# Assurance EYe

## Reporting Insights

October 2025

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# HAPPY Diwali

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# 01 Changes to current vs. non-current classification of liabilities: Are you ready?

On 19 August 2025, the Ministry of Corporate Affairs (MCA) has notified, among other changes to Indian Accounting Standards (Ind AS), amendments to Ind AS 1, ***Presentation of Financial Statements*** dealing with classification of liabilities as current or non-current. The amendments will require entities to revisit classification of liabilities with covenants as current or non-current. Also, the amendments will require additional disclosures in the financial statements. In this article, we look at the key changes and their impact.

## Overview of key amendments

### *Right to defer settlement*

The pre-amended Ind AS 1 required that an entity should have an unconditional right to defer settlement for at least 12 months after the reporting date to classify a liability as non-current. In practice, many loan agreements may include debt covenants which the borrower is required to comply with either on an ongoing basis (e.g., there should be no change in control and/ or there should be no material adverse event) or more frequently than an annual basis(e.g., the borrower should ensure specified debt-equity ratio and/ or current ratio on a quarterly or half-yearly basis). Hence, there was an issue whether such loans/ financial liabilities meet Ind AS 1 criteria for classification as non-current liabilities.

To address the above matter, Ind AS 1 has been amended by replacing reference to the words "an unconditional right" with the words "a right to defer settlement." Further, a new paragraph has also been added which clarifies that the 'right' to defer settlement of liability for at least 12 months must have substance and should exist at the end of the reporting period in order to classify a liability as non-current. It has also been clarified that covenants requiring compliance only after the reporting date (i.e., future covenants) will not affect a liability's classification at the reporting date. Instead, the amendments require entities to disclose information about such covenants and related liabilities in the notes.

Though the wording used in the pre-amended Ind AS 1 was ambiguous, it appears many entities have interpreted the standard in a manner that only debt covenants requiring compliance on or before the reporting date are relevant for non-current classification of liabilities. For these entities, this amendment will not have any material impact.

### *Management intention/ expectation for early settlement*

The amendments clarify that management's intention/ expectation for early settlement does not play a role in classification of liabilities. Thus, a liability meeting Ind AS 1 criteria for classification as non-current will still be classified as non-current even if management intends or expects the entity to settle the liability within 12 months after the reporting period, or even if the liability is settled between the end of the reporting period and the date on which financial statements are approved for issue.

Despite ignoring management's intention with regards to classification, the event is not ignored for disclosure purposes. It may still be necessary to disclose information relating to the timing of the settlement in order for users of the financial statements to understand the impact of the liability on the entity's financial position.

The requirement to ignore management's intent in respect of classification may represent a change in practice for some entities, as previous practice may have taken into account management's expectations and the discretion afforded to management.

### *Settlement through equity instruments*

Pre-amendment, Ind AS 1 stated that if a liability could, at the option of the counterparty, be settled through the issue of equity instruments, this did not affect current or non-current classification of liability. For example, a convertible bond that allowed the holder to demand conversion into equity at any time could still be shown as non-current if the cash maturity were more than twelve months away.

The amendments are likely to change how settlement through issue of equity instruments affects classification. The amendments state that settlement through issue of equity shares is treated as a form of settlement when determining current or non-current classification of liability. However, there is only one exception, if 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 means that if the holder could trigger equity settlement within twelve months and the said conversion is treated as liability and not equity, then financial liability will need to be shown as current.

## Example

### *Query*

An entity has issued optionally convertible redeemable preference shares (OCRPS). The OCRPS are redeemable after 10 years. However, the holder can require the entity to convert OCRPS into equity shares at any time after the issuance date. Consider the following scenarios for the conversion formula:

- Scenario 1: The OCRPS are convertible into a variable number of shares decided based on the fair value of equity shares at the conversion date.
- Scenario 2: The OCRPS are convertible into a fixed number of shares decided upfront. However, the issuer has down-round protection, which can trigger a change in the number of shares to be issued on conversion if the entity issues new shares at a lower than fair value.
- Scenario 3: The OCRPS are convertible into fixed number of shares decided upfront and there is no down-round protection or other clause which may change the number of shares to be issued on conversion.

How should the above instruments be classified in the balance sheet for years one to nine?

### *Response*

Prior to the amendments, the terms of a liability that could, at the option of the counterparty, result in its settlement by the issuance of equity instruments did not affect its classification. Hence, one may argue that in all three scenarios, the holder's option to require early conversion was ignored when deciding current vs. non-classification. As a result, in the pre-amended standard, one may have classified OCRPS liability as non-current in the balance sheet for years one to nine.

Post amendment, the equity conversion option is ignored only if it is classified as equity under Ind AS 32. Hence, the following positions will apply in the balance sheet for years one to nine:

- Scenario 1: Since the OCRPS are convertible into a variable number of shares decided based on the fair value of equity shares at the conversion date, the equity conversion option is liability under Ind AS 32. Since the holder can require settlement in a variable number of shares at any time, the entire instrument is classified as current liability.
- Scenario 2: Although the OCRPS are convertible into a fixed number of shares decided upfront, the number of equity shares to be issued on conversion could change due to the application of the down-round protection

clause. Considering that the host instrument itself is a financial liability, even such a conversion option does not meet fixed-for-fixed criterion to classify the conversion option as equity under Ind AS 32. Rather, it is an embedded derivative. Under Ind AS 109 ***Financial Instruments,*** the issuer entity may either designate the instrument at fair value through profit or loss (FVTPL) or it can separate embedded derivative to be measured as at FVTPL and the host liability at amortized cost. Irrespective of the accounting approach followed, the conversion option is not treated as equity under Ind AS 32. This requires the issuer to classify the entire instrument (either fully measured as at fair value or liability at amortized cost plus embedded derivative components at fair value) as a current liability.

- Scenario 3: Since the OCRPS are convertible into a fixed number of shares decided upfront and there is no down-round protection or other clause which may change the number of shares to be issued on conversion, the conversion option is classified as equity under Ind AS 32. However, the issuer will classify the host instrument as a financial liability. In this case, embedded conversion option is ignored for deciding current vs. non-current classification. As a result, OCRPS liability is classified as non-current in the balance sheet for years one to nine.

It is obvious that the liability is classified as current in the balance sheet of year 10 in all the scenarios and both under pre-amended and post-amendment standards.

Many entities have issued convertible instruments that are either non-redeemable or redeemable at the end of a fixed period. However, the holder can opt to convert such instruments into a variable number of equity shares at any time. Earlier, such instruments were classified as non-current liabilities. Post-amendment, these instruments will be classified as current liabilities.

### *New Disclosure Requirements*

The amendments to Ind AS 1 introduce specific disclosure requirements for situations where liabilities are classified as non-current and the right to defer settlement depends on compliance with covenants falling due within twelve months from the reporting date. The required disclosures include:

(i) Information about the covenants, including the nature of the covenants, when compliance is required, and the carrying amount of the related liabilities.

(ii) Facts and circumstances that indicate potential difficulty in compliance. Examples include:

- Actions taken before or after the reporting date to avoid or mitigate a possible breach, or
- Situations where the entity would not have complied if the covenant were assessed based on conditions at the reporting date.

The above disclosures are new for most entities. Consider an entity having a number of loan arrangements that are classified as non-current and each loan requires compliance with many covenants on a quarterly/ half-yearly basis. It may need to disclose a long list of covenants.

### Sample disclosure for one loan

#### *Secured bank loan*

This loan has been drawn down under a six-year multi-option facility (MOF). The loan is repayable within 12 months after the reporting date but has been classified as long term because the Group expects, and has the discretion, to exercise its rights under the MOF to refinance this funding. Such immediate replacement funding is available until 31 July 2029. The total amount repayable on maturity is INR3,500 million. The facility is secured by a first charge over certain of the Group's land and buildings, with a carrying value of INR5,000 million(31 March 2025: INR 5,000 million).

The secured bank loan is subject to the following covenants:

- Interest cover ratio greater than five. The interest cover ratio in the secured bank loan is calculated as profit before tax divided by interests on debts and borrowings. The interest cover ratio was 11.1 as of 31 March 2026 (31 March 2025: 9.1)
- Gearing ratio below 45%. Gearing ratio is the entity's total debt (i.e., interest-bearing loans and borrowings other than convertible preference shares) divided by its shareholder's equity. The gearing ratio was 26% as of 31 March 2026 (31 March 2025: 38%)

Both covenants are tested half-yearly, on 30 September and 31 March. The Group has no indication that it will have difficulty complying with these covenants.

