Quarterly GAAP Bulletin

April - June 2026

Introduction

Dear Reader,

Grant Thornton Bharat is delighted to present the 'Quarterly GAAP Bulletin', which summarises significant accounting, auditing, and regulatory updates. This publication has been compiled to meet the needs of dynamic Indian businesses and focuses on key developments in India and across the globe.

To access the source of information and complete details, you can click the hyperlinked text below each update.

We would be pleased to receive your valuable feedback. Please write to us at npsg@in.gt.com with your comments, questions, or suggestions.

This edition covers updates for the quarter ended 30 June 2026.

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India updates – Effective

A. Accounting updates

1. EAC opinion on accounting treatment under Ind AS 37 for extended producer responsibility

Facts of the case

Based on the facts of the case, a company (hereinafter referred to as 'the Company') is an Original Equipment Manufacturer (OEM) engaged in the design, manufacture, and sale of automotive vehicles. The Company is subject to Environment Protection (End-of-Life Vehicles) Rules, 2025 (ELV Rules), effective 1 April 2025, which impose extended producer responsibility (EPR) obligations. The ELV Rules require the Company to meet annual vehicle scrapping targets linked to vehicles sold in earlier years, i.e., 15 years for transport vehicles and 20 years for non-transport vehicles. The obligation is to be discharged through the purchase of EPR certificates, resulting in cash outflows for the Company, and it continues even if the Company ceases operations. It is noted that certain related rules, including the Environment Compensation (EC) Cess Rules and cap-and-floor pricing for EPR costs, have yet to be notified and are expected to affect the measurement of the EPR obligation significantly.

Accounting proposed by the Company

The Company has assessed the requirements of Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets (Ind AS 37), and noted that while the enactment of the ELV Rules creates a present legal obligation with effect from 1 April 2025, there remains significant uncertainty regarding the timing and amount of the required outflow, particularly in light of ongoing representations to the government for amending the ELV Rules.

Key factors assessed in this regard:

- The Company has a present legal obligation, as on 1 April 2025, under the ELV Rules.
- The present legal obligation is a result of past events, i.e., the sales of vehicles in the past 15 to 20 years.
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, i.e., buying the EPR certificates to discharge the EPR obligations. The ELV Rules also mandate that such obligations persist even upon the Company's discontinuation of operations until their settlement.
- A reliable estimate of the amount of EPR obligations can be made. In the absence of the EC Rules, a best estimate of the EPR obligations would be required.

Accordingly, the Company has proposed to recognise a cumulative provision upfront on 1 April 2025 for the estimated cost of meeting the EPR obligations through the acquisition of EPR certificates corresponding to all past 15/20 years' sales, based on the best available estimate in accordance with Ind AS 37. Such obligation is proposed to be recognised in the statement of profit and loss in the year of enactment of ELV Rules, i.e., FY 2025-26.

Query to EAC

The Company sought the opinion from the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) on the following issues:

a) Determination of the obligating event.

b) Accounting treatment under Ind AS 37 in the 1st compliance year, i.e., FY 2025-26, for the vehicle sales made in previous years, and whether the Company is required to recognise a cumulative provision for past sales during FY 2025-26.

c) Whether the entire amount should be charged to the statement of profit and loss in the current year, or whether any portion of the impact should be adjusted against retained earnings?

Technical literature referred to by EAC

The EAC considered the definitions of liability, provision, obligating event, and legal obligation, along with the recognition and measurement requirements as specified in Ind AS 37, and an illustrative example on ‘contaminated land and constructive obligation’ as included in the accompanying guidance on the International Accounting Standard (IAS) 37. Regarding the recognition of impact in the statement of profit and loss or retained earnings, the EAC referred to the guidance in Paragraphs 88–89 of Ind AS 1, Presentation of Financial Statements (Ind AS 1).

EAC’s opinion

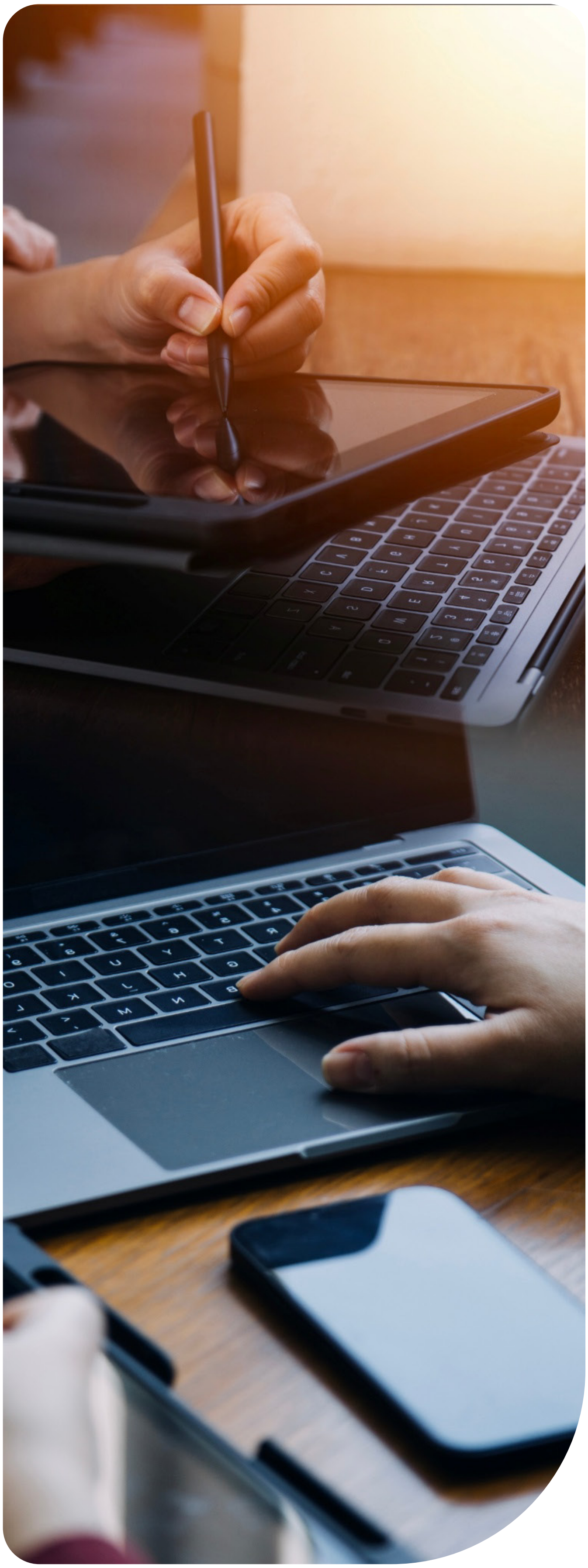
The EAC opined that:

a) The obligating event in this case is the introduction of vehicles in the market (i.e., past sales), which, upon the ELV Rules coming into effect, gives rise to a legal obligation to meet the scrapping targets.

b) A provision should be recognised as per Ind AS 37 as at the effective date (i.e. 1 April 2025) of the ELV Rules, based on the best estimate of the expenditure required to settle the present obligation, in respect of vehicles already introduced in the market, considering that the Company has no realistic alternative but to settle the obligation, even in the event of discontinuation of its operations.

c) The corresponding impact should be recognised in the statement of profit and loss, in accordance with the guidance under Ind AS 1. Adjustment against retained earnings is not appropriate, as the obligation arising on the ELV Rules becoming effective does not constitute a prior period error or a change in accounting policy, nor is such treatment required or permitted under any other applicable Ind AS.

Click here to access the EAC opinion



2. EAC opinion on accounting treatment of payments made to the NHAI for the development of road connectivity as per Ind AS 16

Facts of the case

A public limited company was incorporated for the development of an exhibition cum convention centre (ECC) project and has incurred expenditure towards the development of external road connectivity by making payments to the NHAI for its ECC project. The said expenditure was initially recognised as capital work-in-progress and subsequently capitalised into Property, Plant and Equipment (PPE) upon commencement of operations.

Accounting followed by the company

The company's management applied Paragraph 16 of Ind AS 16, Property, Plant and Equipment (Ind AS 16) and determined that the cost of the external road connectivity is directly attributable to bringing the asset (ECC project) to the location and condition necessary for it to operate as intended. Also, the management relied on the ICAI's Ind AS Technical Facilitation Group (ITFG) clarification bulletin 11- Issue 8, which permits the capitalisation of infrastructure costs (e.g., roads, railway sidings), where such infrastructure is integral to the project's functioning. Accordingly, the management concluded that the additional expenditure qualifies as a directly attributable cost and should be capitalised as part of PPE.

Query to EAC

The company sought an opinion from the EAC of the ICAI on whether the capitalisation of payments made to the NHAI for the development of road connectivity as part of PPE is in accordance with Ind AS 16, and, if not, what would be appropriate accounting treatment and possible alternatives for such expenditure.

Technical literature referred to by EAC

In the extant case, the EAC found that under Paragraph 16 of Ind AS 16, only those costs that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating as intended by management can be capitalised as part of the cost of PPE. Not all expenditures incurred to make an asset operational qualify for capitalisation. A cost is considered directly attributable only when the asset could not have been constructed or made ready for its intended use without incurring that expenditure; all other costs, including those specifically excluded under Paragraph 19 of Ind AS 16, should be recognised as an expense. Furthermore, the phrase "manner intended by management" should be assessed with reference to the asset itself, rather than to additional infrastructure or the facilities developed separately to enhance revenues, such as connecting an existing asset to an already established road network.

EAC's opinion

In the extant case, the EAC observed that the ECC project had adequate connectivity and could have been constructed and brought into operation without the additional road development. The expenditure on road connectivity was therefore not essential for bringing the asset to its intended condition for use; rather, it was intended to improve accessibility and enhance future economic benefits. Accordingly, such expenditure represents the development of additional infrastructure rather than costs directly attributable to making the ECC asset operational.

Accordingly, the EAC concluded that the expenditure incurred on external road connectivity should be recognised as an expense in the statement of profit and loss when incurred.

Click here to access the EAC opinion

3. EAC opinion on the capitalisation of dry dock expenditure as a separate component of dredgers and depreciation thereon after completion of their estimated useful lives as per Ind AS 16

Facts of the case

The company, a listed public sector undertaking, is engaged in dredging activities, and its key assets are dredgers, with an estimated useful life of 25 years. The useful life of certain dredgers has already expired, but they were operated after undergoing mandatory "dry docking" inspections required by the Indian Register of Shipping to maintain seaworthiness.

Accounting followed by the company

The company incurred significant dry-docking expenditure (including repairs, replacements, and inspection costs) to obtain fitness certificates for such dredgers and treated it as a major inspection cost under Paragraph 14 of Ind AS 16, capitalising the expenditure as a separate component of the dredgers. The Comptroller and Auditor General of India (CAG) has objected to the company's accounting, stating that, since the useful life of the dredgers has expired, the expenditure should be expensed rather than capitalised.

Query to EAC

The company sought EAC's opinion on:

- Whether the capitalisation of dry dock expenditure as a separate component is appropriate under Ind AS, and
- Whether such capitalisation is permissible even after the expiry of the useful life of the dredgers.

Technical literature referred to by EAC

The EAC analysed that certain subsequent expenditures may be capitalised as part of the cost of PPE when the recognition criteria (future economic benefits and reliable measurement of cost) under Paragraph 7 of Ind AS 16 are met. These include costs relating to the replacement of components at regular intervals (Paragraph 13 of Ind AS 16), non-recurring replacements (Paragraph 13 of Ind AS 16), major inspection costs recognised as separate components of the asset (Paragraph 14 of Ind AS 16), and the cost of spare parts, stand-by equipment, and servicing equipment (Paragraph 8 of Ind AS 16) that qualify for recognition as PPE.

As per the requirements of Paragraph 43-47 of Ind AS 16, the EAC noted that if a part or component of the PPE has a useful life that is different from the useful life of the remainder of the PPE, it should be depreciated separately as per the above-reproduced requirements of Ind AS 16. Thus, the replacement costs and inspection costs, as explained in Paragraph 11 above, which are capitalised as part of the cost of the dredger in the extant case, will be depreciated separately if those parts or costs have a different useful life than that of the dredger itself.

EAC's opinion

The EAC concluded that capitalising dry dock expenditure is not automatic and depends on the nature of each cost incurred during dry-docking activity. Only components of expenditure that meet the recognition criteria (e.g., major inspections, replacements, or components that enhance future economic benefits) can be capitalised. At the same time, routine repairs and maintenance must be expensed. It further clarified that Ind AS 16 does not prohibit the capitalisation of subsequent expenditure merely because the asset's original useful life has expired. If such expenditure enhances the expected utility of the asset, the useful life should be reassessed and extended accordingly, and eligible costs may be capitalised and depreciated over their respective useful lives.

Click here to access the EAC opinion.

4. EAC opinion on the timing of capitalisation of partly completed gas pipeline (Phase I) as per Ind AS 16

Facts of the case

A company is engaged to develop and operate the North-East Gas Grid (NEGG) as part of the broader hydrocarbon development initiative for North-East India. The project has been planned in phases with Phase I including, among other sections, the Guwahati–Numaligarh pipeline, a key pipeline intended to connect the gas source at Baihata to the Numaligarh Refinery. The pipeline stretch under consideration is approximately 392 km long and forms a critical part of the company's integrated gas transportation network.

