What's Driving CFO Focus:

From New-Age Governance to Reporting Precision

NOVEMBER 2025

TABLE OF CONTENTS

FOREWORD

MANISH SINGHAL
Secretary General
ASSOCHAM

The global financial and regulatory landscape is at a turning point. With geopolitical shifts, digital disruption, and a growing demand for transparency, sustainability, and good governance, economies worldwide are rebalancing and transforming their financial reporting frameworks. These frameworks are being developed not only to secure accountability but also to strengthen resilience, integrity, and long-term value creation in a rapidly changing economic environment.

India stands as a leading example of these global transformations, guided by the vision of *Viksit Bharat@2047*, a roadmap for building an economy that is self-reliant, technologically advanced, and inclusive. The ongoing financial and regulatory reforms in the country, along with the deepening of its capital markets and accelerated integration with international supply chains, are steering India toward a business environment that is transparent, efficient, and sustainable.

As the corporate sector evolves, the key drivers of growth like digital finance, data-driven decision-making, policy convergence with international standards, and active investor participation, are redefining governance practices. At the same time, sustainability imperatives, particularly the integration of ESG principles into reporting and strategic decision-making, are becoming central to long-term value creation. Transparent and harmonized disclosures are now essential, not only to ensure regulatory compliance but also to build investor confidence and advance responsible business conduct.

Against this backdrop of reform and innovation, this Knowledge Paper, **"What's Driving CFO Focus: From New-Age Governance to Reporting Precision"** jointly developed by ASSOCHAM and BDO, provides a timely lens on how these forces are reshaping corporate reporting and governance in India. It presents insights on evolving financial reporting and governance frameworks, including changes in Ind AS, the related-party transaction framework, and global IFRS developments.

As India's apex chamber, ASSOCHAM continues to champion best practices, policy alignment, and knowledge sharing that strengthen governance, build investor confidence, and contribute to India's transparent and sustainable growth story.

FOREWORD

YOGESH SHARMA
Group Managing Director
BDO India

As knowledge partners, we are pleased to participate in ASSOCHAM's 2nd International Conference on 'Responsible Corporate Governance & Financial Reporting' on 25 November 2025 at New Delhi and also take this opportunity to thank ASSOCHAM for their consistent efforts over the years in this important sphere of corporate governance.

In a world defined by constant change, shifting regulations, and growing uncertainties, the role of the Chief Financial Officer has never been more complex — or more central to organizational success. Today's CFOs are far more than guardians of financial accuracy; they are the drivers of trust, strategy, and resilience. The finance function is evolving from recording outcomes to shaping them, anchored by two critical pillars: governance and high-quality reporting.

Reliable and transparent reporting remains the cornerstone of confident decision-making. It transforms complex business activities into insights that inspire trust among boards, investors, and regulators. But precision on its own is no longer sufficient. The speed of change in markets, technology, and stakeholder expectations requires control environments that are both rigorous and responsive. Controls must now empower growth, not restrain it and protect integrity while enabling agility.

CFOs are therefore navigating a dual mandate: maintaining accuracy and consistency in financial results while reimagining how information is produced, verified, and leveraged. With digital transformation reshaping every aspect of business, the lines between finance, technology, and risk are increasingly intertwined. Progressive CFOs are embracing this convergence — automating reporting workflows, embedding continuous control mechanisms, and using advanced analytics to move from hindsight to foresight.

This publication, **"What's Driving CFO Focus: From New-Age Governance to Reporting Precision"**, explores pivotal issues that define effective financial leadership in this era of disruption and opportunity. The publication highlights the challenges posed due to effect of economic disruptions, amendments to related party norms, recent and expected changes to accounting norms. Each question reflects a challenge at the heart of today's finance agenda — ensuring reporting precision, sustaining resilience amid economic volatility and strengthening internal controls. Together, they shape the conversation around how finance can lead with integrity, agility, and foresight.

Through thought-provoking perspectives and practical insights, this publication aims to help CFOs and boards reflect on what truly matters — from building confidence in governance and reporting, to driving value that endures beyond quarterly results.

01

HOW EXPOSED ARE YOUR NUMBERS TO ECONOMIC DISRUPTIONS?

In today's interconnected world, economic disruptions has become the new normal. Over the past few years economic disruptions have tested not only corporate resilience but also the integrity and adaptability of financial reporting frameworks. For board members and CFOs, the challenge lies in ensuring that financial statements remain relevant, reliable, and reflective of the evolving risk environment. Stakeholders are demanding greater visibility into how companies assess risks, adjust forecasts, and communicate the resilience of their business models. This shift has elevated the role of financial reporting from a compliance requirement to a key component of corporate credibility and trust. Below are some of the economic disruptions currently affecting financial reporting:

Geopolitical tensions and economic fragmentation

Armed conflicts, trade wars, retaliatory tariffs and sanctions have reshaped global investment flows.

Persistent inflation and interest rate volatility

Persistent inflation and volatile interest rates influence not only short-term profitability but also long-term investment planning, financing strategies, and working capital management.

Supply chain instability

Supply chain instability affects business operations far beyond logistics; it influences production planning, cost structures, customer satisfaction, and strategic decision-making.

Technological transformation and digitalisation

Advances in artificial intelligence, automation, etc represent a fundamental shift in business models, workforce structures, and competitive dynamics.

Climate change

Climate change is not only an environmental phenomenon — it is a systemic economic disruptor that is reshaping markets, capital flows, resource allocation, and business models globally.

ACCOUNTING IN TIMES OF UNCERTAINTY

It is crucial that entities carefully consider the precise facts and circumstances that existed as at the reporting date, as well as expectations about the future. High-quality disclosures are key in the current environment to enable users to evaluate the nature and extent of risks the entity is exposed to. **Regulators have consistently emphasised the importance of high-quality disclosures.** The following are key issues that entities should consider when preparing their financial statements in the current times of uncertainty.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Economic disruptions may increase the costs of production, reduce the demand for goods and services and have other indirect effects, which may increase the risk of impairment of non-financial assets, including property, plant and equipment, right-of-use assets, intangible assets and goodwill.

For example, an entity **may not be directly affected by tariffs**, however, entities may still experience reduced demands for its products as a result of higher unemployment, lower discretionary spending by businesses and consumers, etc. An entity may also not directly be subject to tariffs, but may supply goods or services to entities that are directly affected by tariffs, which may reduce demand for those goods or services (e.g. because the directly affected entity has experienced a sharp decline in demand for its own goods).

Ind AS 36 *Impairment of Assets* requires that an impairment test be performed on goodwill at least annually, with an impairment test of other assets being performed when indicators of impairment are present. The existence of threats of increased economic disruptions affecting an entity's operations may result in impairment indicators being identified, triggering impairment tests.

FAIR VALUE MEASUREMENT

Ind AS 113 *Fair Value Measurement* defines fair value as 'the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'. Market participants are buyers and sellers in the principal (or most advantageous) market for the asset or liability. The longer these disruptions remain in place, the more likely it is that market participants will assume that their effects will be long lasting.

Tariffs and general macroeconomic uncertainties may lead to an increased level of uncertainty with respect to inputs used for the determination of fair values. Entities need to consider the effect of current macroeconomic conditions on fair value measurements, particularly with respect to Level 3 inputs and on the disclosures provided.

DISCOUNT RATES

A number of Ind AS require discount rates to be determined. In the current economic environment with uncertainties, the potential for high inflation and a general economic downturn, the determination of discount rates is critical and discount rates determined in the past may no longer be appropriate. In many cases, discount rates may need to increase compared to prior reporting periods. Different Ind AS provide different requirements for the determination of discount rates, several of which are as below:

IND AS	DISCOUNT RATE
Ind AS 36 *Impairment of Assets*	Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the asset for which cash flow estimates have not been adjusted.
Ind AS 19 *Employee Benefits*	Market yields on high quality corporate bonds. For currencies for which there is no deep market in high quality corporate bonds, the market yields on government bonds denominated in that currency shall be used.
Ind AS 116 *Leases*	Incremental borrowing rate (when the interest rate implicit in the lease cannot be readily determined).
Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets*	Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability for which cash flow estimates have not been adjusted.
Ind AS 102 *Share-based Payments*	Risk-free rate used in option pricing models such as Black-Scholes (following the principles in Ind AS 113).

Nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Particularly in a high inflationary environment, it is essential to ensure this consistency. An error here may give a result that is materially incorrect.

GOING CONCERN

Due to deteriorating economic conditions, many entities have experienced (or may expect to experience) a significant downturn in revenue, rising costs or both. Certain industries may experience significant reductions in revenue as a result of reduced demand for their goods and services globally due to the effects of economic uncertainties. Rising debts may be difficult for some highly leveraged entities. Entities may not be able to pass on the rising operating costs to customers in all cases. Factors such as these require greater attention to be paid to an entity's assessment of going concern.

Ind AS 1 *Presentation of Financial Statements* requires an entity to disclose material uncertainties related to its ability to continue as a going concern. This Standard contain overarching requirements to disclose significant judgements, assumptions and sources of estimation uncertainty. It should be noted that these overarching requirements also apply to the going concern assessment.

Disclosure of **entity-specific granular information** would enable users to understand how the entity will meet its liabilities over the going concern assessment period. This may include disclosure of covenants the entity is subject to, the 'headroom' in any impairment calculations, information on waivers sought, any expected breach of covenants. For example, disclosures can state that the Company has carried out stress tests against the base case scenario that would result in the Company not being able to meet its debt servicing obligations. The stress testing considers the effect of sustained decreases in revenue and increased production costs.

