial Instruments* and Ind AS 107 *Financial Instruments: Disclosures*, to the Ministry of Corporate Affairs (MCA) for notification. Once notified, the amendments will deal with contracts referencing nature-dependent electricity and are expected to apply to annual reporting periods beginning on or after 1 April 2026. The amendments are aligned with similar changes to the IFRS Accounting Standards (IFRS), issued by the International Accounting Standards Board (IASB). In this article, we look at the need for an overview of key amendments.

Need for amendments

Contracts to buy or sell non-financial items do not generally meet the definition of a financial instrument. However, contracts that can be settled net-in-cash meet the definition of a financial instrument. Ind AS 109 is applicable to such contracts meeting the definition of a financial instrument and requires derivative accounting. There is only exception to the derivative accounting, viz., the contract to buy or sell non-financial items has been entered into and continues to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This is known as the 'own-use exception' from the scope of Ind AS 109.

In accordance with Ind AS 109, there are various ways in which a contract to buy or sell a non-financial item can be settled net, including when:

a) The terms of the contract permit either party to settle it net

b) The ability to settle the contract net is not explicit in its terms, but the entity has a practice of settling similar contracts net

c) For similar contracts, the entity has a practice of taking delivery of the item and selling it in a short period after delivery to generate profit from short-term price fluctuations or dealer's margin, and/ or

d) The non-financial item that is the subject of the contract is readily convertible to cash

Many entities enter into long-term power purchase agreements (PPA) to purchase electricity from renewable energy sources such as wind or solar power plants, where the timing and

volume of power generated is purely nature dependent. In many cases, the purpose of these PPAs is to secure electricity for own use; however, due to the unique characteristics of electricity, including difficulty to store it, and its market structure – i.e., if a purchasing entity is not able to use the electricity within a short period, the electricity may need to be sold back to the market within a specified time. Although these sales occur because of the market structure, and not to profit from short-term price fluctuations, an issue was arising whether the purchasing entity can apply the own-use exemption or it needs to treat the entire PPA as a derivative under Ind AS 109. It is obvious that the application of derivative accounting will create an unwarranted volatility in the statement of profit and loss (P&L). The amendments are aimed at addressing such practical issues.

Scope of the amendments

The Amendments only apply to contracts that reference nature-dependent electricity. These are contracts that expose an entity to variability in an underlying amount of electricity because the source of electricity generation depends on uncontrollable natural conditions, typically associated with renewable electricity sources such as solar and wind power plants('in-scope contracts'). Other contracts, for example, contracts for electricity generated from biofuel, are not within the scope of the Amendments because such electricity generation is not subject to the same uncertainty as in-scope contracts. The Amendments cannot be applied by analogy to other contracts, items or transactions.

How we see it

The Amendments scope in contracts for nature-dependent electricity that are both physically and virtually settled. However, the Amendments do not cover the accounting for renewable energy certificates (RECs), which typically accompany these contracts. The intention is for the scope to be narrow enough to minimize the risk of unintended consequences.

Amendments to the own-use exception

When evaluating nature-dependent electricity contracts for the own-use exception, the Amendments require an entity to assess if it has been, and expects to be, a 'net purchaser' of electricity over the contract period. An entity will be a net purchaser of electricity if it buys sufficient electricity to offset the sale of any unused electricity in the same market in which it sold the electricity. An entity must make this net purchaser assessment based on reasonable and supportable information (that is available without undue cost or effort) about its past, current and expected future electricity transactions over 'a reasonable amount of time'. When identifying 'a reasonable amount of time', an entity must consider variability in electricity generated due to the seasonal cycle of natural conditions, and variability in the entity's demand for electricity due to its operating cycle. However, a reasonable amount of time must not exceed 12 months.

For example, in a contract where the purchaser is required to take delivery for 100% of electricity generated from a wind or solar plant[3], which is in line with the entity's expected usage per day, the delivery may happen at certain intervals during the day. The risk, in such a case, is that the delivered volumes at a particular hour may exceed the entity's electricity needs at that time, resulting in sales of excess electricity. Such contracts will be eligible for the own-use exception, provided that the other requirements are met.