As at 31 March 2025, around 195.898 km, i.e., around 50% of the pipeline, had been mechanically completed. Along with this completed stretch, related infrastructure had also been installed, and inspection of this portion had been completed. However, the remaining 50% of the pipeline was still under construction. The pipeline section is interdependent, and partial completion does not enable the intended use (i.e., transportation of gas to refinery). The commercial operation of the Guwahati-Numaligarh pipeline section will start once the complete 392 KM pipeline is commissioned.

Accounting followed by the company

The company had incurred INR 2,514 crore (including interest on OIDB loan) towards the Guwahati–Numaligarh pipeline section as at 31 March 2025, and these costs were reflected under capital work in progress (CWIP). Out of this, the cost attributable to the mechanically completed 195.898 km portion was stated to be INR 1,056 crore, excluding freehold land and RoU cost, which are perpetual in nature.

Query to EAC

The query raised before the EAC of the ICAI was whether the company should capitalise the cost (including interest on OIDB loan), incurred till date for the mechanically completed 195.898 km part of the Guwahati–Numaligarh pipeline.

The company specifically represented that, although 195.898 km of the pipeline had been mechanically completed and completion certificates had been obtained, the partially completed stretch alone could not achieve the objective of transporting natural gas from Guwahati to the Numaligarh Refinery. The company asserted that the commercial operation of the Guwahati–Numaligarh pipeline would commence only when the entire 392 km pipeline was completed and commissioned, and the company continued to recognise the costs incurred on the pipeline, including borrowing costs, under the CWIP.

Technical literature referred to by EAC

In the current case, the EAC has evaluated the matter by analysing Paragraphs 7 and 16 of Ind AS 16 and Paragraphs 22, 24 and 25 of Ind AS 23, Borrowing Costs, which specify that an asset is capitalised only when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Furthermore, borrowing costs relating to a qualifying asset are capitalised until substantially all activities necessary to prepare the asset for its intended use are complete. Where an asset is constructed in parts, capitalisation can cease for a completed part only if that part is capable of being used independently.

In other words, in case of an integrated PPE/project having several units/parts, those units/parts of the PPE/project, which are capable of being used individually (while the construction continues for the other units/parts), and can be operated independently of the remaining units/parts, should be considered to be in the location and condition necessary for them to be capable of operating in the manner intended by management and further capitalisation of costs should be ceased (viz., the completed units/parts should be transferred from the CWIP to gross block of PPE).

EAC's opinion

The Guwahati–Numaligarh pipeline is an integrated asset, and the partially completed 195.898 km stretch is not capable of independent operation or of achieving the objective of supplying gas to the anchor customer. Accordingly, despite mechanical completion and certification of part of the pipeline, the said portion is not capable of being used as intended by management until the entire 392 km pipeline is completed and commissioned.

Therefore, the partially completed pipeline does not meet the criteria for transfer from the CWIP to PPE. Consequently, costs incurred (including borrowing costs) in respect of the partially completed pipeline should continue to be recognised as CWIP, and capitalisation should not cease until the full pipeline becomes capable of operating in its intended manner.

Click here to access the EAC's Opinion

5. EAC opinion on accounting treatment of a structured package of assistance as per Ind AS 20

Facts of the case

The company, a listed entity, received a structured assistance package from the government of Tamil Nadu to set up a hardwood pulp plant. Such assistance was in the form of a "capital subsidy" calculated as a percentage of investment, payable over 15 years towards reimbursement of SGST, subject to the fulfilment of specified conditions following the investment period, such as employment generation and continued operation of the plant for manufacturing the products as per the agreement with the government. The subsidy is payable annually only upon compliance with specified conditions and submission of claims for each year.

Accounting followed by the company

The company's management applied Ind AS 20- Accounting for Government Grants (Ind AS 20). It concluded that, despite being termed a "capital subsidy", the substance of the incentive was to compensate for SGST reimbursement and to provide ongoing operational support. The management noted that the subsidy becomes receivable only upon annual compliance with the conditions (including production and employment) and is not directly linked to asset acquisition alone. Accordingly, the company concluded that the subsidy is in the nature of a grant related to income and recognised it in the statement of profit and loss on an annual basis.

Query to EAC

The Company sought the opinion of the EAC on whether the classification of the subsidy as a grant related to income is appropriate under Ind AS 20, particularly in light of the CAG auditors' view that the subsidy should be treated as a grant related to assets and recognised over the useful life of the underlying assets in accordance with Paragraphs 24-27 of Ind AS 20.

Technical literature referred to by EAC

In the extant case, the EAC analysed the definition of grants related to assets vs. grants related to income under Ind AS 20 and emphasised that the classification should be based on the substance and primary conditions of the grant rather than its nomenclature or basis of computation. The EAC noted that while investment in fixed assets was one of the conditions, there were additional primary conditions, including employment generation and continued compliance over the incentive period, without which the subsidy would not be receivable.

EAC's opinion

In the extant case, the EAC noted that the subsidy was contingent upon continued operational performance and annual compliance and that failure to meet the conditions in any year would result in forfeiture of that year's subsidy. Accordingly, the grant was not solely linked to the acquisition of an asset but also to operational activities.

Accordingly, the EAC concluded that the subsidy does not qualify as a grant related to assets, and instead represents a grant related to income under Ind AS 20. Hence, the company's accounting treatment, i.e., recognising the subsidy in the statement of profit and loss on a systematic basis, was appropriate.

Click here to access the EAC's Opinion

6. Applicability of 'Guidance Note on Financial Statements of Non-Corporate Entities' and 'Guidance Note on Financial Statements of Limited Liability Partnerships'

The ICAI has announced the phased implementation of the Guidance Note on Financial Statements of Non-Corporate Entities and the Guidance Note on Financial Statements of Limited Liability Partnerships (LLPs) (together hereinafter referred to as 'Guidance Notes'), both issued in August 2023, as detailed below:

Phase	Accounting periods	Scoped entities
Phase I	Accounting periods beginning on or after 1 April 2025	Non-corporate entities and LLPs with turnover exceeding INR 5 crore
Phase II	Accounting periods beginning on or after 1 April 2026	All non-corporate entities and LLPs, irrespective of turnover

These Guidance Notes establish a uniform, standardised financial reporting framework by prescribing consistent financial statement components, minimum disclosure requirements, and uniform principles for terminology, classification, and presentation across non-corporate entities and LLPs.

Click here to access the ICAI announcement dated 31 March 2026.

Click here to access the Guidance Note on the financial statements of non-corporate entities.

Click here to access the Guidance Note on the financial statement of LLPs.

B. Auditing updates

1. 13th edition of Code of Ethics

On 30 May 2026, the ICAI issued the 13th edition of its Code of Ethics, introducing various updates to the ethical and independence framework applicable to chartered accountants in India, which were approved by the Council of the ICAI on 12 December 2025. The revised code is structured into three volumes:

Volume I: Domestic provisions of the Chartered Accountants Act, 1949, including the Council's guidelines and decisions.

Volume II: Converged with the International Ethics Standards Board for Accountants (IESBA) 2024 edition.

Volume III: Ethics Standards for Sustainability Assurance (including independence standards).

The revised Code of Ethics is effective from 1 April 2026, except for the s.no. (xxxi) relating to the "assessment and evaluation of Social Impact, CSR Impact, Business Responsibility and Sustainability Reporting, and the like" under management consultancy and other services issued under Section 2(2)(iv) of the Chartered Accountants Act, 1949, in the Code of Ethics, which is effective from 11 December 2025.

The key enhancements under the 13th edition of the ICAI Code of Ethics are covered in detail in our previous GAAP bulletin, refer **'Quarterly GAAP Bulletin February 2026'.**

Click here for Code of Ethics Volume – I

Click here for Code of Ethics Volume – II

Click here for Code of Ethics Volume –III

2. Deferment of the implementation of SQM 1 and SQM 2

The ICAI, vide its announcement dated 14 October 2024, had issued two new standards — SQM 1 (Quality Management for audit and assurance firms) and SQM 2 (Engagement Quality Reviews). These standards were scheduled to become mandatory on 1 April 2026 and were intended to replace the existing Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

However, on 31 March 2026, the ICAI decided to defer the mandatory applicability of SQM 1 and SQM 2 until further notice.

Accordingly, the existing SQC 1 framework will continue to remain applicable until the ICAI announces a revised effective date for the new standards.

It is pertinent to note that in parallel to aforesaid update from ICAI, the NFRA is also presently in process of revamping the Standards on Auditing and drafting the quality management standards SQM1 and SQM2, which could likely be announced in August 2026 subject to approval from the central government.

Click here to access the SQM 1 issued by ICAI

Click here to access the SQM 2 issued by ICAI

Click here to access the SQC 1 issued by ICAI

Click here to access the ICAI announcement dated 31 March 2026.

3. NFRA update on inspection guidelines

The National Financial Reporting Authority (NFRA) has issued updated Audit Quality Inspection Guidelines (as of 30 April 2026) that establish a comprehensive framework for the inspection of audit firms. The guidelines emphasise that the primary objective of such inspections is to assess auditors' compliance with auditing standards and other regulatory and professional requirements, as well as the effectiveness of their internal quality control systems and adequacy of governance framework. They further clarify that inspections will adopt a proportionate approach, taking into account factors such as the size of the firm, the significance of its audit portfolio, and the results of prior inspections.

Inspections will involve a review of the quality control policy, including tone at the top, firm culture and governance, review of certain focus areas, test check of the quality control processes, controls around the use of technology in audit, and/or test check of audit engagements performed by the auditor during the year. A structured inspection methodology has also been prescribed, encompassing the selection of engagements (on a risk-based or random basis), execution procedures (including site visits, interviews, and document reviews), and reporting. The guidelines specify defined timelines, requiring auditors to respond to draft inspection reports within 10 days, submit a remediation plan within 90 days, and complete corrective actions within 180 days from the issuance of the inspection report.

Click here to access the NFRA inspection guidelines dated 30 April 2026.

C. Regulatory updates

MCA updates

1. Amendment to Companies (Registered Valuers and Valuation Rules),2017

The Ministry of Corporate Affairs (MCA), through the Companies (Registered Valuers and Valuation) Amendment Rules, 2026, on 1 June 2026, revised Rule 12 of the Companies (Registered Valuers and Valuation) Rules, 2017, to strengthen the eligibility criteria for Registered Valuer Organisations (RVOs).

Under the amended framework, a RVO must be incorporated under Section 25 of the Companies Act, 1956, or Section 8 of the Companies Act, 2013, maintain a minimum paid-up share capital of INR 25 lakh, and operate with the sole objective of regulating valuers across one or more asset classes. In addition, such organisations must establish and maintain bye-laws in line with the prescribed regulatory requirements.

Recognising the practical challenges that existing RVOs may face in meeting the enhanced capital threshold, the MCA has provided a transition period until 31 March 2028 to ensure compliance. The amendment is effective from the date of its publication in the Official Gazette, i.e., from 1 June 2026.

Click here to access the MCA notification.

2. Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026

The MCA, via the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026, issued on 27 May 2026, has introduced a new mechanism allowing companies to undertake upto 10% of their annual CSR expenditure by subscribing to Zero Coupon Zero Principal (ZCZP) instruments issued by not for profit organisations (NPOs) registered on the Social Stock Exchange.

Companies subscribing to such ZCZP instruments are exempt from conducting impact assessments for projects funded through such instruments.

NPOs issuing ZCZP instruments are required to:

- Undertake projects with a duration not more than three succeeding financial years from the issue of such ZCZP instruments; and
- On termination of listing of such ZCZP instruments, transfer any unspent amount to a Schedule VII fund and submit its compliance report to SEBI.

The rules are effective from 27 May 2026.

Click here for the MCA notification.

3. MCA relaxes additional fees for DPT-3 filing

The MCA issued a notification on 19 June 2026, granting relaxation from the payment of additional fees for filing Form DPT-3 (Return of Deposits) for the financial year 2025-26. While the original due date remains 30 June 2026 under the prescribed timeline, companies are allowed to file the form without additional fees until 31 July 2026 due to data center restoration activities, following the fire incident on 5 June 2026.

Click here to access the MCA notification.

SEBI updates

1. Extension of validity of IPO observation letters amid market uncertainty

Under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations, 2018):

Public issues must be launched within 12 months (IPO/FPO) or 18 months (rights issue) of SEBI's observation letter.

Failure to do so results in expiry of approval, requiring fresh regulatory filings.

Due to geopolitical tensions in the Middle East and weakened investor sentiment, many issuers have been unable to proceed with planned offerings.

Accordingly, the Securities and Exchange Board of India (SEBI), vide a circular dated 7 April 2026, has provided one time relief to companies planning public issues by extending the validity of observation letters in view of ongoing global market uncertainties. The validity of observation letters expiring between 1 April 2026 and 30 September 2026 remains valid until 30 September 2026.

Issuers are required to submit an undertaking through the lead manager confirming compliance with Schedule XVI of the ICDR Regulations, 2018, and the updated disclosures in the offer document before filing.

Click here to access the SEBI circular.

2. Amendment to REIT regulations

The SEBI, vide a notification dated 16 April 2026, issued SEBI (Real Estate Investment Trusts) (Amendment) Regulations, 2026, to amend the SEBI (Real Estate Investment Trusts) Regulations, 2014. The amendment has reduced the minimum credit risk value threshold for eligible liquid/overnight mutual fund investments from 12 to 10. Furthermore, "Class B I" has been introduced for the classification of such units in the potential risk class matrix, to align with InvIT regulations alongside "Class A I".