EXPECTED CREDIT LOSS (ECL) MODELS

Entities, especially financial institutions, may face significant challenges in developing ECL models for the current macroeconomic environment due to lack of experience in modelling for such circumstances. Therefore, it is critical to provide sufficiently transparent disclosures of the effect of the changing economic environment on the ECL calculation. This would enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows.

Different groups of borrowers may be affected differently by the current macroeconomic developments. For example, the effects of economic uncertainties may affect particular industries and jurisdictions more than others. Therefore, entities should consider providing enhanced disclosures of sector-specific drivers in ECL measurement and risk concentrations related to specific sectors and/or jurisdictions.

JUDGEMENTS, ESTIMATES AND ESTIMATION UNCERTAINTIES

Significant judgements and estimates are involved in a number of areas of financial statement such as impairment assessment, fair value measurements, accounting for deferred taxes, employee benefits, inventory valuation, assessment of control /joint control /significant influence, contingent consideration, and expected credit loss measurements.

In times of uncertainty, judgements, estimates and estimation uncertainties have an even more critical role in accounting. Given the rapidly evolving circumstances, significant judgements and estimates need to be assessed, updated and monitored continuously to ensure that they reflect current circumstances. Entities may need to revise their assumptions and valuation models to consider multiple scenarios and possible outcomes.

For example, due to reductions in demand for goods and services and increased costs, entities may need to revise their assumptions used to determine the recoverable amounts of non-financial assets. Entities in sectors that are particularly affected by increased economic uncertainties may need to consider multiple scenarios with varying assumptions in their cash flow projections to estimate the recoverable amount in impairment analysis of non-financial assets.

Entities may consider it appropriate to include disclosure of this information in the related note rather than in a separate note for all significant estimates. For example, information about significant estimates made related to the impairment of a loan portfolio in the associated note. Entities may aggregate a list of significant estimates made and cross-reference to the applicable note containing the information.

EVENTS AFTER THE REPORTING PERIOD

Ind AS 10 *Events after the Reporting Period* defines events after the reporting period as events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Entities need to determine whether the event after the reporting period is adjusting (events that provide evidence of conditions that existed at the end of the reporting period) or non-adjusting (events that are indicative of conditions that arose after the reporting period). This assessment may require significant judgement.

Times of uncertainty and rapid change increase the risk that a material event will occur after the reporting period but before the financial statements are authorised for issue, making this assessment a critical one. Entities should monitor and assess on a continuous basis to identify and account for material events after the reporting period.

OUR TAKE – FOLLOW A PROACTIVE AND NUANCED APPROACH

Entities must remain vigilant in monitoring these developments and their economic impacts, ensuring that financial statements reflect the most current and supportable information. Transparent communication of judgements, estimates, and risks will be critical in maintaining stakeholder confidence and regulatory compliance.

Expectations set out by regulators or preferred practices is critical for high quality financial statements. Disclosures should be company specific, sufficiently granular and both quantitative and qualitative in nature. Boilerplate disclosures should be avoided.

CURIOUS FOR MORE? EXPLORE THIS PUBLICATION

This edition of The Standard Stance highlights potential impact on financial statements that arises due to imposition of retaliatory tariffs.

HAVE YOU REVISITED YOUR RELATED PARTY POLICIES AFTER THE LATEST CHANGES?

Related Party Transactions (RPTs) provide competitive edge to group entities as they can share resources such as infrastructure, personnel, or technology, leading to cost savings and streamlined processes. Despite obvious synergies, inappropriate RPTs, manipulation of financial information through RPTs has long been a source of concern for corporate governance.

Companies Act, 2013 (2013 Act), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Listing Regulations) and Indian Accounting Standards 24 *Related Party Disclosures* (Ind AS 24) establishes the RPT framework for corporates. At a conceptual level, all three frameworks pursue similar objectives: identifying relationships that could influence decision-making, defining what constitutes a RPT, and prescribing disclosure and approval mechanisms. However, they differ in scope, purpose, and emphasis.

WHO IS A RELATED PARTY?

The concept of a related party differs across the frameworks. While each of these frameworks has a specific purpose — legal compliance, market transparency, and financial reporting — there is a considerable overlap as summarised below:

Related party under SEBI Listing Regulations

2013 Act

Or

Ind AS

Or

Deemed related party under SEBI Listing Regulations

Rule based definition

With reference to a company includes:

- Holding, subsidiary or associate
- Key managerial personnel (KMP)/ relatives; director (other than independent directors)/ KMP of holding company

Based on reciprocity

Examples include:

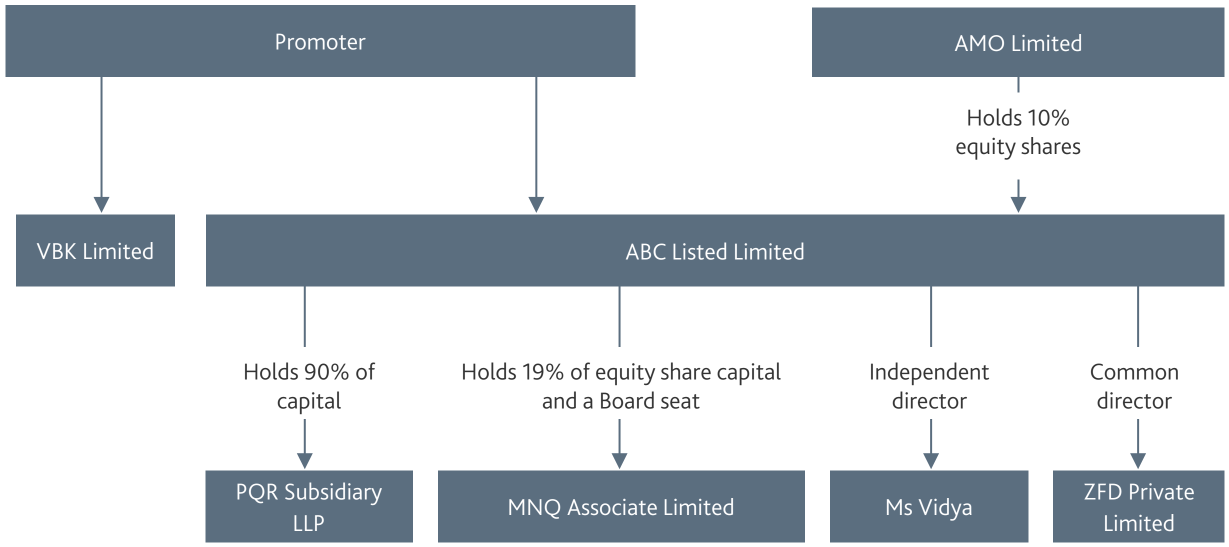
- Parent, subsidiary and fellow subsidiary, associates or joint venture
- Co-venturers
- Entities under control or joint control or significant influence of certain persons

Deemed related party

Any person/ entity:

- Part of promoter or promoter group, or
- Holds 10 % or more equity shares in the listed entity directly or on a beneficial basis at any time in the previous financial year.

Worked example:



Key overlaps:

ENTITITES	2013 ACT	IND AS 24	SEBI LISTING REGULATIONS
PQR Subsidiary LLP	✗ (Non-company entities are not related parties)	✓ (Non-company entities are covered)	✓ (Since related party under Ind AS)
MNQ Associate Limited	✗ (Qualifying threshold for an associate as under 2013 Act not met i.e. "atleast 20% of voting power")	✓ (Significant influence exists)	✓ (Since related party under Ind AS)
Ms Vidya	✗ (Independent director is not a KMP)	✓ (Independent director is a KMP)	✓ (Since related party under Ind AS)
ZFD Private Limited	✓ (Common director)	✗ (Merely having a common director is not a qualifying criteria)	✓ (Since related party under 2013 Act)
VBK Limited	✗ (Promoter group entity is not a qualifying criteria)	✗ (Promoter group entity is not a qualifying criteria)	✓ (Being a promoter group entity)
AMO Limited	✗ (Shareholding of 10% or more is not a qualifying criteria)	✗ (Shareholding of 10% or more is not a qualifying criteria)	✓ (Shareholding of 10% or more is a qualifying criteria)

WHAT ARE RPTS?

The scope of RPTs under the frameworks differs in purpose and breadth, leading to practical overlaps. The ambit of RPTs under SEBI Listing Regulations is wider than that covered under 2013 Act or Ind AS 24.

RPT under SEBI Listing Regulations

2013 Act

Covers prescribed RPTs e.g:

- Sale, purchase or supply of goods or materials.
- Selling or otherwise disposing of, or buying, of any property.
- Leasing of any property.

Ind AS

Examples include:

- Purchase/ sale of goods, property and other assets; rendering/ receiving services.
- Transfers under finance/ license arrangements.
- Management contracts.
- Commitments to do something if a future event occurs/ not occur.