It may be noted that if the market offers an entity alternatives to selling its unused electricity, for example, making electricity storage facilities available, then the entity is not permitted to use the Amendments.

How we see it

In India, many entities have entered into long-term PPAs to purchase electricity from wind/ solar plants for their own usage requirements. Our experience is that these entities generally do not sell surplus electricity in the market; rather, they use the 'banking mechanism' to store and manage any surplus electricity at any particular point in time. The 'banked electricity' can be withdrawn and used within the time frame allowed by the applicable regulations. Considering this, the amendments may have no or negligible impact on entities using the banking facility to store surplus power.

3. Though the entity is obtaining 100% electricity generated from the plant, it has been separately evaluated that the arrangement does not contain a lease under Ind AS 116 Leases.

Hedge accounting requirements

Entities are increasingly using contracts for nature-dependent electricity to fix the price at which such electricity will be sold or purchased. However, Ind AS 109 historically required the hedged item to be designated as a specified nominal amount or volume. Any changes to the nominal amount or volume of the hedged item would result in the discontinuation of the hedging relationship. Some entities were still able to apply hedge accounting by designating a fixed hedged volume, but this resulted in ineffectiveness as a result of the hedging instrument having a variable volume.

To overcome the above challenge, the Amendments will allow an entity designating a contract referencing nature-dependent electricity as the hedging instrument in a hedge of forecast electricity transactions, to designate a variable nominal amount of forecast electricity transactions as the hedged item. This designated variable nominal amount must be aligned with the variable amount of nature-dependent electricity expected to be delivered by the generation facility as referenced in the hedging instrument.

The Amendments also state that if the cash flows of an in-scope contract designated as a hedging instrument are conditional on the occurrence of the forecast transaction that is designated as the hedged item in accordance with the Amendments, this forecast transaction is presumed to be highly probable. The other hedge accounting requirements of Ind AS 109 continue to apply unchanged.

How we see it

The Amendments provide a practical solution for in-scope contracts and should avoid hedge ineffectiveness due to volume uncertainty. However, entities must be aware that ineffectiveness may still arise due to other sources, such as differences between the timing and volume of spot purchases.

Amendments to Ind AS 107

Ind AS 107 has been amended to require disclosures relating to contracts excluded from the scope of Ind AS 109 as a result of the amendments. An entity needs to disclose the below information in a single note:

- Contract features exposing the entity to variability in the volume of electricity and risk of oversupply
- Estimated future cash flows from buying electricity in appropriate time bands
- Qualitative information regarding how the entity assessed whether a contract may become onerous
- Qualitative and quantitative information about the effects on the entity's financial performance for the reporting period, based on the information used by the entity for the 'net purchaser' assessment. The information requiring disclosure includes costs and proceeds associated with the purchase and sale of electricity.

For contracts designated in a cash flow hedging relationship, the entity must disaggregate the information about the terms and conditions by the risk category.

How we see it

Obtaining the quantitative and qualitative data needed for the required disclosures may require additional effort and perhaps system updates. However, the intention of amendments is not to disclose information for each contract separately. Entities will need to apply judgement to determine the appropriate level of aggregation to ensure that the disclosures are understandable and meaningful for users.

Effective date and transition

The NFRA has recommended that these amendments be applied to annual reporting periods beginning on or after 1 April 2026. The amendments relating to the own-use exception must be applied retrospectively. An entity is not required to restate prior periods, and it is only permitted to do so if this can be done without using hindsight. If prior periods are not restated, then any difference between the previous carrying amount and the carrying amount at the date of initial application of these amendments is recognized in the opening retained earnings at the beginning of that reporting period.

The hedge accounting amendments must be applied prospectively to new hedging relationships designated on or after the date of initial application. The Ind AS 107 disclosure amendments must be applied when the Ind AS 109 amendments are applied.

04 Assurance and regulatory updates

1. Ministry of Labour and Employment (MLE)

Additional FAQs on Labour Codes – March 2026: Key Clarifications and Implications

The Government of India (GOI) had announced the implementation of the four labour codes, viz., *The Code on Wages, 2019; The Code on Social Security, 2020, The Occupational Safety, Health, and Working Conditions Code, 2020 and The Industrial Relations Code, 2020,* effective 21 November 2025. Thereafter, on 31 December 2025, the GOI pre-published draft Rules under the respective Codes, public comments. To ensure smooth implementation, the Ministry of Labour and Employment (MLE) has also issued recently the Frequently Asked Questions (FAQs) on these four codes on March 16, 2026.