It aims to enhance flexibility in investment options for real estate investment trusts (REITs) while aligning the regulatory framework with evolving market conditions.

Click here to access the amendment in the regulation dated 16 April 2026.

3. Amendment to InvIT regulations and SEBI circular clarifying the 'permissible use' of borrowings

The SEBI, vide a notification dated 17 April 2026, issued the SEBI (Infrastructure Investment Trusts) (Amendment) Regulations, 2026, to amend the SEBI (Infrastructure Investment Trusts) Regulations, 2014 ("InvIT Regulations").

The following are key amendments to the regulatory framework for infrastructure investment trusts (InvITs):

- Allowing investments in liquid mutual fund schemes with a reduced minimum credit risk value of 10, and by including both "Class A I" and "Class B I" instruments under the permitted risk classification.
- Furthermore, the definition and treatment of special purpose vehicles (SPVs) have been clarified, including the continuity of SPV status even upon the termination of concession agreements, subject to specified conditions.

Click here to access the amendment regulations.

Subsequently, the SEBI, on 15 May 2026, issued a circular clarifying the 'permissible use' of fresh borrowings by InvITs in cases where net borrowings exceed 49% of the value of the InvIT assets, as permitted under Regulation 20(3)(b)(ii) of the InvIT Regulations.

Based on the said circular, borrowings above 49% can be utilised for the following purposes:

1. Capital expenditure to enhance asset performance or augment capacity.
2. Major maintenance expense (non-routine) in respect of a road project in accordance with the obligations and requirements specified in the concession agreement.
3. Refinancing of debt, by the InvIT, SPV, or holding company, subject to the following two conditions:
   - Original debt was utilised for purposes permitted under Regulation 20(3)(b)(ii) of the InvIT Regulations;
   - Only the principal portion of debt is refinanced, i.e. any accumulated interest or any charges or fees by whatever name called shall not be refinanced.

The above provisions are effective from the date of the circular, i.e., 15 May 2026.

Click here to access the SEBI circular.

4. SEBI circular on continuing status of SPVs post conclusion/termination of concession agreement

On 15 May 2026, the SEBI issued a circular prescribing conditions to be fulfilled by the investment manager as per the requirements of Regulation 2(1)(zy)(ii) of InvIT Regulations, for retaining the status of SPV as a SPV post the conclusion or termination of a concession agreement.

The conditions to be fulfilled in this regard are:

1. The investment manager shall either exit investment in such SPV by way of sale/liquidation/merger or acquire any new infrastructure project in such SPV, within a period of 1 year from:
   - Completion/termination of concession agreement, or
   - Conclusion of all pending litigations, or
   - Completion of the defect liability period, whichever is later.
2. The time taken to obtain relevant statutory or regulatory approvals for exiting from the investment in such SPV shall be excluded from the above one-year timeline.
3. Adequate disclosures shall be made in the annual report of InvIT until it holds investment in such SPV, including the following:

InvIT level

Disclose a detailed breakup of the value of investments (gross and net basis) in the SPV(s) wherein the concession agreement has ended/terminated.

SPV level

Additional disclosures as given below for each of such SPV:

- Brief project details, agreement end date, and status of vesting certificate by the concessioning authority on successful completion of handover of the project to the said authority.
- Disclosing the nature and carrying values of SPV's assets and liabilities (including reserves), on a broad/grouped basis as per their audited financial statements.
- Details of contingent liability of the SPV as set out in its audited financial statements.
- Details of outstanding debt of the SPV, if any, along with the repayment schedule.
- Assessment of whether the SPV's assets are sufficient to meet its liabilities (including contingent liabilities), and if not, the proposed plan to address the shortfall.
- Clear exit strategy or redeployment plan for the SPV, outlining approach, steps taken, expected timeline for completion, and other material details.

The above provisions are effective from the date of the circular, i.e., 15 May 2026.

Click here to access the SEBI circular.

5. Amendments to AIF Regulations relating to fund operations and liquidation

SEBI notified the SEBI (Alternative Investment Funds) (Amendment) Regulations, 2026, on 16 April 2026, to address practical challenges faced by Alternative Investment Funds (AIFs) during winding-up and closure, particularly where liquidation proceeds need to be retained for unresolved tax, regulatory, legal, or operational matters. The following are the key amendments:

The minimum investment-related threshold under Regulation 10(c) has been significantly reduced from INR 2 lakh to INR 1,000.

Regulation 29(7) has been amended to clarify that the assets of an AIF must be liquidated within the prescribed liquidation period, and the proceeds shall be distributed to investors after the settlement of liabilities, subject to conditions specified by the SEBI from time to time.

A new Regulation 29(10A)) has been inserted, enabling an AIF to be classified as “Inoperative Funds” in the manner and conditions as specified by SEBI.

Subsequently, on 16 June 2026, the SEBI issued detailed implementation guidelines prescribing the framework for the retention of proceeds, the classification of AIFs as "Inoperative Funds", and the surrender of AIF registration.

Implementation guidelines released by SEBI

01 Retention of liquidation proceeds beyond the fund life

AIFs are permitted to retain liquidation proceeds beyond the permissible fund life, subject to conditions, such as:

- Existence of pending litigation, regulatory, or tax proceedings
- Consent of at least 75% of investors (by value) where retention is for anticipated liabilities
- Retention for residual winding-up expenses, duly supported by invoices and documentation (maximum 3 years)

02 Framework for ‘Inoperative Fund’ status

- A procedure has been prescribed for AIFs to obtain classification as ‘Inoperative Funds’
- Such funds are subject to specific regulatory conditions and oversight requirements

03 Restrictions and regulatory relaxations

AIFs classified as ‘Inoperative Funds’ are subject to the following restrictions:

- Prohibited from launching new schemes
- Not permitted to charge management fees

04 Annual reporting requirement for retained monies and inoperative funds

- AIFs that retain liquidation proceeds beyond the permissible fund life, as well as AIFs classified as inoperative funds, are required to submit an annual status report to both SEBI and the investors of the relevant scheme(s).
- The report must provide the details of retained monies and any outstanding liabilities in the format prescribed by SEBI.
- The report is required to be filed through the SEBI intermediary portal within 30 calendar days from the end of each financial year (31 March).

Certain compliance requirements (e.g., reporting, audit, and ongoing disclosures) have been relaxed for such funds that have ceased active operations.

Click here for the AIF Amendment Regulations.

Click here for the SEBI circular on implementation guidelines.

6. Fast-track mechanism for the AIF placement memorandum filed with SEBI

The SEBI has introduced a fast track mechanism for processing private placement memoranda (PPMs) of AIFs to facilitate quicker fund launches and enhance ease of doing business.

Key changes introduced are as follows:

- AIFs can now launch schemes and circulate PPMs 30 days after filing with the SEBI, unless the SEBI issues a contrary observation within this period. However, for first-time AIF schemes, the launch can take place either upon receipt of SEBI registration or 30 days after filing the SEBI application, whichever is later.
- Applies to angel funds and other AIF schemes (i.e., all non-large-value funds), except for large value funds for accredited investors (LVFs).
- The guidelines also require that the first close of such schemes be completed within 12 months from the date the scheme becomes eligible for launch.
- The merchant bankers and the AIF manager are explicitly responsible for the accuracy, completeness, and adequacy of disclosures in the PPMs.
- Further, all PPMs filed under the fast track route must include a specific disclaimer clarifying that disclosures are based on due diligence conducted by the merchant banker and that SEBI does not assume responsibility for the accuracy or adequacy of such disclosures.

Click here to access the circular.

7. Fund-raising norms for NPOs on the social stock exchange

SEBI, vide its circular dated 15 April 2026, has introduced relaxation measures under the Social Stock Exchange (SSE) framework to promote participation by NPOs and facilitate fund-raising.

Key details are as follows:

Particulars	Earlier requirement	Revied requirement
NPO registration period on SSE (without fundraising)	NPO required to raise funds within 2 years of registration	NPO can stay registered for 2 years + extend by 1 additional year with SSE approval (i.e., up to 3 years)
Extension of registration period	No explicit extension beyond 2 years	1-year extension allowed, subject to SSE approval
Minimum subscription – ZCZP instruments (base rule)	Minimum 75% subscription of issue size required	75% remains the base requirement (unchanged)
Relaxed minimum subscription (conditional)	No relaxation – issue fails if <75% subscribed	Minimum subscription can be reduced to 50%, subject to the SSE due diligence confirming project viability
Due diligence by SSE	Not explicitly linked to the reduced threshold	Mandatory SSE due diligence before allowing 50% threshold.
Disclosure requirements (under-subscription)	Limited guidance on under-subscription scenarios	NPO must disclose: • Plan to raise remaining funds • Impact on social objectives if shortfall persists
Refund of money if the subscription is not met	Refund required if the minimum is not achieved	Refund continues to be mandatory if the minimum subscription (75% or applicable 50%) is not achieved

Click here to access the SEBI circular.

RBI updates

1. Directions on asset classification, provisioning, and income recognition for commercial banks

The RBI, vide a notification dated 27 April 2026, has issued the RBI (Commercial Banks – Asset Classification, Provisioning and Income Recognition) Directions, 2026 (ACPIR Directions), representing a significant overhaul of the prudential framework applicable to commercial banks.

These ACPIR Directions aim to enhance resilience, transparency, and comparability in the banking sector and align India's prudential norms more closely with international best practices.

The key highlights of ACPIR Directions are as follows:

Expected Credit Loss (ECL) framework

The ACPIR Directions introduce a forward-looking expected credit loss (ECL) model, replacing the earlier "incurred loss" approach for provisioning.

- Banks are required to estimate probability-weighted credit losses using historical data, current conditions, and forward-looking macroeconomic factors.
- Provisioning is based on models incorporating the probability of default (PD), loss given default (LGD), and exposure at default (EAD).

Three-stage asset classification framework (aligned with ECL):

Financial assets are required to be classified into three stages based on a change in credit risk:

- Stage 1: Performing assets with no significant increase in credit risk - 12-month ECL recognized
- Stage 2: Assets with a significant increase in credit risk - lifetime ECL recognised
- Stage 3: Credit-impaired assets - lifetime ECL with stricter income recognition norms

A 30-day past-due threshold is prescribed as a rebuttable presumption for identifying a significant increase in credit risk

Retention of the existing NPA classification framework

- The existing non-performing asset (NPA) definition (90 days overdue) continues to apply.
- Borrower-level classification and existing prudential norms for specific exposures (e.g., agriculture, consortium lending) are largely retained.

Income recognition based on effective interest rate (EIR) aligning to Ind AS 109, Financial Instruments

- Interest income on performing assets (Stages 1 and 2) should be recognised using the Effective Interest Rate (EIR) approach.
- For credit-impaired assets (Stage 3), income will be recognised on a cash basis.

Prudential safeguards and regulatory floors

- Prudential provisioning floors are introduced across asset classes to ensure minimum loss coverage.
- Regulatory parameters have been prescribed for the PD, LGD, and EAD where internal models are not robust.

Enhanced governance and model risk management

- Detailed guidance has been issued on model risk management, including model validation, documentation, and monitoring.
- Increased emphasis on data quality, automation, and IT infrastructure to support the ECL computation.

Disclosure and reporting requirements

Enhanced disclosures relating to:

- Credit risk management practices,
- ECL assumptions and methodologies, and
- Quantitative and qualitative information on credit loss estimates.

The ACPIR Directions will come into effect from 1 April 2027, with transition requirements including fair valuation and model readiness.

Furthermore, the existing RBI (Commercial Banks - Income Recognition, Asset Classification and Provisioning) Directions, 2025 (IRACP Directions), would stand repealed with effect from 1 April 2027. However, the RBI has clarified that any actions taken or initiated under the IRACP Directions before their repeal will continue to remain valid and enforceable.

Click here to access the ACPIR Directions and here to access the IRACP Directions.

To operationalise the ACPIR Directions, the RBI has introduced a series of consequential amendments to various related regulatory frameworks. Key amendments arising from these changes are summarised below:

1 RBI (Commercial Banks - Resolution of Stressed Assets) Amendment Directions, 2026

The RBI has extended the indicative list of indicators of financial stress that banks are required to monitor at an early stage. These indicators now include, inter alia, significant downgrades in the credit ratings of financial instruments, material changes in the value of collateral, and delays in the payment of fees or charges beyond their due dates. Banks are required to monitor the expected changes in loan documentation, such as anticipated breaches of contractual terms that may result in covenant waivers or amendments, interest payment holidays, step-ups in interest rates, or delays in the review or renewal of credit facilities to bring uniformity in provisioning, asset classification and income recognition across restructuring, insolvency resolution, interim finance, project loans, farm credit and natural calamity-related restructuring; the ACPIR Directions will now govern these all.

In addition, the RBI has clarified that the benefit of provision freezing would cease immediately in cases where the Adjudicating Authority rejects the resolution plan. Consequently, asset classification would thereafter continue in accordance with the revised prudential norms.

Click here to access the directions.

2 RBI (Commercial Banks – Concentration Risk Management) – Second Amendment Directions, 2026

The amendment requires banks to refer to the country risk classifications published by the Export Credit Guarantee Corporation of India (ECGC) when assessing the country risk under concentration risk norms.

