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## 01

# Recent amendments to Ind AS: An overview of key changes and financial reporting implications

The Ministry of Corporate Affairs (MCA), through Gazette Notification No. G.S.R. 725(E) dated 12 August 2026, has notified the companies (Indian Accounting Standards) Amendment Rules, 2026. The Rules include amendments to Ind AS 109 *Financial Instruments* and Ind AS 107 *Financial Instruments: Disclosures*, along with improvements to certain other Ind AS. These amendments are aligned with corresponding changes in IFRS and are applicable for the financial year beginning 1 April 2026. Companies preparing financial statements/ results on a quarterly basis need to apply these amendments:

- While preparing financial statements/results for the quarter ending 30 June 2026, if the financial statements/results are approved for issuance after the notification of these rules
- While preparing financial statements/results for the quarter/half-year ending 30 September 2026, in other cases.

Once these changes become applicable as per the requirements stated above, any company going for an Initial Public Offering (IPO) will need to give effect to these changes in the restated financial information for all three years and stub-period, if any.

In this article, we provide an overview of key amendments and financial reporting implications.



## Recognition and derecognition of financial assets and financial liabilities

While Ind AS 109 deals with recognition and derecognition of financial assets and financial liabilities, one may argue that except for regular way purchases or sales of financial assets, it does not explicitly specify the date on which financial asset or financial liabilities should be recognized or derecognized.

In case of regular way purchase or sale of financial assets, Ind AS 109 allows entities to recognize/ derecognize the asset using either trade date or settlement date accounting. The said principle will continue to apply for regular way purchases or sales of financial assets. For all other transactions involving financial assets/liabilities, it is clarified that they will be recognized or derecognized on the following date

### Recognition

An entity will recognize a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

### Derecognition

- *Financial assets:* Financial assets will be derecognized when contractual rights to cash flows expire or are transferred. The Basis for Conclusions to the Amendments in IFRS 9 clarifies that, in the absence of having access to the cash, a confirmation from a debtor that a payment instruction has been initiated does not lead to the expiry of the right to receive cash. It is only when the cash is received that such a right expires.

- **Financial liabilities:** Financial liabilities will be derecognized when the obligations specified in the contract are discharged, canceled or expired, or the liability otherwise qualifies for derecognition, which is the settlement date. However, an entity may be permitted to derecognize financial liabilities settled by an electronic payment system earlier than their settlement date, subject to certain criteria being met (refer below).

### How we see it

Many entities receive payment for sale of goods or services through credit or debit cards, which are typically not settled as cash until a later date. The entities must carefully consider the classification of amounts receivable under such arrangements in their financial statements. It is expected that the judgment will be required to determine if these amounts qualify as trade receivables, cash and cash equivalents, or other financial assets. The amount can be classified as a trade receivable only if the entity has a contractual right to receive cash flows from its customer. Similarly, the amount may be classified as a cash equivalent if it meets the definition of cash equivalents under Ind AS 7, *Statement of Cash Flows*, namely, that it represents a short-term, highly liquid investment that is readily convertible into known amounts of cash, which is subject to an insignificant risk of changes in value and is held primarily to meet short-term cash commitments rather than for investment or other purposes. If these criteria are not met, the amount should be classified as other financial asset.

### Derecognition exception for electronic payments:

The amendments introduce an accounting policy choice for a financial liability settled through an electronic payment system. An entity may deem the financial liability to have been discharged before the settlement date if, and only if:

- The entity has no practical ability to withdraw, stop or cancel the payment instruction.
- The entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction.
- Settlement risk associated with the electronic payment system is insignificant. For settlement risk to be insignificant, completion of the payment needs to follow a standard administrative process, and the period between the entity losing access to the payment and cash being delivered to the counterparty needs to be short.

If an entity elects to apply this accounting policy, it must apply the policy to all settlements made through the same electronic payment system. This part of the amendment does not apply, and there is no accounting policy choice to derecognize financial liability settled by other means, such as payments by cheque, debit card or credit card. A similar accounting policy election is not available for financial assets, whether settled through an electronic payment system or otherwise.

### How we see it

An entity needs to determine what recognition/derecognition date it currently applies to each of its financial assets and financial liabilities, and to what extent this date conforms to the amendments. The assessment should include all settlement methods such as cheques, debit cards and credit cards, as well as electronic transfer systems. This assessment requires a thorough understanding of various cash settlement mechanisms, including when a receivable or payable is settled via each mechanism.

The amendments make it clear that adjustments to an entity's reported cash balance at the reporting date for payments and receipts that are in-transit should not be made. This may be a change for most of the entities, especially for those with a long-established practice of such adjustments.

## Contracts referencing nature-dependent electricity

Many entities enter into long-term power purchase agreements (PPA) to purchase electricity from renewable energy sources such as wind or solar power plants, where the timing and volume of power generated is purely nature dependent. In many cases, the purpose of these PPAs is to secure electricity for own use; however, due to the unique characteristics of electricity, including difficulty to store it, and its market structure, i.e., if a purchasing entity is not able to use the electricity within a short period, the electricity may need to be sold back to the market within a specified time. Although these sales occur because of the market structure and not to generate profit from short-term price fluctuations, an issue arises whether the purchasing entity can treat these PPA as normal power purchase contract or it needs to treat the entire PPA as a derivative under Ind AS 109. It is obvious that the application of derivative accounting will create unwarranted volatility in the statement of profit and loss (P&L).

The amendment is aimed at addressing such practical issues. It primarily addresses two principal issues:

- Application of the own-use exception to contracts for nature-dependent electricity
- Application of hedge accounting where electricity volumes vary because of uncontrollable natural conditions

Ind AS 107 has also been amended to introduce related disclosure requirements.

### Scope of the amendment

The amendment is applicable to contracts referencing nature-dependent electricity that expose an entity to variability in the underlying amount of electricity because generation depends on uncontrollable natural conditions. Wind and solar generation are typical examples. These amendments are narrow in scope and cannot be applied by analogy to other contracts.

## Amendments to the own-use exception

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

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

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

### How we see it

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

## Hedge accounting requirements

Nature-dependent electricity contracts may also be used to manage electricity price risk. Historically, the application of hedge accounting was challenging because the hedged item generally needed to be designated as a specified nominal amount or volume, whereas the volume generated by a wind or solar facility varies with natural conditions.

The amendments permit an entity designating a contract referencing nature-dependent electricity as the hedging instrument in a hedge of forecast electricity transactions to designate a variable nominal amount of forecast electricity transactions as the hedged item. The designated amount needs to be aligned with the variable amount of nature-dependent electricity expected to be delivered by the generation facility referenced in the hedging instrument.

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

## Disclosure requirements for nature-dependent electricity contracts

Ind AS 107 has been amended to require disclosures relating to qualifying contracts excluded from Ind AS 109 under the amended own-use requirements. Among other information, an entity is required to disclose:

- Contractual features exposing the entity to variability in electricity volumes and the risk of purchasing electricity that cannot be used when delivered
- Estimated future cash flows from purchasing electricity under the contracts
- Qualitative information regarding the assessment of whether a contract may become onerous
- Qualitative and quantitative information about the effect of the contracts on financial performance, including relevant costs and proceeds from purchases and sales of electricity

For contracts designated in cash flow hedging relationships, information regarding the terms and conditions is also disaggregated by risk category.