Among other matters, these four codes include significant changes such as definitions of the term 'worker' and uniform definition of the term 'wages', which are likely to have significant financial reporting implications. The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) has issued Frequently Asked Questions (FAQs), providing guidance on key questions related to financial reporting aspects arising from the labour codes. Key highlights of these Code and related financial reporting implication are covered in January 2026 edition of the *Assurance EYe*.

In the event of any inconsistency between FAQ's and the provisions of the Labour codes, the provisions of the relevant Labour Code shall prevail. Outlined below are select clarifications with potential financial reporting implications, along with our observations.

Uniform definition of wages and the 50% threshold

- **Overtime allowance**
  The MLE, has clarified the treatment and scope of overtime under the Labour Codes. The FAQs reaffirm that overtime payments form part of the wage computation for the purposes of applying the 50 percent wage test under the Code on Wages, 2019, thereby having a direct impact on salary structuring and compliance evaluations.

  Importantly, the FAQs also underscore that overtime entitlement is not restricted to traditional shop floor or blue collar roles and extends to any employee whose minimum rate of wages is notified under the Code, subject to the conditions prescribed under the Occupational

Safety, Health and Working Conditions Code, 2020 (OSH Code). Employers would therefore need to reassess eligibility, computation mechanisms and payroll design for overtime to ensure alignment with the clarified regulatory position.

- **Statutory components**
  The FAQs clarify that employer provident fund contributions and statutory bonus are included for determining total remuneration for the 50% threshold, whereas gratuity, ESI and other retirement benefits are excluded. These clarifications are relevant only for applying the 50% wage floor and do not alter the definition of "wages" under the Labour Codes.

- **Annual performance-based incentives**
  Annual performance based incentives have been again clarified that they will not form part of "wages" for computation under the Labour Codes, consistent with earlier FAQs.

Gratuity-related clarifications

- **Effective date**
  The revised definition of wages applies from 21 November 2025, and gratuity based on such definition is applicable prospectively from that date.

- **Basis of calculation**
  Gratuity payable on or after 21 November 2025 is required to be computed based on the wages last drawn by the employee at the time of separation (including resignation, retirement or death), in accordance with the Code on Social Security, 2020.

- **Eligible components**
  The FAQs state that any payment not forming part of components specified under section 2(88) of the Code on Social Security, 2020 shall not be considered for gratuity calculation. Given the inclusive nature of the definition of wages, further clarification may be required to remove interpretational ambiguities in practice.

- **Contract labour**
  In the case of contract labour, the employer (contractor) has been clarified as being responsible for payment of gratuity.

Remuneration in kind

Certain benefits provided under the terms of employment, such as food coupons, ration items and mobile recharge facilities, have been clarified to constitute remuneration in kind under the Labour Codes.

Leave, overtime and welfare provisions under the OSH Code – key clarifications.

The Additional FAQs provide important clarifications under the OSH Code, particularly in relation to leave, overtime and employee welfare provisions. The FAQs reaffirm that statutory leave and leave encashment entitlements under the OSH Code are confined to "workers", including sales promotion employees and working journalists, and extend only to supervisors drawing wages up to INR18,000 per month. Managerial and higher paid supervisory personnel fall outside the purview of these statutory leave provisions.

In relation to leave accumulation and encashment, the FAQs clarify that workers may carry forward up to 30 days of leave each year, while leave that has been applied for but refused by the employer may be carried forward without limit. There is no prescribed statutory ceiling on leave encashment; unavailed leave may be encashed upon separation, or at the end of the calendar year where leave beyond 30 days was denied.

The FAQs also reiterate that overtime becomes payable for work exceeding eight hours in a day or forty eight hours in a week, at twice the normal rate of wages, irrespective of any higher daily working hour limits prescribed by the appropriate government. Further, welfare provisions such as crèche facilities are clarified to be gender neutral, and precedence between Central and State rules is determined based on the applicable "appropriate government", with employees entitled to the more beneficial provision where State law offers enhanced benefits.

