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Reporting Insights

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01

New Labour Codes: An overview of key financial reporting implications

In a landmark development for the Indian labour law landscape, the Government of India has announced the implementation of the four labour codes, which will replace 29 existing labour laws, effective 21 November 2025. The labour codes are:

- 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

Although all the labour codes were notified in earlier years, their implementation was awaited. On 21 November 2025, the Government issued four separate notifications in the Official Gazette announcing implementation of all the codes. Notifications for implementation of the final rules under the labour codes by the central and state governments are still awaited but are expected to follow shortly. The Press Release issued by the Ministry of Labour & Employment clarify that during the transition period, existing rules will continue to apply (to the extent they are consistent with the Codes) until the new rules are finally notified.

The labour codes simplify and consolidate existing labour laws, promoting transparency and digitization in compliance and workforce models, enhancing worker welfare and ease of doing business.



Key impact areas for employers

Given below is overview of key changes brought by the labour codes which are likely to have significant financial reporting implications for the employers:

» **Definition of worker**

The labour codes establish distinct definitions for the terms 'employee' and 'worker,' with specific benefits and provisions applicable only to 'workers.' The definition of 'worker' closely aligns with the term 'workman' under the Industrial Disputes Act, 1947 (now superseded by the labour codes), encompassing individuals engaged in manual, unskilled, skilled, technical, operational, clerical or supervisory work, while excluding below:

- Individuals in managerial or administrative roles
- Persons in supervisory roles with monthly wages exceeding INR18,000 (or an amount as may be notified by the central government from time to time).

While the definition under the Industrial Disputes Act, 1947 had limited applicability—primarily focused on industrial disputes and retrenchment—the definition under the labour codes has a significantly broader scope. Under the labour codes, workers are entitled to various benefits, including

overtime pay and leave encashment, as stipulated in the Occupational Safety, Health, and Working Conditions Code, 2020. Specific provisions related to working hours, annual leave, and standing orders apply exclusively to 'workers.'

» **Uniform definition of wages and its financial impact for employers**

Under the previous labour laws, varying definitions of 'wages' and 'salary' complicated the calculation of benefits, leading to inconsistencies, multiple interpretations, and frequent litigation. To address these challenges, a uniform definition of 'wages' has been introduced which will apply uniformly across all four labour codes.

The new labour codes prescribe an inclusive definition of the term 'wages.' In accordance with the definition, wages include all remuneration whether by way of salaries, allowances or otherwise, expressed in terms of money or capable of being so expressed which would, if the terms of employment, express or implied, were fulfilled, be payable to a person employed in respect of his employment or of work done in such employment. At a minimum, the wages include three specified components, namely basic pay, dearness allowance and retaining allowance. The Codes also provide list of items such as house rent allowance, overtime allowance, gratuity payable on the termination of employment and retrenchment compensation, which are not included in the definition of wages. Items not covered in exclusion list get included in the wages. The definition further mandates that items excluded from wages (except gratuity and retrenchment compensation) should not exceed 50% (or such other percentage as may be notified by the central government from time to time) of total remuneration. If there is an excess, then it is presumed that excess amount also constitutes wages and gets included in the wages.

This new definition aims to enhance compliance by providing clarity and consistency. However, it may also result in increased costs for entities. The new definition, among other matters, is relevant for calculating benefits such as those related to gratuity, employees' state insurance, leave encashment and overtime.

» **Workforce models**

The labour codes explicitly prohibit the use of contract labour for the 'core activities' of an organization, except in certain exceptional circumstances. Core activity means any activity for which the establishment is set up and includes any activity which is essential or necessary to such activity.

Fixed-term employment has been officially recognized as a valid employment model, subject to specific conditions and compliance requirements. For instance, such a worker would

be entitled to gratuity after one year of service on termination and all other statutory benefits available to a permanent worker, proportionately according to the period of service rendered by the worker.



» **Leave encashment**

Under the labour codes, workers who have worked for 180 days or more in a calendar year will earn one day of leave for every 20 days worked, with a carry forward limit of 30 days. Any leave balance over 30 days needs to be encashed at the end of each calendar year. Workers also have the right to demand encashment even for the 30 days of carry-forward leave at the year end.

» **Other Occupational Safety, Health and Working Conditions (OSH) compliance costs**

The OSH framework may also increase recurring compliance costs (e.g., free annual health check-ups for workers above 40 years in factory, dock, mine, building and other construction work), which may require appropriate expense recognition and accruals based on the entity's arrangements.

» **Social security for gig workers and unorganized sector**

The labour codes empower the central and state governments to implement welfare schemes for gig workers, platform workers, and other individuals in the unorganized sector. These schemes may include life and disability coverage, health and maternity benefits, old-age protection and other relevant benefits.

For gig workers social security schemes, aggregators will be required to contribute 1% to 2% of their annual turnover, subject to a cap of 5% of amount paid or payable by an aggregator to gig workers, to the social security fund. The requirement for such contribution will apply from a date to be notified separately.

Draft rules and FAQs on Labour Codes

Following implementation of the four labour codes on 21 November 2025, the central government has pre-published the below draft rules on 31 December 2025 under the respective labour codes:

- The Code on Wages (Central) Rules, 2025 under the Code on Wages, 2019 (COW Rules)
- The Code on Social Security (Central) Rules, 2025 under the Code on Social Security, 2020 (COSS Rules)
- The Occupational Safety, Health and Working Conditions (Central) Rules, 2025 under the Occupational Safety, Health and Working Conditions Code, 2020 (OSHWC Rules)
- The Industrial Relations (Central) Rules, 2025 under the Industrial Relations Code, 2020 (IR Rules)

To ensure smooth implementation, the Ministry of Labour and Employment has also issued the Frequently Asked Questions (FAQs) on the four codes:

- FAQs on labour codes
- FAQs on Code on Wages
- FAQs on Social Security Code
- FAQ on Myths and Realities of Industrial Relation (IR) Code
- FAQs on Occupational Safety, Health and Working Conditions (OSH) Code

Once notified, the Central rules will apply to following establishments/sectors:

- Railways, including metro railways, mines, oil fields, major ports
- Air transport service
- Telecommunication
- Banking or insurance company



- Corporation or other authority established by a Central Act
- Central public sector undertakings or subsidiaries
- Autonomous bodies owned or controlled by the Central Government
- Establishment of contractors for the purposes of such establishment
- Establishments having departments or branches in more than one state (under Code on Social Security)

For other manufacturing and non-manufacturing establishments, State rules to be notified by respective State governments will be applicable, which are yet to be notified, except for few states which have already notified final rules.

The draft Rules propose several key clarifications and address areas which need to be covered under the Rules. For instance, in accordance with the Code on Social Security, 2020, gratuity is to be calculated based on rate of 'wages' last drawn by the employee concerned. The draft COSS Rules clarify that for the purpose of determination of gratuity, exclusions from 'wages' will also cover any amount payable on an annual basis that is linked to performance or productivity of an employee or of the establishment in which the person is employed and is not part of the remuneration payable under the terms of employment. Further, the following will not form part of the 'wages' for this purpose:

- a. Reimbursement of medical expenses
- b. Stock option benefit or cash equivalent of stock award
- c. Crèche allowance
- d. Telephone and internet reimbursement
- e. Value of meal vouchers.

However, it remains to be clarified whether such components will be covered within the 50% exclusion limit under the definition of 'wages.'

We trust these matters should get clarified in the final Rules. Until such clarity emerges, entities may need to consult legal professionals and take appropriate views on matters that remain unclear.

The central government has invited objections and suggestions on these draft rules within 45 days or 30 days for the draft Industrial Relations Rules, 2025 ('IR Rules'), i.e., by 14 February 2026 and by 30 January 2026 for the IR Rules. We recommend that entities should undertake a holistic review across human resources, finance, payroll, and legal functions of the draft Rules and raise comments, if any, so that the same may be addressed in the final Rules.

Key financial reporting implications

Application of the new labour codes also gives rise to certain accounting/ 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 clarifications provided by the ASB with regard to accounting under *Indian Accounting Standards (Ind AS)* notified under the *Companies (Indian Accounting Standards) Rules 2015*, (as amended):

- a. Pursuant to the new definition of 'wages' and the requirement for payment of gratuity to fixed-term employees based on one year service, gratuity obligation is expected to increase for most entities. Gratuity is an employee benefit which is accounted for in accordance with Ind AS 19 *Employee Benefits*. Under Ind AS 19, changes to gratuity obligation resulting from the labour codes are plan amendments and they need to be treated as past service cost. Ind AS 19 requires past service cost to be recognised as an expense immediately in the Statement of Profit and Loss. The Standard does not provide any exemption/ one time relief with regard to accounting for increase in liability arising from change in law. Accordingly, entities impacted by the labour codes should recognize increase in gratuity obligation arising from application of the labour codes as an expense in the Statement of Profit and Loss.
- b. The 'wage' definition is applicable from the date of notification in the Official Gazette, viz., 21 November 2025. Considering this and requirements of Ind AS 34 *Interim Financial Reporting*, listed entities having 31 March year end need to recognize additional gratuity obligation arising from the labour codes in financial results for the period ending 31 December 2025. They cannot defer the accounting impact till financial year ending 31 March 2026.
- c. It may so happen that an entity revises its salary structure to comply with the new labour codes and also decides to increase total remuneration, at the same time. In such a case, the entity needs to identify (i) increase in remuneration vis-à-vis previous estimate, and (ii) change in salary structure, separately. The first component is change in actuarial assumption and the second component is a plan amendment. The entity should identify impact of these two components separately and account for them accordingly. It cannot treat the entire impact as arising

from change in actuarial assumptions and, therefore, attributable to actuarial gains and losses which are recognised in the Other Comprehensive Income (OCI).