## Applicability date and transitional provisions

The above amendments to Ind AS 1 are applicable for the financial year beginning on or after 1 April 2025, i.e., for financial year 2025-26. The amendment needs to be applied retrospectively. Given below is an overview of how these changes will affect various sets of financial statements:

a) ***Financial statements for year ended 31 March 2025:*** Entities will not give effect to these changes while finalizing financial statements for the year ended 31 March 2025, even if such financial statements are approved for issue after notification of the amendments to Ind AS 1. However, entities will need to make disclosures regarding standards issued but not effective as required under paragraphs 30 and 31 of Ind AS 8 ***Accounting Policies, Changes in Accounting Estimates and Errors***.

b) ***Financial results prepared in accordance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations (SEBI LODR):*** It may be noted that quarterly results are prepared in accordance with the format prescribed by the SEBI and financial results for the first and third quarters do not include a balance sheet. Since these changes affect only the current or non-current classification of liabilities, they are unlikely to have a material impact on the financial results for the first and third quarters. However, if it is expected that there will be a material change in current or non-current classification of liabilities pursuant to these new requirements vis-à-vis the classification used in previously issued financial statements, then entities should consider including an appropriate explanatory disclosure in the notes to the quarterly results.

   Financial results for the second and fourth quarters of the financial year need to include a balance sheet at the end of the reporting period and comparative information at the end of the previous financial year. Accordingly, entities will need to ensure current and non-current classification of financial liabilities as per the new requirements. This will include reclassification of amounts presented in the comparative balance sheet. The change is treated as change in accounting policy and entities will also need to disclose the impact of reclassification through an appropriate note in the financial results. It may be noted that the SEBI format does not specifically require a third balance sheet to be presented. Hence, one may argue that there is no need to present a third balance sheet in financial results even if there is a material change in the classification of liabilities due to the new requirements.

   With regard to disclosures regarding covenants, it may be noted that Ind AS 1 requires these disclosures to be included in financial statements. Further, the SEBI format does not require all financial statement disclosures to be replicated in quarterly/half-yearly financial results. Hence, depending on materiality, one may argue that specific disclosures prescribed under Ind AS 1 are not required to be given in the financial results.

c) ***Interim financial statements prepared for part of the financial year 2025-26:*** The amended Ind AS 1 will apply to any interim financial statements prepared for part of the financial year 2025-26. Accordingly, entities will need to ensure current and non-current classification of financial liabilities as per the new requirements. This will include reclassification of amounts presented in the comparative balance sheet. The change is treated as a change in accounting policy and entities will also need to ensure disclosures accordingly, including disclosure regarding the impact of reclassification.

   The presentation of a third balance sheet with related notes will depend on whether the change has a material impact on the classification of liabilities in the balance sheet at the beginning of the comparative period and on whether the entity prepares complete or condensed financial statements:

   - If the change has a material impact on the classification of liabilities in the balance sheet at the beginning of the comparative period and the entity is preparing a complete set of financial statements, then the entity must present a third balance sheet with related notes at the beginning of the earliest comparative period.
   - However, if the entity is preparing only condensed set of financial statements, then the entity need not present a third balance sheet at the beginning of the earliest comparative period, irrespective of whether the change has a material impact on the classification of liabilities.

d) ***Annual financial statements for the financial year 2025-26:*** The amended Ind AS 1 will apply, and entities will need to ensure current and non-current classification of financial liabilities as per the new requirements. This will include reclassification of amounts presented in the comparative balance sheet. The change is treated as a change in accounting policy and entities will also need to ensure disclosures accordingly, including disclosure regarding the impact of reclassification. Entities will also need to make specific disclosures regarding debt covenants as required under Ind AS 1. Entities will also need to present a third balance sheet with related notes if the change has a material impact on the classification of liabilities in the balance sheet at the beginning of the comparative period.

## Summary - Key impact

| Particulars | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 |
|---|---|---|---|---|
| **Financial results as per SEBI LODR** | | | | |
| Change in classification of liabilities including comparatives as per new requirements | NA - Balance sheet not required | Yes | NA - Balance sheet not required | Yes |
| Third balance sheet with related notes | NA | No | NA | No |
| Note explaining impact of change if material | Not required, but suggested | Yes | Not required, but suggested | Yes |
| Covenant disclosures as per new requirement | Not required | Not required | Not required | Not required |
| **Interim condensed financial statements, if prepared** | | | | |
| Change in classification of liabilities including comparatives as per new requirements | Yes | Yes | Yes | Yes |
| Third balance sheet with related notes | No | No | No | No |
| Note explaining impact of change if material | Yes | Yes | Yes | Yes |
| Covenant disclosures as per new requirement | Yes* | Yes* | Yes* | Yes* |
| **Interim complete financial statements, if prepared** | | | | |
| Change in classification of liabilities including comparatives as per new requirements | Yes | Yes | Yes | Yes |
| Third balance sheet with related notes | Required if the change has a material impact on classification of liabilities in the balance sheet at the beginning of the comparative period | | | |
| Note explaining impact of change if material | Yes | Yes | Yes | Yes |
| Covenant disclosures as per new requirement | Yes | Yes | Yes | Yes |
| **Annual financial statements for FY 2025-26** | | | | |
| Change in classification of liabilities including comparatives as per new requirements | Yes | Yes | Yes | Yes |
| Third balance sheet with related notes | Required if the change has a material impact on classification of liabilities in the balance sheet at the beginning of the comparative period | | | |
| Note explaining impact of change if material | Yes | Yes | Yes | Yes |
| Covenant disclosures as per new requirement | Yes | Yes | Yes | Yes |

* Ind AS 34 *Interim Finance Reporting* has not been consequentially amended, and thus, new disclosure requirements of Ind AS 1 will not necessarily apply in the context of condensed interim financial statements. However, under Ind AS 34, judgment needs to be exercised to ensure that information which is significant to an understanding of the changes since the end of the last financial year is disclosed. Thus, entities may consider the new disclosure requirements in Ind AS 1 relevant for interim financial statements also.

Similar changes have not been made in Schedule III to the Companies Act 2013 (as amended). However, it may not create any issue in implementation of new requirements since Schedule III already provides that Ind AS requirements will prevail if there is any inconsistency between the requirements of Ind AS and Schedule III.

## Amendments effective from financial year 2026-27 onward

### *Breach of covenants*

To classify a financial liability as non-current, the entity must have an unconditional right or right to defer settlement at least for 12 months after the reporting date. If an entity breaches a covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, the entity will not have such an unconditional right. The consequence is that the entity needs to classify the liability as current unless the lender has waived the breach and thereby agreed on or before the reporting date to not demand repayment of loan for at least 12 months after the reporting date as a consequence of the breach.

In many cases, it may be practically impossible/ difficult for entities to obtain such a waiver before the reporting date. To address such practical issues, pre-amended Ind AS 1 contained two key carve-outs vis-à-vis the corresponding IAS 1:

- ***Material vs. minor breach:*** Only a breach of a material provision/ covenant of a long-term loan will trigger current classification of the liability. If there was a breach of a minor provision/ covenant, the entity can continue classifying the loan as non-current. In practice, differentiation between breach of material and minor covenants may require exercise of judgment and such assessment/ determination may change from one entity to another and for the same entity over different periods.
- ***Post-period waiver relief:*** If there is a breach of a material covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date and the lender has agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment for at least 12 months as a consequence of the breach, then the entity was not required to classify the liability as current. In other words, under pre-amended Ind AS 1, the waiver granted by the lender after the reporting date and before the approval of the financial statements for issue was treated as an adjusting event.

In accordance with the final amendments notified by the MCA, the above carve-outs will continue to apply for financial year 2025-26 as well. However, from the financial year beginning 1 April 2026, both these carve-outs will be removed. Consequently, a breach of a covenant (without differentiation between material or immaterial covenants) occurring on or before the reporting date will require the liability to be classified as current, unless the lender has granted a waiver of breach on or before the reporting date and agreed not to demand payment for at least 12 months after the reporting date as a result of breach. Any waiver obtained after year-end will be treated as non-adjusting event.