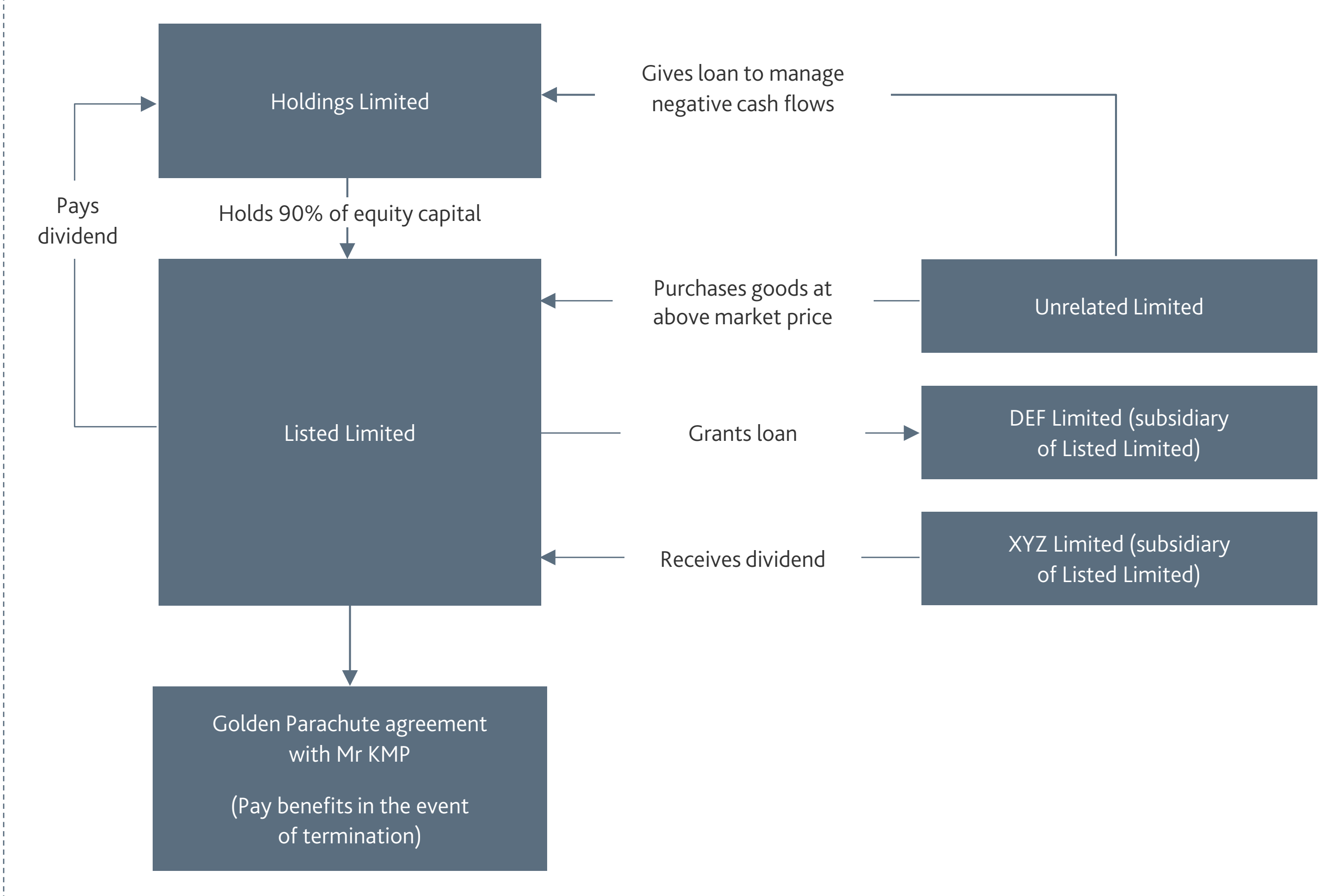
SEBI Listing Regulations*

Transfer of resources, services or obligations between listed entity/ subsidiary on one hand and:

- Related party of listed entity/ subsidiary on other hand; or
- Any person or entity on the other hand the **purpose and effect** of which is to benefit related party of listed entity/ subsidiary; regardless of price is charged.

*Excludes corporate actions applicable to all shareholders

Worked example:



Key overlaps:

TRANSACTIONS WITH RELATED PARTIES	2013 ACT	IND AS 24	SEBI LISTING REGULATIONS
Loan to DEF Limited	✗ (Not prescribed under 2013 Act)	✓	✓
Dividend paid to Holdings Limited	✗ (Not prescribed under 2013 Act)	✓	✗ (Excluded under SEBI Listing Regulations)
Dividend received from XYZ Limited	✗ (Not prescribed under 2013 Act)	✓	✓ (Unlike payment of dividend, receipt of dividend is not specifically excluded)
Golden Parachute agreement with Mr. KMP	✗ (Not prescribed under 2013 Act)	✓	✗ (Not covered under SEBI Listing Regulations)
Purchase of goods from Unrelated Limited	✗ (Not prescribed under 2013 Act)	✗ (Not covered under Ind AS 24)	✓ (If purpose and effect test under SEBI Listing Regulations is met)

APPROVAL OF RPTS

Approval of RPTs is essential to ensure transparency, prevent conflicts of interest, and protect stakeholder interests. Following is an overview of the key differences in the approval mechanism:

	Audit committee	Board of directors	Shareholders
2013 Act	Prior approval **not** required	RPTs not in ordinary course of business or on arm's length	RPTs exceeding qualifying thresholds
SEBI Listing Regulations	Prior approval required	Not required explicitly (Generally required to monitor conflict of interest)	Material RPTs as per scale-based thresholds ([As amended by SEBI]on 18 November 2025)

RPT INDUSTRY STANDARDS

SEBI's RPT Industry Standards[1] builds on approval mechanism prescribed under SEBI Listing Regulations. To alleviate implementation challenges the National Stock Exchange has also issued FAQs[2] to provide certain clarifications. The RPT Industry Standards or the FAQs **do not alter** existing requirements prescribed under the Listing Regulations or any other applicable laws and regulations or disclosures under accounting standards. The Standard is applicable in respect of RPTs entered into by the listed entity on or after **1 September 2025.**

An overview of the RPT Industry Standards		
Attempted to avoid information overload.	Baseline information prescribed for any RPT.	Granularity of information increases basis the type of RPT and its materiality.

Provide basic information to audit committee (Part A)

- Transaction exceeding:
  - 1% of annual consolidated turnover of the listed entity or
  - INR 10 crore whichever is lower

whether individually or taken together with previous transactions during a financial year*

Provide additional information to audit committee for seven types of RPTs (Part B)**

- Sale, purchase of goods/ services and trade advances, etc.
- Inter-corporate loans, etc
- Investments year*
- Guarantee, comfort letter, etc
- Lease/ disposal of unit, etc/ disposal of shares of subsidiary/ associate
- Borrowings
- Royalty payments

Provide granular information to audit committee for material RPTs (Part C)**

- Provide additional information for these RPTs **except** for sale, purchase of goods/ services and trade advances, etc.

Approval by shareholders

- Material RPTs (scale-based threshold) requires shareholder approval. Shareholders notice to include prescribed information.

** SEBI Circular dated 13 October 2025*
*** Certain relaxations for banks, NBFCs, HFCs and insurance companies.*

[1] SEBI's Industry Standards on "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions" was issued on 26 June 2025.
[2] NSE's FAQs on Applicability of the Industry Standards on "Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of Related Party Transaction" was issued on 4 September 2025.

Guidelines for the management

The management of the listed entity to provide key information to the audit committee:

- Provide information in the format specified in the RPT Industry Standards.
- Where a field is not applicable, it shall be indicated as 'NA', and the reason for non-applicability shall be disclosed to the audit committee, unless it is self-evident.

Provide certificate from the:

- Chief Executive Officer (CEO)/ managing director/ whole time director/ manager **and**
- Chief Financial Officer (CFO)

of the listed entity confirming that the terms of RPTs proposed to be entered into are in the interest of the listed entity.

Provide a copy of the valuation or other report of external party, if any.

In case of multiple types of proposed transactions, details to be provided separately for each type of the proposed transaction. For example, following need to be treated as separate transactions:

- Sale of goods and the purchase of goods.
- Sale of goods and the sale of services.
- Grant loans and the giving of guarantee.

Summary of key clarifications provided in the FAQs:

- **One certificate** to cover all proposed RPTs.
- **CFO holding dual position** - if the CFO is also a whole-time director of the listed entity the certificate should be signed by **another individual.**
- **Comments and the rationale** for not approving the RPT to be recorded in the minutes of the audit committee.

Approval of RPTs by audit committee

The RPT Industry Standards prescribes a minimum baseline information for any proposed RPT. Additional information is provided for specific types of RPTs. Management of listed entities to provide:

Basic information (Part A)

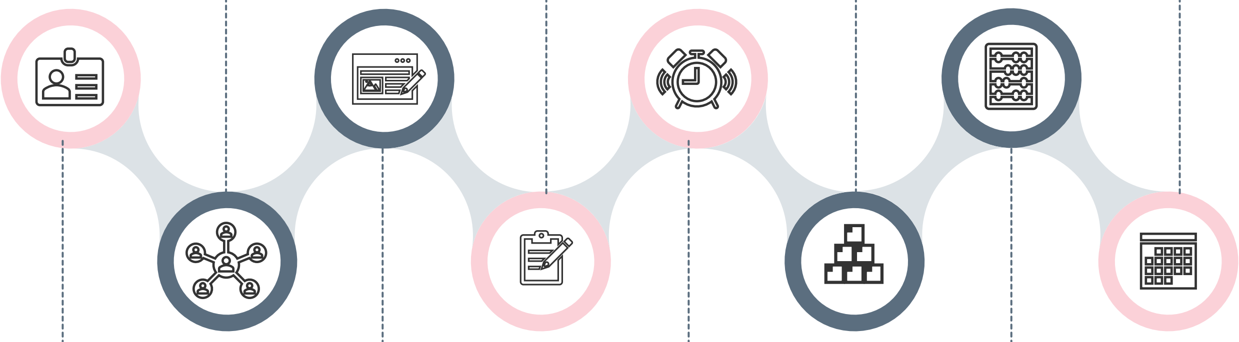
This Part of the RPT Standards captures the minimum information of the proposed RPT and is applicable to all RPTs. Following are some examples:

Relationship between the listed entity/subsidiary (in case of transaction involving the subsidiary) and the related party – including nature of its concern (financial or otherwise) and other prescribed information.