- d. Like gratuity, the labour codes are also likely to impact leave obligations for entities. Leave obligations are treated as short-term/other long-term employee benefit obligations. Ind AS 19 requires past service costs in respect of other long-term employee benefits to be recognized immediately as an expense in the Statement of Profit and Loss.
- e. With regard to presentation of additional expense arising from increase in gratuity/ leave obligations due to the labour codes as an exceptional item in the Statement of Profit and Loss, attention is drawn to Ind AS Schedule III to the Companies Act 2013 (as amended) which requires separate presentation of exceptional items in the Statement of Profit and Loss. However, the term 'Exceptional Item' is neither defined in Ind AS Schedule III nor in Ind AS 1 *Presentation of Financial Statements*. Ind AS 1 has references to items requiring separate disclosure in paragraphs 85, 86, 97 and 98. The said guidance can be considered for identifying exceptional items. Based on the guidance given, exceptional items are those items which meet the test of 'materiality' (size and nature) and the test of 'incidence.'

Way forward

Implementation of the labour codes is a significant and long-awaited reform. These codes are expected to impact nearly every organizational function. Given the extensive changes they introduce. It is essential for organizations to thoroughly assess the implications of these changes and prepare for a smooth transition to ensure compliance and operational efficiency. Also, entities should undertake a holistic review of the draft Rules and raise comments, if any, to the Government.

From financial reporting perspective, a coordinated effort among human resources (HR), payroll, finance and actuaries will be critical to navigate changes and ensure compliance. The management should evaluate and discuss key impact areas and reporting implications with the auditors on priority to avoid last-minute surprises.

02

Disclosure about climate-related impacts and other uncertainties in financial statements

Efforts to reduce society's impact on climate change have never been greater. There is unprecedented pressure from stakeholders for entities to communicate clear commitments which is expected to continue for the foreseeable future. Investors have highlighted the importance of understanding entities' impact on the environment in their investment-making decisions and assessing management's stewardship.

Although there is no single explicit standard on climate-related matters in Ind AS, climate risk and other climate-related matters may impact several areas of accounting. Even if climate related matters and other uncertainties do not have an immediate impact on the financial statements, there are increasing expectations from stakeholders that entities explain how climate-related matters and other uncertainties are considered in preparing financial statements. Stakeholders also expect robust disclosures on the most significant assumptions, estimates and judgements made.

Increasingly, investors and regulators expect financial statements, management reports and sustainability-related disclosures to tell a coherent and connected story. Entities, therefore, need to provide relevant and transparent information and disclosures that coherently enable primary users of financial statements to understand them. While Ind AS do not contain any explicit disclosure requirements for climate-related matters, a number of disclosures can be relevant. Given below are some examples:

- a. Ind AS 1 *Presentation of Financial Statements* states

that the objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Information pertaining to climate-related matters will be relevant if investors reasonably expect that it may have a significant impact on the entity and, therefore, influence their economic decisions.

- b. Ind AS 1 requires entities to disclose information that is not specifically required by Ind AS but is relevant to understanding the financial statements. This may include climate-related disclosures.
- c. Paragraph 125 of Ind AS 1 requires entities to disclose assumptions about the future and other major sources of estimation uncertainty at the reporting date that could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
- d. Ind AS 1 requires disclosure of judgements made by management, separately from estimates, that may have the most significant effect on the amounts recognized in the financial statements. Climate-related matters may impact judgements made when deciding appropriate accounting policies, and thus may, in some cases, trigger such disclosures.

e. Disclosures required by other Ind AS may also include climate related disclosures. For example, Ind AS 36 *Impairment of Assets* requires an entity to disclose sufficient information for users to understand how an asset or CGU was tested for impairment, such as key estimates and judgements, and the events and circumstances that led to the recognition of any impairment loss.



What is changing?

On 28 November 2025, the International Accounting Standards Board (the IASB) issued Amendments to Illustrative Examples on IFRS 7, IFRS 18/ IAS 1, IAS 8, IAS 36 and IAS 37- *Disclosures about Uncertainties in the Financial Statements* ('the examples'). These amendments added examples to several IFRS Accounting Standards. The examples are intended to improve reporting of climate-related and other uncertainties in the financial statements. The examples illustrate how entities apply existing requirements in IFRS Accounting Standards to report the effects of uncertainties in the financial statements using climate-related examples. They do not add to or change the existing requirements in IFRS Accounting Standards.

Given below is a summary of key principles emerging from these examples. Since the examples apply equally to all uncertainties and not just those illustrated, entities should carefully consider the underlying logic in the examples to be able to apply the guidance to their own facts and circumstances.

Example 1: Materiality judgements

Scenario 1: Materiality judgements leading to additional disclosures

An entity operates in a capital-intensive manufacturing industry and faces significant climate-related transition risks. To mitigate these risks, the entity has developed a plan to reduce greenhouse gas emissions over the next 10 years. The entity has shared details of this plan in its sustainability report. In preparing financial statements, the entity evaluates and appropriately concludes that the transition plan has no effect on recognition or measurement of assets or liabilities. It also determines that IFRS Accounting Standards do not require specific disclosures for the transition plan.

Despite the evaluation, the entity, after considering its particular facts and overarching disclosure principles, determines that additional disclosure to explain the lack of effect of its transition plan on its financial position and financial performance for the current reporting period will provide material information to the users of the financial statements. The entity, therefore, makes relevant disclosures in its financial statements

Entity-specific and external qualitative factors such as the nature and extent of the entity's exposure to climate-related risk, the significance of the transition plan to its operations, and the industry and jurisdictions in which the entity operates, are some relevant factors in deciding disclosure requirement.

Scenario 2: Materiality judgements not leading to additional disclosures

The entity is a service provider with limited exposure to climate-related transition risks. In its sustainability report, the entity has mentioned that it has low greenhouse gas emissions, relies on renewable energy and avoids high-emission activities. No further information about climate-related transition risks is disclosed. In preparing its financial statements, the entity concludes that its greenhouse gas policy has no effect on recognition or measurement of assets or liabilities. The entity also concludes that information about the absence of a quantitative effect is not material. Accordingly, no additional disclosures are provided.

Example 2: Assumptions: Specific requirements about impairment testing

Example 2 illustrates the requirements in paragraph 134 of IAS 36 *Impairment of Assets*, which include disclosure requirements for estimates used in impairment testing of goodwill or intangible assets with indefinite useful lives. Example 2 illustrates how an entity discloses key assumptions and sensitivity analysis in relation to an impairment test of goodwill, even though the recoverable amount of goodwill exceeds its carrying amount. Both this example and Example 3 highlight that all key assumptions, not only discount rates or growth rates, should be disclosed if they provide material information.

Example 3: Assumptions: General requirements

Example 3 illustrates requirements in paragraphs 125 and 129 of IAS 1 (after IFRS 18 is effective, of paragraphs 31A and 31E of IAS 8 *Basis of Preparation of Financial Statements*), which include disclosure requirements for sources of estimation uncertainty. Example 3 illustrates that an entity might be required to disclose information about assumptions that have a significant risk of resulting in material adjustments to the carrying amount of assets and liabilities within the next year, even if such assumptions will not be resolved within the next year. The example also provides examples of information the entity might disclose.

In determining whether the information about its assumptions is material, the entity considers the size of the cash-generating unit's (CGU) carrying amount; subjectivity or complexity of the judgements made by management in determining the assumptions; the risk that new information or new developments in the next financial year might result in changes to assumptions; and sensitivity of the CGU's carrying amount to changes in the assumptions.

Example 4: Credit risk disclosures

Example 4 illustrates the requirements in paragraphs 35A-36 of IFRS 7 *Financial Instruments: Disclosures*, which include disclosure requirements for credit risk. In the fact pattern provided in this example, the entity identifies two portfolios of loans for which climate-related risks have a significant effect on its credit risk exposures.

The example provides several factors (e.g., the size of the portfolios, the significance of the effects of climate-related risks) that an entity considers when it determines that information about the effects of climate-related risks on its exposure to credit risk for those two portfolios is material as well as examples of information disclosed in applying the requirements in paragraphs 35A-38 of IFRS 7.