A corresponding change has also been made in Ind AS 10 ***Events after the Reporting Period.*** These changes will apply retrospectively from financial year 2026-27.

The following examples explain the application of

requirements.

| Particulars | Loan 1 - Due date 31 March 2029 | | | Loan 2 - Due date 31 March 3030 | | |
|---|---|---|---|---|---|---|
| | 31 March 2025 | 31 March 2026 | 31 March 2027 | 31 March 2025 | 31 March 2026 | 31 March 2027 |
| | Scenario 1 | Scenario 2 | Scenario 3 | Scenario 1 | Scenario 2 | Scenario 3 |
| Covenant breach on or before reporting date | Yes | Yes | Yes | Yes | Yes | Yes |
| Nature of covenant breach | Material | Material | Material | Immaterial | Immaterial | Immaterial |
| Waiver on or before reporting date | No | No | Yes/ No | No | No | Yes/ No |
| Waiver after reporting date | Yes | Yes | Yes | No | No | No |
| Presentation in balance sheet as at ( with comparatives, if applicable) | | | | | | |
| 31 March 2025 | Non-current | NA | NA | Non-current | NA | NA |
| 31 March 2026 | Non-current | Non-current | NA | Non-current | Non-current | NA |
| 31 March 2027 | Current* | Current* | Depends** | Current | Current | Depends** |

* Considering retrospective application, the presentation of liabilities for comparative periods will need to be reassessed and updated based on Ind AS 1 amendments. A third balance sheet with related notes is required if the change has a material impact on classification of liabilities in the balance sheet at the beginning of the comparative period.

** Liability will be reclassified as non-current only if the lender has granted a waiver of breach on or before the reporting date and agreed not to demand payment for at least 12 months after the reporting date as a result of breach.

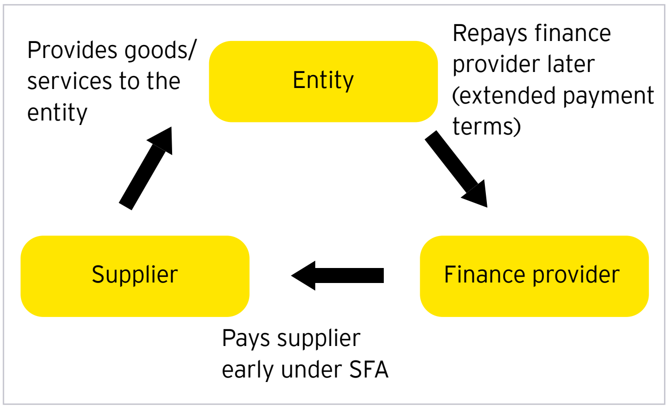
## Concluding remarks

For most entities engaged in manufacturing/ supply of goods or services, separate classification of current and non-current assets and liabilities in the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. In practice, current vs. non-current classification of assets and liabilities also helps users of financial statements in better understanding/ evaluating the short-term liquidity position of the entity. Also, there may be debt covenants and other key performance indicators (KPIs) linked to the current ratio. Hence, there is no doubt that current vs. non-current classification of assets and liabilities is one of the key focus areas for the preparers as well as users of the financial statements.

As indicated above, Ind AS 1 amendments may have a significant impact on current vs. non-current classification of liabilities for many entities. Considering importance and likely impact, it is imperative that entities likely to be impacted by the new requirements evaluate potential impact in advance and take appropriate action such as amendment in loan agreement or upfront waiver from the lender to avoid any unwarranted outcomes. An amendment regarding breach of covenants applicable from FY 2026-27 onward will require entities to obtain a waiver letter of any breach on or before reporting date to avoid current classification of liabilities. To ensure that while presenting financial statements for financial year 2026-27 entities are not required to change classification of liability in comparative period as current, they should endeavor that waiver for any breach of covenant, which occurs on or before 31 March 2026, is obtained on or before 31 March 2026.

# 02 Be ready for enhanced transparency on supplier finance arrangements

Supplier finance arrangements, commonly referred to as supply chain finance (SCF), trade payable financing, reverse factoring, or structured payable transactions, have increasingly emerged as a popular mechanism to accelerate payment of supplier invoices. The term 'supplier finance arrangement' is not defined and it is typically identified through its characteristics. A key characteristic of the arrangement is that three parties (viz., a buyer, a supplier and a finance provider) are interacting to achieve a financing objective for at least one of the parties. In such an arrangement, generally a financial intermediary, viz., a bank, agrees to make upfront payment for amounts owed by the buyer to its suppliers and the buyer will make payment to the bank when payment to the suppliers is due or at the end of extended credit period. Given below is pictorial presentation of typical supplier finance arrangements:




Terms and conditions of the supplier finance arrangement may vary significantly. A key accounting question arising from such arrangements is whether the buyer should present amount payable under the arrangement as a trade payable or as a debt-like liability. This determination could have a significant impact on the purchaser's financial position, particularly its leverage and/ or gearing ratios. Despite the importance, there is no single Ind AS which deals with accounting/presentation of such arrangements. Rather, there are multiple requirements which need to be considered. In the January 2024 edition of ***Assurance EYe***, we highlighted key accounting considerations for supplier finance arrangements, including their presentation in the balance and the statement of cash flows.

## What is changing?

The MCA has notified the ***Companies (Indian Accounting Standards) Second Amendment Rules, 2025,*** whereby it has, among other Ind AS, amended Ind AS 7 ***Statement of Cash Flows*** and Ind AS 107 ***Financial Instruments: Disclosures*** to strengthen disclosure requirements for the supplier financial arrangements. These amendments aim to give stakeholders clearer insights into how supplier finance arrangements affect an entity's liabilities, cash flows and liquidity risk. In this article, we discuss the scope of disclosures required and key disclosures.

The MCA has amended Ind AS 7 and Ind AS 107 to strengthen disclosure requirements for the supplier financial arrangements. These amendments do not change accounting considerations for such arrangements, i.e., considerations discussed in the January 2024 edition of Assurance EYe will continue to apply. However, the amendments will require significantly additional disclosures.

## Scope of the disclosure requirements

As stated above, Ind AS (including amendments) do not define supplier finance arrangements. However, they explain key characteristics. In accordance with Ind AS 7 (paragraph 44G), key features of supplier finance arrangements can be summarized as follows:

a) One or more finance providers offer to pay amounts an entity owes its suppliers.

b) The entity agrees to pay to the finance provider according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid.

c) These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date.

We believe that entities may need to exercise judgment when assessing applicability of the new disclosure requirements. To illustrate, consider one scenario where the supplier factors its receivables to a bank, and the purchasing company, being aware of this arrangement, settles the amount directly with that bank. In this case, a question may arise whether the purchasing company still needs to make the disclosures required for supplier finance arrangement, even though it was not directly involved in the factoring arrangement? In this context, the following guidance are relevant:

a) The wording used in paragraph 44F of Ind AS 7 states that it requires an entity to 'disclose information about its supplier finance arrangements.' This suggests that the disclosures are required only for the arrangements in which the entity itself is a party and not for direct financing transactions entered into between the supplier and the finance provider.

b) Paragraph 44F of Ind AS 7 also states that disclosures should help users assess the impact of supplier finance arrangements on an entity's liabilities, cash flows, and liquidity risk. Based on the wording used, one may argue that disclosures have a wider scope, potentially including arrangements not directly entered into by the entity.

However, in this context, reference is also drawn to the Basis for Conclusions of IAS 7 which clarifies that scope is limited to the arrangements which provide either the entity with extended payment terms or suppliers with early payment terms, compared with the related invoice due date. Further, the Basis for Conclusion to IAS 7 paragraph 32(c) also confirms that entities are not required to consider financing actions taken independently by suppliers, such as factoring of receivables.

Accordingly, judgment may still be needed to determine whether specific arrangements fall within the scope of Ind AS 7 disclosure requirements. Key factors requiring consideration include (a) purpose and structure of the arrangement with the finance provider, (b) who initiated it, (c) whether it is offered to all customers under the supplier's standard terms or only to the entity, and (d) what specific benefits the entity receives. This assessment should also consider the disclosure objective prescribed under Ind AS 7, viz., to provide users of financial statements with information that helps them understand the impact of supplier finance arrangements on the entity's liabilities, cash flows, and liquidity risk, as well as the potential consequences if such arrangements were no longer available.