Click here to access the directions.

3 RBI (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio)- Amendment Directions, 2026

The RBI has issued the RBI (Commercial Banks – Classification, Valuation and Operation of Investment Portfolio) Amendment Directions, 2026, to align the existing regulatory framework for investment portfolios with the newly introduced ACPIR Directions. The amendments introduce key concepts, such as amortised cost, effective interest rate (EIR), expected credit loss (ECL), loss allowance, and credit risk staging, while revising the principles governing classification, valuation, and accounting for investments. These amendment directions mandate fair value-based initial recognition, the adoption of the effective interest rate method for income recognition, amortised cost measurement for Held To Maturity (HTM) securities, periodic fair valuation of Available For Sale (AFS) securities, and an updated framework for reclassification between investment categories. In addition, these amended directions align the income recognition, provisioning, and classification of non-performing investments in line with the credit risk staging approach under the ACPIR framework. Transitional provisions require banks to undertake fair valuation adjustments as at 31 March 2027 to facilitate a smooth transition to the revised regime.

Click here to access the directions.

4 RBI (Commercial Banks – Credit Risk Management) - Second Amendment Directions, 2026

Pursuant to the issuance of the ACPIR Directions, the RBI has introduced corresponding amendments to the Credit Risk Management Directions through the Second Amendment Directions, 2026.

Key changes include:

- Until banks adopt an internal rating system, they may continue using the seven-category country classification framework prescribed by the ECGC for this purpose. The ECGC is required to provide quarterly updates of country classifications upon request and promptly inform banks of any significant interim changes.
- The RBI has revised the prudential framework governing exposures with unhedged foreign currency risk (UFCE). Under the amended norms, banks are required to assign an incremental risk weight of 25 percentage points where the estimated potential loss exceeds 75% of the Earnings Before Interest and Depreciation (EBID).
- The directions also require banks to assess the capital implications of UFCE exposures periodically. In this regard, incremental capital requirements are to be computed at least quarterly. For under-construction projects and newly established entities, such computation is to be based on the projected average annual EBID for the three years from the date of commencement of commercial operations.
- When adequate and reliable data are not available for assessment, exposures must be classified in the highest risk category on a conservative basis.
- The revised directions provide operational flexibility to banks/consortia/ syndicates in structuring repayment terms of Working Capital Loans (WCL). Repayment structures may be designed as either installment-based schedules or bullet repayments, subject to compliance with applicable prudential norms and extant stressed asset guidelines.

Click here to access the directions.

5 RBI (Commercial Banks – Credit Facilities) Second Amendment Directions, 2026

The RBI has issued the RBI (Commercial Banks – Credit Facilities) Second Amendment Directions, 2026, clarifying that asset classification and consequent provisioning requirements for individual loan assets shall now be governed by the ACPIR Directions, thereby ensuring a uniform and consistent prudential treatment across applicable regulatory frameworks.

Furthermore, under the amended directions, a project finance account may be classified as an NPA at any time before the actual Date of Commencement Operations (DCCO), as per the record of recovery, in accordance with the provisions of the ACPIR Directions.

Click here to access the directions.

6 RBI (Commercial Banks – Financial Statements: Presentation and Disclosures)-Seventh Amendment Directions, 2026

The RBI has issued the RBI (Commercial Banks – Financial Statements: Presentation and Disclosures) - Seventh Amendment Directions, 2026, to align the financial reporting framework of banks with the requirements prescribed under the ACPIR Directions.

Key revisions introduced are as follows:

Recognition and presentation

- The recognition of interest income on advances and bills has been aligned with the principles prescribed under the ACPIR Directions.
- It is clarified that the non-recognition of income in respect of Stage 3 exposures, in accordance with the RBI regulatory prescriptions, shall not result in a qualification by statutory auditors.
- The reference to 'Provisions towards Standard Assets' has been substituted with provisions towards assets classified under Stage 1 and Stage 2, which will continue to be shown separately under 'Other Liabilities and Provisions' in the balance sheet without being netted off against gross advances.
- Banks are required to make appropriate disclosures in their financial statements regarding:
  1. Whether the regulatory transitional arrangement has been applied; and,
  2. The impact of such an arrangement on the bank's regulatory capital and leverage ratios, as compared with the fully loaded capital and leverage ratios that would have been reported had the transitional arrangement not been applied.

Disclosures

- The amended directions introduce comprehensive and granular disclosure requirements. Banks are now required to disclose the credit quality of investment assets, loan assets, loan commitments, and financial guarantees across Stage 1, Stage 2, Stage 3, and Purchased or Originated Credit Impaired (POCI) categories. The disclosures shall, inter alia, include:
  - An overview of credit risk management practices and their linkage to the ECL recognition and measurement, including key methodologies and assumptions.
  - Quantitative and qualitative information on movements in ECL allowances and the drivers of these changes.
  - Details of credit risk exposures and significant concentrations of credit risk.
- Disclosures relating to fraud cases and associated provisioning have been aligned with the ECL framework to enhance transparency and provide more meaningful information to stakeholders.
- In addition, the banks are required to disclose the total amount of undiscounted ECL recognised on initial recognition for financial assets originated or acquired during the reporting period.

Click here to access the directions.

7 RBI (Commercial Banks - Transfer and Distribution of Credit Risk) Amendment Directions, 2026

The RBI has issued the RBI (Commercial Banks - Transfer and Distribution of Credit Risk) Amendment Directions, 2026, to align regulatory requirements with the provisions prescribed under the ACPIR Directions.

The key amendments have been summarised below:

- For permitted transferees, both initial recognition and subsequent measurement of acquired loan exposures must be undertaken in accordance with the ACPIR Directions.
- Stressed loans acquired by banks are to be classified as Purchased or Originated Credit Impaired (POCI) assets. Accordingly, such exposures shall be governed by the POCI-specific guidance under the ACPIR Directions for provisioning, initial recognition, subsequent measurement, and related disclosures.
- In cases where stressed loans are transferred to Asset Reconstruction Companies (ARCs) at a consideration lower than their net book value at the time of transfer, the resulting shortfall must be recognised in the profit and loss account in the year of transfer.

Click here to access the directions.

8 RBI (Commercial Banks - Treatment of Wilful Defaulters and Large Defaulters) - Amendment Directions, 2026

Consequent to the issuance of the ACPIR Directions, the RBI has issued the RBI (Commercial Banks - Treatment of Wilful Defaulters and Large Defaulters) - Amendment Directions, 2026, to align the existing framework governing wilful defaulters and large defaulters with the revised asset classification norms.

Under the amended directions, where indications of wilful default are identified during the internal preliminary screening process, banks are required to complete the classification of the borrower as a wilful defaulter within six months from the date on which the account is classified as an NPA. Such classification is to be undertaken in accordance with the asset classification principles prescribed under the ACPIR Directions.

Click here to access the directions.

9 RBI (Commercial Banks - Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026

Following the issuance of the ACPIR Directions, the RBI has issued the RBI (Commercial Banks - Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026, to align existing capital treatment requirements with the revised asset classification and provisioning framework under the ACPIR Directions.

The key amendments are as follows:

- The terms Stage 1, Stage 2, and Stage 3 shall carry the same meaning as assigned under the ACPIR Directions, thereby ensuring consistency in classification and capital assessment.
- General provisions on standard assets (i.e., Stage 1 and Stage 2 exposures), along with excess provisions arising on account of the sale of NPAs, shall be eligible for inclusion in Tier 2 capital, subject to an overall cap of 1.25% of total credit risk-weighted assets (RWAs) under the standardised approach.
- Specific provisions on NPAs/Stage 3 exposures, restructured advances towards diminution in fair value, and provisions recognised for depreciation in the value of investments shall not qualify for inclusion in Tier 2 capital.

Click here to access the directions.

2. Lending to InvITs and REITs

Consequent to the issuance of draft amendment directions for instructions on 'Lending to REITs and InvITs' on 13 February 2026, the RBI has issued amendment directions on 10 June 2026 for commercial banks, small finance banks, and All India Financial Institutions.

The amendment directions permit commercial banks to extend finance to REITs, subject to prudential safeguards, including a regulatory ceiling on exposure. Furthermore, the existing guidelines on lending to InvITs (applicable to commercial banks, small finance banks, and All India Financial Institutions) are also harmonised with the prudential safeguards for lending to REITs.

The RBI has amended the Master Directions as follows:

- RBI (Commercial Banks – Credit Facilities) Third Amendment Directions, 2026 (Credit Amendment Directions, 2026):

1 **New regulatory framework for bank lending to REITs -** Banks may lend to **SEBI-registered and regulated REITs**, subject to detailed conditions, including:

- Board-approved lending policy covering appraisal, underwriting standards, debt service coverage ratio (DSCR) benchmarks, exposure limits, and monitoring.
- Lending only to the **listed REITs** with at least **80% of underlying assets generating positive operating cash flows for at least one year.**
- Strict monitoring of the end-use of funds.
- Prohibition on using the REIT financing to support stressed SPVs or financially distressed entities.
- Refinancing permitted only for completed projects having a **completion certificate (CC), occupancy certificate (OC), or equivalent.**
- Restrictions on bullet/balloon repayment structures (except for bond, debenture, and CP investments).

2 **Prudential safeguards for REIT exposure**

- The REIT leverage must remain within the **SEBI-prescribed limits** (or within the bank's lower limits).
- The aggregate exposure of all banks to a REIT and its underlying SPVs/holding companies cannot exceed **49% of the value of the REIT assets.**
- Financing must be fully secured by charges on underlying properties, assignments of cash flows/receivables, pledges of SPV interests, and other enforceable security.
- Loan agreements must include strong lender protections, such as escrow mechanisms and restrictions on additional indebtedness.

3 **Revised framework for lending to InvITs**

The existing InvIT framework has been comprehensively aligned with the new REIT framework. Key requirements include:

- Lending only to **listed, SEBI-regulated InvITs.**
- At least **80% of InvIT** assets must be invested in completed, revenue-generating infrastructure projects that have generated positive cash flows for at least one year.
- Restrictions on lending to stressed SPVs.
- Refinancing is limited to projects that have commenced commercial operations.
- Similar leverage, exposure, repayment structure, security, and lender protection requirements as those prescribed for REITs.

4 **Acquisition financing relaxations**

For both REITs and InvITs:

- Certain acquisition finance conditions applicable to other borrowers have been relaxed.
- Exemptions have been provided from requirements, such as the requirement that the acquiring entity be a non-financial company and the three-year profitability criterion, subject to specified safeguards.

5 Transitional provisions

- Existing InvIT loans that do not conform to the revised framework may continue until maturity.
- However, banks cannot renew, review, enhance, or extend such facilities unless they are brought into compliance with the amended directions.

Parallelly, amendments extend similar permissions to small finance banks and All India Financial Institutions (AIFIs) under the RBI (Small Finance Banks – Credit Facilities) Amendment Directions, 2026, and the RBI (AIFI – Credit Facilities) Amendment Directions, 2026, respectively. However, these directions permit lending only to SEBI-registered and listed InvITs, subject to strict conditions on asset quality (minimum 80% in completed, cash-generating projects). These directions not only allow lending to InvITs with similar prudential conditions as the Credit Amendment Directions 2026, but also specifically enable and regulate acquisition financing by InvITs, including conditions for control acquisitions, valuation, exposure limits, and the refinancing of acquisition debt.

Click below to access the RBI's Master Directions:

- Commercial Banks – Credit Facilities
- Small Finance Banks – Credit Facilities
- All India Financial Institutions – Credit Facilities

Consequent to the issuance of the RBI (Commercial Banks – Credit Facilities) Third Amendment Directions, 2026, the RBI has issued the RBI (Commercial Banks – Concentration Risk Management) Third Amendment Directions, 2026, and the RBI (Commercial Banks - Prudential Norms on Capital Adequacy) Eighth Amendment Directions, 2026, to update existing concentration risk management directions and prudential norms on capital adequacy applicable to commercial banks.

RBI (Commercial Banks – Concentration Risk Management) Third Amendment Directions 2026:

The RBI has amended the Commercial Banks-Concentration Risk Management Directions, 2025, to align with the new framework for lending to REITs. The amendment requires banks to establish internal limits for aggregate exposure to the real estate sector and sub-limits for various real estate segments based on their business model and risk appetite. Importantly, exposure to REITs is now subject to a specific prudential cap of 10% of a bank's eligible capital base.

Click here to access the above direction.

RBI (Commercial Banks - Prudential Norms on Capital Adequacy) Eighth Amendment Directions, 2026:

The RBI has amended the Commercial Banks - Prudential Norms on Capital Adequacy Directions, 2025, to prescribe capital requirements for bank exposures to REITs in line with the newly introduced lending framework. Under the amendment, exposures to REITs will be treated as Commercial Real Estate (CRE) exposures and assigned a 100% risk weight, while exposures qualifying as capital market exposures will attract a higher 125% risk weight. Further, lending to REITs by overseas branches of Indian banks will carry a 150% risk weight.

Click here to access the above direction.

The above directions will be effective from 1 October 2026, or an earlier date when adopted in entirety by a bank.

3. Amendments for the determination of 'Net open position' by banks

Banks are exposed to foreign exchange risk through:

- Foreign currency assets and liabilities
- Overseas branches and subsidiaries
- Foreign currency borrowings
- Derivative contracts
- Investments denominated in foreign currencies

The RBI's prudential framework requires banks to measure these exposures through the Net Open Position (NOP) methodology and maintain adequate capital against such risks.