Justification as to why the RPTs proposed to be entered into are in the interest of the listed entity.

Whether the proposed transactions taken together with the transactions undertaken with the related party during the current financial year would render the proposed transaction a material RPT?

Financial performance of the related party for the immediately preceding financial year.



- Name of the related party.
- Country of incorporation of the related party.
- Nature of business of the related party.

Total amount of all the transactions undertaken by the listed entity or subsidiary with the related party during the last financial year.

Any default, if any, made by a related party concerning any obligation undertaken by it under a transaction or arrangement entered into with the listed entity or its subsidiary during the last financial year.

Value of the proposed transactions as a percentage of the listed entity's annual consolidated turnover for the immediately preceding financial year.

Information for a specific type of RPT (Part B and Part C)

Basic information under Part A should be supplemented with information provided under Part B of the RPT Industry Standard, if the entity proposes to **enter seven specific types of RPTs**. Additional information should be provided if an entity proposes to enter **six specific types** of RPTs if the proposed RPT is material as per SEBI Listing Regulations. Following is an overview:

1 Sale, purchase etc. and trade advances

- Process applied for choosing a party.
- Basis of determination of price.
- Relevant information for trade advances.

2 Loans and advances (other than trade advances)

- Financial indebtedness incurred?
- End use by ultimate beneficiary.
- Information if, default in borrowings over the last three financial years.*

3 Investments made

- Source of funds.
- Financial indebtedness incurred?
- Latest credit rating of related party.*

4 Guarantee, comfort letter, etc.

- Rationale for giving guarantee, etc.
- Legally binding obligation on listed entity?
- Solvency/ going concern status of the related party during the last three financial years.*

5 Borrowings

- Material covenants.
- Interest rate (in terms of numerical value or base rate and applicable spread).
- Debt to Equity ratio (before and after the transaction).*

6 Sale, lease, etc. of unit, subsidiary, etc.

- Bidding process for choosing a party.
- Reason for sale.
- Non-financial reasons, if any.*

7 Payment of royalty

- Purpose of royalty.
- Rate of royalty uniformly charged?
- Peer comparison.*

**For material RPTs*

Summary of key clarifications provided in the FAQs:

- In **absence of borrowings** with a comparable maturity profile, relevant information of other borrowings should be provided.
- Management to inform the audit committee if **peer companies don't disclose royalty.**

Approval of RPTs by shareholders

All material RPTs and subsequent material modifications as defined by the audit committee require prior approval of the shareholders. SEBI felt that there is a need to revisit existing thresholds for identification of material RPT as the threshold was onerous for many listed entities. Accordingly, SEBI on 18 November 2025 has substituted the existing threshold with the scale-based thresholds.

The notice to the shareholders seeking approval for any material RPT shall, in addition to the requirements under the 2013 Act, include the following information as a part of the explanatory statement:

1. Information as placed before the audit committee as per RPT Industry Standards.

2. Justification as to why the proposed transaction is in the **interest of the listed entity**.

3. Disclose that the audit committee has **reviewed the certificate** provided by the CEO/ managing director/ whole time director/ manager and CFO of the listed entity as required under the RPT Industry Standards.

4. Provide web-link and **QR Code**, through which shareholders can access the valuation report or other reports of external party, if any, considered by audit committee while approving the RPT.

5. The audit committee and board of directors, while providing information to the shareholders:
   - Can approve **redaction** of commercial secrets and such other information that would affect competitive position of listed entity, and
   - **Affirm** that, in its assessment, the redacted disclosures still provides all the necessary information to the public shareholders for informed decision making.

OUR TAKE: TRANSPARENCY FIRST

The effectiveness of the related party framework depends not just on regulatory design but also on the tone at the top. Transparent communication, independent oversight, and consistent disclosure practices can help build investor trust — ensuring that RPTs are not seen as a compliance hurdle, but as a test of corporate integrity and governance maturity.

CURIOUS FOR MORE? EXPLORE THESE PUBLICATIONS

This edition of The Standard Stance provides a comprehensive understanding of the RPT Industry Standards, recent amendments, and clarifications to help companies ensure compliance.

This edition of The Standard Stance highlights key overlaps among the regulatory frameworks in governing RPTs.

[3] SEBI Board Meeting dated 12 September 2025.

DO THE LATEST IND AS AMENDMENTS CHANGE HOW YOU CLASSIFY OR DISCLOSE?

India's financial reporting landscape continues to mature in step with global accounting developments. The recent amendments to Ind AS, particularly those concerning the current versus non-current classification of liabilities and supplier financing arrangements are not merely technical adjustments — but they reshape how companies communicate liquidity, obligations, and financing risks to stakeholders.

CLASSIFICATION OF LIABILITIES: CURRENT VS NON-CURRENT

Prior to amendment Ind AS 1 *Presentation of Financial Statements,* permitted an entity classified a liability as current when they did not have an unconditional right to defer settlement for at least 12 months after the reporting date. Further, where there was a breach of a material provision of a long-term loan arrangement by end of the reporting period the entity should not classify the liability as current, if the lender (before the approval of the financial statements) agreed not to demand payment. During the year following key amendments have been made to Ind AS 1:

The amendment has:

- Removed the requirement for a **right to be unconditional** and instead
- Requires that a **right to defer** settlement must **exist at the reporting date** and should have substance.

(Ind AS 1.72A)

- Only covenants which must be **complied on or before the reporting date** affect the classification of a liability.
- Covenants with which the company must comply after the reporting date (i.e., future covenants) would affect a liability's classification at that date.

(Ind AS 1.72B)

Classification of a liability is:

- **Unaffected** by the likelihood that the entity will
- Exercise its right to defer settlement of the liability for at least 12 months after the reporting period.

(Ind AS 1.75A)

- Settlement of a liability by way of an entity's own equity instruments is **considered settlement** for the purpose of classification of liabilities.
- However, if the terms of the liability include a conversion option which is classified as an equity component of a financial instrument, settlement of the liability by exercise of such option would be disregarded for classification of liabilities.

(Ind AS 1.76A-76B)

Additional disclosures have been prescribed for non-current loans when the right to defer settlement of liabilities is subject to the entity complying with future covenants within 12 months, for example:

- Information about the covenants (including the nature of the covenants and when the entity is required to comply with them),
- Carrying amount of related liabilities and facts and circumstances indicating potential difficulty in complying with covenants within the next 12 months such as actions taken to avoid breach.

(Ind AS 1.76ZA)

At present, a liability is not classified as current where:

- Breach of a material provision of a long-term loan arrangement has taken place on or before the end of the reporting period, and
- The lender has agreed, after the reporting period and before the approval of the financial statements, for issue not to demand payment as a consequence of the breach.

(This provision would be removed from 1 April 2026. Refer Ind AS 1.139U)

Classification of loans with covenants

Ind AS 1 now provides the core requirement for the determination of the right to defer settlement of liabilities arising from loan arrangements for at least 12 months subject to compliance with conditions. The following diagram depicts these new requirements:

Is compliance with the covenant required on or before the end of the reporting period?

- **Yes** → Covenant **affects** whether the right to defer settlement for at least twelve months exists at the end of the reporting period → Even if compliance is tested after the end of the reporting period
- **No** → Covenant **does not affect** whether the right to defer settlement for at least twelve months exists at the end of the reporting period

Ind AS 1 sets out the disclosure requirements for situations where an entity classifies liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities for at least 12 months is subject to the entity complying with covenants within twelve months after the end of the reporting period.

OUR TAKE – WAIVER OF A BREACH OF COVENANT

In some cases, a lender may provide a waiver for a breach of a covenant. A **waiver** would be different from a **period of grace** as envisaged under Ind AS 1. The requirement of a minimum period of 12 months after the reporting period for classification of the liability as non-current would apply to a period of grace, but not to a waiver. Ind AS 1 does not define a period of grace. The term waiver is not used in Ind AS 1.

Ordinarily, a waiver would refer to the lender **surrendering** the rights related to the breach of covenant. A waiver effectively modifies the terms of the loan arrangement, removing the covenant that is waived from the contractual terms of the liability.

A period of grace would refer to a time period provided by the lender during which the lender **agrees not to** demand immediate repayment of the loan due to the breach. At the end of the time period, the lender regains the right to demand immediate repayment resulting from the breach.

Sometimes, the assessment of the modification of the contractual terms may involve legal interpretation to ascertain the precise nature of the rights surrendered or retained by the lender.

OUR TAKE – RIGHT TO ROLL OVER AN OBLIGATION

If an entity has such a right to roll over an obligation after the end of the reporting period, a question arises as to how the related covenant test should be treated.

If the right to roll over an obligation is subject to a covenant test and the entity is required to comply with the covenant only after the end of the reporting period, that covenant **will not affect** whether the right to defer settlement for at least 12 months exists at the end of the reporting period. As a result, the liability will be classified as non-current at the end of the reporting period.

However, the analysis **may differ** if the entity is required to comply with another covenant on or before the end of the reporting period and failure to meet that covenant would result in the lender obtaining the right to demand immediate repayment.