### How we see it

Determining whether an arrangement falls within the scope of the new requirements may require significant judgment. If material, entities may need to disclose the judgment used along with the related material accounting policy as per Ind AS 1.

The following example shows how disclosure requirements may apply in three different scenarios.

**Example – Scope of supplier finance arrangements disclosures**

An entity purchases goods from a supplier at a cost of INR1,000. Normal industry terms for the purchase would be payment within three months from the invoice date. As a result of the supplier entering into and maintaining a factoring arrangement with a bank, the entity is required to settle the debt directly with the bank and is required to provide certain information (for example, half-year reports and annual financial statements) which would allow the bank to assess the credit risk attached to the entity to appropriately tailor the terms of the arrangement.

Is the purchasing entity (the entity) required to provide the supplier finance arrangement disclosures in the scenarios given below?

*Scenario 1*

***Entity is aware that the supplier is factoring its debtors***

The entity is aware that the supplier is factoring its debtors to a bank, and consequently, the entity will be required to settle the outstanding balance with the bank directly. The entity is required to settle the invoice of INR1,000 within the normal industry terms of three months.

***Analysis – Scenario 1***

In the absence of other relevant facts or contractual terms, an entity could reasonably conclude that it is not required to provide supply chain financing disclosures since it is neither a party to the arrangement nor deriving any benefit from it. In this case, the arrangement merely represents a supplier's own financing activity with the bank (for example, factoring of receivables). As stated earlier, the disclosure requirements apply only to the arrangements that finance amounts an entity owes to its suppliers, and not to independent actions taken by suppliers to finance their receivables. Also, the disclosure objective is to provide users of financial statements with the information on how supplier finance arrangement affects the entity's liabilities, cash flows and liquidity risk. In this scenario, no such impact exists.

*Scenario 2*

***Entity obtains payment terms of six months by virtue of the supplier's arrangement***

The entity is aware that the supplier is factoring its debtors to a bank, and consequently, the entity will be required to settle the outstanding balance with the bank directly. The entity obtains payment terms of six months by virtue of the supplier's arrangement with the bank. The invoiced amount is INR1,050 to compensate for finance charges.

***Analysis – Scenario 2***

In this type of scenario, if no other facts or contractual conditions exist, it may be reasonable and consistent with the disclosure objective for the entity to conclude that the arrangement is part of the entity's supplier finance arrangements and disclosure requirements will apply. This is because the entity is allowed to pay an amount greater than the invoice amount, at a date later than the related invoice date.

*Scenario 3*

***Entity can opt for the extended terms***

The purchase agreement between the entity and its supplier includes different payment term options and related costs. At the inception of each purchase, the supplier informs the entity about the possibility of receiving an extension of the due date (from three months to six months), should the supplier still have the financing facilities available to it through its pre-arranged factoring agreement with the bank finance provider. If the entity opts for the extended terms, the supplier will issue an invoice for INR1,050 and six-month payment terms. If the entity does not opt in, the supplier issues an invoice for INR1,000 and three-month payment terms.

***Analysis – Scenario 3***

In the absence of other relevant facts or contractual terms, it would be reasonable and consistent with the disclosure objective, to treat such an arrangement as part of the entity's supplier finance arrangements. This is because the extended payment terms and related costs offered to the entity are directly tied to the supplier's factoring arrangement with a third-party finance provider. When the entity opts for these extended terms, it effectively enters into an arrangement where the supplier is paid earlier by the bank, while the entity settles its obligation at a later date. If the supplier's agreement with the bank were discontinued, the purchasing entity's liquidity could be impacted.

## Disclosures required

The amendments require an entity to disclose information about its supplier finance arrangements, which enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. To meet this disclosure objective, an entity is required to disclose below information in aggregate for its supplier finance arrangements:

a. Terms and conditions of the arrangements

b. As at the beginning and end of the reporting period:

   (i) The carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented.

   (ii) The carrying amounts of financial liabilities and the line items for which the finance providers have already settled the corresponding trade payables.

   (iii) The range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements.

c. The type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable.

The amendments typically require entities to provide aggregated information about supplier finance arrangements. However, where arrangements include unusual or unique terms and conditions that are not comparable, entities may need to disaggregate the information and present it separately. These terms may include extended payment periods, security or guarantees provided, or any other conditions relevant to the disclosure objective.

Given below is sample disclosure for supplier finance arrangements under Ind AS 7:

**Sample disclosure**

The Group participates in a supply chain financing (SCF) arrangement with a bank. Under this arrangement, the bank pays amounts to participating suppliers on behalf of the Group in respect of invoices raised and subsequently recovers the settlement from the Group at a later date.

The arrangement was initiated by the Group with the objective of supporting its working capital management. As part of the arrangement, the Group is able to avail an extended credit period of up to six months, compared to the normal contractual credit period of three months agreed with suppliers. In return for this extended credit period, the Group bears an interest cost payable to the finance provider.

Accordingly, the arrangement is considered in substance similar to a borrowing. Accordingly, the related liabilities are presented under Borrowings, separately from trade payables, and the corresponding interest expense is recognized in the statement of profit and loss under finance cost.

| Particulars | End of reporting period 31 March 20X6 | Beginning of reporting period 1 April 20X5 |
|---|---|---|
| Carrying amount of liabilities under SCF arrangement (presented as borrowings) | xxxx | xxxx |
| - of which suppliers have received payment from finance provider | xxxx | xxxx |
| Weighted average effective interest rate charged by finance provider | x.x% | x.x% |
| Contractual credit period agreed with suppliers/ liabilities that are not part of an arrangement | 3 months from invoice date | 3 months from invoice date |
| Extended credit period availed under SCF arrangement | 6 months from invoice date | 6 months from invoice date |

## Effective date and transitional arrangements

The amendments are effective for financial year beginning on or after 1 April 2025. In accordance with transition reliefs, an entity is not required to disclose the following in the first year of application:

a) Comparative information,

b) Information stated at (b)(ii) and (iii) above as at the beginning of the financial year, and

c) Information for any interim periods presented within the annual reporting period.

### How we see it

Ind AS 34 ***Interim Finance Reporting*** has not been consequentially amended, and thus, new disclosure requirements in Ind AS 7 and Ind AS 107 will not necessarily apply in the context of condensed interim financial statements. However, under Ind AS 34, judgment needs to be exercised to ensure that information that is significant to an understanding of the changes since the end of the last financial year is disclosed. Thus, entities may consider the new requirements in Ind AS 7 and Ind AS 107 relevant for condensed interim financial statements also. The relief provided for interim reporting in the first annual reporting period in which the amendments apply may, in these cases, be helpful.

## Disclosures in restated financial statements

The new disclosure requirements constitute a change in accounting policy under Ind AS 8 ***Accounting Policies, Changes in Accounting Estimates and Errors***. It may be noted that the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (as amended) (the 'SEBI ICDR') require that the Restated Financial Information (including for the stub period if applicable) should be restated to ensure consistency of presentation, disclosures and the accounting policies for all the periods presented in line with that of the latest financial year/ stub period. Unlike transitional provisions in Ind AS, the SEBI ICDR do not give any option of using different accounting policies, presentation or disclosures in the earlier/ comparative periods vis-à-vis those used in the current period. Rather, there is a need to ensure consistency of accounting policies, presentation and disclosure for all periods presented. Thus, transitional provisions/ reliefs will not apply when preparing restated financial information in accordance with the SEBI ICDR and disclosures for all periods presented will be required.

### How we see it

Compliance with the new disclosure requirements will require the management to strengthen internal systems and undertake internal benchmarking to capture the necessary data. As some disclosures may involve commercially sensitive information, it is important for the management and auditors to engage early and agree on a practical approach that ensures compliance while managing disclosure sensitivities.

Considering enhanced transparency and focus, entities may also need to reconsider presentation of the amount covered under the supplier finance arrangements in line with the January 2024 edition of the Assurance EYe. Though disclosure requirements apply only at year-end for statutory financial statements, it will be appropriate for entities impacted to have a re-look at the presentation of supplier finance arrangements in the balance sheet immediately.

# 03 GST 2.0 – Impact on financial reporting

Effective 22 September 2025, the government has brought some significant changes to the existing Goods and Services Tax (GST) law. The latest landmark reforms, being 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 global competitiveness of the Indian industry. While welcoming the amendments made in the law, we look at its key financial reporting implications in this article.