Example 5: Decommissioning and site restoration provisions

Example 5 illustrates the requirements in paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which include disclosure requirements for each class of provision recognized. In Example 5, the entity provides information required in accordance with paragraph 85 of IAS 37, e.g., a brief description of the nature of the obligations, the expected timing of the outflows of economic benefits required to settle them, and an indication of the uncertainties about the amount or timing of those outflows. This is because the information about its obligations to decommission plant and site restoration is material, although the provision recognized is quantitatively immaterial as the cost to settle the obligation is discounted to its present value. The example illustrates several factors that might be relevant in determining whether the obligation is material (e.g., the risk of early settlement, the size of the cost to settle the obligation on an undiscounted basis).



Example 6: Disclosure of disaggregated information

Example 6 illustrates the requirements in paragraphs 41-42 and B110 of IFRS 18, which include disclosure requirements for aggregation and disaggregation. In Example 6, the entity owns and uses two types of property, plant and equipment (PP&E) that are in the same class but differ in terms of the amount of greenhouse gas emissions they generate from their use. The entity disaggregates information, for example, the carrying amount of the two types of PP&E in the notes to its financial statements.

The example illustrates possible factors an entity might consider when determining whether 'the two types of PP&E have sufficiently dissimilar risk characteristics that disaggregating information about these types of PP&E would result in material information', such as the size of the PP&E carrying amount, the significance of climate-related transition risks to the entity's operations, and external climate-related qualitative factors (e.g., the industry and jurisdictions in which the entity operates, including its market, economic, regulatory and legal environments). Although the example illustrates the application of requirements in IFRS 18, which differ from those in IAS 1, entities need to consider whether disaggregated information is material in applying the relevant requirements in IAS 1 (including paragraphs 29-31 and 77).

Concluding remarks

Historically, examples contained in IFRS Accounting Standards are not incorporated in Ind AS. However, they remain relevant and are expected to be considered in practice. Further, in all cases, Ind AS contains the disclosure requirements that are aligned with those in IFRS Accounting Standards. Thus, Indian entities are also expected to apply the same underlying principles when preparing financial statements under Ind AS.

While entities are entitled to sufficient time to implement any changes to their financial statements, these illustrative examples reflect existing requirements in the relevant standards and, therefore, entities will be expected to have considered these examples in preparing their next set of financial statements for the year ended 31 March 2026. The IASB has also clarified that these illustrative examples relate not only to climate-related risks but also to other uncertainties.



03

Accounting solutions

Accounting for litigation settled after the reporting date: Adjusting vs. non-adjusting events

» Scenario:

- Company S supplies raw materials to Company C.
- Both companies have a financial year-end on 31 March 20X5.
- In February 20X5, Company C sues Company S for breach of contract and demanded INR200 million as compensation for breach of the contract.
- As at the reporting date (31 March 20X5), the matter is still sub-judice (under judicial consideration).
- Company S asserts that no breach has occurred and has obtained a legal opinion supporting its position.
- Company C expects matter to be settled in its favor. It is reasonably certain of its position, but it does not have virtual certainty.
- Before the financial statements are approved for issue, on 25 April 20X5, the court rules the matter in favor of Company C and awards INR200 million compensation.
- Company S decides not to further challenge the court judgment. It accepts decisions and pays INR200 million to Company C to settle the matter.

How should this event be reflected in the financial statements of Company S and Company C?

» Accounting treatment for Company S (Defendant)

Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires a provision to be recognized when: (a) an entity has a present obligation (legal or constructive) as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) a reliable estimate can be made of the amount of the obligation.

In accordance with paragraph 16 of Ind AS 37:

"In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an entity determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts.

The evidence considered includes any additional evidence provided by events after the reporting period... (emphasis added)

Ind AS 10 *Events After the Reporting Period* explains that if an event after the reporting date provides additional evidence about conditions existing at the reporting date, that event is

an adjusting event. It gives an example of adjusting events where the settlement of a court case after the balance sheet date confirms that the entity had a present obligation at the balance sheet date. The entity adjusts any existing provision for the obligation or creates a new provision. In other words, the result of a court case after the period-end is considered, not only in determining whether changes in measurements are required but also in determining, as at the balance sheet date, whether a provision should be recognized.

In this case:

- The past event giving rise to present obligation had occurred before the reporting date.
- The court judgment confirms that a present obligation existed as at 31 March 20X5.
- Although Company S, based on legal options, considered outflow to be not probable at the reporting date, the court judgment makes it clear that an outflow of economic benefits was probable.
- Therefore, Company S must recognize a provision for the probable outflow as at 31 March 20X5. This is consistent with the requirements of Ind AS 37 and Ind AS 10.

» Accounting treatment for Company C (Claimant)

Ind AS 37 provides that contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income becomes virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. Ind AS 37 requires contingent assets to be assessed continually to ensure that developments are appropriately reflected in the financial statements. **If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.** If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

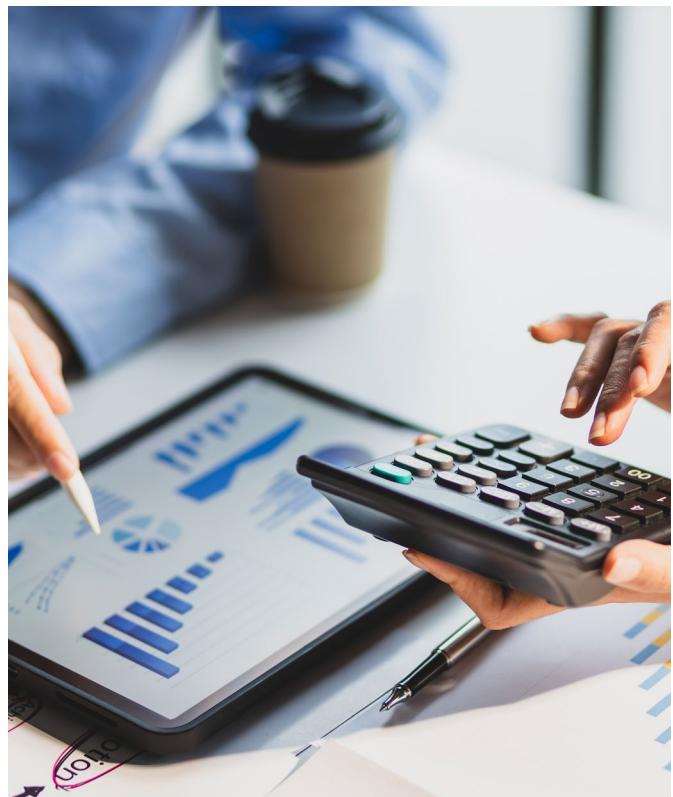
The requirement to recognize the effect of changing circumstances in the period in which the change occurs extends to the analysis of information available after the end of the reporting period and before the date of approval of the financial statements. In our view, such information would not give rise to an adjusting event for contingent assets after the reporting period. In contrast to contingent liabilities (in respect of which Ind AS 10 includes as a specific example of an adjusting event "...the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period...", no adjustment is made to reflect the subsequent settlement of a legal claim

in favor of the entity. In this instance, the period in which the change occurs is subsequent to the reporting period. There is also no suggestion that the example in Ind AS 10 is referring to anything but liabilities. An asset could only be recognized if, at the end of the reporting period, the entity could demonstrate that it was virtually certain that its claim would succeed, i.e., there is an inflow of economic benefits.

Thus:

- Recognition of contingent assets is prohibited until the inflow of benefits is virtually certain.
- The favorable court order received on 25 April 20X5 confirms the asset's existence after the reporting date.
- Since this confirmation occurs after the reporting date, this qualifies as a non-adjusting event in the financial statements for the period ended 31 March 20X5.

Evaluation of adjusting and non-adjusting events for recognition of contingent liabilities (probable criteria for recognition of provision) and contingent assets (virtual certainty criteria for recognition of asset) are different. In the former case, events occurring after the reporting date are treated as adjusting events. However, for recognition of contingent assets, events occurring after the reporting date are treated as non-adjusting events.



04

Regulatory updates

National Financial Reporting Authority (NFRA)

» **Effective communication between statutory auditors and those charged with governance, including audit committees**

NFRA, through its enforcement, review, and monitoring activities, has emphasized the importance of effective two-way communication between statutory auditors and Those Charged with Governance (TCWG), including audit committees vide [Circular](#) dated 7 January 2026. The circular reiterates the requirements specified under the Companies Act, 2013 (referred to as 'Act') and the Standards on Auditing prescribed under the Act. It applies to all listed companies, and those specified under Rule 3 of NFRA Rules, 2018, in addition to the auditors of these companies.

The circular emphasizes the important obligations on the Board of Directors, independent directors, audit committees and statutory auditors of companies in respect of accounts and audit of companies. The fact that the financial statements are audited does not relieve TCWG of its responsibilities. The objectives of communication with TCWG include obtaining from TCWG information relevant to the audit and providing them with timely observations arising from the audit that are significant and relevant for them to fulfil their responsibility of oversight of the financial reporting.