OUR TAKE – CHANGES FOR ANNUAL FINANCIAL STATEMENTS

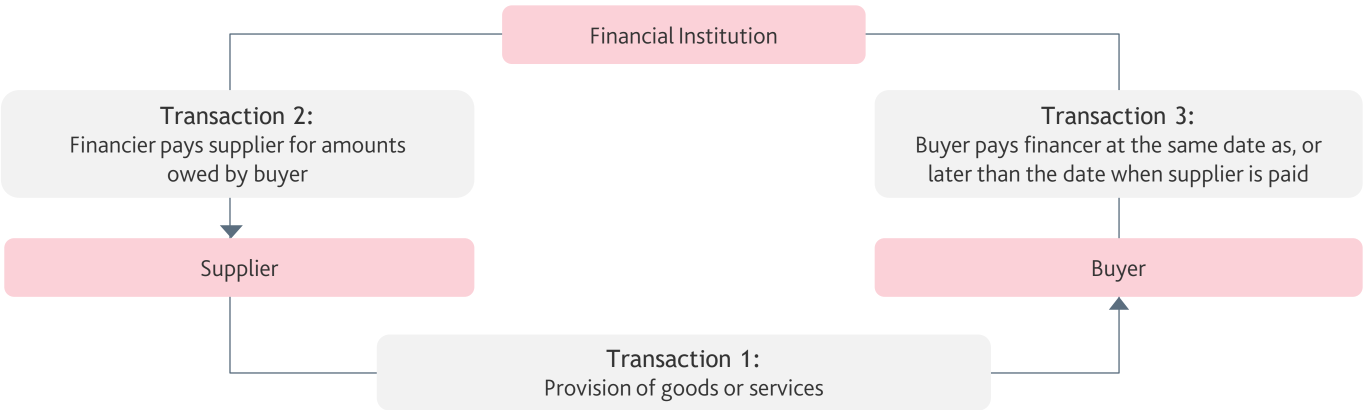
Companies would need apply the amendments to classify liabilities based on the rights and conditions existing at the reporting date and reclassify the comparative information, where needed. These **adjustments** should be treated as a change in accounting policy, accompanied by clear and quantified disclosure of the reclassification effects and a third balance sheet. Additionally, entities would also need to include new covenant related disclosures as introduced through these amendments.

SUPPLIER FINANCE ARRANGEMENTS

Supplier financing arrangements, often referred to as supply chain financing, payables financing or reverse factoring, involve a third-party financial institution facilitating payments between a buyer and its suppliers.

In a supplier finance arrangement, the finance provider offers to pay amounts owed by the entity to its suppliers and the entity pays the finance provider, according to the terms and conditions of the arrangement, at the same date as or a date later than the suppliers are paid.

As a result, these arrangements provide the entity with extended payment terms or the entity's suppliers with early payment terms, compared to the related invoice payment due date. The following diagram depicts a typical supplier finance arrangement:



The amendments introduce disclosures to enhance the visibility of supply finance arrangements in financial statements, enabling stakeholders to better assess the financial health and liquidity risks of entities engaging in supplier financing practices.

The amendments also clarify the arrangements that are out of scope, i.e., arrangements that are solely credit enhancements for the entity (e.g., financial guarantees including letters of credit used as guarantees) and instruments used by the entity to settle the amounts owed directly with a supplier (e.g., credit cards). Key disclosures include the following:

Ind AS 7, Statement of Cash Flows

- Terms and conditions of the arrangements (e.g., extended payment terms). Separate disclosure for dissimilar terms and conditions.
- Non-cash changes on the carrying amounts of financial liabilities relating to supplier finance arrangements as at the beginning and end of the reporting period.
- For the beginning and end of the reporting period, disclose carrying amounts, and associated balance sheet line items, of the financial liabilities:
  - That are part of a supplier finance arrangement;
  - For which suppliers have already received payment from finance providers;
  - The range of payment due dates as prescribed.

Ind AS 107, Financial Instruments: Disclosures

- An entity considers and discloses whether it has:
  - Access to supplier finance arrangements including assessing whether it has accessed, or has access to,
  - Supplier finance arrangements that provide the buyer with extended payment terms or the entity's suppliers with early payment terms.
- Supplier finance arrangements have also been added as another factor relevant to liquidity risk and may cause concentration of liquidity risk.

- Comparative information is not required for the first applicable annual financial statements.
- Entities are not required to disclose certain information as at the beginning of the first annual reporting period, e.g., the range of payment due dates for financial liabilities subject to supplier financing arrangement.

OUR TAKE – PRESENTATION OF CASH FLOWS

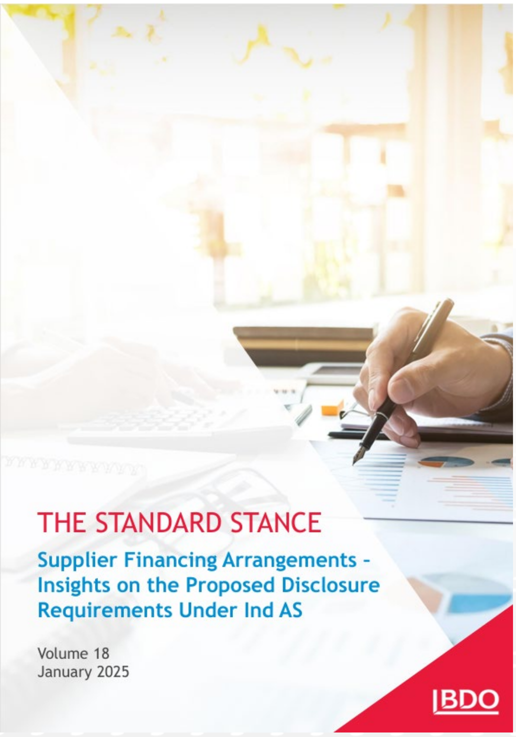
If the entity considers that the related liability is a trade or other payable as a part of the working capital used in its principal revenue-producing activities, the entity should present the cash outflows to settle the liability as arising from operating activities in its Statement of cash flows.

In contrast, if the entity considers that the related liability is not a trade or other payable because the liability represents borrowings of the entity, the entity presents cash outflows to settle the liability as arising from financing activities in its Statement of cash flows.

OUR TAKE – LIQUIDITY DISCLOSURES

The liquidity risk disclosures should also consider the financial condition of the financial institution that provides the supplier financing and the extent of the buyer's reliance on continued availability of the supplier finance arrangement. An understanding of the consequences for the buyer, and of the likelihood of the supplier financing arrangement becoming unavailable, might be relevant to users of the financial statements.

CURIOUS FOR MORE? EXPLORE THIS PUBLICATION



This edition of The Standard Stance, explores how the disclosures may help assess the effects of these supplier arrangements on liabilities and cash flows and on its exposure to liquidity risk.

04

HAVE YOU SEEN WHAT IND AS 118 COULD DO TO YOUR FY 2027 NUMBERS?

Globally, investors found that the varying content and structure of income statement posed challenges in comparing and analysing financial information. Entities also defined their own subtotals and performance measures and grouped items in their own ways. IFRS 18, *Presentation and Disclosure in Financial Statements*, was issued internationally to respond to these demands by requiring a more structured income statement and greater disaggregation of information and by permitting the inclusion of management performance measures as part of the financial statements.

To align Indian financial reporting norms with the international framework, an Exposure Draft of Ind AS 118, Presentation and Disclosure in Financial Statements (Proposed Ind AS 118/ Exposure Draft) has been issued. Proposed Ind AS 118 is proposed to take effect for annual periods beginning on or after **1 April 2027.**

PROPOSALS AT A GLANCE

The preparation and presentation of financial statements of a company is governed by the relevant division of Schedule III of the Companies Act, 2013 (2013 Act). Schedule III provides a uniform structure for presenting financial statements, including the Statement of Profit and Loss. Ind AS 1, Presentation of Financial Statements complements Schedule III by laying down the overall framework and principles for the presentation of financial statements. Ind AS 1 emphasises the importance of materiality, comparative information and classification, enhancing the clarity and usefulness of the financial information presented.

KEY CHANGES PROPOSED BY IND AS 118

Ind AS 118 proposes to change existing requirements relating to the presentation and disclosure of information in financial statements. Ind AS 118 is proposed to supersede Ind AS 1, together with the consequential amendments to other standards, for reporting periods beginning on or after April 1, 2027. The most significant effects relate to the following topics:

PROPOSED CHANGES (KEY)	SUMMARY
Classification of income and expenses in the statement of profit and loss	All income and expenses are to be classified into one of five categories: ▸ The operating category (Income and expenses from an entity's main business activities and any income and expenses that are not classified in other categories). ▸ The investing category (Income and expenses from investments made individually and largely independently of the entity's main business activities). ▸ The financing category (Income and expenses relating to obtaining finance to fund the entity's main business activities and/or investing activities). ▸ The income taxes category (Tax expense or tax income and any related foreign exchange differences). ▸ The discontinued operations category (Income and expenses from discontinued operations). Income and expenses would generally be classified based on the shared characteristics (i.e. the type of asset or liability to which the income or expense relates); however, certain exceptions exist for entities with specified main business activities, resulting in certain income and expenses classified in the operating category that would otherwise be classified in the investing and/or financing categories.