Key amendments are:

- Rationalization of a four-tiered tax rate structure into a two-tiered rate structure with a standard rate of 18% and a merit rate of 5%. A special de-merit rate of 40% applies for a select few goods and services.
- Certain goods and services have moved from taxable to exempt/ nil GST rate category. Examples include products such as Ultra-High Temperature (UHT) milk, pre-packaged and labelled chena or paneer and all Indian breads. Services like individual life and health insurance have been exempted.
- A number of goods and services have moved from a higher GST rate to a lower GST rate. In some cases, services have been moved to a lower tax rate category with the condition that no input tax credit (ITC) will be allowed. For example, hotel accommodation having value of supply of a unit of accommodation less than or equal to INR7,500 per unit per day will attract GST @ 5% without any ITC, instead of GST @ 12% with ITC or beauty and physical well-being services will attract GST @ 5% without any ITC, instead of GST @ 18% with ITC.
- Compensation Cess applicable on certain goods has been abolished except in case of tobacco and tobacco products.
- Certain goods and services have moved from lower GST to higher tax rate such as aerated waters, caffeinated and carbonated beverages.
- The GST Appellate Tribunal (GSTAT) has become operational for accepting appeals from September 2025 and is expected to commence hearing before the end of December 2025.
- The place of supply of intermediary services is being shifted from the supplier's location to the recipient's location. Consequently, services provided to a person outside India will qualify as exports (zero-rated), while services received in India from a person outside India will be taxable under the reverse charge mechanism.
- The requirement of establishing post-sale discount in terms of an agreement entered into before or at the time of such supply and specifically linking of the same with relevant invoices, is to be omitted.
- Sanction of risk-based provisional refund to facilitate refund claims on account of zero-rated supply of goods or

services. Similarly, provisional refund provisions will be introduced for refund on account of inverted tax structure.

The changes in GST rates of all goods except pan masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and bidi, are applicable from 22 September 2025. Pan masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco and bidi will continue at the existing rates of GST and compensation cess, where applicable. The new rates for these items will be implemented at a later date to be notified, based on discharging of entire loan and interest liabilities on account of compensation cess.

## Key impact of changes requiring financial reporting implications

We believe the above changes to GST law, particularly those related to tax rates, will have the following impact on entities requiring financial reporting evaluation:

### 1 Goods/ services moved from taxable to exempt/ nil rate category

It is a settled position under GST that except for cases such as export and supply to SEZ (i.e., zero rated supply), no ITC can be availed for GST paid on inputs used in production of goods or services which are either exempt from applicability of GST or are taxed at nil-rate. Similarly, no ITC can be availed for GST paid on procurement of services attributable to outward supply which are exempt or are taxed at nil rate. In case input goods or services are used both for exempt/ nil-rated supplies as well as taxable supplies, proportionate amount of ITC, determined based on value of supply of respective goods or services during the period, will have to be reversed.

### 2 ITC availed on capital assets initially used in the manufacture of taxable goods and such goods are subsequently exempted:

Under the GST Act, all capital assets are deemed to have a useful life of 60 months, irrespective of the useful life prescribed under the Companies Act, 2013 (as amended) and useful life of the asset used for financial reporting purposes. If capital assets were initially purchased for use in manufacture of taxable goods and goods are subsequently moved to exempt category, proportionate ITC for the unexpired life must be reversed.

### 3 Abolition of Compensation Cess:

Suppliers such as car dealers were previously paying compensation cess on purchase of motor vehicles in addition to GST. They were also required to collect and pay compensation cess on sale of motor vehicles. Compensation cess paid on purchase can be offset only against compensation cess payable on sale and not against GST payable on sale. With the recent GST amendments, the compensation cess has been completely abolished. This implies that any unutilized balance of Compensation Cess may remain unrealized, unless further relaxations are introduced for the impacted entities.

### 4 Goods/ services will be taxed at a lower rate going forward and inputs continue at higher rate of GST:

If goods/ services move from a higher to a lower tax bracket, ITC continues to be available, though for services in many cases in lower tax bracket no ITC is also available. However, its recoverability may become a key question due to applicability of lower output tax. It may be noted that refund in case of inverted tax structure is not available for GST paid on procurement of services.

## Financial reporting implications

Considering the above, entities impacted by GST changes will need to revisit recognition of GST ITC either because sale of final product has become exempt, or ITC can no longer be utilized because of lower GST on supply. If there is a need to reverse/ write-off ITC, the following key accounting questions arise:

a) Whether the amount should 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?

Our perspective on the above questions is given below:

***Whether the amount of ITC reversed/ written off should be charged to the Statement of Profit and Loss or can it be added to cost of inventory/ property, plant and equipment?***

If the underlying goods/ items of property, plant and equipment on which ITC is being reversed/ written-off are no longer in existence because they are already, fully utilized or otherwise impaired, then it is obvious that the amount of ITC reversed/ written off should be charged to the Statement of Profit and Loss. However, if the underlying goods/ items of property, plant and equipment are still in existence with the entity, then the following two views seem possible:

#### *View 1*

The amount of ITC reversed/ written-off is added to the cost of inventory/ property, plant and equipment. This view can be supported by the following key arguments.

a) In accordance with Ind AS 2 ***Inventories*** and Ind AS 16 ***Property, Plant and Equipment,*** the cost of acquiring inventory and items of property, plant and equipment, respectively, comprises, among other items purchase price, import duties and other taxes other than those subsequently recoverable by the entity from the taxing authorities. In this case, the reversal/ write-off of ITC is akin to a change in an accounting estimate. In accordance with paragraph 37 of Ind AS 8 ***Accounting Policies, Changes in Accounting Estimates and Errors,*** to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, it will be recognized by adjusting the carrying amount of the related asset or liability in the period of the change.

b) The recently issued opinion by the Expert Advisory Committee (EAC) of the ICAI on ***Accounting treatment of additional capitalisation arisen due to arbitration award*** provides an analogy, noting that disputed amounts finalized later are akin to changes in estimates and should be capitalized and depreciated prospectively.

c) Attention is invited to the earlier ***Guidance Note on Accounting for State-level Value Added Tax,*** issued by the Institute of Chartered Accountants of India (ICAI), to deal with accounting for state-level Value Added Tax. The said Guidance Note, provided below, deals with similar situations. It has since been withdrawn because Value Added Tax is no longer in existence. One may argue that despite withdrawal, the same principles should continue to apply.

***"29. If, on the other hand, the amount utilised pertains to disallowance/ withdrawal of VAT credit taken on purchase of inputs made during the year, the same should be added to the cost of inputs. Appropriate adjustment in that case would have to be made while valuing inventory of inputs. If the amount adjusted pertains to disallowance/withdrawal of credit in respect of purchases effected in earlier years, the accounting treatment would depend on whether the said inputs/supplies are available in stock or not. If they are not available, i.e., these have already been sold, the disallowance/withdrawal should be debited to profit and loss account and treated as expense of the current year. If these are still lying in stock, the amount should be added to the cost of inputs.***

***30. If the amount utilised out of VAT credit receivable balance pertains to any disallowance/withdrawal of VAT credit on capital goods, the same should be added to the cost of the relevant fixed asset. For accounting purposes, depreciation on the revised unamortised depreciable amount should be provided prospectively over the residual useful life of the asset. In case the fixed asset no longer exists, the relevant amount should be written off in the profit and loss account with an appropriate disclosure. If the amount of VAT credit disallowed on capital goods is standing to the debit of VAT Credit Deferred (Capital Goods) Account and has not been transferred to VAT Credit Receivable (Capital Goods) Account, the account to be credited would be the VAT Credit Deferred (Capital Goods) Account."***

### *View 2*

The amount of ITC reversed/ written off should be charged to the Statement of Profit and Loss immediately. To support this view, it may be argued that cost of acquiring inventory and/ or items of property, plant and equipment is determined at the time of procurement and related ITC. The GST amendment has resulted in write-off of ITC and it should not result in a change in cost acquisition of the underlying asset.

In the absence of specific guidance, we believe both the views can be supported and the view selected should be applied consistently. If an entity elects to apply view 1 and capitalizes ITC reversed/ written-off, adding it to the cost of inventory/ property, plant and equipment, then it will need to test inventory for lower of cost and Net Realizable Value (NRV) as per requirements of Ind AS 2 and items of property, plant and equipment (or cash generating unit to which item belongs) for impairment in accordance with Ind AS 36 Impairment of Assets.