## Classification of financial assets with contingent features

Under Ind AS 109, a financial asset can be measured at amortized cost or fair value through other comprehensive income (FVOCI), subject to the relevant business model, only when its contractual cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI). Questions have arisen in applying the SPPI requirements to financial assets containing contractual terms under which the amount or timing of cash flows changes on the occurrence or non-occurrence of a contingent event. This has become particularly relevant with the increasing use of financing arrangements containing ESG-linked features. For example, the interest rate on a loan may reduce if the borrower achieves a specified reduction in carbon emissions. The contingent event in such an arrangement does not necessarily represent a change in credit risk or another basic lending risk or cost. The question therefore arises whether the existence of such a feature causes the financial asset to fail the SPPI requirement.

These amendments provide additional application guidance to address this assessment. Importantly, the requirements are not restricted to ESG-linked instruments and apply to other financial assets containing contingent features.

The amendments clarify that the assessment continues to be based on whether the contractual cash flows are consistent with a basic lending arrangement. Contractual cash flows are inconsistent with a basic lending arrangement if, for example, they are indexed to a variable that is not a basic lending risk or cost, such as an equity price or a commodity price, or represent a share of the debtor's revenue or profit. This remains the case even if such contractual terms are commonly used in the market. Where contractual cash flows change because of a contingent event, an entity considers the nature of the contingent event and the resulting cash flows.

If the contingent event relates directly to changes in basic lending risks or costs and the contractual cash flows change in the same direction as those risks or costs, the feature may be consistent with a basic lending arrangement. An example is an increase in the interest rate following specified payment defaults, where the increase compensates the lender for increased credit risk.

A more significant clarification relates to contingent events that do not relate directly to changes in basic lending risks or costs. Such a feature does not automatically result in failure of the SPPI test. The financial asset may still meet SPPI if:

- The contractual cash flows before and after the contingent event are themselves consistent with a basic lending arrangement.
- The cash flows arising from the contingent feature are not significantly different from those of an otherwise identical financial asset without that feature.

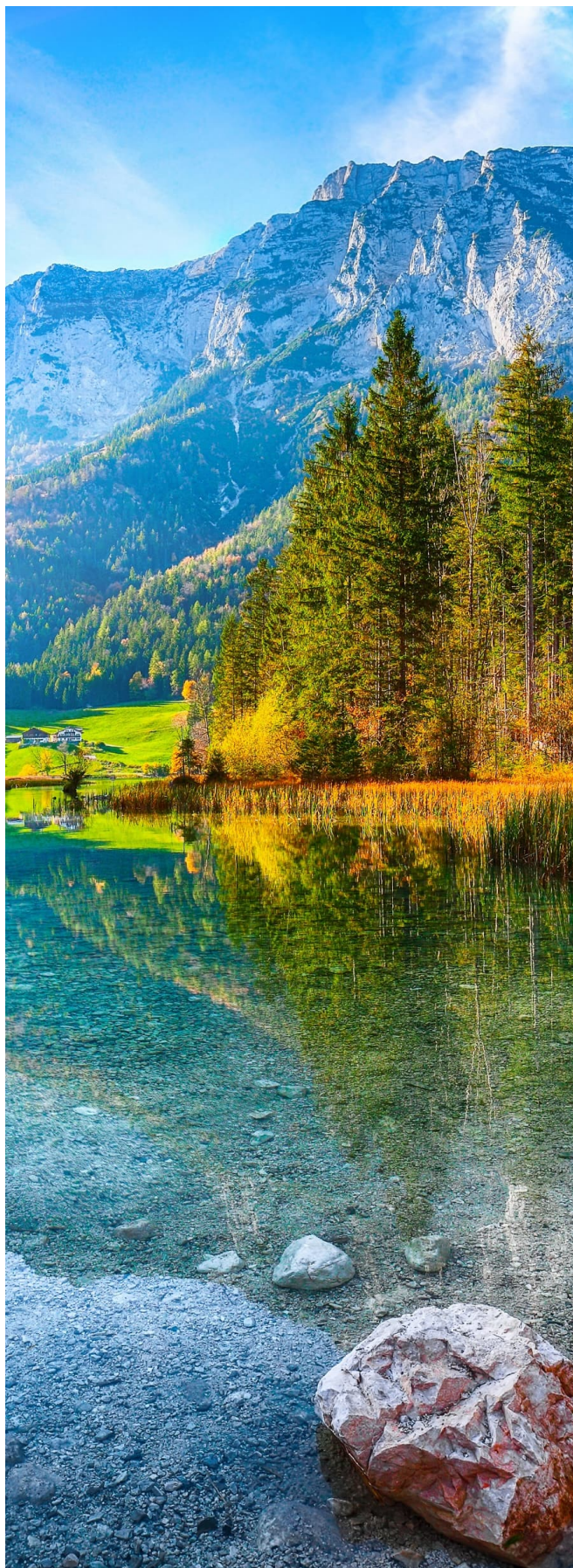
The assessment considers all contractually possible cash flows irrespective of the probability that the contingent event will occur, unless the contractual term is not genuine.

These amended requirements include examples illustrating the distinction. One instrument has an interest rate that is reduced by a fixed number of basis points if the borrower achieves a contractually specified reduction in carbon emissions. The maximum possible cumulative adjustment does not significantly change the interest rate on the loan. Consequently, although the carbon-emission target itself is not a basic lending risk or cost, the instrument may meet SPPI. In contrast, another instrument has an interest rate that changes based on movements in a carbon-price index. Since the cash flows are directly indexed to a variable that is not a basic lending risk or cost, the instrument is inconsistent with a basic lending arrangement and does not meet SPPI.

### How we see it

The amendment should not be regarded as an exemption for ESG-linked financial assets. The accounting outcome will depend on how the contractual feature affects the cash flows.

The amendment does not prescribe a numerical threshold for determining what is "significantly different". Entities will need to exercise judgment and develop an appropriate accounting policy for applying this requirement. A qualitative assessment may be sufficient for relatively simple features, whereas quantitative analysis may be necessary where interest-rate adjustments are larger or multiple contingent features exist.



## Other amendments to Ind AS 109 include:

- a. A financial asset has non-recourse features when an entity's contractual right to receive cash flows is limited to the cash flows generated by specified assets. Consequently, the creditor is primarily exposed to the performance of those specified assets rather than the general credit risk of the debtor. This is different from a financial asset that is merely secured by collateral. A financial asset with a non-recourse feature may potentially fail the SPPI test. The amendment clarifies that having a non-recourse feature does not, by itself, mean that the financial asset fails the SPPI. An entity needs to look through the underlying assets and assess the relationship between the cash flows from those assets and the contractual cash flows of the financial asset being classified.
- b. The amendment provides guidance for assessing the contractual cash flow characteristics of a financial asset with contractually linked instruments (CLIs) features. CLIs are a subset of transactions with non-recourse features. Such arrangements contain a contractual waterfall that creates concentrations of credit risk and results in a disproportionate allocation of cash shortfalls from the underlying pool between different tranches. The amendments clarify that CLIs are not created where multiple debt instruments of differing seniority are issued to facilitate lending with enhanced credit protection to a creditor (or a group of creditors). This is the case, for example, if the structured entity issues senior and junior notes and the entity sponsoring the structured entity that holds the junior debt instrument has no practical ability to sell the junior instrument without the senior debt instrument becoming payable. In this case non-recourse guidance is to be applied. The amendment also clarifies that the underlying pool must comprise financial instruments only for the transaction to qualify as a CLI. However, this can include certain financial instruments outside the scope of the classification requirements of Ind AS 109, such as some lease receivables. Nevertheless, lease receivables must have cash flows that are equivalent to SPPI (i.e., not subject to residual value risk nor indexed to a variable that is not a basic lending risk or cost, such as a market rental rate). CLI structures that include non-financial assets are to be assessed under the non-recourse guidance.