PROPOSED CHANGES (KEY)	SUMMARY
Principles of aggregation and disaggregation	A set of principles has been proposed for aggregating and disaggregating assets, liabilities, equity instruments, reserves, income, expenses, or cash flows. Applying these requirements would result in the aggregation and disaggregation of items presented in the primary financial statements (i.e., the statement of profit and loss, balance sheet, statement of changes in equity and statement of cash flows) and disclosed in the notes.
Analysis of operating expenses	An entity can present operating expenses in a way that provides the most useful structured summary of its expenses**, either by nature, or by function or on a mixed basis** on the face of the statement of profit and loss. The extant Ind AS 1 permits only nature-wise classification.
Totals and subtotals presented in the statement of profit and loss	Once an entity has classified individual items of income and expense into the appropriate categories and aggregated those items into the appropriate levels of aggregation for presentation in the statement of profit and loss, mandatory and additional subtotals are presented as a result of the previous steps. For example, all entities would be required to present 'operating profit' in the statement of profit and loss, which would be the total of all income and expenses classified in the operating category.
Disclosure of management-defined performance measures	Proposed Ind AS 118 requires entities to disclose information about management-defined performance measures (MPMs), which are a subtotal of income and expense that: ▶ an entity uses in public communications outside financial statements; ▶ an entity uses to communicate to users of financial statements management's view of an aspect of the financial performance of the entity as a whole; and ▶ is not listed in the proposed Ind AS 118 or specifically required to be presented or disclosed by Ind AS. Example of an MPM could be an 'adjusted profit' measure, which excludes share-based payments expenses and impairment of goodwill.
Consequential amendments proposed to Ind AS 7, Statement of Cash Flows	The starting point will typically be operating profit or loss. Previously, the starting point in the statement of cash flows was profit or loss before tax.
Consequential amendments proposed to Ind AS 33, Earnings per Share	▶ The extant Ind AS 33 permits entities to disclose additional earnings per share amounts using a reported component of the statement of profit and loss as the numerator. Proposed Ind AS 118 amends Ind AS 33 and permits additional earnings per share amounts only when the numerator is: ▪ A total or subtotal specified by proposed Ind AS 118; or ▪ A MPM. ▶ Additional disclosures are proposed in Ind AS 33 when an entity presents an additional amount per share other than basic and diluted earnings per share (e.g., adjusted operating profit per share). Disclosure proposals are more significant if the disclosed additional per share amount uses a MPM as the numerator in the calculation.

TOPICS SUBSTANTIALLY UNCHANGED FROM IND AS 1

Many requirements in Ind AS 1 brought forward into the proposed Ind AS 118 (or other Ind AS) are substantially unchanged. A significant number of requirements from Ind AS 1 are proposed to be relocated to Ind AS 8, Basis of Preparation of Financial Statements (previous title: Accounting Policies, Changes in Accounting Estimates and Errors). Certain other requirements would be relocated from Ind AS 1 to other Ind AS, such as Ind AS 107, Financial Instruments: Disclosures.

KEY TOPICS	SUMMARY
Most requirements applicable to the preparation of primary financial statements other than the statement of profit and loss	Ind AS 118 does not significantly affect how the primary financial statements are prepared, other than the introduction of new aggregation and disaggregation requirements, with some exceptions, such as those noted above
Presentation of true and fair view and explicit and unreserved statement of compliance with Ind AS	Relocated to Ind AS 8 substantially unchanged
Going concern	Relocated to Ind AS 8 substantially unchanged
Offsetting	Substantially unchanged from Ind AS 1
Frequency of reporting	Substantially unchanged from Ind AS 1
Comparative information	Substantially unchanged from Ind AS 1
Consistency of presentation	Substantially unchanged from Ind AS 1
Structure of notes	Substantially unchanged from Ind AS 1
Disclosure of accounting policy information	Relocated to Ind AS 8 substantially unchanged
Disclosures about judgements and sources of significant estimation uncertainty	Relocated to Ind AS 8 substantially unchanged
Capital disclosures	Substantially unchanged from Ind AS 1
Disclosures about puttable financial instruments classified as equity	Relocated to Ind AS 107 substantially unchanged
Miscellaneous other disclosures (declared dividends, cumulative preference dividends not recognised, domicile and legal form, description of the nature of the entity's operations, etc.)	Substantially unchanged from Ind AS 1

CLASSIFICATION OF INCOME AND EXPENSES

The proposed Ind AS 118 requires entities to classify all items of income and expense into one of five categories:

- The operating category
- The investing category
- The financing category
- The income taxes category
- The discontinued operations category

The structure of the statement of profit and loss would then be based upon how items of income and expense are classified.

For example, for an entity without specified main business activities where certain exceptions to the classification requirements apply, a typical extract of statement of profit and loss basis nature-wise classification may be as follows:

EXAMPLE LINE ITEMS – CLASSIFICATION BASIS NATURE	CLASSIFICATION
Revenue	Operating category
Changes in inventories of finished goods and work in progress	
Raw materials used	
Employee benefits	
Depreciation, amortisation and impairment	
Other operating expenses	
Operating profit	Mandatory specified subtotal
Share of profit of associates and joint ventures	Investing category
Profit before financing and income taxes	Mandatory specified subtotal[3]
Interest expense on borrowings and lease liabilities	Financing Category
Interest expense on pension liabilities	
Profit before income taxes	Additional subtotal
Income tax expense	Income taxes category
Profit from continuing operations	Additional subtotal
Loss from discontinued operations	Discontinued operations category
Profit	Mandatory total

[3] Profit before financing and income taxes is a mandatory subtotal for most entities, though an exception exists for entities that provide financing to customers as a main business activity and make a particular accounting policy choice.

This worked example illustrates possible changes in the classification of a few items of income and expenses for a manufacturer that does not have any specified main business activities.

EXTRACT OF STATEMENT OF PROFIT AND LOSS (SIMPLIFIED)	INR		EXTRACT OF STATEMENT OF PROFIT & LOSS UNDER PROPOSED IND AS 118 (SIMPLIFIED)	INR
Revenue from operations	398,700	OPERATING	Revenue from operations	398,700
Other income	700	OPERATING	Operating expenses Cost of materials consumed	(150,000)
Total income	399,400	OPERATING	Changes in inventories of finished goods and work-in-progress	(3,000)
Expenses Cost of materials consumed	(150,000)	OPERATING	Employee benefits expense	(107,000)
Changes in inventories of finished goods and work-in-progress	(3,000)	OPERATING	Depreciation and amortization expenses	(37,500)
Employee benefits expense	(107,000)	OPERATING	Other operating expenses	(17,100)
Finance costs	(1,800)	OPERATING	Total operating expenses	(314,600)
Depreciation and amortization expenses	(37,500)		Operating profit	84,100
Other expenses	(17,100)	INVESTING	Share of net profit of investments accounted for using the equity method	1,000
Total expenses	(316,400)	INVESTING	Other income	700
Profit before share of net profits of investments accounted for using equity method and tax	83,000		Profit before financing and income taxes	85,800
Share of net profit of investments accounted for using the equity method	1,000	FINANCING	Finance costs	(1,800)
Profit before tax	84,000		Profit before tax	84,000
Tax expense: ▪ Current tax ▪ Deferred tax expense	(300) (25)		Tax expense: ▪ Current tax ▪ Deferred tax expense	(300) (25)
Profit for the year	83,675		Profit for the year	83,675

- Other income, i.e., interest from fixed deposits, will be re-classified to the investing category (earlier included in 'Total income').
- Share of profit of investments accounted for using the equity method will be classified under the investing category.
- Finance costs, i.e., interest on borrowings, will be re-classified to the financing category (earlier included under 'Total expenses').

OUR TAKE – LABELLING OF CATEGORIES

Proposed Ind AS 118 does not require an entity to label items of income and expense based on the five categories in Ind AS 118. For example, the fair value gains on investments in equity instruments are proposed to be classified in the investing category; however, the term 'investing category' need not appear in the statement of profit and loss. The classification of items of income and expense into the five categories noted above is used to produce the mandatory specified subtotals in proposed Ind AS 118, as these subtotals are based on the classification of income and expenses. For example:

'Operating profit or loss' is required to be presented by the proposed Ind AS 118, and it is defined as comprising all income and expenses classified in the operating category.

'Profit or loss before financing and income taxes' is required to be presented by proposed Ind AS 118 and is defined as the total of operating profit or loss (defined above) and all income and expenses classified in the investing category.
Therefore, that subtotal comprises all income and expenses included in the operating and investing categories.

OUR TAKE –STATEMENT OF CASH FLOWS

The proposed operating, financing and investing categories are similarly titled to operating, financing and investing activities in Ind AS 7, however, the proposed Ind AS 118 did not aim to achieve alignment between how income and expenses are classified in the statement of profit and loss and how the associated cash flows are classified in the statement of cash flows.

For example, an entity that operates a factory may sell items of property, plant and equipment, with the cash flows arising from the sale being classified as an investing activity in Ind AS 7 because the cash flows relate to 'the acquisition and disposal of long-term assets and other investments not included in cash equivalents'. However, the associated income or expense (the gain or loss on disposal of the item of property, plant and equipment) would typically be classified in the operating category in the statement of profit and loss because it would not meet the criteria to be classified in the investing category.

ENTITIES WITH SPECIFIED BUSINESS ACTIVITIES

Proposed Ind AS 118 contains exceptions to the general classification requirements for entities that have specified main business activities. That is to say, for certain entities, the primary activities that are undertaken to run their business will affect how items of income and expense are classified. For entities with specified main business activities, certain items of income and expense that would otherwise be classified in the investing and/or financing categories would be classified in the operating category. For example, if an entity has a main business activity of investing in financial assets, then the fair value gains and losses on financial assets (e.g. debt or equity instruments) measured at fair value through profit or loss are classified in the operating category.