***If the amount is capitalized to the cost of property, plant and equipment, should depreciation be charged prospectively or retrospectively?***

In this scenario, we believe that reversal of ITC represents a change in estimate under Ind AS which results in a prospective change in the carrying amount of the related asset. Accordingly, depreciation on the newly capitalized amount should be charged prospectively from the date of capitalization. This view is also supported by the EAC opinion on ***Accounting treatment of additional capitalisation arisen due to arbitration award.*** The earlier ***Guidance Note on Accounting for State-level Value Added Tax,*** as stated above, also supports a similar view.

## Concluding remarks

In practice, more complex situations may arise, for example where common inputs are used both for production of taxable and exempt goods or there are complexities in interpreting requirements of the law. It is imperative that all entities engage with their indirect tax professionals and have proper assessment of how the amendments impact their GST balances. If there is any impact, it needs to be ensured that such impacts are appropriately accounted for. Since these changes are applicable immediately, the accounting impact also arises immediately, i.e., financial results for the quarter ended September 2025 in case of listed entities. To enable transparency, entities should also consider making appropriate disclosures including accounting treatment followed in their September quarter results and/ or annual financial statements if the impacts are material.

# 04 Ind AS accounting impacts of tariffs

Tariffs are not new to the global economic landscape. A country can impose tariffs on goods being imported into its jurisdiction for reasons such as protection to domestic industries, encouraging foreign investment and local production of goods or services, to increase government revenue, tariff retaliation and/ or geopolitical and policy issues. In recent months, prominence and impact of tariffs have grown significantly for reasons such as new tariffs, including reciprocal tariffs, imposed by the US 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 introduction or modification of import taxes can lead to significant accounting and financial reporting implications. This article highlights certain key accounting and reporting considerations related to the tariffs. It may be noted that these considerations are not all-inclusive and entities need to use judgment based on their specific facts and circumstances. Further, since tariff policies are constantly evolving, entities need to monitor legislative and regulatory developments for potential accounting and reporting implications.

## Key considerations

### *Asset impairment*

Ind AS 36 ***Impairment of Assets*** deals with impairment of assets e.g., property, plant and equipment, goodwill, right-of use assets and intangible assets. Among other matters, Ind AS 36 requires goodwill and indefinite-lived intangible assets (such as trade names) to be tested for impairment at least annually or more frequently if there is an indicator of impairment. It also requires other assets to be tested for impairment when there is an indicator of impairment.

Indicators of impairment can include significant changes with an adverse effect on the entity that will take place in the near future in the market to which an asset is dedicated, as well as situations when the carrying amounts of the net assets of the entity are more than its market capitalization. Given the substantially higher tariffs imposed on some countries and volatility in the stock market, entities will need to carefully monitor if any impairment indicator exists. For example, tariff increases the cost of assets/ inventory that are imported and if the entity is unable to pass these rising costs on to customers, it may indicate that carrying amount of the non-current assets is not recoverable. Consider one more example which may indicate impairment. Contract with the customer requires the entity to bear any tariffs imposed in customers' jurisdiction and there are additional tariffs imposed.

If there are indicators, entities will need to test assets for impairment. While testing impairment either due to indicators and/ or due to annual impairment testing requirements, entities will need to consider whether assumptions used to calculate recoverable amount are up to date and related disclosures are clear and meaningful. Value-in-use calculations should consider multiple scenarios and higher discount rates to reflect the greater uncertainty in cash flows due to tariffs. When the recoverable amount of the assets/ cash generating unit (CGU) is lower than the carrying amount of the asset/ CGU tested, an impairment loss will need to be accounted for.

### *Inventory*

Ind AS 2 ***Inventories*** requires entities to account for inventories at the lower of cost and net realizable value. Tariffs may result in increase in cost of inventory and/ or reduction in net realizable value. Entities should ensure that assumptions related to tariffs, as well as the effect of those assumptions, are included in determination of net realizable value. If there is insufficient margin in the entity's ultimate selling prices to absorb the tariff and the entity does not believe it will be able to increase its ultimate selling prices sufficiently, there will be a need to write down that item of inventory to the lower of its cost or net realizable value. If net realizable value increases in a subsequent period, the entity would reverse these write downs. However, the amount of gains recorded by an entity should not exceed the original cost.

If supply-chain disruptions affect an entity's ability to operate its manufacturing facilities at normal capacity, entities will need to reconsider fixed overhead costs which can be included in cost of inventory. For example, certain entities may be forced to operate their manufacturing facilities at abnormally low level which will require them to expense abnormal overhead costs as incurred.

### *Revenue*

Tariffs are generally levied on and paid by the importer/ purchaser of the goods. This indicates that there may not be a direct accounting implication for a seller of goods subject to a tariff. However, this may not hold true in many cases. It is possible that the seller of goods needs to bear the impact of tariff levied on purchaser, either due to explicit requirements of the contract with the customer or the customer may renegotiate terms in response to the imposition of the tariff. Also, where the entity is the importer of the goods which have been subjected to tariff, it may strive to recover those tariffs from customers either in accordance with terms of previously agreed contract or through modification of the contract. Also, tariff imposition on the imports of the entity may increase the overall cost of completing the contract.

Entities must consider whether changes in pricing of existing customer contracts due to tariffs need to be accounted for as variable consideration or a contract modification. If an existing contract contains legally enforceable terms that allow an entity to pass the increased costs of tariffs to their customers automatically, any change in the transaction price would be accounted for as a change in the estimate of variable consideration and, generally, allocated to the performance obligations on the same basis as their initial allocation at contract inception. If a price change resulting from tariffs needs to be separately negotiated and agreed with the customer, the contract modification requirements in Ind AS 115 ***Revenue from Contracts with Customers*** are applied once the modification is enforceable. Based on the facts and circumstances, the contract modification would be accounted for either as a separate contract, a termination of the existing contract and creation of a new contract, or as a part of the existing contract.

Tariffs might affect the measure of progress for over-time performance obligations under which a cost-to-cost input method (i.e., costs incurred relative to total expected costs) is applied to measure an entity's progress toward satisfaction of the performance obligation to recognize revenue.

Entities need to understand the purpose of each tariff and what triggers an obligation to pay a tariff to determine whether they are incurring the tariff expense itself (i.e., the entity is liable) or they are paying the tariff on behalf of the customer. This will impact whether the tariff is presented as expense or netted off from revenue recognized during the period.

Tariffs may also impair the customer's ability to pay amounts due under the contract. In respect of amount previously recognized as revenue, this will affect measurement of the expected credit losses on trade receivables. In respect of further revenue recognition, entities may need to reconsider their conclusion on existence of contract in view of the customer's inability to pay. If the entity concludes that the contract with the customer does not exist, further revenue recognition may be precluded.

Depending on the uncertainties involved, entities may also need to revisit disclosures required under Ind AS 115. Particularly, disclosures requiring specific attention include significant judgments and changes in judgments, revenue recognized in the current period for performance obligations satisfied (or partially satisfied) in a prior period and methods used to recognize revenue over time.

### *Financial instruments*

Entities with lending activities will need to consider the requirements in Ind AS 109 ***Financial Instruments*** when measuring expected credit losses (ECL) on financial instruments as tariffs may adversely impact the ability of borrowers to repay their debts and could trigger impairment losses. Borrowers that are adversely affected by tariffs should consider the impact on their debt covenants. Also, entities need to assess whether the contractual terms of borrowings are modified substantially and apply the appropriate accounting. Tariffs and the related uncertainty may also impact the fair value of financial instruments. Entities should consider whether valuation techniques, judgment and assumptions are appropriate and ensure that the related disclosures are clear.

### *Share-based payment awards*

The significant uncertainty in the current environment may prompt entities to amend the terms and/or conditions of share-based payment awards to keep employees and others providing similar services incentivized. An entity must apply modification accounting if amendments change the fair value, vesting conditions or classification of the award. When an award is modified, the entity is required to, as a minimum, recognize the cost of the original award as if it had not been modified unless the award does not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. In addition, when the effect of the modification increases the fair value of the award, the incremental fair value is recognized. The incremental fair value is spread over the period from the date of modification until the vesting date of the modified award, which might not be the same as that of the original award.