## Amendments to Ind AS 107

The amendments to Ind AS 107 introduce certain additional disclosures for (a) financial assets/liabilities containing contractual terms which could change the amount of contractual cash flows based on a contingent event not relating directly to changes in basic lending risks/ costs, and (b) Equity instruments for which an entity has elected to present fair value changes in the Other Comprehensive Income (OCI).

## Annual improvements to Ind AS

The notification also incorporates Annual Improvements to Ind AS. These amendments are generally narrow in scope and primarily intended to remove inconsistencies or clarify requirements.

### Initial measurement of trade receivables

Ind AS 109 has been amended to clarify that trade receivables not containing a significant financing component are initially measured at the amount determined by applying Ind AS 115 *Revenue from Contracts with Customers*. The amendment removes a potential inconsistency between Ind AS 109 and Ind AS 115.

### Derecognition of lease liabilities

The amendment clarifies that when a lessee has determined that a lease liability has been extinguished in accordance with Ind AS 109, any resulting gain or loss arising from the derecognition of that liability is recognized in profit or loss. However, in case of lease modification, the accounting remains under Ind AS 116 *Leases*. However, the amendment does not address how a lessee distinguishes between a lease modification as defined in Ind AS 116 *Leases* and an extinguishment of a lease liability in accordance with Ind AS 109.

## Other annual improvements

The notification also makes certain narrow-scope amendments to:

- Ind AS 101, *First-time Adoption of Indian Accounting Standards*: To remove an inconsistency relating to hedge accounting requirements applicable to first-time adopters.
- Ind AS 107, *Financial Instruments: Disclosures*: To update certain references and clarify aspects of disclosure guidance, including guidance relating to derecognition.
- Ind AS 110, *Consolidated Financial Statements*: Ind AS 110 is amended to clarify that the relationship described in paragraph B74 is just one example of a circumstance in which judgment is required to determine whether a party is acting as a de facto agent.
- Ind AS 7, *Statement of Cash Flows*: To remove outdated terminology relating to the “cost method” when referring to investments in subsidiaries, associates and joint ventures. The standard now uses the words ‘at cost.’

These amendments are largely clarificatory and are not expected, by themselves, to result in changes to existing accounting practices.

## Way forward

Entities should promptly assess the amendments’ impact on their financial statements and/or results to ensure immediate application. Appropriate operational and system information should be available to support the related accounting conclusions and their implementation.

## 02

## Navigating practical challenges in application of Ind AS 118

The National Financial Reporting Authority (NFRA) has recommended Ind AS 118 *Presentation and Disclosure in Financial Statements*, along with consequential amendments to certain other Ind AS including Ind AS 7, *Statement of Cash Flows*, Ind AS 33, *Earnings per share* and Ind AS 34, *Interim financial reporting*, to the Central Government, for notification. Ind AS 118 corresponds to IFRS 18 issued by the International Accounting Standards Board (IASB) and the NFRA recommendation indicates that there may be no material change between IFRS 18 and Ind AS 118. In accordance with the NFRA recommendation, Ind AS 118, once notified, will apply for the financial year beginning 1 April 2027, and entities preparing financial statements on a calendar year basis may have an option to early adopt the same from 1 January 2027 onward.

We understand that the regulators are also working on revision of Division II and Division III to Schedule III to the Companies Act, 2013 (as amended) as well as the revision of the quarterly results format prescribed under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended). We expect the final Ind AS 118 and related amendments to be notified soon.



### Overview of key Ind AS 118 impacts

Ind AS 118 sets out general and specific requirements for the presentation of financial statements and for disclosures in the notes. Given below is an overview of the key requirements of Ind AS 118:

- An entity should classify all income and expenses within its statement of profit and loss (P&L) into one of the five categories: operating, investing, financing, income taxes and discontinued operations. The first three categories are new from P&L perspective.
- An entity should present an analysis of expenses under the operating category using either nature-wise or function-wise or mixed classification of expenses. The entity should choose the presentation method which provides the most useful, structured summary of the expense, after considering criteria prescribed in the standard. It may be noted that Ind AS 1 *Presentation of Financial Statements* as well as Schedule III currently mandate nature-wise classification of expenses.
- Three new categories in P&L are complemented by the requirement to present three mandatory subtotals and totals, viz., 'operating profit or loss', 'profit or loss before financing and income taxes' and 'profit or loss'.
- To apply the classification requirements into three new categories, Ind AS 118 requires an entity to assess whether it has a specified main business activity (MBA) of investing in the particular type of assets and/or providing financing to customers. If this is the case, the entity is required to classify certain specific income and expenses in the operating category, which would otherwise have been classified in the investing or financing categories. MBA assessment is made at the reporting entity level, and MBA of the group may differ from those of individual entities in the group. The consequence is that the classification of income and expense at the group consolidated financial statements (CFS) may change vis-à-vis the classification at individual entity financial statements level.
- Each entity should make specific disclosures about each Management-defined Performance Measure (MPM), including reconciliations to specified Ind AS subtotals, in a single note to the financial statements. MPMs are subtotals of income and expenses used in public communications outside the financial statements to communicate management's view of an aspect of financial performance of the entity as a whole.

- An enhanced guidance is provided on aggregation and disaggregation of information to be presented/disclosed in the financial statements. Entities may need to re-look at their financial statements to ensure compliance with the enhanced guidance.

For a detailed understanding of Ind AS 118 requirements, reference can be made to our publication [Applying Ind AS: A closer look at Ind AS 118](#) and our webcast [Ind AS 118: What CFOs and Finance Leaders Need to Know](#).

## Overview of practical application issues

As entities prepare for practical application of Ind AS 118 once it is notified and becomes applicable, they are facing certain practical issues. In this article, we provide an overview of three such issues for entities not having an MBA of investing in a particular type of assets and/or providing finance to the customer.

### Classification of foreign exchange differences on Type 2 liabilities (i.e., liabilities not purely related to raising of finance)

The basic principle for classifying foreign exchange differences is that they follow the category in which the related income and expenses from the item giving rise to the foreign exchange difference have been classified, unless doing so would involve undue cost or effort. If the latter is the case, all such differences are classified in the operating category. For example, foreign exchange differences on a trade receivable denominated in a foreign currency are classified in the operating category. Foreign exchange differences arising from a Type 1 liability, i.e., liabilities purely related to raising of finance (e.g., a debt instrument denominated in foreign currency) are classified in the financing category.

Type 2 liabilities, by definition, relate to more than one activity. For example, a lease liability relates to the acquisition of a right to use a leased asset as well as to the receipt of financing. A trade payable with a three-month credit term relates to the acquisition of goods or services and contains a financing component, even if no interest is accounted for due to the short-term nature of the liability.

When applying Ind AS 118 requirements to such liabilities, an entity could consider both activities that gave rise to the liability in order to assess the appropriate category in which the foreign exchange difference must be classified. Since Ind AS 118 is clear that an entity is not permitted to allocate the foreign exchange differences arising on an asset or a liability between categories, judgment is needed to decide which of these activities takes precedence and, therefore, in which single category to classify the difference.