SA 260 (Revised), Communication with Those Charged with Governance, and SA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, mandates two-way, documented communication between auditors and TCWG, including the audit committee and management. Auditors must determine the appropriate TCWG at the audit's outset and maintain regular, substantive dialogue throughout the audit process. Further, auditors must communicate identified deficiencies to both TCWG and management in writing, explaining their significance and potential effects.

Effective two-way communication between auditors and TCWG is critical for:

- Enhancing audit quality and governance
- Ensuring transparency and timely identification of risk
- Protecting public and investor interests
- Preventing procedural lapses that could erode confidence in financial reporting

To enable effective implementation of the standards, the circular provides for the practices including the following:

- **Establish robust two-way communication:** Both auditors and TCWG must ensure regular, meaningful, and documented exchanges, including written records of oral discussions.
- **Framework for communication:** Boards should develop and document a communication framework, specifying nodal persons, expectations, escalation processes and meeting frequency.
- **Timely and written communication:** All significant matters should be communicated in writing, acknowledged by both parties, and included in audit work papers and meeting minutes.
- **Agenda for interactions:** Must cover audit strategy, risk assessment, internal controls, significant findings, auditor independence and compliance with ethical standards.

How we see it

The NFRA circular concludes that robust, two-way, and well-documented communication between Statutory Auditors and those charged with governance (TCWG), including Audit Committees, is essential for effective corporate governance and audit quality. Both auditors and TCWG have a shared responsibility to establish and maintain clear, timely, and substantive communication throughout the audit process.

Auditor-Audit Committee Interaction Series

NFRA, through its enforcement, review and monitoring activities, has emphasized the importance of effective communication between statutory auditors and TCWG, particularly Audit Committees. This need aligns with requirements under the Companies Act, 2013, relevant Standards on Auditing (SA 260 (Revised), SA 265, other SAs) and the Standard on Quality Control (SQC 1).

To enhance audit quality and promote awareness of auditing standards, the NFRA has initiated a series of Auditor-Audit Committee Interactions. The focus of these series is on significant accounting and auditing areas, aiming to strengthen auditor responsibilities, improve audit quality, and uphold public and investor protection. Pursuant to this, NFRA has already issued three Interaction Series on Accounting estimates and ECL (Series 1- Par 1), Income Taxes (Series 1 - Part 2), Audit Strategy and Planning (Series 2), and Related Parties (Series 3). More information about these parts of the series is available in the [April 2025](#) edition of Assurance EYe.

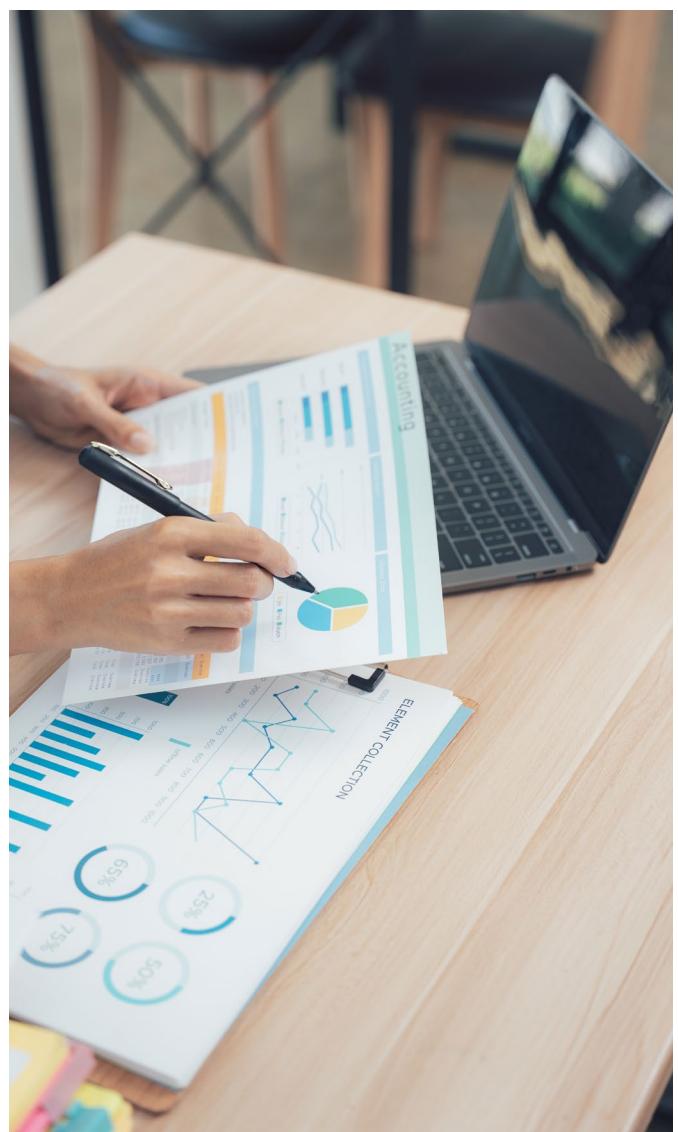
NFRA has now issued a fourth serie relating to [Audit of Accounting Estimates and Judgements Impairment of Non-Financial Assets - Ind AS 36, SA 540](#). This serie provides a set of questions that an audit committee/ board of directors may ask auditors in relation to the above area. Some of the key questions are replicated below:

- Has the auditor evaluated and tested internal controls over critical areas pertaining to:
 - Identification of cash-generating units, identification of impairment indicators, management information system over budget versus actual performance, sensitivity testing and scenario analysis, disclosures, etc.
- Has the auditor identified impairment of non-financial assets as significant risk of material misstatement? If not, why not?
- How did the auditor evaluate the competence, capability and independence of management experts and auditor's experts employed, if any?
- How did the auditor verify the appropriateness of management's process of identification of impairment indicators for non-financial assets? Has the auditor obtained sufficient appropriate audit evidence (SAAE) in this regard?
- Did the auditor identify any indicator which was not identified by the management? If so, did the auditor discuss this issue with the management and details thereof?
- In respect of estimation of value in use and fair value less cost of disposal, has the auditor obtained SAAE to ensure that the management estimates meet the key requirements of the applicable financial reporting framework i.e., Ind AS 36 and Ind AS 113 and the applicable Standards on Auditing?
- How did the auditor evaluate that the models/methods used by management for fair value and value in use are appropriate?
- In the case of entities having goodwill and intangible assets with indefinite useful life, whether the auditor has ensured annual impairment test by the entity by comparing the carrying value and recoverable amount?
- To determine value-in-use, whether estimation of future cash flows from the assets reflect time value of money, price for bearing the uncertainty in the cash flows and other factors such as illiquidity which the market participants would factor in?
- Whether base cash flow estimations are supported by reasonable and supportable assumptions. Has the auditor tested the reasonableness and reliability of future growth projections, profit margins, etc.?

- How did the auditor evaluate justification for cash flow projections for more than five years, if any?
- Has the auditor tested the reasonableness of weightages given to internal and external data?
- How has the auditor evaluated aspects such as (i) Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation, (ii) Discount rates are pre-tax rates, and (iii) Reasonableness of discount rates within the range of discount rates estimates by the management?
- How did the auditor evaluate the reliability and accuracy of data and inputs used for estimation of future cash flows, discount rates, growth projections, etc.?
- Did the auditor review sensitivity analysis to identify the impact of changes in key assumptions?
- Has the auditor tested the reasonableness of weightages given to different scenarios?
- How has the auditor tested the reasonableness and appropriateness of fair value?
- Has the auditor evaluated whether the management determined fair value truly represents the fair value required under Ind AS 113, i.e., it is not affected by conditions like transaction with a related party, transaction under duress or forced sale or the unit of account is different from the unit of account used for fair value measurement?
- Has the auditor ensured consistency in the identification of CGUs and the related assets, including allocation of corporate assets, from one period to another? If there is a change, has the auditor checked the rationale and its reasonableness?
- How did the auditor evaluate the appropriateness of reversal of impairment losses? Has the auditor tested the reasonableness of external and internal sources of information supporting the reversal of impairment loss of assets?
- Do the financial statements include adequate disclosures about the assumptions, judgements and uncertainties related to impairment testing consistent with the requirements of Ind AS 36, the Companies Act, and SEBI (LODR)?
- Has the auditor identified impairment of non-financial assets as a key audit matter? If not, why?

How we see it

The NFRA Auditor-Audit Committee Interaction Series is an initiative by India's National Financial Reporting Authority aimed at strengthening audit quality through improved dialogue, transparency, and collaboration between statutory auditors and audit committees. It focuses on key areas such as Expected Credit Loss (ECL), impairment, and related party transactions, offering guidance on critical questions and promoting rigorous oversight to safeguard investor interests and ensure the integrity of financial reporting.