If entities or employees cancel any equity-settled share-based payment awards during the vesting period, the cancellation should be accounted for as an acceleration of vesting and the entities must, therefore, recognize immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period. However, if a new equity instrument is granted and identified as a replacement of the cancelled award, the entity accounts for the granting of the replacement equity instruments in the same way as a modification of the original grant of equity instruments.

### *Provisions and contingent liabilities*

When an entity has a regulatory, legal, or contractual obligation to pay a tariff, the amount and timing of that obligation is usually clear and there is no uncertainty involved. In these cases, liabilities are generally recognized and measured in accordance with Appendix C ***Levies*** to Ind AS 37 ***Provisions, Contingent Liabilities and Contingent Assets***. When it is not clear whether an obligating event to pay a tariff has occurred or what amount is required to be paid (e.g., there is ambiguity in the tariff policy), an entity is required to apply the guidance in Ind AS 37 to recognize, measure and disclose any potential tariff liabilities.

If the introduction of tariffs makes a contract loss-making, entities will need to consider whether the contract is onerous. A contract is considered onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If an entity has a contract that is onerous, Ind AS 37 requires the entity to recognize and measure the present obligation under the contract as a provision. Ind AS 37 specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

### *Income-tax implications*

It may be appropriate for entities to evaluate how imposition of tariffs impact profitability, liquidity and impairment concerns. This may have an impact on income tax accounting in accordance with Ind AS 12 ***Income Taxes***. To illustrate, consider a scenario where imposition of taxes results in significant reduction of the entity's current year profit or it may even incur losses. This is further accompanied by reduction in future profits or a forecast of future losses. This will obviously require the entity to reassess recognition of deferred tax asset in accordance with Ind AS 12. If deferred tax asset recognition criteria are no longer met, then the entity may need to write off previously recognized deferred tax asset through the Statement of Profit and Loss.

Further, depending on forecast profitability and funding requirements at various group entities level, the entity may need to upstream undistributed earnings of subsidiaries, associates and joint ventures, which was previously not required. This may be accompanied with reduction in dividend paid by the entity to its shareholders. From Ind AS 12 accounting perspective, this will require entities to revisit their previous conclusion related to recognition of deferred tax liability on undistributed earnings of subsidiaries, associates and joint ventures.

### *Subsequent events*

A subsequent event that provides evidence about conditions that did not exist at the balance sheet date (i.e., those that arose after that date) is not recognized in the financial statements. A tariff that is levied or amended after the balance sheet date may be non-adjusting subsequent event in many cases. However, this may not always be true. It is imperative that entities evaluate facts and circumstances existing before the reporting date and leading up to imposition of tariff to determine whether imposition of tariff after the reporting date should be considered as an adjusting or non-adjusting event in accordance with Ind AS 10 ***Events after the Reporting Period***.

Even if the entity concludes that imposition of tariffs after the reporting date is a non-adjusting event, such a non-adjusting subsequent event may need to be disclosed to prevent the financial statements from being misleading. Such disclosure should include both the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

### *Discount Rates*

With tariff uncertainty, the potential for high inflation and a general economic downturn, entities should revisit whether discount rates used to calculate value-in-use, employee benefit provisions, incremental borrowing rates for leases, provisions and share-based payments are still appropriate.

### *Going Concern*

Management is required to assess an entity's ability to continue as a going concern, including whether the going concern assumption is appropriate, and provide relevant disclosures for both annual and interim reporting periods. An entity needs to assess whether it has sufficient liquidity to continue to meet its obligations as they fall due. It should also revise budgets and forecasts to take into account the increased uncertainty. Entities need to consider whether their ability to access financing is impacted and the related consequences.

### *Prospective financial information*

Management needs to carefully evaluate the implications of trade policy and tariffs on projections and other assumptions used in preparing the financial statements, including determining how tariffs may affect cash flow projections used in prospective financial information. Entities also need to consider how uncertainty caused by tariffs could affect the discount rate. Projections should be consistently applied (e.g., measurement of fair value, asset impairment tests, realizability of deferred tax assets tests) and should reflect the effects of the current economic environment, including tariffs.

### *Other accounting and reporting considerations*

Entities should assess whether lease assets and liabilities need to be remeasured as a result of reassessing renewals, terminations, or purchase options, e.g., if the entity decides to relocate its facilities in response to tariff.

Tariff uncertainties and the associated disruptions to traditional trade routes could lead to restructuring initiatives. Restructuring costs are recognized only when the general recognition criteria in Ind AS 37 are met, i.e., there is a present obligation (legal or constructive) as a result of a past event, in respect of which a reliable estimate of the probable cost can be made.

New government support programs for entities significantly impacted by tariffs may be introduced. Only once introduced and in place would entities begin to account for the associated government grants subject to the requirements of Ind AS 20 ***Accounting for Government Grants and Disclosure of Government Assistance.***

Ind AS 34 ***Interim Financial Reporting*** requires a condensed interim set of financial statements to explain events and transactions that are significant to an understanding of the changes in financial position and performance since the previous annual financial statements and to provide an update to the relevant information included in the last annual financial statements. Ind AS 34 sets out a number of required disclosures as well as a non-exhaustive list of events and transactions for which disclosures would be required if they are significant.

### *Financial statement disclosures*

Financial statement disclosures will vary based on the magnitude, duration, and nature of the effects of the current economic environment including tariffs on businesses and the availability of information required to make the disclosures. Ind AS 1 ***Presentation of Financial Statements*** requires disclosure of information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. An entity is also required to disclose the judgments, apart from those involving estimations, that management has made in the process of applying its accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

### How we see it

Given the current economic environment, including tariffs, entities need to continuously evaluate the related effects on their business and financial reporting, provide disclosures on the material effects, and update the disclosures as circumstances change. Entities should avoid using boilerplate language in their disclosures and instead provide specific, tailored information that allows investors to evaluate the current and anticipated effects of the current economic environment including tariffs from the perspective of management. Entities should determine the financial reporting areas impacted by import tariffs and the measurement and disclosure requirements that apply. They should provide clear and meaningful disclosures about judgments and assumptions made.

# 05 Regulatory update

## Securities and Exchange Board of India (SEBI) update

### SEBI amends LODR Regulations relating to related party transactions

The Related party transactions (RPT) framework for listed entities has undergone numerous changes over the past several years, and in 2025, the SEBI has accelerated its regulatory efforts around RPTs. In February 2025, the SEBI announced the launch of RPT Analysis Portal[1], which provides unprecedented visibility into RPT governance data. Also, the Industry Standard Forum (ISF), in consultation with the SEBI, issued the Industry Standard, which requires listed entities to provide extensive information regarding RPTs to the Audit Committee and Shareholders, for seeking their approval of RPT. Initially set to take effect in FY 2025, the Industry Standard's applicability was postponed to 1 July 2025. Just before its implementation, on 26 June 2025, the ISF/ SEBI announced the Revised RPT Industry Standards, which introduced simplified disclosure formats effective from 1 September 2025.

The SEBI vide its Board Meeting dated 12 September 2025 have approved the proposals enunciated in the consultation paper dated 4 August 2025 to amend the provisions relating to RPTs under the *SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015* (LODR Regulations). This is a step further for 'Ease of Doing Business' in India and is based on recommendations from the Advisory Committee on Lising Obligations and Disclosures (ACLOD). The proposals which are accepted by the SEBI (but are yet to be incorporated in the LODR Regulations) are summarized below:

#### Threshold for determining material RPTs undertaken by listed entities

- The existing threshold for determining the materiality of a RPT as mentioned in the **Regulation 23(1)** of the LODR Regulations **(i.e. lower of INR1,000 crore or 10% of the annual consolidated turnover)** will be replaced with the below mentioned **scale-based threshold mechanism** (thus removing 'one size fit' all approach and leading to an appropriate number of RPTs being categorized as material):

1. *Refer SEBI | Speech of Shri Ashwani Bhatia, Whole Time Member, SEBI at the Launch of Related Party Transactions Analysis Portal*

## Scale-based threshold

| Buckets of Annual Consolidated Turnover of the listed entity | Proposed threshold |
|---|---|
| Up to INR20,000 crore | 10% of the annual consolidated turnover of the listed entity |
| INR20,001-40,000 crore | INR2,000 crore + 5% of annual consolidated turnover of the listed entity above INR20,000 crore |
| More than INR40,000 crore | INR3,000 crore + 2.5% of annual consolidated turnover of the listed entity above INR40,000 crore or INR5,000 crore, whichever is lower |