The specified main business activities requirements of proposed Ind AS 118 may be depicted graphically as follows, with certain income and expenses being classified out of the investing and financing categories into the operating category:

EXAMPLES OF LINE ITEMS : CLASSIFICATION BASIS NATURE	CLASSIFICATION
Rental income	
Repairs and maintenance	
Employee benefits	Operating category
Depreciation, amortisation and impairment	
Other operating expenses	
Operating profit	Mandatory specified subtotal
Fair value gains on investments in equity Instruments	Investing category
Profit before financing and income taxes	Mandatory specified subtotal[4]
Interest expense on borrowings and lease liabilities	Financing Category
Profit before income taxes	Additional subtotal
Income tax expense	Income taxes category
Profit from continuing operations	Additional subtotal
Loss from discontinued operations	Discontinued operations category
Profit	Mandatory total

For entities with specified main business activities, certain income and expenses classified in the investing and financing categories may be classified in the operating category if criteria are met.

It is important to identify if the entity has 'specified main business activities' (e.g., investing in assets, providing financing to customers, etc). This assessment will significantly influence income statement presentation.

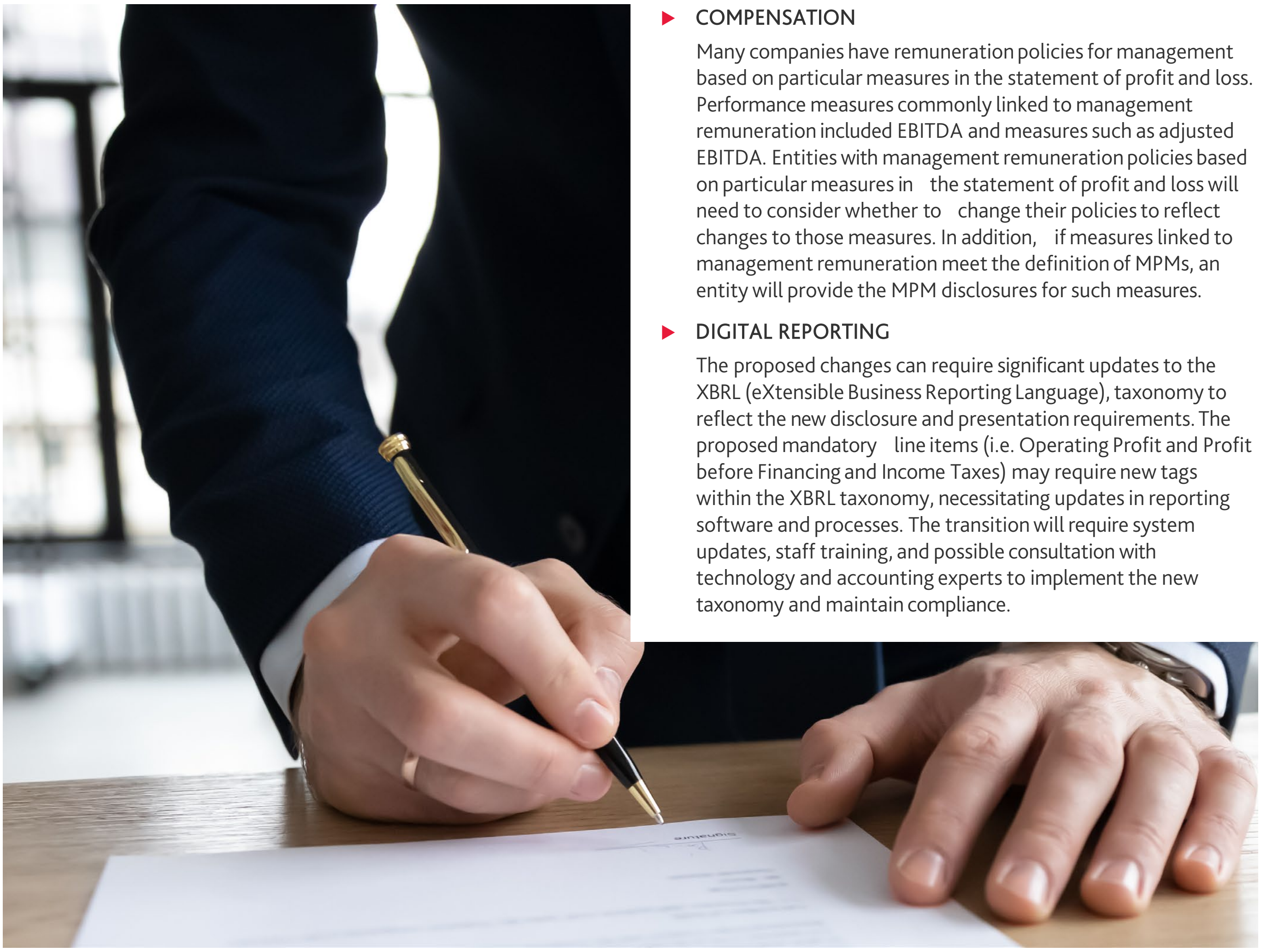
[4] Profit before financing and income taxes is a mandatory subtotal for most entities, though an exception exists for entities that provide financing to customers as a main business activity and make a particular accounting policy choice.

OUR TAKE –SCHEDULE III TO THE 2013 ACT

Schedule III to the 2013 Act sets out the minimum requirements for disclosure on the face of the statement of profit and loss. Line items, sub-line items and sub-totals should be presented as an addition or substitution on the face of the statement of profit and loss when required under Ind AS. For example, line items required under the extant Ind AS 1 are included, as an addition to or a substitution of the Schedule III line items. Accordingly, requirements of both Ind AS Schedule III as well as Ind AS 1 are to be complied with.

Other laws and regulations also refer to Schedule III for the layout of the statement of profit and loss – for example, financial results under SEBI Listing Regulations are required to be presented as per Schedule III to the 2013 Act.

One of the emerging discussions is whether there is a need to amend Schedule III in light of the proposed Ind AS 118, or whether the Schedule need not be amended as it provides an adequate mechanism to accommodate the requirements of the proposed Ind AS 118. Preparers of the financial statements should track this development.



OTHER LIKELY EFFECTS

Proposed Ind AS 118 may significantly impact contracts, agreements, compensation arrangements that rely on financial metrics and digital reporting. Entities may need to reassess how financial covenants, executive bonuses, and earnout clauses are defined and monitored. Inconsistent or undefined terms in agreements could lead to disputes if reported figures differ under the Exposure Draft. Examples include the following:

CONTRACTS AND AGREEMENTS

When information reported in financial statements is used to monitor compliance with contracts and agreements, the proposals might affect existing contracts and agreements. For example, covenants in loan agreements might impose minimum requirements for measures such as the profit subtotal presented in a borrower's financial statements. Many companies may need to change what they include in the subtotals to align with the proposals in Ind AS 118. In such cases, the parties to the contract or agreement will need to consider how the proposed changes by Ind AS 118 could affect the contract or agreement.

In contrast, the changes proposed by Ind AS 118 will have no effect on loan covenants that specify the calculation of such requirements without reference to amounts in financial statements.

COMPENSATION

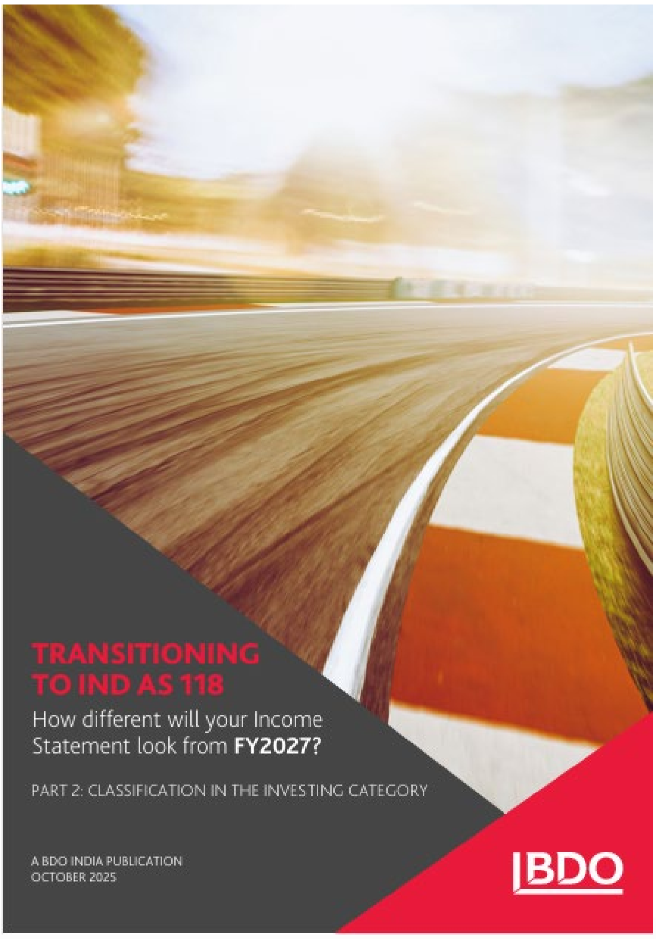
Many companies have remuneration policies for management based on particular measures in the statement of profit and loss. Performance measures commonly linked to management remuneration included EBITDA and measures such as adjusted EBITDA. Entities with management remuneration policies based on particular measures in the statement of profit and loss will need to consider whether to change their policies to reflect changes to those measures. In addition, if measures linked to management remuneration meet the definition of MPMs, an entity will provide the MPM disclosures for such measures.

DIGITAL REPORTING

The proposed changes can require significant updates to the XBRL (eXtensible Business Reporting Language), taxonomy to reflect the new disclosure and presentation requirements. The proposed mandatory line items (i.e. Operating Profit and Profit before Financing and Income Taxes) may require new tags within the XBRL taxonomy, necessitating updates in reporting software and processes. The transition will require system updates, staff training, and possible consultation with technology and accounting experts to implement the new taxonomy and maintain compliance.