In a practical scenario, applying the judgment, an entity may conclude:

- Foreign exchange differences on a lease liability relate to the interest expense included in the financing category, because Ind AS 116 Leases treats lease arrangements as a form of financing and the choice between buying or leasing an asset is a financing decision.
- Foreign exchange differences on a short-term trade payable, on which no interest expense is recognized, related to the acquisition of inventory relate to amounts included in the operating category. This judgment can be supported with the argument that the decision to purchase inventory in a foreign currency is an operating decision, or with the argument that trade payable do not result in any income or expense being recognized in the financing category.

### How we see it

The classification of foreign exchange differences on a Type 2 liabilities requires the use of judgment, based on the particular facts and circumstances of the entity.

Therefore, differing conclusions on similar liabilities could occur between entities. However, each entity is required to classify the foreign exchange differences on similar Type 2 liabilities in the same category.

## Classification of foreign exchange differences on intercompany loans eliminated on consolidation

As explained above, the basic principle in Ind AS 118 is that foreign exchange differences are classified in the same category in which the related income and expenses from the item giving rise to the foreign exchange difference have been classified, unless doing so would involve undue cost or effort.

The application of this principle can be challenging for intercompany loans within a group. Consider a multinational group where the parent commonly has a different functional currency from its subsidiaries. The parent company has provided a loan to its overseas subsidiary. The loan is denominated in the parent's functional currency and does not form part of the parent's net investment in the subsidiary.

Any intercompany balances between the parent and its subsidiaries, which do not form part of the net investment in a foreign operation, are eliminated on consolidation applying Ind AS 110 *Consolidated Financial Statements*. However, the foreign exchange differences recognized in the consolidated statement of profit and loss, by applying paragraph 45 of Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*, are not eliminated. Hence, from the consolidated group's perspective, the underlying intercompany balances that gave rise to the foreign exchange differences do not exist. Therefore, there does not appear to be 'related income and expenses' that the foreign exchange differences can 'follow.' In the context of IFRS 18, this issue was considered by the IFRS Interpretation Committee (IFRS IC) in March 2026. The IFRS IC concluded there are two reasonable readings of the Standard in such cases:

1. Classify the foreign exchange difference in the operating category as the default category. This reading is on the basis that the related income and expenses arising from the item that gave rise to the foreign exchange differences are not included in the consolidated statement of profit and loss and, therefore, there is no 'same' category to follow.
2. Classify the foreign exchange difference in the same category in which the related income and expenses would have been classified before their elimination on consolidation, or, if doing so would involve undue cost and effort, in the operating category. This reading is based on the interpretation that the standard does not require the related income and expenses from the intragroup loan to be included in the consolidated statement of profit and loss in order for the foreign exchange differences to follow their classification before elimination.

This reading is applied from the perspective of the consolidated entity and, therefore, could differ from the category in which the subsidiary classifies the exchange difference in its individual financial statements (e.g., where the group and the subsidiary have different main business activities, for example, a subsidiary whose main business activity is providing financing to customers may classify exchange differences on related borrowings within the operating category in its standalone financial statements. However, the parent may classify those exchange differences within the financing category in the consolidated financial statements if providing financing is not a main business activity of the group).

Considering the example above, involving a loan from a parent to its subsidiary with a different functional currency (intragroup loan), which is:

- Denominated in the functional currency of the parent
- Not part of the parent's net investment in the subsidiary

The subsidiary, therefore, has a foreign currency monetary item (Type 1 liability) and applies Ind AS 21 to translate the loan into its functional currency at the reporting date, recognizing foreign exchange differences in the financing category in its individual statement of profit or loss. In accordance with Ind AS 21.45, these foreign exchange differences are recognized in the consolidated statement of profit and loss. In this example, it is appropriate to recognize the foreign exchange difference either in the operating category, applying the first reading or in the financing category, applying the second reading.

An entity must develop an accounting policy in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for its reading of Ind AS 118 in such circumstances (i.e., choosing either the reading (1) or (2) above) and apply that reading consistently. This means that it is not possible to apply different readings to different types of intragroup balances (for example, to long-term versus short-term balances).

## Classification of interest arising on settlement of indirect tax litigation

Ind AS 118 requires an entity to classify interest income/expense as well as impact of changes in interest rate on Type 2 liability (i.e., liability not purely related to raising of finance) to be classified in the financing category, if they arise from application of other requirements in Ind AS. Any provision recognized for ongoing indirect tax litigation is a Type 2 liability accounted for in accordance with Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Ind AS 37 requires that where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditure expected to be required to settle the obligation. Any unwinding of discount is treated as borrowing/interest cost.

Consider a scenario where the entity is involved in the ongoing litigation related to an indirect tax matter. The applicable indirect tax law will require the entity to make payment with interest calculated from the date when the obligating event took place if the matter gets decided against the entity. The management, along with its legal professionals, has assessed that there are good chances of success and exposure under the litigation, both for principal amount as well as interest, was possible and not probable. Considering the expected favorable outcome, the entity has not made any upfront payment towards potential obligation, which may arise if the matter gets decided against the entity. The entity discloses both the principal amount of the obligation as well as the interest accrued till the reporting date as contingent liability in notes to the financial statements.

During the current year, the apex court has decided the matter against the entity, requiring it to pay both principal amount of obligation as well the interest relating to past periods. In this case, it seems clear that principal portion of the indirect tax liability is classified in the operating category, as it relates to the entity's ongoing operations and does not meet criteria for classification under investing or financing categories. However, an issue arises with regard to classification of past interest and, apparently, the following two views seem possible:

- a. *Interest presented in the operating category:* To support this view, it may be mentioned that Ind AS 118 requires interest income and expense on Type 2 liabilities to be classified in the financing category only when such interest is identified and recognized by applying another Ind AS. In this fact pattern, the entity has not previously recognized a provision for the disputed amount and, therefore, has not recognized any interest expense under Ind AS 37. As a result, interest component does not meet the requirements for classification in the financing category and is instead classified in the operating category, which is a residual category under Ind AS 118.

- b. *Interest presented in the financing category:* To support this view, it may be argued that though the entity has previously not recognized Type 2 liability and interest component separately, it was disclosing the obligation requiring possible cash outflows as such in notes to the financial statements. The legal position is clear that the entity is paying tax and interest thereon, for delay in making payment. Hence, interest component is in the nature of finance cost and classified in the financing category.

Ind AS 118 does not specifically address the classification of interest arising in such cases. As a result, more than one interpretation may be supportable depending on how an entity views the nature of the interest charge and its relationship with the underlying tax obligation. We recommend that it may be appropriate for the Institute of Chartered Accountants of India (ICAI) to provide guidance on the matter.



## Concluding remarks

Ind AS 118 represents a fundamental evolution in financial statement presentation rather than a mere re-labeling exercise. The standard is expected to significantly enhance comparability, transparency and discipline in the presentation of financial performance. Its implementation will require entities to look beyond statutory formats and reassess how performance is defined, measured and communicated. The standard is also likely to drive changes in transaction systems, reporting processes and internal controls to ensure consistent classification and robust disclosures. This, among other matters, will require entities to evaluate and conclude technical/practical issues which are expected to arise. The experience indicates that such evaluation may be challenging and time-consuming exercise. For listed entities and IPO-bound companies in particular, early preparedness will be critical to ensure smooth transition, manage regulatory expectations and investor scrutiny.