The RBI has issued Amendment Directions that revise the framework for determining the NOP and the associated capital charge for foreign exchange risk. The amendments form part of the RBI's broader initiative to harmonise prudential regulations with the Basel Committee on Banking Supervision (BCBS) standards and to ensure consistent treatment of foreign exchange exposures across regulated entities.

Key changes introduced through the amendment direction are as follows:

1. Banks are now required to compute the forex risk capital charge at both the standalone and consolidated levels, ensuring comprehensive risk capture. The requirement must be complied with continuously, i.e., at the close of each business day.
2. Certain structural (non-trading) foreign currency positions are excluded from the NOP calculations, including those deducted from regulatory capital and related hedges. In addition, capital instruments, intangible assets, and NPAs/matured exposures are excluded, with such items attracting capital under credit risk instead.
3. Banks are permitted to exclude structural (non-trading) forex positions, such as overseas investments and retained earnings. However, such exclusions are subject to strict conditions, including consistency, minimum holding period, capital ratio sensitivity limits, and proper documentation.
4. All foreign exchange positions across domestic and overseas operations will now be included in a single consolidated NOP computation. Separate offshore NOP calculations have been discontinued.
5. Capital investments and accumulated/unremitted surplus of overseas operations must be included in the NOP computation. These are considered quarter-end positions unless specific structural exclusions apply.
6. A Basel-aligned shorthand method is prescribed for the aggregation of currency risk.
7. The amendment aligns the NOP calculation with Basel standards by requiring gold positions to be treated separately from foreign currency positions while applying the shorthand method.
8. Amendment clarifies that derivative positions should be measured using current spot rates without present value adjustments.
9. Banks are required to maintain capital at 9% of the overall NOP computed under the revised framework. This is in addition to capital requirements for credit, interest rate, and other risks, ensuring comprehensive risk coverage.

Following Amendment Directions have been issued to amend the extant instructions relating to the computation of NOP, effective from 1 April 2027.

Click here to access

1. RBI (Commercial Banks - Prudential Norms on Capital Adequacy) Tenth Amendment Directions, 2026
2. RBI (Small Finance Banks - Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026
3. RBI (Local Area Banks - Prudential Norms on Capital Adequacy) Amendment Directions, 2026
4. RBI (Regional Rural Banks - Prudential Norms on Capital Adequacy) Third Amendment Directions, 2026
5. RBI (Urban Co-operative Banks - Prudential Norms on Capital Adequacy) Third Amendment Directions, 2026
6. RBI (Rural Co-operative Banks - Prudential Norms on Capital Adequacy) Amendment Directions, 2026
7. RBI (All India Financial Institutions - Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026
8. RBI (Standalone Primary Dealers) Second Amendment Directions, 2026

4. RBI (Commercial Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2026

The RBI has issued the RBI (Commercial Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2026 ('Credit Risk Directions'), as part of its broader regulatory reforms to align the Indian banking system with the Basel III framework.

The Credit Risk Directions aim to enhance the risk sensitivity of capital requirements, improve comparability across banks, and strengthen the resilience of the financial system. These directions replace earlier approaches that either relied on less granular standardised methods or internal assessments, by prescribing a uniform, externally benchmarked framework for computing credit risk capital.

The Credit Risk Directions will be effective from 1 April 2027.

Key updates from these Credit Risk Directions are summarised as follows:

a. Implementation of Basel III Standardised Approach for Credit Risk

The Credit Risk Directions introduces the Standardised Approach under Basel III as the prescribed method for calculating credit risk capital for banks in India. Under the existing framework, many broad categories of exposures were assigned the same risk weight despite differing risk characteristics. Currently, risk weights for bank exposures largely depend on capital adequacy metrics and regulatory status. The revised framework introduces a more Basel-aligned approach using external credit ratings and differentiated treatment for bank exposures.

b. Comprehensive Classification of Exposures and Prescribed Risk Weights

The Credit Risk Directions lays out a detailed classification of credit exposures into specific categories, including sovereigns, banks, corporates, MSMEs, retail borrowers, real estate, and non-performing assets. Each category is assigned specific risk weights, which determine the capital requirement for that exposure class. This structured classification ensures that capital allocation reflects the underlying risk profile of different asset classes, with lower-risk exposures (e.g., sovereigns) attracting lower capital and higher-risk exposures (e.g., NPAs or unsecured corporate loans) attracting higher capital.

c. Strengthened due diligence and general risk assessment requirements

Banks are required to undertake robust due diligence while assessing exposures. This includes ensuring accurate classification, avoidance of regulatory arbitrage, and maintaining high-quality risk data for capital adequacy purposes.

d. Detailed framework for Credit Risk Mitigation (CRM)

The Credit Risk Directions provide detailed guidance on the recognition of credit risk mitigation techniques, such as collateral, guarantees, and netting arrangements. Capital relief is permitted only where there is clear and demonstrable risk transfer.

e. Coverage of securitisation exposures

The Credit Risk Directions prescribe specific treatment for securitisation exposures, ensuring that associated risks are adequately captured in the capital framework.

Click here to access the Credit Risk Directions.

5. Temporary relaxation of CRR and SLR compliance for the banks

The RBI, on 8 June 2026, has introduced a regulatory relaxation for regional rural banks, rural cooperative banks, urban cooperative banks, small finance banks, and commercial banks (collectively referred to as "the Banks") by exempting certain Foreign Currency Non Resident (Bank) [FCNR(B)] deposits from the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements.

The exemption applies to fresh FCNR(B) deposits, including renewals, mobilised during the period from 8 June 2026 to 30 September 2026, provided such deposits have a tenor of 3-5 years.

This measure follows the RBI Governor's announcement of a USD/INR swap facility to attract foreign currency inflows and strengthen the foreign exchange position.

The CRR exemption is effective from the reporting fortnight beginning 1 July 2026. It will remain available for the original deposit amount for as long as such deposits remain on the books of the bank.

Click below to access the above amendment to the directions.

RBI (Regional Rural Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Second Amendment Directions, 2026

RBI (Rural Co-operative Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Second Amendment Directions, 2026

RBI (Urban Co-operative Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Second Amendment Directions, 2026

RBI (Small Finance Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Second Amendment Directions, 2026

RBI (Commercial Banks – Cash Reserve Ratio and Statutory Liquidity Ratio) Second Amendment Directions, 2026

6. Amendment directions on CET1 capital computation

On 6 May 2026, the RBI issued the following amendment directions on *'Review of guidelines on inclusion of quarterly profits to Common Equity Tier 1 (CET1) capital for computation of Capital to Risk weighted Assets Ratio (CRAR) for Banks'*, following the draft proposals released on 8 April 2026, impacting commercial banks (excluding local area banks and regional rural banks), small finance banks and payments banks:

Click here to access

1. RBI (Commercial Banks – Prudential Norms on Capital Adequacy) Fifth Amendment Directions, 2026
2. RBI (Small Finance Banks – Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026
3. RBI (Payments Banks – Prudential Norms on Capital Adequacy) Second Amendment Directions, 2026

As per the existing framework, such banks were permitted to include current year profits in CET1 capital as used for CRAR calculation quarterly, subject to the condition that incremental provisions made for Non-Performing Assets (NPAs) at the end of any of the four quarters of the previous financial year have not deviated by more than 25% from the average of the four quarters.

The amendment directions have removed this NPA-based provisioning condition while reckoning the eligible profits for the quarter, subject to the following specified conditions:

- The financial statements must be audited or subjected to a limited review every quarter.
- The amount of profit which can be reckoned must be calculated using the following formula:
  EPt = NPt - 0.25 *D*t
  Where:
  EPt = Eligible profit up to quarter 't' of the current financial year, t varies from 1 to 4
  NPt = Net profit up to quarter 't'
  D = average dividend paid during the last three financial years
- Any cumulative net loss up to quarter-end shall be fully deducted in computing the CET1 capital for that quarter.

Click here to access the RBI press release.

7. RBI discontinues the requirement of 'Investment Fluctuation Reserve'

On 18 May 2026, the RBI, in view of the developments in the prudential frameworks governing market risk and investments for commercial banks, and following the draft proposals released on 8 April 2026, has issued the 'RBI (Commercial Banks - Classification, Valuation, and Operation of Investment Portfolio) Second Amendment Directions, 2026', discontinuing the requirement for commercial banks to maintain an Investment Fluctuation Reserve (IFR) with effect from 18 May 2026.

The balance in IFR, as on 17 May 2026, is required to be transferred 'below the line' to Statutory Reserve, General Reserve, or the Balance of the Profit and Loss Account. In the case of foreign banks operating in branch mode in India, the balance in the IFR shall be transferred directly to 'statutory reserves kept in Indian books' or 'remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India'.

Consequential amendments have also been made to the 'RBI (Commercial Banks – Financial Statements: Presentation and Disclosures) Directions, 2025' to remove the IFR-related presentation and disclosure requirements, and to the 'RBI (Commercial Banks – Prudential Norms on Capital Adequacy) Directions' deleting reference to IFR as a component of Tier 2 capital.

The IFR requirement has also been discontinued for local area banks.

Furthermore, the RBI has retained the requirement to maintain an IFR for regional rural banks, rural cooperative banks, urban cooperative banks, payments banks, and small finance banks. However, certain amendments in this regard have been introduced through various amendment notifications.

Click here to access the amendment notification issued for commercial banks.

8. Amendments to customer liability in digital transactions

The RBI has overhauled the framework for customer liability in digital transactions by extending protection to all fraudulent electronic banking transactions. The revised framework has been incorporated through amendments to the Responsible Business Conduct Directions applicable to commercial banks, small finance banks, payments banks, local area banks, regional rural banks, urban cooperative banks, and rural cooperative banks

The amendments will be effective from 1 January 2027.

Consequent to the issuance of draft Amendment Directions on the draft RBI (Responsible Business Conduct) Third Amendment Directions, 2026, on March 6, 2026, the RBI has issued amendment directions as follows:

Click here to access

- RBI (Commercial Banks - Responsible Business Conduct) Third Amendment Directions, 2026
- RBI (Small Finance Banks - Responsible Business Conduct) Third Amendment Directions, 2026
- RBI (Payments Banks - Responsible Business Conduct) Second Amendment Directions, 2026
- RBI (Local Area Banks - Responsible Business Conduct) Third Amendment Directions, 2026
- RBI (Regional Rural Banks - Responsible Business Conduct) Third Amendment Directions, 2026
- RBI (Urban Co-operative Banks - Responsible Business Conduct) Third Amendment Directions, 2026
- RBI (Rural Co-operative Banks - Responsible Business Conduct) Third Amendment Directions, 2026

Key highlights of the amendments are as follows:

Broadened regulatory scope

The RBI has expanded the framework beyond unauthorised transactions to cover all categories of fraudulent electronic banking transactions (EBTs), covering both card-present and card-not-present transactions, thereby strengthening overall customer protection.

Introduction of compensation framework

A standardised compensation mechanism has been introduced for small-value fraud. Customers (including sole proprietors) can claim the lower of 85% of loss or INR 25,000 for losses up to INR 50,000, subject to reporting within 5 days to both the bank and cyber authorities. Furthermore, the amendments also include the mechanism for how these small-value fraud losses shall be borne between the RBI, the customer's bank, and the beneficiary bank.

Enhanced customer protection measures

Mandatory real-time SMS alerts for transactions above INR 500, time-bound resolution (45 days for domestic transactions/60 days for cross-border transactions), and shadow reversal within 5 days for credit card frauds, ensuring quicker detection, relief, and resolution.

9. RBI (Trade Relief Measures) Directions, 2026

The RBI issued the Trade Relief Measures Directions, 2026 (Trade Directions), on 31 March 2026, to ease financial pressures on exporters impacted by geopolitical tensions, particularly those arising from the West Asian crisis.

The measures aim to reduce debt servicing burden on exporters and ensure the continuity of viable businesses during ongoing global uncertainties.

Key highlights:

The Trade Directions are effective immediately and apply to commercial banks, cooperative banks, NBFC factors, and all India financial institutions involved in export financing.

The RBI has allowed an extended credit period of up to 450 days for both pre shipment and post shipment export credit disbursed until 30 June 2026.

For existing packing credit where exports could not be completed, lenders may permit repayment through alternative sources, including domestic sales or proceeds from other export orders.

Click here to access the RBI notification dated 31 March 2026.

10. Amendments to registration criteria and categories for NBFCs

The RBI has issued the RBI (NBFCs - Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 (Amendment Directions), aimed at refining the regulatory classification of NBFCs and strengthening supervisory oversight under the scale-based regulatory framework for NBFCs.