Financial reporting considerations

Entities should evaluate the impact of the additional FAQs while reassessing wage structures, gratuity obligations and other employee benefits. Any consequential adjustments should be accounted for in accordance with the guidance issued by the Accounting Standards Board of the ICAI, as discussed in the January 2026 edition of the *Assurance EYe*.

Way forward

While the additional FAQs provide useful operational clarity, certain areas—particularly around the scope of exclusions for gratuity and treatment of variable components—may continue to require judgement. Management should closely monitor further guidance and proactively assess accounting and disclosure implications to avoid last minute adjustments.

2. Securities and Exchange Board of India (SEBI)

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR): Corporate Governance Norms in High Value Debt Listed Entities

The Corporate Governance (CG) norms, earlier extended to High Value Debt Listed Entities (HVDLEs) vide Notification dated 28 March 2025, are being recalibrated to reduce compliance burden and improve ease of doing business. After initially applying equity-like CG requirements to HVDLEs, the SEBI has amended the LODR Regulations vide *SEBI (LODR) (Amendment) Regulations, 2026*.

Following are the key changes:

a) Higher threshold for HVDLE classification

- To address excessive compliance costs and disproportionate impact—particularly on NBFCs—the SEBI raised the threshold for identification of HVDLE from INR1,000 crore to INR5,000 crore of listed outstanding debt.
- In case value of the outstanding listed non-convertible debt securities becomes equal to or greater than INR 5,000 crore during the financial year, the entity will be required to comply with HVDLE's provisions within 6 months from the date of such trigger and the disclosures of such compliance may be made in the Corporate Governance Compliance Report on and from the third quarter, following the date of the trigger.

b) Ease-of-Doing-Business measures (excluding amendments relating to Related Party Transactions (RPTs)

- Replacement of 'income' with 'turnover' in defining material subsidiaries.
- Governance related relaxations including:
  - Special resolution for appointments of Non-Executive Directors beyond the age of 75 years.
  - Exemption from shareholder approval for regulator-appointed nominee directors.
  - Three months to fill committee vacancies.
  - Board to provide a rationale for special business to be transacted at a general meeting.
  - Removal of the mandatory replacement of an Independent Director within three months if board composition is already compliant.
- Exemption provided from shareholder approval for the sale, disposal, or lease of assets between two wholly-owned subsidiaries of HVDLE.
- Relaxed timelines for KMP appointments post Insolvency and Bankruptcy Code (IBC).
- Allowed SEBI to set compliance-report timelines.
- Dropped requirement to repetitively disclose material RPTs in compliance reports.
- Secretarial audit and secretarial compliance report provisions aligned with Regulation 24A.

c) Alignment of RPT Norms with equity-listed rules

- Cross-referencing of the RPT provisions of Regulation 23 (applicable to equity-listed entities) in Regulation 62K for HVDLEs, while retaining the requirement for NOC from debenture trustees and debenture holders. Key elements include:
  - Non-material remuneration/ sitting fee exemption from RPT approval.
  - Post-facto Audit Committee (AC) ratification allowed for certain RPTs within defined timelines.
  - Adoption of scale-based materiality thresholds and subsidiary-level thresholds.
  - Standardized validity periods for omnibus approvals.
  - Clarification that exemption for holding companies applies only to listed holding companies.

How we see it

SEBI's amendments to HVDLEs provisions in LODR Regulations mark a major step towards streamlining compliance for HVDLEs. By raising thresholds and aligning corporate governance and RPT rules with those for equity-listed entities, SEBI aims to reduce unnecessary compliance burden, especially for entities with lower levels of listed debt.

SEBI (Issue and Listing of Securitized Debt Instruments and Security Receipts) Regulations, 2008 (SDI Regulations)

The *SEBI (Issue and Listing of Securitized Debt Instruments and Security Receipts) Regulations, 2008* establish the legal framework governing the issuance and listing of securitized debt instruments (SDIs) and security receipts (SRs) in India. These regulations prescribe requirements relating to transparency, investor protection, and disclosures applicable to issuers (Special Purpose Distinct Entity (SPDE)/ Trust) and intermediaries. They also regulate the offer, distribution, and listing of such instruments on recognized stock exchanges, ensuring compliance with prescribed securities market standards.