Ministry of Corporate Affairs (MCA)

» Revision in the definition of small company

The MCA has notified the [Companies \(Specification of definition details\) Amendment Rules, 2025](#), which are effective from 01 December 2025. This notification has amended the threshold for the definition of a small company prescribed in Rule 2(1)(t). The paid-up capital limit for a small company has been increased to INR10 crore from INR4 crore, and turnover limit has been increased to INR100 crore from INR40 crore. As a result, a company will qualify as a small company if it meets both the revised paid-up capital and turnover criteria, subject to the exclusions specified under the Companies Act (such as holding companies, subsidiary companies, section 8 companies, and companies governed by special Acts).



How we see it

The recent amendment significantly expands the scope of small companies, bringing more entities under its ambit. This change aims to reduce compliance requirements and promote ease of doing business. Below are some key relaxations available to a small company under the Companies Act:

- No need to prepare a cash flow statement as part of financial statements.
- Exemption from mandatory auditor rotation requirements.
- An auditor of a small company is not required to report on the adequacy of the internal financial controls and its operating effectiveness in the auditor's report.
- Permission to hold only two board meetings in a year.
- Option to prepare and file an abridged annual return.
- Lesser penalties.

Securities and Exchange Board of India

» Consultation paper on Relaxation in the threshold for identification of High Value Debt Listed Entities (HVDLEs) and measures facilitating ease of doing measures for HVDLE including provisions relating to Related Party Transactions.

Corporate governance (CG) norms prescribed for equity listed entities were made applicable for High Value Debt Listed Entities (HVDLEs) (i.e., entities that have listed outstanding amount of non-convertible debt securities of INR500 crores and above) in September 2021 in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR Regulations'). The said CG norms were applicable on a comply or explain basis until 31 March 2025 and mandatory thereafter.

Subsequently, in December 2024, the SEBI in its board meeting approved the proposal to introduce a separate chapter 'Chapter VA' in LODR regulations which is applicable only for HVDLEs (i.e. pure debt listed entities) along with certain relaxations. Further, the threshold for HVDLEs was increased from INR500 crore to INR1,000 crore. The said chapter and the new HVDLE threshold were notified vide amendment notification dated 28 March 2025.

The SEBI, vide [Consultation Paper](#) dated 27 October 2025, proposed changes to the CG norms for HVDLEs prescribed

under the LODR Regulations. The proposals aim to relax certain thresholds, facilitate ease of doing business, and align HVDLE norms with those applicable to equity listed entities, especially regarding related party transactions (RPTs). The deadline for sharing public comments was November 17, 2025.

Key proposals for changes

Proposal I - Relaxation in threshold for HVDLEs exemption

- **Increase in threshold:** Feedback from industry participants highlighted that once an entity is classified as HVDLE, it is subject to extensive or additional compliance requirements akin to an equity-listed entity such as preparation and filing of quarterly corporate governance reports, annual secretarial compliance reports, etc. It was also highlighted that the appointment of additional

independent directors and committee-specific expert members to meet SEBI requirements, along with legal, secretarial and audit expenses escalate the costs significantly. The feedback also highlighted that the current threshold for HVDLEs is disproportionately low for NBFCs, leading to excessive compliance for entities where listed debt does not represent 'high value' in the current market context

To address the above challenges and in line with the suggestions, it was proposed to raise the threshold for HVDLE classification from INR1,000 crore to INR5,000 crore of outstanding listed non-convertible debt securities.

Proposal II – Measures facilitating ease of doing business (excluding measures related to RPTs)

- **Definition alignment:** It is proposed to replace the term 'income' with the term 'turnover' in the definition of 'material subsidiary' as defined under Regulation 62L(1). The proposed change is in line with similar amendment made for equity-listed entities.
- **Board and committee provisions: Key proposed changes**
 - Shareholder approval by special resolution required for continuation of directorship of Non-Executive Directors (NED) above 75 years, to be obtained before the director attains 75 years.
 - Exclusion of regulatory approval time from the shareholder approval timeline for director appointments.
 - Exemption from shareholder approval for nominee directors appointed by regulators or courts.
 - Three-month period to fill Board Committee vacancies arising from Board changes.
 - Board recommendations to shareholders on special business must include rationale.
- **Terminology:** Substitute the term 'year' with 'financial year' in relevant regulations for clarity and consistency.
- **Independent Directors:** Omit specific requirement to replace an Independent Director within three months if the Board already meets the minimum Independent Director requirements.
- **Subsidiary transactions:** Exemption from the shareholder approval for sale of assets of a material subsidiary to another subsidiary, as long as the assets are within the group.

- **Insolvency and Bankruptcy Code (IBC)-related relaxations:** Three-month timeline for filling Key Managerial Personnel (KMP) vacancies for companies emerging from insolvency, provided at least one KMP is in place.
- **Compliance reporting:** Allow SEBI Board to prescribe compliance report submission timelines, replacing the fixed 21-day period.
- **Related party disclosures:** Remove the requirement for periodic disclosure of material related party transactions in compliance reports, as these are already covered in half-yearly reports.
- **Secretarial audit:** Introduce provisions for appointment, reappointment, removal and disqualification of secretarial auditors, mirroring requirements for equity listed entities, including term limits and cooling-off periods.

Proposal III: RPT alignment

- **Harmonization:** Cross-reference 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 RPT changes (already notified for equity listed entities):**
 - **Remuneration and sitting fees** to directors/KMPs (except promoters) need not be approved/disclosed if not material.
 - Audit committee members who are Independent Directors can ratify certain RPTs post-facto within three months or by the next meeting, subject to value and other conditions.
 - **Scale-based thresholds for material RPTs**, with upper ceilings to protect minority shareholders.
 - **Specific audit committee approval thresholds** for RPTs at subsidiary level.
 - **Defined validity periods for omnibus RPT approvals** by shareholders.
 - **Clarification that 'holding company' in exemption provisions** refers to 'listed holding company'.

The SEBI, at its [board meeting](#) held on 17 December 2025, has approved the relaxation in the threshold for identification of HVDLEs and other measures facilitating ease of doing business for HVDLEs. The final notification giving effect to these changes is still awaited.

How we see it

This consultation paper and subsequent approval to the proposed changes granted by the SEBI Board represent a significant step towards streamlining regulatory requirements for HVDLEs, reducing unnecessary compliance for entities with lower levels of listed debt, and ensuring that corporate governance and RPT norms for HVDLEs are consistent with those for equity listed entities. The proposals, if implemented, are likely to lower compliance costs, improve regulatory clarity, and promote ease of doing business in the Indian debt market, while maintaining robust investor protections.

Reserve Bank of India

» Consolidated Master Directions issued by the Reserve Bank of India (RBI)

On 28 November 2025, the Reserve Bank of India issued 244 Consolidated Master Directions ("New MDs"), representing a major regulatory consolidation exercise. These New MDs subsume and rationalize thousands of notifications, circulars, and directions issued by the RBI over several decades.

The New MDs have been issued separately for 11 categories of Regulated Entities, namely: Commercial Banks, Small Finance Banks, Payments Banks, Local Area Banks, Regional Rural Banks, Urban Co-operative Banks, Rural Co-operative Banks, All India Financial Institutions, Non-Banking Financial Companies, Asset Reconstruction Companies and Credit Information Companies.

Simultaneously, the RBI has released a comprehensive list of 9,445 circulars that stand repealed or withdrawn pursuant to this exercise. Stakeholders are encouraged to familiarize themselves with the New MDs, which aim to enhance regulatory clarity, reduce fragmentation and usher in a cleaner and more streamlined regulatory framework.

How we see it

This consolidation is a welcome move toward a simpler and more transparent regulatory landscape. By replacing a large volume of fragmented and overlapping circulars with consolidated, entity-specific Master Directions, the RBI has reduced complexity and improved ease of reference for Regulated Entities. While largely intended as a housekeeping exercise, entities should review the New MDs carefully to identify any nuanced changes or updated expectations. Overall, the initiative is expected to improve regulatory clarity, strengthen compliance discipline and make ongoing regulatory adherence more efficient.



05

Getting prepared for year-end reporting

The close to financial year 2025-26 is fast approaching. Considering this, entities have either already started or are expected to soon start preparing for year-end financial reporting, including preparation of year-end financial statements. Year-end financial reporting requires careful consideration of changes in accounting standards, regulatory changes, and internal process reviews to ensure accuracy and compliance. Key areas of focus include aspects such as assessing asset impairment, evaluating onerous contracts, ensuring completeness of disclosures and ensuring fair presentation of financial statements. In this article, we look at key aspects that entities may need to consider while preparing for year-end financial reporting.

Ind AS Amendments applicable for financial year 2025-26

There are few amendments to the *Companies (Indian Accounting Standards) Rules, 2015 (as amended)* that needs to be considered whilst preparing financial statements for the financial year 2025-26.

» **Ind AS 1 Presentation of Financial Statements - Classification of liabilities**

The amendments to Ind AS 1 notified on 19 August 2025 impact the classification of liabilities as current or non-current. The amendments also require additional disclosures in the financial statements for the year 2025-26. Given below is an overview of key changes

- Only covenants with which an entity must comply on or before the reporting date affect a liability's classification as current or non-current.