## 03 AI in accounting and reporting

How many of you have imagined having a J.A.R.V.I.S. (Just A Rather Very Intelligent System) like Tony Stark has? How would you use it? It could read the newspaper for you and summarize the key information in five minutes based on your preferences. It could help you prepare for the day's meetings with all data points taken from your mails or simply finish up daily routine activities like voucher posting, reconciliations, financial statement preparation and keeping them ready for your review.

In today's digital playground, Agentic AI use cases are plentiful. It may not be long before every CFO has their own version of J.A.R.V.I.S., helping manage routine finance activities, connect information across systems and support faster, more informed decision-making. What feels futuristic today could soon become a normal part of how finance teams operate.

Finance organizations are now in the process of scaling AI from point use cases to autonomous workflows. There is pressure from the board around investing in and deploying AI on a scale and bringing in efficiencies.

As accountants, for someone who is very used to a very structured and methodical way of working, such as checklists and documentation, the pivot to AI, especially Agentic AI, where there could be an agent doing the accounting and produce the first pass of financial statements, could mean a lot of change management from the inside and the outside.

How can accountants transition from filing up checklists, documentation, performing reconciliations, posting journal entries to managing agents and reviewing the agent output and signing off as agent boss (human in the loop) .... this is going to be an interesting journey.



### Let's deep dive into reimagining accounting and reporting through AI

*According to EY 2026 Global DNA of the CFO Survey, only 21% of CFOs describe their finance function's AI preparedness as leading or advanced. EY also highlights an example where an organization implemented an end-to-end Agentic AI solution for purchase-to-pay, reducing the capacity required for those activities by approximately 85%.*

The role of AI has significantly reshaped how finance function operates, enabling faster and smarter business decisions. To achieve that, there must be a fundamental shift in how AI can be used in accounting and reporting processes to be AI ready in order to rely on the numbers being reported. A successful AI implementation is more about getting the fundamental framework and data architecture right rather than the AI model itself being used for implementation.

The accounting and reporting landscape has transformed significantly over the last decade. Finance functions have progressed from manual spreadsheets to ERP-enabled processes, from rule-based automation to advanced analytics, and more recently, to GenAI-powered assistance.

Each stage of this evolution has helped address a different finance challenge. Automation has standardized repetitive processes and reduced manual effort. Traditional AI has enabled finance functions to identify anomalies, classify transactions and improve forecasting. GenAI has expanded these capabilities by supporting accounting research, drafting disclosures and producing management commentary.

However, most AI deployments today remain focused on individual activities. A solution may identify an exception, draft a narrative or perform a reconciliation, but the surrounding investigation, resolution, approval and reporting activities continue to require coordination across multiple teams and systems.

As organizations face greater reporting complexity, compressed timelines and rising stakeholder expectations, a new paradigm has emerged: Agentic AI.

## What makes Agentic AI different?

The distinction between traditional AI, GenAI and Agentic AI can be understood through the way each responds to a reporting issue.

- Traditional AI may identify an inconsistency in the reporting data.
- GenAI may summarize the inconsistency and draft an explanation.
- Agentic AI can potentially identify the issue, determine which reporting activities may be affected, retrieve supporting information, route the exception to the appropriate owner, monitor its resolution, refresh permitted reporting outputs following approval and retain evidence of the actions performed.

This ability to coordinate a sequence of activities is particularly relevant to accounting and reporting because the reporting lifecycle is highly interconnected. Data readiness affects reconciliations and close timelines. Adjustments affect financial statements, disclosures and management reporting. Accounting conclusions influence compliance assessments and stakeholder communication.

The real potential of Agentic AI therefore lies not in deploying one autonomous agent. It lies in creating a governed network of specialized agents that can exchange information and coordinate activities across the accounting and reporting journey.

## Agentic AI across the reporting journey

Agentic AI can enable an integrated reporting journey – from data preparation and financial close to statements, disclosures, stakeholder reporting and assurance. Each agent performs a defined role, with governed outputs feeding subsequent stages while human judgment remains central to material decisions.

### 1. Preparing reporting-ready data

Reporting depends on complete, accurate and traceable data drawn from ERPs, subledgers, operational systems and supporting schedules. Data-readiness agents can retrieve and standardize information, map it to approved reporting hierarchies, reconcile it to source systems and preserve provenance.

When exceptions arise, agents can route them to process owners, obtain supporting information, monitor remediation and update the dataset after approval. The validated information then feeds reconciliation, close and reporting activities, allowing finance teams to focus on accounting and business implications.

### 2. Orchestrating the financial close

Close-orchestration agents can monitor entity submissions, journals, reconciliations and consolidation activities; identify bottlenecks; and maintain visibility over the reporting calendar. They can prevent dependent tasks from advancing when issues remain unresolved and initiate the next authorized step once review and approval are complete.

The goal is a transparent, intelligently coordinated close; not speed at the expense of control. Routine follow-ups can be automated while human attention is directed to exceptions, significant adjustments and unresolved matters.

### 3. Preparing financial statements and disclosures

Using approved trial balances and governed mappings, financial-reporting agents can assemble primary statements, supporting schedules and standalone or consolidated reporting packs. Disclosure and accounting-policy agents can draw on controlled guidance, policies, contracts, prior reports and approved precedents to support technical analysis and draft disclosures.

Agents can extract contract terms, identify potential disclosure gaps, compare drafts with reporting checklists and prepare initial accounting policies or technical memoranda. Structured outputs can move between contract-review, technical-accounting and disclosure agents after appropriate review and approval.

Material classifications, estimates and accounting conclusions remain subject to professional judgment. Agentic AI organizes evidence, coordinates workflow and provides a traceable starting point for human review.

#### 4. Connecting financial results with business performance

Commentary agents can analyze actual budget, forecast and operational-driver data to draft period-on-period, budget and forecast variance explanations, identify material movements and support root-cause and segment analysis.

Where evidence is incomplete, an agent can route the variance to the relevant finance or business owner and refresh the narrative after an approved response. This creates a controlled link between reported results and business drivers, enabling finance leaders to focus on whether the message is balanced, relevant and appropriate for its audience.

#### 5. Ensuring consistency and compliance

Tie-out agents can verify relationships across trial balances, statements, disclosures, narratives, KPIs, management reports and external communications. When discrepancies arise, they can trace the source, identify affected outputs, route resolution and revalidate dependent reports after approval.

Differences may reflect purpose, scope or reporting basis rather than error, so human review remains necessary. In parallel, regulatory and compliance agents can monitor obligations and rule changes, complete disclosure checklists, perform gap analyses, map requirements to affected reports and escalate unresolved matters – supporting more continuous monitoring of consistency and compliance.

#### 6. Producing stakeholder-specific reporting

Reporting agents can use a common, controlled financial dataset to prepare audience-specific outputs, including CFO and CEO briefings, board and audit committee packs, controller reviews, investor presentations and regulatory submissions.

Approved templates and communication parameters tailor purpose, detail and presentation while keeping every output connected to the governed reporting foundation. This reduces duplication, version-control challenges and inconsistent messaging without forcing a one-size-fits-all report.

#### 7. Embedding assurance throughout the journey

Assurance and controls can be embedded throughout the lifecycle rather than added at the end. Control agents can monitor journals and adjustments, test defined controls, identify unusual transactions or rule breaches, log exceptions, notify owners, track remediation and maintain evidence histories for traceability and audit readiness.

For reporting adjustments, agents can link supporting documentation and approvals, identify affected statements or disclosures and confirm that relevant tie-outs are repeated. This provides earlier visibility of risk and reduces late-cycle surprises.