Regulation 11B of SDI Regulations mandates SPDE and the trustee to furnish information in a specified format to the SEBI on a half yearly basis.

The SEBI, vide circular dated 16 December 2025, provided the list of disclosures along with the format of these disclosures as Annexure I and Annexure II. Annexure I of the circular applies to the disclosures required for SDIs backed by loan / listed debt securities / credit facility exposures. Annexure II applies to the disclosures required for SDIs backed by other exposures. Further, illustrations in respect of weighted average maturity of the underlying assets, the weighted average rating of the pool, and average default rate are provided in Annexure III.

Some of the key disclosures covered within Annexures I and II, which are required to be disclosed by SDIs, are as follows:

- Maturity characteristics of underlying assets
- Minimum retention requirement
- Credit quality of underlying assets
- Minimum Holding Period

These disclosures are required to be made on a half yearly basis within 30 days from the end of March or September to the SEBI and the relevant stock exchange(s) where these SDIs are listed. The circular will come into effect on 31 March 2026.

How we see it

We believe that these disclosures will increase transparency and strengthen continuous disclosure standards for SDIs. The Special Purpose Distinct Entities (SPDE) and trustees should gear up for the half-yearly reporting. Robust reporting processes and controls should be put in place to ensure accurate and complete disclosures filed within prescribed timelines.

SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations): Amendments to enhance ease of doing business and increase retail investors' participation

The SEBI Board, vide its Board Meeting dated 17 December 2025, has approved the following amendments to ICDR Regulations to streamline public-issue requirements, enhance ease of doing business, and strengthen retail investor participation:

Lock-in of non-promoter shares (including pledged shares)

- Under the existing ICDR framework, all pre-issue shareholding held by non-promoters—except certain exempt categories—is subject to a six-month lock-in from the IPO allotment date. Issuers frequently encounter practical hurdles when such shares are already pledged before the IPO, making it difficult to create the required lock-in.
- To resolve this challenge, SEBI has approved a system-driven mechanism through depositories:
  - Where lock-in cannot be technically created, the depositories will designate such securities as "non-transferable" for the lock-in period
  - Upon invocation or release of a pledge, the depository system will automatically apply the remaining lock-in on the beneficiary's account (whether pledger or pledgee)
- This shift from manual lock-in creation to automated enforcement ensures robust compliance even for pledged securities. It reduces operational bottlenecks for issuers and intermediaries while preserving the original investor-protection intent of lock-in provisions.

Abridged prospectus at the DRHP stage

- Currently, critical IPO disclosures are dispersed across extensive offer documents, which retail investors often find difficult to navigate. To improve accessibility, SEBI has approved the introduction of a focused, concise, and standardized abridged prospectus at the DRHP stage, in addition to the existing requirement at the RHP stage.
- Disclosures in the abridged prospectus will be rationalized.
- The document shall be hosted on the website.
- With the availability of the abridged prospectus, SEBI may discontinue the standalone "offer document summary," subject to consultation with the Central Government.
- This change is designed to front-load key information for retail investors, allowing them to understand the essentials of an IPO early in the process. By improving accessibility and reducing information overload, SEBI is seeking to materially improve investor engagement and informed participation.

How we see it

These amendments simplify fundraising processes, reduce procedural friction for issuers, and make IPO disclosures more investor-friendly. Early and clearer communication of key information is expected to enhance retail comprehension and participation in public issues.

3. Reserve Bank of India (RBI)

Default Loss Guarantees (DLGs) get their due "credit"

Background

Lending institutions are increasingly partnering with fintechs and smaller non-banking financial players through models such as co lending, risk sharing partnerships, and structures that include Default Loss Guarantees (DLGs). DLG is a contractual arrangement in which a partner, often a fintech, that has facilitated loan origination for the lending NBFC agrees to absorb a certain amount or a percentage of credit losses arising out of such loans.