Key amendments are summarised below:

a Revised classification framework

The Amendment Directions introduce a revised categorisation of NBFCs as follows:

- **Type I NBFC:** NBFCs not availing public funds and not having any customer interface, as defined under the directions, and holding a Certificate of Registration as a Type I NBFC.
- **Type II NBFC:** NBFCs holding a Certificate of Registration from the RBI, other than those classified as Type I NBFCs.

b Exemption for unregistered Type I NBFCs

Certain NBFCs are exempted from mandatory registration requirements under Section 45IA of the RBI Act, 1934, and the creation of a reserve fund under Section 45IC of the RBI Act, 1934, where all of the following conditions are satisfied:

- The entity does not avail itself of public funds;
- The entity does not have any customer interface, and
- The asset size is below INR 1,000 crore, as per the latest audited financial statements.

c Group-level assessment

In cases where multiple NBFCs are part of a single group, the asset sizes s of all such entities must be aggregated. Where the aggregated asset size exceeds INR 1,000 crore, all such entities are required to obtain registration as Type I NBFCs.

d Deregistration of existing NBFCs

Eligible existing NBFCs should apply for deregistration by 31 December 2026. Applications must be submitted through the PRAVAAH portal on the company's letterhead, along with the prescribed documentation, including audited financial statements for the preceding three financial years, a statutory auditor's certificate confirming the absence of public funds and customer interface, the original Certificate of Registration, relevant board resolutions and declarations, etc.

e Financial statements and statutory auditor obligations

Type I NBFCs should disclose in notes to accounts to the financial statements that the NBFC has not availed public funds and also did not have a customer interface during the year, including the fact that it is an "Unregistered Type I NBFC". The statutory auditors of such NBFCs are required to submit an exception report to the RBI in case of violations of conditions on public funds, customer interface, or any other condition for the exemption.

These Amendment Directions are effective from 1 July 2026.

Click here to access the Amendment Directions.

11. Amendments to the identification of NBFC-UL and to credit/investment concentration norms – Government-owned NBFCs

The RBI, vide a press release dated 24 June 2026, has issued certain amendment directions primarily to simplify the NBFC Upper Layer (NBFC-UL) framework and bring government-owned NBFCs within a more uniform regulatory regime.

Key amendments include:

- Identification of NBFCs in the upper layer -
- Simplified NBFC-UL classification by replacing the earlier scoring-based approach with a single asset-size threshold of INR 1 lakh crore or more, thereby enhancing clarity, objectivity, and consistency in identification.
- Government-owned NBFCs:
  - The earlier exemption for government-owned NBFCs to be placed only in the base or middle layer, and not in the upper layer, has been deleted. Accordingly, the government-owned NBFCs will now also be considered for inclusion in the upper layer if they meet the prescribed asset-size threshold.
  - The exemptions previously available to certain government-owned NBFCs from credit and investment concentration norms are no longer available.
  - Governance requirements, as applicable to upper-layer NBFCs, such as mandatory listing within three years, the composition of the board of directors, etc., will not apply to NBFCs that are fully owned and controlled by the government. A similar exemption is made from the financial statement disclosure requirements.

Click here to access the press release for amendment directions.

12. Amendment directions on the cooling-off period for directors of co-operative banks

The RBI has issued the RBI (Urban cooperative banks - Governance) Amendment Directions, 2026, and the RBI (Rural cooperative banks - Governance) Amendment Directions, 2026, prescribing a three-year cooling-off period for the directors of urban cooperative banks (UCBs) and rural cooperative banks (RCBs) upon the completion of a continuous tenure of 10 years on the board of directors.

During the cooling-off period, such directors cannot be associated with the concerned bank in any capacity other than as a member/customer, although they may serve on the board of directors of another bank, if otherwise eligible.

The amendment further clarifies that for computing continuous tenure, all periods served on the bank's board shall be aggregated, including any period preceding an interruption of less than three years. However, any period of service preceding an interruption of three years or more shall be excluded.

Click here for the RBI amendment directions.

13. Amendments to timelines for the realisation and repatriation of export proceeds as per FEMA

On 5 June 2026, the RBI has notified the Foreign Exchange Management (Export of Goods and Services) (First Amendment) Regulations, 2026, to amend Regulation 9 relating to 'period within which export value of goods/software/services to be realised'. On 13 November 2025, RBI had increased the prescribed timeline for realisation and repatriation of export proceeds from 9 months to 15 months which has been restored back to 9 months from the date of export.

The revised timeline is effective from the date of publication of the notification in the Official Gazette, i.e., from 5 June 2026.

Click here for the FEMA amendment regulation.

14. FEMA – Updated ECB reporting framework

The RBI has introduced amendments to the reporting framework for External Commercial Borrowings (ECB) under the Foreign Exchange Management Act, 1999 (FEMA). The revised directions, effective from 1 April 2026, aim to streamline reporting processes and improve compliance monitoring.

Key changes are as follows:

- Form ECB 1 and Revised Form ECB 1 have been classified as returns that do not capture the flow of money, such as drawdowns and repayments. Consequently, the Late Submission Fee (LSF) for submission delays will be calculated based on this categorisation.
- The LSF will be applicable per return, and each delayed submission of Form ECB 2 under a Loan Registration Number (LRN) will be treated as a separate instance for computing the fixed component of LSF.
- The Authorised Dealer (AD) Category I banks are required to submit the ECB returns, complete in all respects, to the RBI within seven calendar days from the date of receipt from the borrower.
- The LSF payments shall be made via NEFT/RTGS to the concerned RBI regional office, after receipt of an acknowledgement email from the RBI, which will provide detailed payment instructions.
- The AD Category I banks are mandated to monitor the timely payment of the LSF by their customers in cases of delayed submissions.

Click here to access the RBI circular dated 30 March 2026.

15. FEMA – New reporting framework for guarantees under FEMA

The RBI, vide a circular dated 1 April 2026, has introduced a revised reporting framework for guarantees under the Foreign Exchange Management (Guarantees) Regulations, 2026.

Key points of the circular are as follows:

- The RBI has prescribed three separate forms for reporting to the AD Bank:
  - Form GRN issue – for reporting issuance of guarantees
  - Form GRN modification – for reporting changes such as amount, tenure, or pre-closure
  - Form GRN Invocation – for reporting the invocation of guarantees
- Reporting by entity should be made to the AD bank quarterly within 15 days of the end of the respective quarter, and the AD bank is required to submit the returns to the RBI within 30 calendar days of the end of the relevant quarter through the centralised information management system.
- For each guarantee issuance reported through 'Form GRN Issue', the AD bank will provide a unique guarantee transaction number before submitting the return to the RBI.
- In case of a delay in the reporting of 'Form GRN Invocation', the late submission fee shall be computed based on the amount arising on invocation. For Form GRN Issue and GRN Modification, the amount considered for LSF computation will be nil, as these forms do not capture flows.

The provisions of the circular are effective from 1 April 2026.

Click here to access the RBI circular dated 1 April 2026.

16. RBI retains FPI debt investment limits and revises framework for CDS for FY 2026–27

The RBI, vide a circular dated 6 April 2026, has notified the revised limits for Foreign Portfolio Investor (FPI) investments in debt instruments and credit default swaps (CDS) for FY 2026–27, providing clarity on market access and risk exposure in the Indian debt market.

Key highlights of the circular are as follows:

- The overall percentage limits for the FPI investments remain unchanged, with investments capped at 6% of outstanding government securities (G-Secs), 2% of state government securities (SGSs), and 15% of corporate bonds under the General Route.
- However, the RBI has enhanced the absolute investment limits, with phased increases across two half-year periods (April–September 2026 and October 2026–March 2027). The total FPI investment ceiling in debt instruments is set to increase from approximately INR 14.7 lakh crore to INR 16.3 lakh crore by the end of FY 2026–27, reflecting a gradual expansion in foreign investor participation.
- The circular also clarifies the allocation of incremental limits: a 50:50 split between the general and long-term categories for government securities. In contrast, the entire increase in state government securities limits is allocated to the general category. Investments under the Fully Accessible Route (FAR) will continue to remain outside these limits.
- Importantly, the RBI has aligned the Voluntary Retention Route (VRR) with the General Route limits, specifying that from 1 April 2026, all existing and future investments under VRR will be subject to these caps, thereby simplifying the regulatory framework.
- With respect to the Credit Default Swaps (CDS), the RBI has retained the cap on the notional amount of the CDS sold by FPIs at 5% of the outstanding stock of corporate bonds. Based on this, an additional CDS limit of approximately INR 3.30 lakh crore has been specified for FY 2026–27, reinforcing prudential controls on derivative exposure.

Click here to access the RBI notification dated 6 April 2026.

17. Foreign Exchange Management (Authorised Persons) Regulations, 2026

The RBI, on 30 April 2026, notified the 'Foreign Exchange Management (Authorised Persons) Regulations, 2026' with the objective of rationalising the framework governing entities authorised to deal in foreign exchange, improving the delivery of foreign exchange services, and easing compliance requirements. The regulations introduce a revised authorisation framework comprising three categories of Authorised Dealers (AD Category I, II, and III), prescribe eligibility, governance, and fit-and-proper requirements, and require applications for authorisation as an authorised person to be submitted through the RBI's PRAVAAH portal. The new framework also replaces the existing franchisee model with a Forex Correspondent (FxC) Scheme, discontinues the consideration of fresh FFMC licence applications (other than pending applications), and strengthens supervisory, reporting and compliance obligations. Existing authorised persons may continue to operate until the expiry of their current authorisations, provided they comply with the new regulations.

Click here to access the RBI notification.

Other regulatory updates

1. Applicability of Income-tax Act, 2025

The Income-tax Act, 2025 (2025 Act) represents a landmark reform in India's direct tax framework, aimed at simplifying and modernising the tax regime. The Income-tax Rules, 2026, notified on 20 March 2026, operationalise the provisions of the new Act.

Key highlights of the Act are as follows:

Simplified and streamlined structure

The 2025 Act reorganises provisions into a concise, logical format (23 chapters and ~536 sections) and uses simplified language to enhance the clarity and ease of interpretation.

Introduction of "Tax Year"

The dual concepts of "previous year" and "assessment year" have been replaced with a single "tax year", aligning with global practices and reducing ambiguity.

Continuity of tax policy

Despite structural changes, core tax principles and slab rates remain largely unchanged, ensuring stability and predictability for taxpayers.

Consolidation of provisions

Scattered provisions, particularly relating to TDS, have been unified and presented in a simplified manner to facilitate better compliance and application.

Digitisation and faceless administration

The framework emphasises digital compliance mechanisms, such as faceless assessments, to promote transparency and efficiency.

Reduction in litigation

By eliminating redundant provisions and simplifying drafting, the Act aims to minimise interpretational issues and reduce tax disputes.

Alignment with modern economy

The Act incorporates provisions addressing emerging areas, such as digital assets and evolving business models, in line with the global developments.

Click here to access the Income-tax Act, 2025.

2. Central Rules 2026 under the Labour Codes and other related notifications

a. Central Rules 2026

Following the release of draft Central Rules under the four Labour Codes in December 2025, the Ministry of Labour & Employment (MoLE), on 8 and 9 May 2026, has now notified and published the final Central Rules under the four labour codes, i.e., the Code on Wages (Central) Rules, 2026; the Code on Social Security (Central) Rules, 2026; the Occupational Safety, Health and Working Conditions (OSHWC) (Central) Rules, 2026 and, the Industrial Relations (Central) Rules, 2026 in the official gazette, effective immediately.

The notified Rules establish a comprehensive, standardised framework governing the key aspects of employment. These include provisions on working hours and overtime, the mandatory issuance of appointment letters, a framework to strengthen employee welfare provisions, including health check-ups, creche facilities, and safety measures for women working night shifts, and reinforce wage governance through mechanisms, such as the National Floor Wage and Central Advisory Board, and instruments such as the Worker Re-skilling Fund.

Applicability of Central Rules

- Central establishments: The Central Rules apply to all establishments falling under the jurisdiction of the central government, which includes establishments operated by or under the authority of the central government, such as:
  - Railways, mines, oilfields/oil exploration entities, major ports;
  - Air transport and telecommunication services;
  - Banking and insurance companies constituted under the central legislation;
  - Statutory corporations or authorities established by a Central Act;
  - Central public sector undertakings (CPSUs) and their subsidiaries;
  - Autonomous bodies owned or controlled by the central government; and
  - Contractor establishments engaged by or working for any of these entities.
- Applicability of Central Rules under Code on Social Security, 2020: While the Central Rules apply only to the establishments mentioned above, the Social Security (Central) Rules, 2026, shall have wider coverage and will also apply to other establishments in the private sector that have a presence in more than one state. This is in line with the definition of 'appropriate government' under the Social Security Code 2020.

Key aspects operationalised by the notification of Central Rules 2026:

1. **Code on Wages (Central) Rules, 2026**
   These rules operationalise the provisions of the Code on Wages, 2019, by establishing a comprehensive and uniform framework governing key aspects, such as minimum wage fixation, timelines for wage payments, permissible deductions, statutory bonus, and equal remuneration, and also provide clarity on the provisions relating to working hours, revision of dearness allowance, and compliance requirements. Overall, these rules translate the code into a more standardised, technology-enabled, and enforceable wage compliance regime, aimed at enhancing transparency and ease of administration.
2. **Code on Social Security (Central) Rules, 2026**
   These rules establish a comprehensive framework for the provisions on provident fund, employee state insurance (ESI), gratuity, maternity benefits, and other social security schemes. These rules lay down eligibility thresholds, contribution mechanisms, and benefit administration, while also prescribing processes for digital registration and compliance requirements for employers in relation to employee coverage, record maintenance, and the timely disbursement of benefits.
3. **OSHWC (Central) Rules, 2026**
   These Rules establish a comprehensive regulatory framework governing workplace health, safety, welfare, and working conditions, while promoting a digitized, standardised compliance regime. These rules prescribe requirements relating to appointment letters, registration, working hours, overtime, and employee welfare, and strengthen compliance through safety committees, designated officers, and prescribed records. They also introduce safeguards for women working night shifts, regulate contract labour, and provide structured mechanisms for the registration and protection of inter-state migrant workers.