- (Management's intention and/ or expectation for early settlement does not play a role in classification of liabilities. Thus, a liability otherwise meeting Ind AS 1 criteria for classification as non-current is still classified as non-current even if the management intends or expects the entity to settle the liability within 12 months after the reporting date.
- Settlement of liability through issue of equity shares is treated as a form of settlement when determining current or non-current classification of liability. There is only one exception, where the embedded equity conversion option itself is classified as an equity instrument based on principles laid down in Ind AS 32 *Financial Instruments: Presentation*. This amendment is likely to impact current vs. non-current classification of convertible instruments where the holder has a right to require early conversion and embedded conversion option does not meet Ind AS 32 criteria for equity classification.

d. Specific additional disclosures are required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting date.

Classification of liabilities with covenants as current or non-current could significantly affect an entity's presentation of its financial position. Entities need to carefully evaluate and incorporate the impact of the amendments on their loan agreements in terms of scope, settlement definition and disclosure requirements.

Besides the above changes applicable for FY 2025-26, Ind AS 1 has also been amended to remove two important carve outs vis-à-vis IAS 1 *Presentation of Financial Statements*, and these changes related to removal of carve out are applicable from FY 2026-27 onwards. While applying these amendments in FY 2026-27, an entity will need to give impact retrospectively. In accordance with these amendments:

- A breach of covenant, whether material or immaterial, at the reporting date, will impact current or non-current classification of liability if the lender has the right to require early payment pursuant to the breach. Currently, entities are allowed to ignore a breach of immaterial covenant in deciding such classification.
- If there is a breach of a covenant of a long-term loan arrangement on or before the end of the reporting date with the effect that the liability becomes payable on demand, the waiver obtained from the lender on or before the reporting date will be required to continue classifying the liability as non-current. Any waiver granted by the lender after the reporting date will be treated as a non-adjusting event.

Though these changes are not applicable when preparing financial statements for FY 2025-26, they will apply retrospectively while preparing financial statements for FY 2026-27. To ensure that while presenting financial statements for financial year 2026-27 entities are not required to change classification of liability in the comparative period as current, they should endeavor that waiver for any breach of a loan covenant, which occurs on or before 31 March 2026, is obtained on or before 31 March 2026.

More information about these amendments is available in [January 2025](#) and [October 2025](#) editions of Assurance EYe.



» **Ind AS 7 Statement of Cash Flows and Ind AS 107 Financial Instruments: Disclosures - Supplier-Finance Arrangements (SFA)**

The amendments to Ind AS 7 *Statement of Cashflows* and Ind AS 107, *Financial Instruments Disclosures*, introduce new disclosure requirements to enhance transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. These disclosures are required for the first time in FY 2025-26 annual financial statements.

The entities should ensure that they have identified all material supplier finance arrangements to which these requirements apply, and that they have relevant information to meet the new disclosure requirements. This may require entities to strengthen internal systems and undertake internal benchmarking to capture the necessary data. Also, considering enhanced transparency and focus, entities may also need to re-evaluate appropriate presentation of the amount covered under the supplier finance arrangements. Any change in presentation arising from the re-evaluation will require entities to also consider impact on the comparative period financial statements.

More information about these amendments is available in the [October 2025](#) edition of Assurance Eye.

» **International Tax Reform Pillar Two Rules - Amendments to Ind AS 12 Income Taxes**

The OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS) addresses the tax challenges arising from the digitalization of the global economy to ensure profits are taxed where economic activities take place and value is created. In August 2025, the Ministry of Corporate Affairs (MCA) amended Ind AS 12 to clarify its application to income taxes arising from tax law enacted or substantively enacted to implement the BEPS Pillar Two model rules. The amendments introduce:

- A mandatory temporary exemption to the accounting of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules.
- Disclosure requirements for affected entities to help users of financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation.

The amendments are applicable from financial year 2025-26 onwards. Entities need to monitor the developments around the implementation and (substantive) enactment of the Pillar Two model rules in the relevant jurisdictions and need to get ready to provide the additional disclosures required by the amendments to Ind AS 12 in a timely manner.

» **Lack of exchangeability - Amendments to Ind AS 21 *The Effects of Changes in Foreign Exchange Rates***

The amendments to Ind AS 21 are applicable to financial year beginning on or after 1 April 2025. These amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments require disclosure of information that enables users of financial statements to understand the impact of a currency not being exchangeable.

More information about these amendments is available in the [July 2025](#) edition of Assurance EYe.



Other key accounting developments

» **Ind AS 108 *Operating Segments* disclosures**

Attention is drawn to the IFRS Interpretation Committee (IFRS IC) agenda decision issued in July 2024. In that decision, the IFRIC IC discusses how an entity applies the requirements in paragraph 23 of IFRS 8 *Operating Segments* (same as paragraph 23 of Ind AS 108) in making the assessment of which items of segment income and expense are material in the context of the financial statements as a whole and therefore, need to be disclosed in the segment reporting note. In practice, it is expected that the Agenda Decision may require entities to revisit and expand disclosure for segment expenses in the segment reporting note.

While the agenda decision was issued on IFRS 8, it also applies in the context of Ind AS 108 as the requirements of both the standards are the same. Although in many cases it would be expected that impacted entities made changes to their segment disclosures in their 2024-25 annual financial statements, some entities may still be in the process of assessing whether additional disclosures are appropriate, considering the guidance provided by the agenda decision. It is expected that these entities may make changes to their segment reporting note in the FY 2025-26 financial statements.

More information about the Agenda Decision is available in [January 2025](#) edition of Assurance EYe.



» **Consolidation of not-for-profit entities (NPEs) under Ind AS 110**

The Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) had considered an issue related to consolidation of not-for-profit entities, say, section 8 company or trust constituted to carry out Corporate Social Responsibility (CSR) activities, under Ind AS 110 *Consolidated Financial Statements*. Particularly, the matter for evaluation was that an NPE is not allowed to repatriate profit or capital back to the entity. Considering this, can it be argued that the entity does not get any financial return from its involvement with the NPE and, therefore, it need not consolidate the NPE?

The EAC did not agree with the above contention and concluded that, based on the facts given, the NPE should be consolidated. Particularly, it was pointed out that variable return under Ind AS 110 is a wide notion which includes financial returns, such as exposure to loss or expenses from providing funds, intangible benefits of reputation and image from good governance practices. Further, under Ind AS 110, returns do not have to be generated within the investee. Rather, an investor could be exposed to the returns indirectly from its involvement with an investee.

It is expected that, based on the EAC opinion, many entities re-evaluated their position with regard to consolidation of NPEs and made the necessary changes in their FY 2024-25 annual financial statements. However, some entities may still be in the process of re-assessing their position based on guidance provided in the EAC Opinion. It is expected that these entities may make changes considered necessary in the FY 2025-26 annual financial statements.

More information about the EAC opinion and related practical implications is available in the [January 2025](#) edition of Assurance EYe.

» Accounting for guarantees issued on obligations of other entities

Ind AS 117 *Insurance Contracts* notified by the Ministry of Corporate Affairs (MCA) on 12 August 2024 is applicable to contracts issued by non-insurance companies if such contracts meet the definition of the term 'Insurance Contract' as per the standard and are covered within its scope. Among other contracts issued by non-insurance entities, financial guarantee and performance guarantee contracts may potentially meet the Ind AS 117 definition and criteria for coverage within its scope. Hence, their accounting may get impacted by Ind AS 117.

The IFRS Interpretations Committee (IFRIC), in its Agenda Decision finalized in April 2025, discussed how entities should account for guarantees they issue. The IFRIC clarified that IFRS Accounting Standards do not contain a single, uniform model for all guarantees. Instead, entities must analyze the specific terms and conditions of each guarantee to determine the applicable standard. Depending on its substance, a guarantee may fall within IFRS 9 as a financial guarantee contract, within IFRS 17 as an insurance contract, or within other Standards such as IFRS 15 or IAS 37. Significant judgement is required particularly in interpreting whether a guarantee relates to a 'debt instrument' for the purposes of IFRS 9, given diversity in practice. It may be noted that Ind AS 37, Ind AS 109, Ind AS 115 and Ind AS 117 contain the same requirements as those under IAS 37, IFRS 9, IFRS 15 and IFRS 17, respectively. Hence, the position should apply under Ind AS as well.

The [April 2025](#) edition of Assurance EYe explained in detail how accounting for financial guarantee and performance guarantee contracts issued by an entity is likely to be impacted by such interaction among various Ind AS and applicability of Ind AS 117. It is expected that many entities re-evaluated their position with regard to accounting for such guarantees and made the necessary changes in their FY 2024-25 annual financial statements. However, some entities may still be in the process of re-assessing their position. It is expected that these entities may make changes considered necessary in FY 2025-26 annual financial statements.

More information about practical implications is available in the [April 2025](#) edition of Assurance EYe.