These arrangements allow traditional lenders to leverage fintechs' strengths in customer acquisition, digital underwriting and technology capabilities while providing capital and regulatory expertise that smaller NBFCs / fintechs often lack. This also provided larger lenders with greater comfort and enabled them to expand into newer or riskier borrower segments. Together, these models help institutions scale faster, diversify portfolios, and improve unit economics while delivering more inclusive and efficient credit to underserved markets.

However, the Reserve Bank of India (RBI) has placed a cap of 5% on such DLG arrangements to ensure that the regulated entities (lending institutions) continue to have skin in the game and do not take exposure only based of the DLG cover available. This also ensures that the non-regulated entities (fintechs) are not going overboard taking unlimited exposure on the portfolio originated by them, which could in turn result in a systemic risk.

What has changed

In communications to certain NBFCs in 2025, RBI directed them to not consider credit enhancements available under DLG arrangements for the computation of their ECL or expected credit losses (i.e., loan loss provisioning under Ind AS 109). This dealt a blow to the P&L of some regulated entities as they were expected to recognize full ECL provision on such loan portfolio disregarding the DLG cover provided by the fintechs. It also led to a situation where two entities (i.e., the DLG provider and the receiver) had to carry a provision for the same exposure in their respective books. A lose-lose scenario!

In February 2026, the RBI issued an important clarification on the treatment of Default Loss Guarantee (DLG) within the ECL framework for Non-Banking Financial Companies (NBFCs) alleviating the regulated entities from this provisioning burden. Through an amendment to the existing RBI NBFC Income Recognition, Asset Classification and Provisioning Directions, the regulator has now permitted NBFCs to factor DLG arrangements into ECL computation across all stages subject to the requirements as laid down under Indian Accounting Standards, which inter alia require the DLG arrangement to be integral to the contractual terms of the loan and the DLG not being recognized separately.

What does this mean for NBFCs

The above amendment aligns the prudential norms more closely with Ind AS principles.

Under Ind AS 109 *Financial Instruments*, ECL must reflect the present value of all expected shortfalls and the credit enhancements in the form of DLGs which are integral to the contractual terms must be considered as part of the expected cash flows.

Since the lender is contractually protected against a portion of losses, the expected cash shortfalls are correspondingly reduced to reflect the coverage provided by the DLG arrangement.

Practical considerations and way forward

In practice, fintech's typically extend DLGs through master agreements for a pool of assets originated. These arrangements are executed prior to loan origination and are fundamental in shaping the economics of the transaction, including the NBFC's share of interest income and other key commercial terms. Consequently, NBFCs generally view such DLG structures as integral components of the financial asset.

Consistent with this view, NBFCs incorporate the effects of DLG arrangements directly into their expected credit loss (ECL) calculations, rather than recognizing DLG as a separate asset.

However, auditors and compliance functions must apply professional judgement in evaluating whether DLG arrangements are truly integral to lending contracts and appropriately reflected in credit risk assessments when estimating expected credit loss. In this determination, one may need to also assess if the intent of this clarification is to capture the DLG aspect in the loan agreement with the borrower. If so, it will be interesting to see how that is achieved since the DLGs are not provided against individual loans but for a pool of loans. Also, if the individual loan agreements end up carrying a mention of the guarantee provided by a third-party this may affect the overall credit discipline – an area to monitor as practice evolves. Nonetheless, it's a welcome move from the regulator, which reinforces the principles of collaboration in new-age lending.

RBI's updated presentation and disclosure norms for banks

The Reserve Bank of India's updated Master Direction on Financial Statements – Presentation and Disclosures marks a major evolution from the earlier framework last consolidated in 2021. The revised Direction significantly broadens the reporting canvas for commercial banks, aligning disclosure expectations with India's evolving risk landscape and global standards.

The key enhancements include the expansion of mandatory disclosures across capital, liquidity, valuation and asset quality dimensions, in line with some other regulatory changes done in the recent past along with some expected in the near future (i.e., re-aligning the investment classification and valuation norms and the upcoming transition to ECL).

Banks must now provide granular information on regulatory capital composition, RWAs, leverage ratio, liquidity metrics (LCR/NSFR), investment fair value hierarchy and sector wise asset quality, far beyond what the earlier circular required.