Automated monitoring is not assurance in itself. Management and assurance professionals remain responsible for evaluating evidence, challenging conclusions and determining whether controls operated effectively and issues were appropriately resolved.

## How should organizations get started with Agentic AI?

For many CFOs, the challenge is not in imagining a future powered by intelligent agents but in deciding where to begin. After all, even Tony Stark did not start with a fully capable J.A.R.V.I.S.; it evolved over time, taking on greater responsibilities as trust and capability increased.

### Phase 1: Establish the foundations for an AI-ready finance function

The first step towards an autonomous finance function is creating a strong operational and data foundation. Agentic AI can only be effective when core finance processes, data structures and controls are standardized and reliable. CFOs should focus on harmonizing ERP platforms, improving master data quality, standardizing accounting processes and establishing Responsible AI governance. Rather than viewing Agentic AI as a technology deployment, leading organizations treat it as a finance transformation program.

#### Practical CFO actions:

Conduct an AI readiness assessment, establish a finance AI governance council, implement process mining, create enterprise data ownership models and define AI risk management policies.

#### Success metrics:

Finance data quality score, percentage of standardized processes, ERP harmonization levels, number of governance controls digitized and reduction in data-related reporting issues. This phase lays the foundation upon which all future AI agents will depend.

## Phase 2: Deploy AI copilots to augment finance professionals

Before introducing autonomous agents, finance teams should become comfortable working alongside AI. AI copilots can assist with accounting research, disclosure drafting, management commentary, variance analysis and forecasting while ensuring professionals retain decision-making authority. The objective is to build trust in AI-generated outputs, improve productivity and create a culture that embraces AI-enabled ways of working.

### Practical CFO actions:

Deploy finance copilots, train finance teams on AI usage, build approved accounting knowledge repositories, measure productivity improvements and define review controls for AI-generated content.

### Success metrics:

Copilot adoption rates, reduction in manual research effort, time saved in reporting and disclosure preparation, employee satisfaction scores and percentage improvement in finance productivity. This stage enables CFOs to transition from experimentation to measurable AI-driven value creation.

## Phase 3: Introduce domain-specific finance agents

Once confidence in AI is established, organizations can deploy specialized agents within high-volume finance processes. Examples include reconciliation agents, journal entry agents, close management agents and reporting agents. These agents operate under defined governance and focus on specific objectives such as exception resolution, validation and workflow monitoring.

### Practical CFO actions:

Deploy finance copilots, train finance teams on AI usage, build approved accounting knowledge repositories, measure productivity improvements and define review controls for AI-generated content.

### Success metrics:

Copilot adoption rates, reduction in manual research effort, time saved in reporting and disclosure preparation, employee satisfaction scores and percentage improvement in finance productivity. This stage enables CFOs to transition from experimentation to measurable AI-driven value creation.

## Phase 4: Orchestrate multi-agent finance workflows

The real transformation occurs when agents collaborate across the end-to-end finance lifecycle. Reconciliation, compliance, accounting policy, control and reporting agents can work together to investigate anomalies, resolve issues, obtain approvals and update reporting outputs. Finance shifts from managing activities to managing exceptions.

### Practical CFO actions:

Deploy an enterprise agent orchestration platform, define inter-agent communication protocols, establish materiality thresholds requiring human intervention and embed controls directly within AI workflows.

### Success metrics:

Percentage of finance workflows executed autonomously, reduction in close duration, decrease in manual hand-offs, exception auto-resolution rates and improvements in workflow cycle times. This phase represents the transition from automation to true process autonomy.

## Phase 5: Build the autonomous finance control tower

The final stage is to create a finance control tower powered by interconnected AI agents. This environment continuously monitors transactions, controls, compliance requirements and emerging risks while generating real-time insights for finance leadership. Controllers oversee exceptions while CFOs focus on strategic decisions supported by predictive intelligence.

### Practical CFO actions:

Establish a finance AI control tower, implement continuous monitoring, deploy predictive risk agents, create real-time executive dashboards and redesign finance roles towards oversight and business partnering.

### Success metrics:

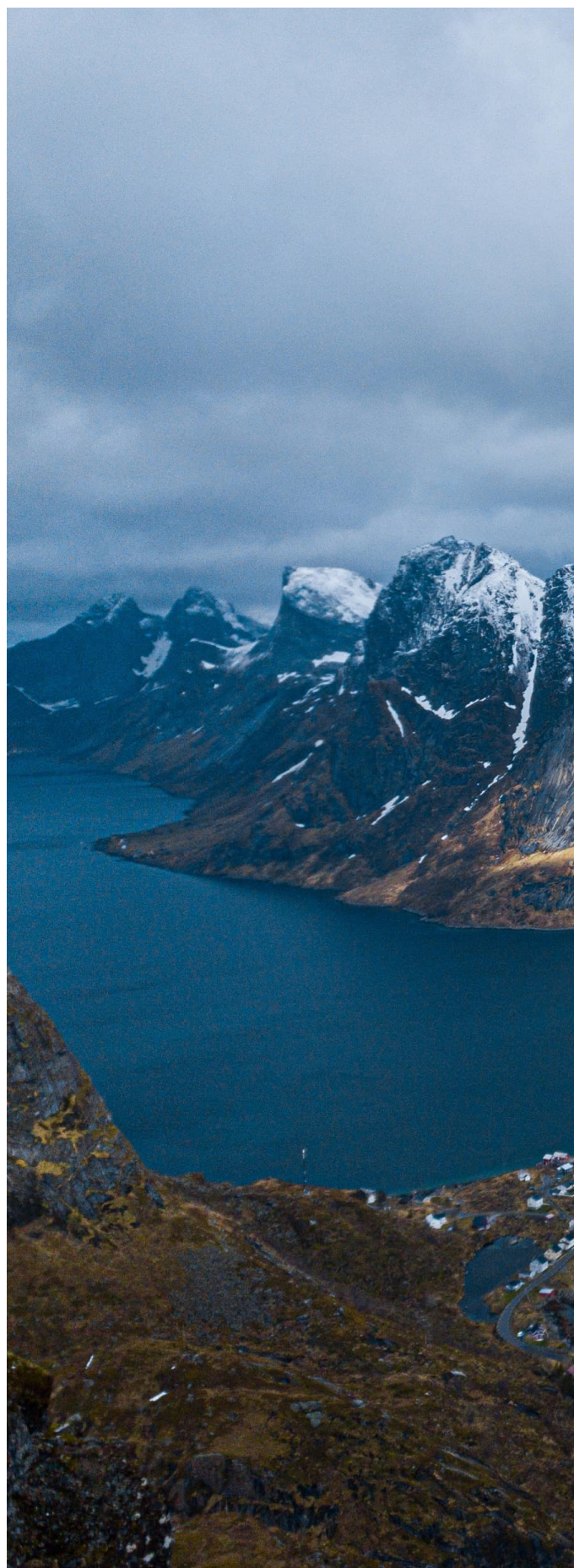
Touchless transaction rates, continuous close maturity, forecast accuracy improvements, reduction in control failures, faster anomaly detection and percentage of decisions supported by AI-driven insights. At this stage, finance evolves into a self-monitoring, self-learning and strategically focused function.

A structured Agentic AI journey empowers finance organizations to transition from process execution to intelligent orchestration. By combining autonomous agents, trusted data and embedded controls, finance can operate as a continuously learning ecosystem that anticipates risks, accelerates decision-making and delivers real-time insights, allowing CFOs and Controllers to focus on stewardship, strategy and sustainable enterprise value.