» Expert Advisory Committee (EAC) Opinions

Since 1 April 2025, approx. 24 Opinions finalized by the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) have been made available in the public domain, through hosting of these Opinions on the ICAI Website, publication in the ICAI Journal and/ or publication of the Compendium of Opinions. Some relevant topics covered in these opinions include as below:

Accounting for GST paid on lease rental under Ind AS 116, Leases

The EAC examined whether GST paid on lease rentals should be included in the measurement of the right-of-use (ROU) asset and lease liability under Ind AS 116 *Leases*. The EAC noted that the GST is a consumption-based tax levied by the Government and collected by the lessor as an agent. It is not a consideration paid or payable for the right to use the underlying asset and therefore, does not constitute a 'lease payment.' Accordingly, irrespective of whether input tax credit is available or not, GST paid on lease rentals should be excluded from the initial measurement of both the ROU asset and the lease liability. Instead, it should instead be recognized separately in accordance with the applicable accounting guidance.

Classification and presentation of accrued wages and salaries to employees

The EAC clarified that accrued wages and salaries arising from services already rendered by employees represent employee benefit accruals with no significant uncertainty in amount or timing and therefore do not meet the definition of provision under Ind AS 37 *Provisions, Contingent Liabilities, and Contingent Assets*. At the same time, such accruals should not be classified as trade payables, which generally relate to amounts due to suppliers for goods or services received. Instead, accrued wages and salaries should be presented separately under the head 'Other Current Liabilities' or as an appropriate separate line item within current liabilities to ensure proper presentation and understanding of the entity's financial position.

While the EAC Opinion does not explicitly address classification between financial and non-financial liabilities, we believe that it will be acceptable to present such accruals under the head 'Other financial liabilities', since they generally meet the definition of a financial liability under Ind AS 32, *Financial Instruments: Presentation*. At the same time, considering that employee benefit plans are specifically excluded from the scope of financial instruments related standards and language used in the EAC Opinion, presentation of accruals under the head 'Other Current Liabilities' will also be acceptable.

Key regulatory changes with accounting implications

During the year, there have been certain key regulatory changes that are likely to have accounting implications. Given below is an overview of these changes.

» Changes to the Goods and Services Tax (GST) law

Effective 22 September 2025, the government has introduced certain significant changes to the existing Goods and Services Tax (GST) law. These landmark reforms, commonly referred to as GST 2.0, represent the most significant step aiming at rationalization of rates and simplification of the GST law since its introduction in 2017. The amendments are expected to simplify compliance, minimize cascading tax effects, make essential goods and services more accessible to the common man, and enhance the global competitiveness of the Indian industry.

From a financial reporting perspective, the following changes in the GST law will require particular consideration:

- a. Goods/ services moved from taxable to exempt/ nil rate category
- b. Input tax credit (ITC) availed on capital assets initially used in the manufacture of taxable goods and such goods are subsequently exempted.
- c. Abolition of compensation cess
- d. Goods/ services will be taxed at a lower rate going forward and inputs continue at a higher rate of GST

Entities impacted by the changes need to revisit recognition of GST ITC either because sale of final product has become exempt, or because ITC can no longer be used due to lower

GST rate on revenue arising from sale of goods or rendering of services. If there is a need to reverse/ write-off ITC, the following key accounting questions arise:

- a. Should the amount be charged to the Statement of Profit and Loss or can it be added to cost of inventory/ property, plant and equipment?
- b. If the amount is capitalized to the cost of property, plant and equipment, should depreciation be charged prospectively or retrospectively?

On the first issue, if the underlying goods/ items of property, plant and equipment are still in existence with the entity, then arguments can be made to add the amount of ITC reversed/ written-off to the cost of inventory and/ or property, plant and equipment, as applicable. Also, the arguments can be made to charge the amount of ITC reversed/ written off to the Statement of Profit and Loss immediately.

Regarding the second issue, if the amount is capitalized to the cost of property, plant and equipment, then depreciation on the newly capitalized amount is charged prospectively from the date of capitalization.

More information about the financial reporting implications of GST changes is available in the [October 2025](#) edition of Assurance EYe.



» **Extended Producer Responsibility (EPR) Obligations**

In recent years, the Ministry of Environment, Forest and Climate Change (MoEFCC) has issued rules/ draft rules dealing with waste processing, waste management, extended producer responsibility (EPR) targets, greenhouse gas emissions, etc. These rules have also been subject to changes over time. Some key examples and applicability dates are summarized in the table below:

Sr. No.	Rules/ Draft Rules	Applicability date
1	Plastic Waste Management Rules, 2016	18 March 2016 (as amended from time to time)
2	Bio-Medical Waste Management, 2016	28 March 2016 (as amended from time to time)
3	Solid Waste Management Rules, 2016	8 April 2016 (as amended from time to time)
4	Battery Waste Management Rules, 2022	22 August 2022 (as amended from time to time)
5	E-Waste (Management) Rules, 2022	1 April 2023 (as amended from time to time)
6	Environment Protection (Management of Contaminated Sites) Rules, 2025	24 July 2025 (as amended from time to time)
7	Environment Audit Rules, 2025	29 August 2025 (as amended from time to time)
8	Environment Protection (End-of-Life Vehicles) Rules, 2025	1 April 2025
9	Environment (Construction and Demolition) Waste Management Rules, 2025	1 April 2026
10	Draft Liquid Waste Management Rules, 2024	From the date of their publication in the Official Gazette
11	Hazardous and Other Wastes (Management and Transboundary Movement) Amendment Rules, 2025	1 April 2026
12	Greenhouse Gases Emission Intensity Target Rules, 2025	8 October 2025
13	Draft Plastic Waste Management (Second Amendment) Rules, 2025	From the date of their publication in the Official Gazette
14	Draft Environment Protection (Extended Producer Responsibility for Packaging made from paper, glass and metal as well as sanitary products) Rules, 2026	From the date of their publication in the Official Gazette
15	Draft Remediation of Contaminated Sites Rules, 2024	From the date of their publication in the official Gazette

These Rules/Draft Rules have specific requirements and require producers to meet EPR obligations as prescribed under the Rules. Entities need to evaluate whether they are covered under EPR obligations. If yes, they need to ensure appropriate provisioning in accordance with specific requirements of the applicable rules and Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

» **Revised criteria for Micro, Small and Medium Enterprise (MSME) classification**

As part of its strategy to promote growth and resilience of the Micro, Small and Medium Enterprises (MSMEs), the Government of India has introduced two key regulatory changes impacting entities that purchase goods or services from the MSMEs (the buyer). These changes relate to:

Revised criteria for classification of MSMEs

Pursuant to the notification dated 21 March 2025 issued by the Ministry of Micro, Small and Medium Enterprises, Government of India, the investment and turnover criteria for classification of MSMEs as prescribed under the MSME Act have been changed. Given below are the changes made to the criteria:

Enterprise category	Investment in plant & machinery/ equipment		Turnover	
	Amount in crore (INR)		Amount in crore (INR)	
	Pre-revised	Revised	Pre-revised	Revised
Micro Enterprise	Up to 1	Up to 2.5	Up to 5	Up to 10
Small Enterprise	1 to 10	2.5 to 25	5 to 50	10 to 100
Medium Enterprise	10 to 50	25 to 125	50 to 250	100 to 500

Pursuant to the amendment, a relatively higher number of entities will now be classified as MSMEs. The notification enhancing the limits comes into force with effect from 1 April 2025.

Half-yearly reporting under MSME-1 of overdue MSME payments to the Ministry of Corporate Affairs (MCA)

The Government of India, vide its notification dated 25 March 2025, has directed all companies, that purchase goods or services from micro or small enterprises and whose payments get delayed 45 days from the date of acceptance/ deemed acceptance of goods or services, to submit a half yearly return (MSME-1) to the Ministry of Corporate Affairs (MCA) stating the following:

- The amount of payments due, and
- The reason for the delay

Entities purchasing goods or services from MSMEs (the buyer) have the responsibility for ensuring compliance with the specific requirements of the MSME Act. Any non-compliance with the 45-day payment requirement may have financial and tax implications, trigger reporting to the MCA and may also potentially expose entities to regulatory scrutiny and reputational risks. Hence, it is imperative that entities prepare themselves for dealing with the requirements of the MSME Act and requirements for reporting information to the MCA, considering the revised thresholds notified under the MSME Act.

More information about the revised criteria is available in the [July 2025](#) edition of Assurance EYe.



Changes in the financial reporting framework applicable to REIT and InvIT

The SEBI (Real Estate Investment Trusts) Regulations, 2014 (as amended) and the SEBI (Infrastructure Investment Trusts) Regulations, 2014 (as amended) (collectively referred to as the 'BT Regulations') and the Master Circulars dated 15 May 2024 issued under those regulations prescribed the financial reporting framework applicable to Real Estate Investment Trusts (REIT) and Infrastructure Investment Trusts (InvIT) [collectively referred to as 'Business Trust' or 'BT'], respectively. The SEBI has issued two circulars, both dated 7 May 2025, applicable to REIT and InvIT, to modify its earlier Master Circulars dated 15 May 2024. These two circulars bring significant changes in the financial reporting framework applicable to Business Trusts at various stages of their life, including the annual financial reporting framework.