The Direction also tightens the uniformity of financial statement formats, mandating prescribed templates for the Balance Sheet and Profit and Loss Account with little room for ambiguity, helping to improve comparability of information being reported.

The revised framework also introduces deeper guidance on Accounting Standards, including AS 11, AS 18 and others, addressing practical issues in areas like foreign branch translation, specifically with the emergence of IFSC units and the scope of related party reporting.

The updated Direction strengthens expectations around Consolidated Financial Statements (CFS) with clearer rules on reporting timelines and consistency of accounting policies being used along with updating the reporting requirements for Capital Market Exposures (CME).

How we see it

The new Direction represents a decisive move towards bringing Indian banking Wdisclosures closer to global best practices.

For banks, this would mean revisiting the governance, systems and processes around these disclosures. Assurance teams must evaluate not only the accuracy of disclosures but the quality of underlying judgements. As the regulatory bar rises, the importance of rigorous internal controls, early engagement and cross functional coordination becomes critical.

RBI’s new capital adequacy framework for banks

The Reserve Bank of India issued revised master directions related to Capital Adequacy in November 2025 (updated in January 2026) signaling a broader alignment with the global Basel III regulations and which are aimed at improving the resilience of India’s banking system. These master directions also consolidate the previously issued circulars, including the latest circulars issued in April 2025 related to Basel III Capital Regulations.

While the revised master directions reiterate the minimum requirements of Capital to Risk-weighted Assets Ratio (“CRAR”), Common Equity Tier 1 (“CET1”) capital, Additional Tier 1 and capital conservation buffers, these directions now provide more clarity around loss absorbency features of certain capital instruments, deductions from capital, capital buffers, etc. Some of the key updates include:

1. **Triggers for write-downs:** Updated write down triggers in case of AT1 bonds and Tier 2 instruments when the CET1 ratio falls below 6.125%.
2. **Tightening of deductions from capital:** While the previous regulations required goodwill, deferred tax assets, cross holding deductions, the scope has been expanded to include AIF exposures, level 3 fair value gains and default loss guarantees (where Banks are providers of such guarantees).
3. **Updated risk-weight methodology:** The master directions include certain new risk-weight tables and have clarified the treatment for securitization exposures in the computation of risk weight assets and capital.
4. **Expanded capital buffers:** While the revised master directions reaffirm the minimal ratios, they have added more emphasis on the buffers required especially for Domestic Systematically Important Banks (D-SIBs), including the need for D-SIBs to maintain leverage ratios throughout the year. These directions also clarify the mechanics of the computation of the leverage ratio.
5. **Enhanced disclosures:** The revised master directions have added to the disclosure requirements, specifically including mandatory templates and reconciliation templates. The master directions also require a Board-approved disclosure policy basis the materiality determination of the bank.
6. **Enhanced ICAAP requirements:** The expectations related to stress testing, scenario-designing and integration with a business strategy for ICAAP have been enhanced as well.

How we see it

Through the updated master directions on, the RBI aims to strengthen the capital quality, reduce the scope for regulatory arbitrage, and harmonize Indian regulations with the latest **Basel III global standards.**

The master directions significantly elevate the expectations placed on banks—particularly around risk-absorbing instruments and the expanded set of deductions now required from regulatory capital. These changes compel a deeper assessment of how banks are interpreting and operationalizing the new norms.

Equally important is the expanded disclosure regime and the requirement for a board-approved disclosure policy. These additions heighten the need for proactive engagement with banks to understand their governance framework, materiality assessments, and how they intend to articulate the most critical elements of their capital position to the market. Evaluating whether disclosures are complete, well-reasoned, and properly evidenced becomes essential—not just for compliance, but for strengthening market confidence.

The true impact of these changes on banks’ capital adequacy ratios will only unfold in the months ahead and will differ markedly based on each institution’s portfolio composition and strategic posture. Banks carrying substantial off-balance-sheet exposures in Level 3 instruments, or those with significant unrated credit exposures, may see a more direct and immediate strain on their capital buffers. As the new master directions embed themselves into the supervisory landscape, the ability of banks to recalibrate their strategy to ensure effective capital planning will determine who navigates this transition effectively.

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