4. **Industrial Relations (Central) Rules, 2026**
These rules establish a comprehensive framework governing trade union recognition, standing orders, dispute resolution, and industrial adjudication. These rules prescribe structured mechanisms for certification and modification of standing orders, constitution of works committees and grievance redressal committees, and the processes for the verification of unions, including secret ballot and membership validation, thereby formalising employee-employer representation and engagement systems. These rules also strengthen the regulatory framework by defining the procedures for conciliation, adjudication, strikes and lockouts, and worker re-skilling obligations.

Click below to access the respective rules:

The Code on Wages (Central) Rules, 2026

The Social Security (Central) Rules, 2026

The Occupational Safety, Health and Working Conditions (Central) Rules, 2026

The Industrial Relations (Central) Rules, 2026

b. Model Standing Orders, 2026, notified under Industrial Relations Code, 2020

On 8 May 2026, the MoLE, government of India, published the Model Standing Orders, 2026 (MSO 2026), which supersedes the provisions relating to model standing orders under the Industrial Employment (Standing Orders) Central Rules, 1946.

The MSO 2026 introduces three distinct schedules specifically tailored for industrial establishments in the mining, manufacturing, and service sectors. It also incorporates modern workplace practices, such as remote work, prescribes structured timelines for payroll and disciplinary actions, and mandates structural parity for fixed-term employees.

The MSO 2026 would apply to the aforementioned industrial establishments with 300 or more workers. It provides a statutory baseline for employment conditions, offering employers flexibility to adopt or customise policies, thereby promoting a more standardised, industry-specific, and digitally enabled compliance framework.

Click here to access MSO 2026.

3. Insolvency and Bankruptcy Code (Amendment) Act, 2026

The Parliament of India has passed the Insolvency and Bankruptcy (Amendment) Bill, 2026 (Amendment Bill), proposing amendments to the Insolvency and Bankruptcy Code, 2016 (Code). On 6 April 2026, the Amendment Bill received the Presidential assent and was enacted as the Insolvency and Bankruptcy Code (Amendment) Act, 2026 (Amendment Act').

The Amendment Act provides that different dates may be appointed for different provisions of this Amendment Act, and any reference in any such provision to the commencement of this Amendment Act would be construed as a reference to the coming into force of that provision.

Key highlights of the Amendment Act are as follows:

Initiation of Insolvency Resolution Process

The Amendment Act provides that, within 14 days of the receipt of an application for the initiation of the corporate insolvency resolution process (CIRP) from a financial creditor, the National Company Law Tribunal (NCLT) shall (as opposed to the earlier position of 'may') admit or reject the application, subject to satisfaction of the existence of debt and default.

Creditor-initiated Insolvency Resolution Process (CIIRP)

The Act introduces a new resolution process, the creditor-initiated insolvency resolution process (CIIRP). A new out-of-court framework, the CIIRP, has been introduced under new Sections 58A to 58K (Chapter IV-A of Part II).

Key features include:

a. Initiated by the notified class of financial institutions upon default.

b. Prior approval of at least 51% financial creditors and a minimum 30-day notice to the corporate debtor is required.

c. The process to be completed within 150 days (extendable by 45 days, once only)

d. Corporate debtor management continues during the process; moratorium is optional.

e. The process can be converted to CIRP under Chapter II if the resolution plan is not approved or if the corporate debtor fails to cooperate.

Withdrawal of CIRP

The Amendment Act provides that withdrawal of the insolvency process will be permitted only with the 90% approval of the Committee of Creditors (CoC). No such withdrawal is permitted before the constitution of the CoC and after the first invitation of resolution plans for the corporate debtor (CD), thereby substantially narrowing the window for withdrawals.

One time re-initiation of CIRP

The Amendment Act provides that if no resolution plan has been received within the maximum period of the CIRP or a resolution plan is rejected, before passing a liquidation order, the NCLT may, if the CoC applies with 66% approval, restore the CIRP in case of no resolution plan from the initial stages, and in the case of rejection, from the stage of invitation of resolution plans. This will be a one-time restoration with a maximum period of 120 days to complete the restored process. The NCLT is required to pass a liquidation order if no resolution plan has been submitted for its approval within that extended period.

Modification introduced in waterfall mechanism

The Amendment Act clarifies and rationalises the waterfall distribution framework as follows:

- A creditor shall be treated as a secured creditor only to the extent of the value of the security interest relinquished to the liquidation estate. Clarification that inter-se priority arrangements among secured creditors at the same level should be recognised and respected during distribution.
- An explanation of the definition of "security interest" clarifies that statutory charges (including government dues) do not qualify as secured debt, thereby reinforcing that government dues do not enjoy the status of secured creditors under the code.

Increased penalty for frivolous applications

Any person initiating a frivolous proceeding before the adjudicating authority would be liable to a penalty of not less than INR 1 lakh, extendable to INR 2 crore.

Click here to access the Amendment Act.

4. IRDAI circular on remuneration to key management persons

On 25 May 2026, the Insurance Regulatory and Development Authority of India (IRDAI) issued a circular amending the 'disclosure requirements' and 'parameters for remuneration of Key Managerial Personnel (KMPs)' as stated in the Master Circular on Corporate Governance for Insurers, 2024 ("Master Circular").

The disclosure in annual accounts as prescribed in Clause 8.1 of the Master Circular has been amended whereby the scope has been enhanced as follows:

- Parameters forming the basis of the remuneration package (including incentives) of the MD and CEO and all other directors and KMPs are required to be disclosed as against disclosure of 'elements' of remuneration package earlier.
- Payments made to **both** group entities and related parties irrespective of source of funds as against disclosure of only payments made to group entities from policyholder funds earlier.

Further, the IRDAI has also prescribed a minimum set of parameters to be considered for the assessment of KMP performance for the payment of FY 2026-27 variable pay or incentives. The circular also mandates insurers to disclose their performance against such parameters (as adopted for KMP remuneration), along with corresponding information for the preceding three years.

The above provisions are effective from the date of the circular, i.e., 25 May 2026.

Click here for the IRDAI circular.

5. Amendment in foreign investment norms

On 2 May 2026, the Department of Economic Affairs of the Ministry of Finance issued amendments to the Foreign Exchange Management (FEM) (Non-debt Instruments) Rules, 2019, by notifying the FEM (Non-Debt Instruments) Amendment Rules, 2026, and FEM (Non-Debt Instruments) Second Amendment Rules, 2026, aimed at reinforcing the regulatory framework governing foreign investment into India.

Key changes introduced via FEM (Non-Debt Instruments) Amendment Rules, 2026

- Included enhanced conditions and restrictions on foreign investment.
- Investments from entities/citizens of countries sharing a land border with India, or where beneficial ownership lies in such countries, must be made only through the government approval route.
- Any transfer of ownership resulting in a change in beneficial ownership to restricted persons/entities requires prior government approval.
- A citizen of Pakistan or an entity incorporated in that country shall invest only through the government route, in sectors or activities other than defence, space, atomic energy, and any other sectors or activities prohibited for foreign investment.
- Multilateral bank/fund, of which India is a member, shall not be treated as an entity of a particular country, nor shall any country be treated as the beneficial owner of the investments of such bank/fund in India.
- Introduced reporting requirements, even if approval is not required.
- The concept of beneficial ownership has been aligned with the framework of the Prevention of Money Laundering Act, 2002.
- The transfer of a participating interest or rights in oil fields by Indian companies to non-residents is treated as a foreign investment.

Key changes introduced via FEM (Non-Debt Instruments) Second Amendment Rules, 2026

Foreign direct investment (FDI) up to 100% has now been permitted in Indian insurance companies and insurance intermediaries under the automatic route, while retaining a specific restriction on the Life Insurance Corporation of India (LIC), where the FDI is capped at 20% under the automatic route.

Key conditions to be ensured:

- Necessary approvals should be obtained from the IRDAI.
- Compliance with the provisions of the Insurance Act, 1938.
- Indian insurance companies to ensure:
  - At least one among the Chairperson, Managing Director (MD), and Chief Executive Officer (CEO) is a resident Indian citizen.
  - Comply with the applicable provisions under the Indian Insurance Companies (Foreign Investment) Rules, 2015, Foreign Exchange Management (Non-Debt Instruments) Rules, 2019, and provisions of the SEBI (FPI) Regulations, 2019.
  - Any increase in foreign investment shall be in accordance with the prescribed pricing guidelines.
- Indian insurance intermediaries to ensure:
  - Should be a limited company under the provisions of the Companies Act, 2013.
  - At least one among the Chairperson, MD, and CEO is a resident Indian citizen.
  - Shall bring in the latest technological, managerial, and other skills
  - Shall make disclosures for all payments made to its group, promoter, subsidiary, or interconnected or associate entities
- Foreign investment in the LIC shall be subject to compliance with the provisions of the Life Insurance Corporation Act, 1956.
- Entities such as banks engaged in insurance intermediation remain subject to applicable sectoral foreign investment caps, provided that non-insurance revenue constitutes more than 50% of total revenue.

Click here for the FEM (Non-Debt Instruments) Amendment Rules, 2026

Click here for FEM (Non-Debt Instruments) Second Amendment Rules, 2026.

02

India updates – Proposed

A. Regulatory updates

SEBI updates

1. Consultation paper on review of framework for calculation of Net distributable cash flows for InvITs

SEBI has issued a consultation paper on 1 June 2026, proposing changes to the framework for the computation of the Net Distributable Cash Flows (NDCF) for InvITs, in response to representations received from the Bharat InvITs Association regarding the current treatment of debt-funded major maintenance (MM) expenditure in road sector projects.

Under the existing framework, external debt cannot be used to make distributions, and MM expenses are deducted from operating cash flows, reducing NDCF (since the starting point for NDCF is cash flow from operating activities, which is computed after deducting all operating expenses, including MM expenses). To better align the distributable cash flow computation with the financing structure of projects and mitigate the impact of large maintenance expenditure cycles on distributions to unitholders, SEBI has proposed that payments made towards major maintenance expenses for road projects of InvITs to the extent funded through external borrowings should be allowed to be factored (added back) while calculating the NDCF.

However, given its direct impact on investor distributions and leverage, the proposal is limited to road and bridge projects. It is subject to safeguards, including the unitholder approval (minimum 60% majority), auditor certification, detailed disclosures regarding borrowing, project-wise maintenance expenses, distribution impacts, and future funding risks.

Click here for the draft circular.

2. Consultation paper on review of provisions on disclosure of executive remuneration by AMCs

SEBI issued a consultation paper on 10 June 2026, proposing changes to the disclosure framework for executive remuneration applicable to Asset Management Companies (AMCs).

Existing requirement:

Under the existing Mutual Fund Master Circular, AMCs are required to publish on their websites the names, designations and remuneration of their chief executive officer (CEO), chief investment officer (CIO) and chief operating officer (COO), along with details of the top 10 highest-paid employees and all employees whose remuneration exceeds specified thresholds (for example, disclosure is required if annual remuneration exceeds INR 1.02 crore).

Proposed changes:

In light of the feedback received from the industry and for harmonising the disclosures under the SEBI Master Circular for Mutual Funds and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR), SEBI has proposed that AMCs may disclose aggregate remuneration paid to the key categories of employees, along with the number of employees covered under each category, instead of individual employee-wise disclosures.

Furthermore, recognising the critical role of fund managers in investment decision-making, SEBI has proposed a scheme-level disclosure mechanism for fund managers' remuneration. Under the proposal, consolidated scheme-level remuneration paid to fund managers would be made available upon request by unitholders and only for schemes in which they are invested.

Click here for the consultation paper.

RBI updates

1. Draft directions aligning disclosure requirements with Basel Pillar 3

On 6 May 2026, the RBI issued draft amendment directions for commercial banks and small finance banks to ensure consistency with the Basel Pillar 3 disclosure requirements.

Pillar 3 of the Basel Framework is intended to promote market discipline by requiring banks to make transparent and meaningful disclosures regarding their capital position, risk exposures, and risk management practices, thereby enabling stakeholders to make informed assessments of a bank's financial strength and risk profile.

In this regard, the RBI has released the following draft amendment directions:

- RBI (Commercial Banks – Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026
- RBI (Small Finance Banks – Prudential Norms on Capital Adequacy) Fifth Amendment Directions, 2026

As per draft directions, banks will be required to formulate a board-approved disclosure policy governing Pillar 3 disclosures, which sets out internal controls and procedures for disclosure of such information. Further, the Board of Directors and senior management will be responsible for ensuring the appropriateness of Pillar 3 disclosures.

The RBI has also emphasised the following five guiding principles for Pillar 3 disclosures:

Principle 1: Disclosures shall be clear

Principle 2: Disclosures shall be comprehensive

Principle 3: Disclosures shall be meaningful to users

Principle 4: Disclosures shall be consistent over time

Principle 5: Disclosures shall be comparable across banks

In addition, the draft directions introduce revised requirements for the frequency and timing of disclosures and mandate that banks maintain a dedicated 'Regulatory Disclosure Section' on their websites, with archived disclosures to be retained for at least 10 years. The draft directions also address the applicability of Pillar 3 disclosures, clarify certain presentation-related aspects, revise the leverage ratio disclosure norms, and update the disclosure templates and tables under Annexure III.