## How can accountants own AI

As Alvin Toffler famously observed, "*The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn and relearn.*" Nowhere is this more relevant than in the age of AI. To truly harness the potential of Agentic AI, accountants must move beyond viewing AI as a tool and start embracing it as a digital colleague. The future finance professional will spend less time performing reconciliations, posting journal entries and compiling reports, and more time designing controls, governing AI agents, validating outputs and exercising professional judgment. Success will require a combination of accounting expertise, data literacy, AI fluency and a willingness to continuously adapt. Rather than being displaced by AI, accountants have a unique opportunity to own its deployment, ensuring that autonomous systems operate within a framework of trust, compliance and accountability. In the emerging finance function, the most valuable professionals will not be those who perform the work themselves, but those who can effectively orchestrate and supervise teams of intelligent agents to deliver better, faster and more reliable outcomes.

Just as Tony Stark had J.A.R.V.I.S., tomorrow's CFO will have a network of intelligent agents working seamlessly across the finance function. The real transformation, however, is not technological but human. Accountants will evolve from process executors to AI orchestrators, from checklist managers to judgment-driven supervisors, ensuring that autonomous systems remain accurate, compliant and trustworthy. The organizations that learn, unlearn and relearn fastest will redefine finance, creating a future where reporting is faster, smarter, more transparent and increasingly touchless, while human expertise remains at the heart of every critical decision.



# 04 Assurance and regulatory updates



## National Financial Reporting Authority (NFRA)

### NFRA Staff Series on Technology in Audit: [General Principles for Technology Adoption in Audit](#)

NFRA's Staff Series recognizes that data analytics, automated tools and Artificial Intelligence (AI) are becoming integral to statutory audits. These tools can improve coverage, consistency and efficiency, but they also create new audit quality risks such as automation bias, opaque outputs, model changes and data privacy exposure.

To keep these risks in check, NFRA has issued its first paper on the Staff Series on Technology in Audit. It reinforces that audit quality outcomes must continue to be assessed under the applicable Standards on Auditing, quality control requirements and ethical principles. This paper sets out a principles-based framework, dos and don'ts and the changes to audit quality processes and systems within which statutory auditors of public interest entities need to evaluate, deploy and govern the use of technology, in the conduct of audits under the applicable Standards on Auditing (SAs).

In this regard, NFRA has stated the following 10 general principles:

| Principle                                    | Practical meaning                                                                                                                           |
|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Technology neutrality                        | Auditing standards should remain technology-neutral, and audit teams should focus on the sufficiency and appropriateness of audit evidence. |
| Auditor responsibility remains non-delegable | The responsibility for audit opinion remains with the auditor.                                                                              |
| Audit evidence standards do not change       | Technology-generated outputs should be evaluated for relevance and reliability.                                                             |
| Professional skepticism must be preserved    | Teams should challenge persuasive or fluent machine outputs and avoid automation bias.                                                      |
| Risk based, proportionate governance         | Teams should review a tool in proportion to the risk it poses to audit quality                                                              |
| Explainability should match materiality      | The more material the output, the greater the need to understand and document it.                                                           |
| Governance should precede deployment         | Tools should be validated, approved and monitored before being used in live engagements.                                                    |
| Data stewardship is essential                | Client and personal data must be protected in line with confidentiality and legal obligations.                                              |
| Transparency requirements                    | Where technology use is material to the audit approach, the auditor needs to be able to explain such use.                                   |
| Monitoring must be continuous                | Approval is not a one-time exercise; changes and performance issues require reassessment.                                                   |

## General dos and don'ts for use of audit technology

- Use only approved or validated tools for live audit procedures.
- Validate completeness and accuracy of data before using it in analytics or testing tools.
- Do not accept risk scoring, classifications or exceptions without appropriate challenge and review.
- Retain a clear audit trail so an experienced auditor can understand what the tool did and how the output was evaluated.
- Where technology use is material to the audit approach, be prepared to explain it to those charged with governance.

## Changes to processes and systems

- Treat technology as a distinct audit quality risk within the firm's quality control or quality management system.
- Implement a formal tool lifecycle covering validation, approval, version control, monitoring and reapproval triggers.
- Ensure audit documentation clearly records the tool used, purpose, data source, configuration, output and human review.
- Train preparers, reviewers and partners on safe use, critical evaluation, bias awareness and governance judgment.
- Strengthen third-party and cloud tool oversight, including data protection, explainability, audit rights and continuity.

### How we see it

NFRA's staff paper does not prescribe a specific technology. Instead, it reinforces a central audit quality message: technology may assist the auditor, but it does not reduce the auditor's responsibility to obtain sufficient appropriate audit evidence, exercise professional skepticism, protect data and operate within a robust quality control framework.

## Reserve Bank of India

### Strengthening governance, data integrity and MSME financing: Key RBI regulatory changes reorient board attention towards strategic governance

On 14 July 2026, RBI issued the Governance Amendment Directions relating to "Matters to be placed before the boards of Banks", marking a significant shift from a compliance-driven governance approach towards a principle-based framework. These amendments signal the regulatory expectations that boards of directors should serve as a strategic decision-making body rather than a review forum.

Over time, RBI observed that bank boards were increasingly burdened with extensive reporting and operational matters, limiting their ability to focus on strategy, risk governance and financial resilience. The revised framework seeks to address this challenge by rationalizing matters requiring board attention and enabling more effective use of board of directors' time and expertise.

Under the new framework, RBI has consolidated board agenda requirements into structured appendices that clearly identify policies requiring board approval, matters requiring review or information, and matters that may be delegated to board committees. Policy reviews may now be delegated to committees, with the board required to approve only material amendments. RBI has also prescribed responsibilities to the Chairperson for ensuring that board agendas adequately focus on strategic oversight, risk management, financial soundness and governance matters. These revised directions are expected to encourage deeper board-level discussions, strengthen committee structures and reduce administrative congestion in board meetings.

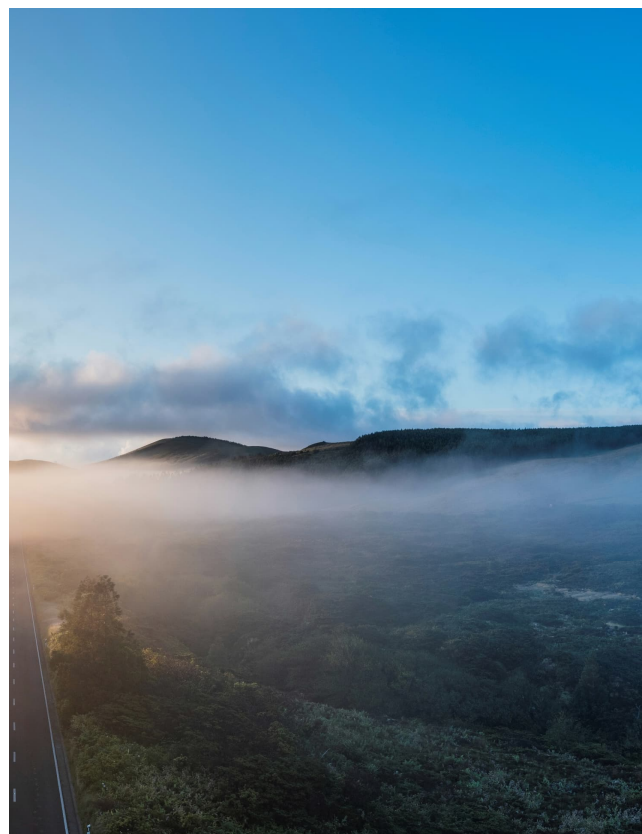
For banks, the amendments are likely to trigger a review of governance frameworks ahead of their effective date of 1 October 2026. Governance manuals, board and committee charters, delegation matrices, management information frameworks and terms of reference may all require reassessment to ensure alignment with the revised regulatory expectations. boards may also need to evaluate whether existing committee structures are sufficiently robust to support the increased delegation envisaged under the new framework.