While BTs will continue preparing their financial statements as per Ind AS notified under the *Companies (Indian Accounting Standards) Rules, 2015 (as amended)* to the extent not contrary to the BT Regulations and overall principles for preparation of annual financial statements continue to be the same, there are significant changes regarding format of financial statements. For example,

- Going forward, business trusts will be required to follow *Division II of Schedule III of the Companies Act, 2013 (Schedule III)*, for preparation of financial statements. Considering the peculiarities of Business Trusts, certain exceptions and modifications have been made to Schedule III requirements.
- Going forward, BTs will be required to present the Statement of Cash Flows using the 'indirect method' only.
- The 'Statement of Net Borrowings Ratio' will be disclosed as part of the annual financial statements of the Business Trust using the format prescribed.

The Business Trusts are required to prepare their annual financial statements for the year beginning 1 April 2026 in accordance with the revised requirements.

More information about the changes is available in the [July 2025](#) edition of Assurance EYe.

Other accounting developments

» Tariffs and geopolitical risks

In recent months, the prominence and impact of tariffs have grown significantly for reasons such as new tariffs, including reciprocal tariffs, imposed by the United States and, in response, a number of affected countries have responded with retaliatory tariffs. Considering changes in tariff policies, entities are likely to face complex operational and compliance challenges such as supply chain disruptions, increased costs, price fluctuations and shifts in market demand. It is evident that senior management of impacted entities will focus on mitigating supply chain disruptions and operational hurdles. However, in doing so, one should not ignore financial reporting consequences of tariffs since the introduction or modification of import taxes can lead to significant accounting and financial reporting implications.

The extent to which individual entities are impacted will depend on a number of factors, including which sector they operate in. However, due to the volatility in financial markets and the wider macroeconomic effects of the tariffs, most entities are likely to be affected to some extent. Given that there is likely to be a financial impact for many entities from the imposition of tariffs in the current period. The effects will be specific to the facts and circumstances of the entity and may include impairment of assets, valuation of inventory, fair value measurements, restructuring provisions, revenue recognition, potential for contracts to become onerous, and expected credit losses and deferred tax asset recognition. Entities need to consider the effect of current trade policy and tariffs on their accounting and financial reporting, based on the specific facts and circumstances for that entity, to ensure proper recognition and disclosure of these effects in their financial statements.

More information about the potential impact of tariffs, which may need to be considered, is available in the [October 2025](#) edition of Assurance EYe.

Like tariffs, geopolitical conflict and related risks continue to create significant shifts in the global risk landscape and may have a pervasive economic impact. Investors may want to understand if and how these conflicts are affecting an entity's operations, risk exposure and outlook. Accordingly, entities must carefully consider the impact on their financial statements and disclosures.

» Rupee depreciation and foreign currency exposure

During financial year 25-26, Indian Rupee (INR) has depreciated materially against major currencies, particularly the US Dollar (USD). The INR weakened from INR84.8/USD (December 2024) to INR90.9/USD (November 2025).

INR depreciation is likely to have a material impact on financial statements of the entities having material foreign currency exposures. Some key impacts may include translation of foreign currency transactions, remeasurement of foreign currency monetary assets and liabilities and translation of foreign currency operations. Also, there may be other related impacts including valuation of foreign exchange derivatives and hedge effectiveness, impairment indicators, expected credit losses and inventory valuation. Accordingly, entities having material foreign currency exposure should ensure assumptions are updated to closing rates and provide clear disclosures of material foreign exchange exposures and sensitivities.

» Hyperinflation

Hyperinflation continues to be an issue in a number of jurisdictions and entities should consider whether they need to address this. EY Publication [IFRS Developments Issue 242: Hyperinflationary economies \(Updated November 2025\)](#) lists the countries with economies that are considered hyperinflationary for IFRS purposes as of 31 December 2025. These countries are Argentina, Burundi, Haiti, Islamic Republic of Iran, Lebanon, Malawi, Sierra Leone, South Sudan, Sudan, Türkiye, Venezuela and Zimbabwe.

Entities will need to apply Ind AS 29 *Financial Reporting in Hyperinflationary Economies* if their functional currency is the currency of a hyperinflationary country, including for subsidiaries in a consolidated group. The application of Ind AS 29 requires significant judgment, and the effects of applying it to a subsidiary in a group can involve non-routine and complex accounting. Entities likely to be impacted by Ind AS 29 application need to prepare in advance.

» Impairment review for non-financial assets

Impairment is likely to be a focus area for many entities in the current economic environment. This will be particularly the case for entities with significant amounts of goodwill and intangible assets with indefinite useful lives, as well as for entities likely to be affected to a greater extent by climate change, inflation, geopolitical risks, recent tariffs, etc. These entities should ensure strict compliance with Ind AS 36 *Impairment of Assets* and also factor common pitfalls observed in the impairment of non-financial assets.

Ind AS 36 and Ind AS 1 have extensive disclosure requirements. The disclosure requirements include key assumptions used in impairment testing and management's

approach to determine values assigned to each of those assumptions. If key assumptions differ from those indicated by external sources of information or past experience, an explanation of reasons justifying differing assumptions may also be required.

In times of higher uncertainty, disclosure of the sensitivities is particularly important. Sensitivity disclosure requirements are two-fold:

- a. Paragraph 134 of Ind AS 36 requires disclosure of reasonably possible changes in the value of key assumptions which reduce headroom to nil, and
- b. Paragraph 125 of Ind AS 1 requires disclosure of information about the assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.



» **Offsetting (or netting) in the financial statements**

Offsetting is the net presentation of separate assets and liabilities or income and expenses in the financial statements. Offsetting and netting generally detract users' ability to gain a full and proper understanding of the transactions, other events and conditions that have occurred and to assess an entity's future cash flows. Hence, offsetting is generally prohibited, except where expressly required or permitted by Ind AS. There are certain Ind AS which permit offsetting if and only if specific criteria are met. Most cases where the criteria for offsetting are met, offsetting must be applied - it is not a choice. The following Ind AS deals with offsetting requirements:

- a. General offsetting, including in the Statement of Profit and Loss - Paragraphs 32 to 35 of Ind AS 1 *Presentation of Financial Statements*.
- b. Offsetting in relation to financial instruments - Paragraphs 42 to 50 of Ind AS 32 *Financial Instruments: Presentation*. Cash pooling arrangements entered into by many entities also need to be evaluated using the same criteria.
- c. Offsetting in relation to current and deferred tax - Paragraphs 71 to 76 of Ind AS 12 *Income Taxes*
- d. Offsetting in the cash flow statement - Paragraphs 22 to 24 of Ind AS 7 *Statement of Cash Flows*.

Entities need to evaluate transactions, events and conditions for offsetting in detail and ensure compliance with the relevant Ind AS requirements.

Presentation and disclosure of financial statements

Ensuring the presentation and disclosure of financial statements in compliance with applicable Ind AS is a critical activity. Regulators and review bodies are consistently pointing out disclosure weaknesses in year-end financial statements. To ensure completeness and avoid disclosure discrepancies, entities may consider the steps below:

- a. A roll forward of the prior year financial statements might be a good starting point but should not automatically be assumed to still be relevant.
- b. Need to ensure that the financial statements are updated for the latest changes in Ind AS, new transactions, events and circumstances as well as for changes in transactions, events and circumstances.
- c. Ensure that accounting policies are given for all significant events and transactions. Also, all significant judgements in applying accounting policies are disclosed. Particularly, disclosures for judgements and estimates need to be reviewed and updated to ensure they remain relevant.
- d. Perform a critical review of the annual report and financial statements as a whole, with the objective of ensuring that the whole report is clear, balanced and understandable. As part of the review, immaterial information may be identified and deleted.

- e. Evaluate, considering paragraphs 31 and 112(c) of Ind AS 1, whether additional information, beyond specific requirements of each Ind AS, should be given such that the reader can understand specific material transactions or events.
- f. Ensure that there is sufficient linkage and consistency between the narrative and the financial statements in the overall report. Any perceived inconsistencies might need to be explained. This may, for example, be relevant for climate-related impacts.
- g. Develop robust internal controls to ensure accuracy and prevent omissions.
- h. Complete the latest disclosure checklist to ensure completeness of disclosures.
- i. Benchmark disclosures in financial statements with the industry peers.
- j. Look at recent disclosure deficiencies pointed out by the regulator and ensure similar deficiencies do not exist in the financial statements.
- k. Start early, leverage technology and have an independent desktop review done for financial statements.

Additional matters

In addition to matters covered in this Article, the following matters are also relevant for year-end reporting, which are covered in other parts of this Assurance EYe:

- a. Enactment of new labour codes and related financial reporting impact
- b. Disclosures about uncertainties in the financial statements
- c. Revised definition of small company
- d. National Financial Reporting Authority (NFRA): Auditor – Audit Committee Interaction Series





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