These amendment directions are proposed to come into effect from the quarter ending 30 September 2026.

Click here to access the RBI (Commercial Banks – Prudential Norms on Capital Adequacy) Seventh Amendment Directions, 2026

Click here to access the RBI (Small Finance Banks – Prudential Norms on Capital Adequacy) Fifth Amendment Directions, 2026.

2. Harmonisation and consolidation of instructions on control/assurance functions

The RBI, on 10 June 2026, issued draft amendment directions to harmonise and consolidate governance frameworks for risk management, compliance, and internal audit across a wide range of regulated entities, including commercial banks, small finance banks, payments banks, local area banks, regional rural banks, NBFCs, cooperative banks, and other financial institutions.

The proposed framework focuses on strengthening governance by clearly defining control and assurance functions and enhancing the independence, accountability, and effectiveness of key roles, such as the Chief Risk Officer (CRO), Chief Compliance Officer (CCO), and the Head of Internal Audit (HIA), along with introducing fixed tenure, board oversight, and fit-and-proper criteria.

It prohibits the outsourcing of core functions, mandates periodic internal and external reviews, and requires greater board and committee involvement, while promoting risk-based internal audits and a stronger compliance culture.

The amendments are proposed to take effect on 1 January 2027.

Click here for the RBI press release.

Sustainability updates

1. Exposure draft on the standard and framework for sustainability assurance engagements

On 20 May 2026, the Sustainability Reporting Standards Board (SRSB) of the ICAI issued an exposure draft on 'Standard on Sustainability Assurance (SSA) 5000, General Requirements for Sustainability Assurance Engagements' and 'Framework for Sustainability Assurance Engagements'. The proposed SSA 5000 is broadly aligned with the International Standard on Sustainability Assurance (ISSA) 5000, issued by the International Auditing and Assurance Standards Board (IAASB), with certain carve-outs/modifications as detailed in the appendix to the exposure draft. The Standard on Sustainability Assurance Engagements (SSAE) 3000 is proposed to be withdrawn once SSA 5000 becomes effective.

SSA 5000 will serve as a comprehensive, stand-alone standard suitable for all sustainability assurance engagements covering both reasonable and limited assurance engagements, to enhance the reliability, consistency, and overall quality of sustainability reporting in India. The standard addresses key sustainability-related considerations, such as the identification of sustainability matters, the determination of materiality, and the establishment of reporting boundaries (including the value chain).

This standard is proposed to be mandatorily applicable to all listed entities as per SEBI guidelines, and to other entities seeking assurance over their sustainability information; however, the assurance on forward-looking statements is specifically excluded from the purview of this standard.

In addition, the SRSB of the ICAI has issued an exposure draft of the 'Framework for Sustainability Assurance Engagements', solely to facilitate the understanding of the elements and objectives of a sustainability assurance engagement and the engagements to which SSA apply. The framework does not itself prescribe requirements or procedures; rather, it serves as a foundational document that guides the development and application of detailed assurance standards.

The effective date of the exposure drafts is yet to be confirmed.

Click here to access the exposure draft on SSA 5000

Click here for the exposure draft on 'Framework for sustainability assurance engagements.

03

International updates - Effective

A. Accounting updates

1. IASB issues IFRS 20

The International Accounting Standards Board (IASB) has issued a new accounting standard, IFRS 20, Regulatory Assets and Regulatory Liabilities (IFRS 20), which replaces the IFRS 14, Regulatory Deferral Accounts (IFRS 14), and is mandatory for entities that meet its scope criteria; it is not optional like IFRS 14 was for first-time adopters.

The standard applies to companies whose pricing is governed by regulatory frameworks that determine the amount and timing of revenue recovery from customers, commonly observed in sectors, such as utilities (electricity, gas, and water). In certain circumstances, such arrangements give rise to so-called timing differences, where the revenue recognised in a period under IFRS 15, Revenue from Contracts with Customers, does not match the compensation to which an entity is entitled. IFRS 20 aims to address these situations.

IFRS 20 is a standard that supplements the information provided by applying other IFRS Accounting Standards, such as IFRS 15. An entity is required to apply other IFRS Accounting Standards to account for rights and obligations created by regulatory agreements before applying IFRS 20. The key requirements of IFRS 20 are summarised below.

Definition of regulatory assets and liabilities	• A regulatory asset or regulatory liability represents an enforceable present right or obligation arising from a regulatory agreement to adjust future regulated rates charged to customers. • Regulatory assets arise when part or all of the total allowed compensation for goods or services already supplied has not yet been recognised as revenue in accordance with IFRS 15. Conversely, regulatory liabilities arise when part or all of the allowed compensation relating to goods or services to be supplied in the future has already recognised as revenue in accordance with IFRS 15. • Regulatory income and expenses arise from changes in regulatory assets and liabilities.
Recognition and measurement	• An entity is required, subject to limited exceptions, to recognise all regulatory assets and regulatory liabilities existing at the reporting date, together with the related regulatory income and regulatory expenses arising during the period. • Regulatory assets and regulatory liabilities are measured using a cash flow-based approach, based on current estimates of future cash flows. These cash flows are discounted using the regulatory interest rate specified in, or implied by, the regulatory agreement. • After initial recognition, entities remeasure regulatory assets and liabilities by updating the estimated future cash flows. The regulatory discount rate determined at initial recognition is retained for subsequent measurement.
Presentation	• Regulatory income and regulatory expenses are presented within the statement of profit or loss as part of revenue. They are disclosed as a net amount in a separate line item, distinct from revenue recognised under IFRS 15. • In circumstances where other IFRS Accounting Standards require the recognition of related income or expenses in other comprehensive income, the associated regulatory income or regulatory expense is also presented in other comprehensive income. • Regulatory assets and regulatory liabilities are presented as separate line items in the statement of financial position. They are classified as current or non-current in accordance with the requirements of IFRS 18.

Disclosure	• Entities are required to provide disclosures that enable users to understand the amounts recognised in respect of regulatory assets, regulatory liabilities, and the related regulatory income and regulatory expenses, as well as the nature of any unrecognised regulatory balances. • For recognised regulatory assets and regulatory liabilities, entities are required to present reconciliations of the opening and closing balances. These reconciliations should analyse movements during the period, including amounts recognised in profit or loss, amounts recognised in other comprehensive income, and other changes not recognised in those statements. • The standard further specifies detailed requirements regarding the components and disclosures to be included within such reconciliations.

IFRS 20 is effective for reporting periods beginning on or after 1 January 2029, with earlier application permitted.

Click here to access the full standard and other supporting material prepared by the IASB.

2. Amendments clarifying the fair value option in IAS 28

The IASB has issued targeted amendments on 26 June 2026 to amend Paragraphs 18 and 19 of IAS 28, Investments in Associates and Joint Ventures, which provide an exemption to certain types of entities from applying the equity method to measure the investments in associates and joint ventures and an option to measure these investments at fair value through profit or loss as per IFRS 9, Financial Instruments.

Currently, this exemption is available to venture capital organisations, mutual funds, unit trusts, and investment-linked insurance funds. Pursuant to the amendment, 'entities including investment-linked insurance funds' have been deleted and replaced with 'similar entity', which includes those that have a main business activity of investing in particular types of assets (as listed in Paragraph 49(a) of IFRS 18, Presentation and Disclosure in Financial Statements).

The amendments in IAS 28 will be effective when a company first applies IFRS 18, i.e., as per the transition option an entity avails for adopting IFRS 18.

Click here for the IASB amendment released by the IASB.

2. FASB – Topic 818: environmental credits and environmental-related obligations

FASB has issued Accounting Standards Update (ASU) No. 2026-02, Environmental Credits and Environmental Credit Obligations (Topic 818), to improve the financial accounting for and disclosure of activities related to environmental credits and environmental credit obligations. It provides recognition, measurement, presentation, and disclosure requirements for all entities that generate, purchase, or receive environmental credits or have a regulatory compliance obligation that may be settled with environmental credits.

The amendments are expected to have a broad impact across industries, particularly for entities operating in sectors subject to environmental regulations, as well as those that obtain environmental credits to meet internal carbon reduction or sustainability targets.

The ASU defines environmental credits and when they should be recognised as assets, distinguishes between compliance and noncompliance credits, and requires enhanced disclosures about how credits are obtained, used, and valued. The amendments also define environmental credit obligations and clarify when entities must recognise environmental credit obligation liabilities arising from regulatory compliance programmes, how to measure those liabilities, and what information must be disclosed about those obligations.

The ASU is effective from:

Public business entities

Annual reporting periods beginning after 15 December 2027, (including interim periods).

Other than public business entity

Annual reporting periods beginning after 15 December 2028, (including interim periods).

Click here to access the ASU.

B. Auditing updates

1. Guidance on the effective use of AI tools by FRC

The Financial Reporting Council (FRC) has issued comprehensive guidance on the use of generative and agentic AI in audit, recognising the transformative potential of these technologies to enhance audit quality while also highlighting associated risks. The guidance underscores that AI tools, particularly those powered by large language models, can support a wide range of audit activities such as research, summarisation, and analysis, thereby improving efficiency and effectiveness.

The guidance categorises risks into three key areas.

- **Risk of deficient output:** It arises when the AI system produces inaccurate, incomplete, or misleading results. This may stem from inherent limitations of LLMs, such as hallucinations, omissions, distortions, faulty reasoning, or internal inconsistencies.
- **Risk of misuse of output:** It arises even when AI outputs are technically correct but are misinterpreted or improperly applied by auditors.
- **Risk of non-compliant methodology**: It mentions the possibility that audit methodologies incorporating AI may fail to meet auditing standards. Given that AI-enabled procedures can differ significantly from traditional audit approaches, particularly in their ability to analyse entire populations rather than samples, there is a risk that firms may misjudge the level of assurance obtained or over-rely on such procedures.
  To address these risks, the guidance sets out a comprehensive mitigation framework built on four pillars.
- **Robust system design and development:** It includes creating well-structured workflows, selecting appropriate models and components, implementing rules-based protocols, and leveraging tools such as retrieval-augmented generation to enhance accuracy.
- **Certification:** It involves formally evaluating AI tools before deployment to ensure they perform as intended.
- **Staff education and governance:** Audit teams must be trained on when and how to use AI tools, including the risks associated with automation bias and over-reliance on outputs.
- **The critical role of human involvement in AI-enabled audits:** It requires "human in the loop" oversight, where auditors review outputs, apply professional skepticism, and ensure that AI-generated insights are appropriate and complete.

Overall, the guidance aims to support the responsible adoption of AI in auditing by balancing innovation with strong controls, ensuring that audit quality, professional judgement, and compliance with standards are not compromised.

Click here to access the guidance.

C. Sustainability updates

1. IAASB releases new ISSA 5000 Materiality FAQs to support consistent, effective application in sustainability assurance engagements

The IAASB, on 25 June 2026, issued FAQs to support implementation of the International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements.

The FAQs explain how both reporting entities and assurance practitioners apply materiality in the context of sustainability information, including:

- Understanding the information needs of intended users of sustainability information;
- Addressing qualitative and quantitative disclosures;
- Addressing double materiality considerations, when required; and
- Considering how materiality is applied throughout the engagement to support decision-useful sustainability reporting.

The FAQs provide explanations and illustrative examples to help stakeholders better understand the application of the concept of materiality under ISSA 5000. This publication complements the IAASB's existing resources and is intended to support practitioners, preparers, regulators, and other stakeholders as they implement, or prepare for implementation of ISSA 5000.

Click here for new FAQs released by the IAASB.

04

International updates – proposed

A. Accounting updates

1. Extension of the consolidation exception for eligible SMEs

The IASB has issued an exposure draft proposing narrow-scope amendments to the IFRS for Small and Medium-Sized Entities (SMEs) Accounting Standard. Presently, SMEs are required to prepare consolidated financial statements unless their parent entity does so. However, this exemption was not available in cases where the parent is an investment entity that measures its subsidiaries at fair value rather than consolidating them.

The proposal introduces an exception from presenting consolidated financial statements for an SME if its ultimate (or intermediary) parent produces general-purpose financial statements that comply with full IFRS Accounting Standards, in which subsidiaries are measured at fair value through profit or loss, in accordance with IFRS 10.

The proposed change aims to provide eligible SMEs with the same cost savings available to similar entities under the full IFRS Accounting Standards.

The amendments are proposed to be effective for periods beginning on or after 1 January 2027, with earlier application permitted.

The exposure draft is open for public comments until 9 September 2026.

Click here to access the exposure draft

B. Auditing updates

1. Exposure draft on ISRE 2410

The IAASB has issued an exposure draft proposing revisions to ISRE 2410 - 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity's Annual Financial Statements', representing the first comprehensive update to the standard since its issuance in 2005. These proposed revisions reflect changes in the global environment and improvements to the audit and assurance model made over the last two decades.

Key proposals include a clearer articulation of what an interim review engagement is and how it differs from a financial statement audit. They also include enhanced requirements in areas of high public interest, such as going concern, fraud, non-compliance with laws and regulations (NOCLAR). Additional enhancements include the requirements for engagement-level quality management, the determination of materiality for planning and performing an engagement, and group interim review engagements.

Comments on the exposure draft are invited until 3 September 2026.

Click here to access the exposure.

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