## Threshold for determining material RPTs undertaken by subsidiaries of a listed entity

- As per the second proviso to Regulation 23(2), a transaction to which an unlisted subsidiary is a party but a listed entity is not a party requires approval of the Audit Committee (AC) of the listed entity if the amount of such transaction taken together with previous transactions during a financial year exceeds 10% of the standalone turnover of the subsidiary, as per the last audited financial statements of the subsidiary.
- It is possible that a transaction proposed to be entered into by a subsidiary triggers the materiality threshold for shareholder approval based on the threshold being 10% of the consolidated turnover of the listed entity or INR1,000 crore, whichever is lower, yet it falls below the 10% threshold of the subsidiary's standalone turnover. Consequently, such a transaction could escape the scrutiny of listed entity's Audit Committee and hence the SEBI proposed to include the scale-based threshold mechanism in the second proviso to the Regulation 23(2) of the LODR Regulations:
  - **For subsidiaries that have a financial track record (i.e. audited financial statement) for at least one year, the proposed threshold would be the lower of:**
    - 10% of the annual standalone turnover of the subsidiary as per the last audited financial statements of the subsidiary; or
    - the scale-based threshold
  - **For subsidiaries that do not have a financial track record, the proposed threshold would be lower of:**
    - 10% of the aggregate value of paid-up share capital and securities premium of the subsidiary; or
    - the scale-based threshold for material RPTs of listed entity
- The aforesaid thresholds will only be made applicable on RPTs exceeding INR1 crore, undertaken by the unlisted subsidiary of a listed entity.

## Relaxation in the minimum information to be furnished to the Audit Committee and Shareholders for the approval of RPTs

The revised RPT Industry Standards issued vide Circular dated 26 June 2025 prescribes the minimum information to be provided to the Audit Committee and Shareholders for approval of RPTs.

The said consultation paper proposed to reduce the minimum information (as prescribed under RPT Industry Standards) to be provided to the AC and shareholders for the approval of RPTs if these do not exceed the lower of (a) 1% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity; or (b) INR10 crore.

The SEBI has recently issued a Circular dated 13 October 2025, specifying the minimum information to be provided to AC and shareholders if the above thresholds are met. This has provided relaxation to the aforesaid RPTs, from the RPT Industry Standards.

The table below summarizes the effect of the amendment:

| Value of RPT | Disclosure requirement |
|---|---|
| Less than INR1 crore | Neither RPT Industry Standards nor the Circular is applicable. |
| INR1 crore-INR10 crore | As given in the Circular |
| More than INR10 crore | RPT Industry Standards |

## Inclusion of provision in LODR Regulations with respect to validity of omnibus approval for RPTs granted by the shareholders

- Para (C)11 of Section III of the Master Circular on LODR Regulations dated 11 November 2024 prescribes the following period of validity of omnibus approval by shareholders in respect of the material RPTs:
  - **Approval granted in AGM:** Valid for 15 months and maximum up to the date of next AGM
  - **Approval granted in general meetings other than AGM:** Validity not to exceed 1 year

The SEBI has now accepted that a clarification is to be added to Regulation 23(4) of LODR that in case the omnibus approval is given by the shareholder, such approval of omnibus RPTs approved in an AGM shall be valid up to the date of the next AGM for a period not exceeding 15 months (aligning it with Section 96 of the Companies Act, 2013). In case of omnibus approvals for material RPTs, obtained from shareholders in general meetings other than AGMs, the validity of such omnibus approvals shall not exceed one year.

## Clarifications pertaining to the applicability of RPT provisions

*Exemption under Proviso (e) of Regulation 2(1)(zc) of LODR Regulations*

- The said proviso of the LODR Regulations provides exemption to transactions relating to retail purchases made by the employees or directors from the listed entity or its subsidiaries to be considered as RPT, even though the employees or their relatives are not considered as related party under the Regulation 2(1)(zb) of the said Regulations.
- However, key managerial persons (KMPs) or their relatives and the relatives of the directors are to be considered related parties.
- Proviso (e) of Regulation 2(1)(zc) will be amended by excluding employees and including relatives of directors as well as KMPs and the relatives of KMPs within the ambit of the exemption.

*Regulation 23(5) of the LODR Regulations*

- Regulation 23(5)(b) provides an exemption to the transaction between holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
- The term "holding company" used in clause (b) above refers to and is always deemed to refer to the listed holding company, thereby excluding unlisted holding structures from this relaxation.

## How we see it

The overall proposals of the consultation paper which has now been approved by the SEBI are to bring about efficiencies and effectiveness in complying with the RPT provisions. With the increasing focus on Ease of Doing Business, it is an appropriate time to do so.

The approach of scale-based threshold ensures that materiality threshold increases with the increase in the turnover of the listed company, leading to an appropriate number of RPTs being categorized as material, thereby reducing the compliance burden. For large listed organizations, this change will substantially decrease the need to obtain shareholder consent for routine, high-value related party transactions, thereby improving use of management resources and enhancing operational efficiency.

To harmonize the provisions of Regulation 23(2) with the Regulation 23(1) of the LODR Regulations, the scale-based threshold approach has been approved to be included for determining the materiality of the RPTs undertaken by the non-listed subsidiary companies of the listed company. The proposed amendments also take care of instances where a transaction undertaken by the subsidiary company exceeds the threshold for material RPTs requiring shareholder approval but does not exceed 10% of the standalone turnover of the subsidiary, thereby not requiring Audit Committee approval.

The proposed amendment with respect to the "relaxation in the minimum information to be furnished to the AC and shareholders for RPTs approval" facilitates ease of regulatory compliance for the listed companies having high turnover and where there are many RPTs exceeding INR1 crore but not exceeding INR10 crore. The proposed amendment relating to the validity of the omnibus approval of RPTs by the shareholders align the provisions of the Regulation 23(4) of the LODR Regulations with the Master Circular on LODR Regulations.

Overall, we support SEBI's proposed amendments to streamline processes, ensuring that oversight and scrutiny are focused on transactions that genuinely require shareholder attention.

## FAQs on the Applicability of the Industry Standards on "Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of RPTs"

The SEBI issued a circular on 26 June 2025, releasing revised Industry Standards that simplified and clarified disclosure requirements relating to RPTs. These revised standards are effective from 1 September 2025. In this context, the Industry Standards Forum (ISF) has released a set of Frequently asked questions (FAQs) clarifying the applicability of these Industry Standards on "Minimum Information to be provided for Review of the Audit Committee and Shareholders for Approval of RPTs". The key clarifications emerging from the FAQs are summarized below:

- **Materiality threshold:** If a listed entity enters into multiple RPTs with a related party and the cumulative value of these RPTs exceeds INR 1 crore, even if each transaction is below INR 1 crore individually, the Standards will apply from the point the threshold of INR 1 crore is crossed.
- **Aggregate value rule:** The INR1 crore threshold considers the aggregate value of all transactions with a related party during the financial year, including those approved by way of ratification.
- **Exemptions for small transactions:** Transactions below INR1 crore—even if covered under Part B of the Standards—do not require compliance with the RPT Industry Standard.
- **Foreign subsidiaries:** These standards will apply to transactions between foreign subsidiaries of Indian listed companies if such transactions require Audit Committee or shareholder approval under the LODR Regulations.
- **Material modifications to RPTs:** The term material modification would be as defined by the Audit Committee and needs to be disclosed as part of the policy on materiality of RPTs and on dealing with RPTs.
- **Guidelines for placing information to the Audit Committee**
  - Additional reports (other than valuation report) which are required to be placed before Audit Committee could be benchmarking reports, arm's length pricing report, transfer pricing agreements, justification for ordinary course of business, expert opinions, fairness opinion, etc.
  - If an RPT is not approved, rationale must be recorded in minutes of the Audit Committee meeting.
- **Minimum Information to be provided to the shareholders for approval of Material RPTs:** Information specified the RPT Industry standards can be redacted and such redaction is to be approved by Audit Committee and Board of Directors.

### How we see it

The FAQs provide clarifications on the RPT Industry Standards and would facilitate consistent implementation of the Industry Standards. To avoid compliance gaps, companies should align their internal RPT policies with both SEBI regulations and ISF clarifications.

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