## How we see it

The amendments represent a broader shift from procedural governance to outcome-oriented governance. As routine reporting moves away from the boardroom, directors can be expected to face heightened expectations around strategic decision-making, risk oversight and accountability for organizational outcomes.

Equally, management information will need to evolve from extensive reporting packs to concise, insight-led analysis that supports effective challenge and decision-making.

From an assurance perspective, the amendments are likely to elevate the importance of board effectiveness reviews/committee effectiveness assessments. As delegation increases, boards will depend more heavily on the strength of the other lines of defense and on the reliability of independent assurance functions to provide confidence that risks are being appropriately identified, managed and escalated to them robustly.



## Ministry of Labour and Employment

### Provident fund wage ceiling increased to INR25,000

Effective 17 September 2026 | Key employment and financial reporting implications

| Earlier ceiling     | Revised ceiling     | Effective date    |
|---------------------|---------------------|-------------------|
| INR15,000 per month | INR25,000 per month | 17 September 2026 |

### What has changed

Notification S.O. 5109(E) dated 17 September 2026 increases the monthly wage ceiling under Chapter III of the Code on Social Security (COSS), 2020 from INR15,000 to INR25,000. Chapter III governs the provident fund, pension and deposit-linked insurance framework. The revised ceiling applies from 17 September 2026 and must be read with the statutory definition of “wages” and the applicable scheme provisions.

The amendment is expected to have below key impacts:

- (a) Provident Fund coverage: Pursuant to change in wage ceiling, an employee earning wages up to INR25,000 per month will be mandatorily required to become a member of the Provident Fund. This change will bring employees earning ‘wages’ up to INR25,000 within mandatory PF coverage. The revised threshold will need to be applied by reference to “wages” as defined under the COSS.

- (b) **Provident Fund contributions:** The Employee Provident Fund (EPF) Scheme requires the employer and the employee to contribute at the rate of 12% of wages. However, these contributions are subject to the wage ceiling notified by the government. Consequently, increase in the wage ceiling also enhances wage base for mandatory PF contributions. This means that for employees earning monthly wages of more than INR15,000 and whose contributions were restricted to the statutory ceiling, mandatory contribution will increase from INR1,800 per month to 12% of monthly wages or INR3,000 per month, whichever is lower. However, where the employer and employee were already contributing on wages or basic salary exceeding INR25,000 per month, revision in the wage ceiling may not have an impact on total provident fund contributions.
- (c) **Pension coverage:** The Pension Scheme applies to employees who become members of the EPF Scheme or of an exempted provident fund and whose wages at the time of joining are within the notified wage ceiling. The enhancement of the wage ceiling will therefore broaden mandatory pension coverage for employees having monthly wages above INR15,000 and up to INR25,000.
- (d) **Allocation of pension contribution:** Under the Pension Scheme, a portion of the employer's contribution is allocated to the Pension Fund at the rate of 8.33% of wages, subject to the statutory wage ceiling. With the monthly wage ceiling increasing to INR25,000, contribution allocated from the employer's share to the Pension Fund will increase. For example, for an employee having monthly wages of INR25,000 per month and already covered under the PF Scheme on a voluntary basis, such allocation will increase from INR1,249.50 per month to INR2,082.50 per month. The balance contribution after the pension allocation will be credited to the Provident Fund.
- (e) **Pension benefit:** The monthly pension is determined based on the prescribed pension formula, which takes into account the member's 'pensionable wages' and years of 'pensionable service.' The maximum pensionable wages are restricted to statutory wage ceiling. Thus, increase in the monthly wage ceiling from INR15,000 to INR25,000 is expected to result in a corresponding increase in the pensionable wages used for determining pension entitlements. However, the actual benefit may depend on years of service and average pensionable wages.
- (f) **EDLI contributions and benefit:** The EDLI Scheme applies to members of the EPF Scheme, who are required to become members of EDLI Scheme. As a result, employees newly brought within mandatory EPF coverage by the revised wage ceiling will also be covered under the EDLI Scheme.

Employer contributions to EDLI Scheme are calculated as 0.5% of 'wages', subject to the notified wage ceiling. Increase in monthly wage ceiling to INR25,000 will increase the maximum monthly EDLI contribution from INR75 to INR125 for each employee. However, maximum benefit payable under the EDLI Scheme continues to be capped at INR7 lakh per month and there is no change.

- (g) **Administrative and inspection charges:** The EPF Scheme requires employers to pay administrative charges at the rates prescribed by the central government (currently 0.50% of wages) on which PF contributions are payable. In case of exempted establishments, administrative charges are replaced by inspection charges, which are presently payable at 0.18% of such wages. These charges are calculated on the contribution wage base applicable to the employee. Accordingly, the increase in the wage ceiling may also result in higher administrative/inspection charges.

To support implementation, the EPFO issued 48 Frequently Asked Questions (FAQs) on 24 September 2026. These FAQs cover the September 2026 month transition, coverage and contribution illustrations, ECR filing, payroll recovery, cost to company ('CTC') treatment, employee take-home pay, EDLI benefits and immediate employer actions.

The FAQs address CTC-based compensation arrangements, reiterating that PF liability must be determined under the statutory framework and not by reference to CTC constructs. They clarify that CTC is a commercial arrangement and not the statutory basis for determining PF liability, which must be computed with reference to statutory wages and the applicable scheme provisions. The employer's statutory contribution cannot be treated as an employee deduction merely because it forms part of CTC. Employers should therefore review compensation terms and ensure that statutory wages are not reduced contrary to applicable law.

**Employers should evaluate whether existing CTC structures and documentation remain appropriate following the increase in the statutory wage ceiling and ensure there is no impermissible recovery of the employer's statutory contribution from employees.**

## Financial reporting implications

Since revised wage ceiling is effective prospectively from the date of its notification, viz., 17 September 2026 and an entity is required to make fixed monthly contribution to the PF/ EPS/ EDLI scheme, the revision may not have any catch-up adjustment requiring recognition of an upfront expense in the statement of profit and loss. Rather, the increased contribution/related charges will be recognized as an expense in P&L for the period as and when the related obligation accrues. Since the increased contribution/related charges will be an ongoing expense for the entity, it is expected that the entity will include these expenses under the natural heading based on classification of expenses followed by the entity. To inform users about additional expenses arising from revisions in the first year of amendment, the entity may consider including an appropriate note in the notes to the financial results/ statements.

For reporting periods ending before 17 September 2026, the notification will generally be a non-adjusting event under Ind AS 10 Events after the Reporting Period. For example, in financial statements/results for the year/period ended 31 March 2026 or 30 June 2026, the revision in wage ceiling may not have any accounting impact. However, depending on the evaluation of whether the expected impact is likely to be material, entities may need to disclose the nature of the amendment and an estimate of financial effect, as a material non-adjusting event in the financial statements/ results for the year/period ended 31 March 2026 or 30 June 2026.



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