CURIOUS FOR MORE? EXPLORE THESE PUBLICATIONS

The introductory publication gives a overview of the proposed changes to understand key changes.



In this part of the series, we have discussed the key considerations relevant to classifying transactions under the investing category.

05

DO YOU KNOW HOW GLOBAL IFRS SHIFTS COULD RESHAPE YOUR FINANCIAL REPORTING?

In a rapidly changing global business environment, financial reporting continues to evolve to keep pace with new economic realities, emerging business models, and stakeholder expectations. The International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), serve as the global language of financial reporting—aimed at promoting transparency, accountability, and comparability across borders. Following developments demonstrate the IASB's focus on enhancing relevance, improving disclosure quality, and strengthening the link between financial statements and the information needs of investors and regulators. Following is ahigh level overview of the key developments.

IFRS 19 SUBSIDIARIES WITHOUT PUBLIC ACCOUNTABILITY: DISCLOSURES

Stakeholders asked the IASB to permit a subsidiary reporting to a parent applying IFRS Accounting Standards in its consolidated financial statements to apply IFRS Accounting Standards with **reduced disclosure requirements in its own financial statements**. Considering this feedback, Standards with reduced disclosure requirements in its own financial statements. Considering this feedback, the IASB issued IFRS 19, which permits eligible subsidiaries to apply reduced disclosure requirements while applying the recognition, measurement and presentation requirements in IFRS Accounting Standards. **Application of IFRS 19 is voluntary.**

ELIGIBILITY CRITERIA

The eligibility criteria for an entity to apply IFRS 19 are:

1. The entity is a subsidiary

2. The entity does not have public accountability. An entity has public accountability if its:
   - debt or equity instruments are traded in a public market, or it is in the process of issuing such instruments for trading in a public market; or
   - Holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

3. The entity has an ultimate or intermediate parent that **produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.**

THE STRUCTURE AND APPROACH OF DISCLOSURES UNDER IFRS 19

The disclosure requirements in IFRS 19 are organised into subsections relating to each IFRS Accounting Standard. A subsidiary applying IFRS 19 will apply an IFRS Accounting Standard to a transaction, other event or condition for the purpose of recognition, measurement and presentation and then apply the disclosure requirements set out under the subheading of that IFRS Accounting Standard in IFRS 19.

In developing the disclosures in IFRS 19 relating to each IFRS Accounting Standard, the IASB adopted the following approach:

Are the recognition and measurement requirements the same in the IFRS for SMEs Accounting Standard and IFRS Accounting Standards?

Disclosure requirements in IFRS for SMEs Accounting Standard used, subject to aligning the language with IFRS Accounting Standards (Some differences exist)

Disclosure requirements developed from the respective IFRS Accounting Standard, applying the principles used for developing the disclosure requirements in IFRS for SMEs Accounting Standard

- Short term cash flows, obligations, commitments, contingencies
- Liquidity and solvency
- Measurement uncertainties
- Accounting policy choices
- Accounting policy choices
- Relevance for eligible subsidiaries, rather than for investment decisions in capital markets

An example of reduced disclosure requirements

Under IFRS 19, an entity that has transactions within the scope of IFRS 2 *Share-based Payment* would not apply the extensive disclosure requirements stated therein. Instead, an entity would disclose only the information contained IFRS 19, which include a description of share-based payment arrangements, the number and weighted average exercise prices of share options, how an entity measures the fair value of equity-settled share-based payment transactions and other general information about transactions in the scope of IFRS 2.

IFRS 2 currently contains 991 words in its disclosure requirements, whereas IFRS 19 contains only 250 words relating to IFRS 2 disclosures.

STATEMENT OF COMPLIANCE WITH IFRS ACCOUNTING STANDARDS

For an entity that elects to apply IFRS 19, when its financial statements comply with IFRS Accounting Standards and the requirements in IFRS 19, the entity is required to make an explicit and unreserved statement of such compliance in the notes. As part of that unreserved statement, the entity is required to state that it has applied IFRS 1.

OUR TAKE – ENTITIES AFFECTED

Eligible subsidiaries will benefit from reduced costs and reporting simplifications from the reduced disclosure regime. Some eligible subsidiaries were applying the IFRS for SMEs Accounting Standard or another national set of standards for their own financial statements to benefit from fewer disclosure requirements and maintaining dual accounting records for the purposes of reporting to the parent entity. Such subsidiaries would now be able to apply IFRS Accounting Standards for their own financial statements and elect to apply IFRS 19, which will eliminate the need for dual accounting records.

IASB'S NEAR FINAL EXAMPLES FOR TACKLING CLIMATE AND OTHER UNCERTAINTIES

IASB decided to explore targeted actions to improve the reporting of the effects of climate-related risks in the financial statements. After completing their deliberations, IASB issued a Near-final staff draft—Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related Examples which would be included as examples in the relevant IFRS Accounting Standards. The IASB expects that these illustrative examples will help **improve the reporting** of the effects of climate-related and other uncertainties in the financial statements. The following is a thematic summary of the near-final examples.

MATERIALITY JUDGEMENTS

The IASB developed example 1 to respond to stakeholder concerns about a perceived disconnect between information about the effects of climate-related risks disclosed in the financial statements and information provided outside the financial statements (e.g. in sustainability reporting). Example 1 sets out two different scenarios that lead to different conclusions.

Example 1: Scenario 1 – Additional disclosures necessary

1. Entity A operates in a capital intensive industry and is exposed to significant climate related transition risks.
2. Few jurisdictions have adopted climate-related policies affecting entity's operations.
3. Entity A's climate-related transition plan would significantly affect its future operations.
4. General purpose financial report accompanying the financial statements included plans to reduce greenhouse gas emissions over the next decade.
5. The transition plan does not affect recognition or measurement of assets and liabilities and related income and expenses.

In making a judgement about whether additional disclosures would provide material information, Entity A considers both quantitative and qualitative factors including entity-specific qualitative factors and external qualitative factors. Accordingly, Entity A discloses the reason why the transition plan had no effect on its financial position and financial performance for the current reporting period (e.g. no effect on the useful lives of the affected manufacturing facilities).

The IASB developed Scenario 2 to help address concerns that the consideration of qualitative factors could lead to excessive disclosures.

Example 1: Scenario 2 – Additional disclosures not necessary

Entity B operates in an industry with low levels of greenhouse gas emissions and limited exposure to climate-related transition risks.

General purpose financial report accompanying the financial statements disclosed the use of renewable energy and avoidance of exposure to high-emission activities and how the entity plans to maintain the current emission policy.

The greenhouse emission policy has no effect on recognition or measurement of assets and liabilities and related income and expenses.

In making a judgement about whether additional disclosures would provide material information, Entity B considers both quantitative and qualitative factors including the effect of greenhouse gas emissions policy and the industry where the entity operates. Accordingly, Entity B concludes that additional disclosure to explain the lack of effect of its greenhouse gas emission policy on the financial position and financial performance for the current reporting period would not provide material information in the context of its financial statements taken as a whole.

ASSUMPTIONS AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The IASB developed the following examples to illustrate how applying the requirements in IFRS Accounting Standards may result in an entity disclosing information about assumptions it makes about the future to determine the recoverable amounts of assets.

Example 2: Disclosure of assumptions - specific requirements

The entity's operations result in a high amount of greenhouse gas emissions.

Jurisdictional regulations require the entity to acquire greenhouse gas emission allowances, resulting in costs to the entity.

The entity determined that the recoverable amount of a cash generating unit (CGU) - which includes a significant amount of goodwill - exceeds its carrying amount (i.e. no impairment must be recognised).

It was assessed that recoverable amount is sensitive to assumptions about future emission allowance costs (i.e. these costs are a key assumption in determining the recoverable amount).

The entity discloses the relevant information in relation to its key assumptions and approach used to determine the values assigned to them including key assumptions used in the measurement of value in use, the approach to determining the values assigned to these key assumptions and sensitivity information i.e. whether an impairment loss would result from a reasonably possible change in the assumptions about the future price of emission allowances.

The below example illustrates how an entity may be required to disclose information about assumptions it makes about the future even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure.

Example 3: Disclosure of assumptions – general requirements

An entity is exposed to climate related transition risks.

Indications exists that a CGU might be impaired due to transition risks.

The entity determined that the recoverable amount of the CGU exceeds its carrying amount.

Impairment testing involved making several assumptions about climate-related transition risks, including future legal and regulatory developments.

The entity discloses qualitative and quantitative information about these assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity.

The following example illustrates the disclosure of information about the effects of climate-related risks on an entity's credit risk exposures and credit risk management practices, as well as factors to use in assessing the materiality of information.

Example 4: Disclosures about credit risk

An entity (being a financial institution) considers the effects of various risks on its credit risk exposures, including climate related risks.

Loans to agricultural customers and corporate real estate customers are exposed to climate-related risks and these risks have a significant effect on the credit risk exposures of these portfolios.

The entity takes actions to mitigate credit risk arising from its customers' exposure to climate-related risks.

The entity discloses the relevant information about the effects of climate-related risks on its exposure to credit risk on two identified portfolios such as an explanation of the credit risk management practices related to climate-related risks and how those practices relate to the recognition and measurement of expected credit losses and information about collateral held as security and other credit enhancements and information about concentrations of climate-related risks if not apparent from other disclosures the entity makes.

The following example illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if their effect on the carrying amount of the entity's plant decommissioning and site restoration provision is immaterial.

Example 5: Disclosures about decommissioning and restoration provisions

The entity is obligated to decommission a plant and restore the site.

When discounted to present value, the costs to settle the entity's plant decommissioning and site restoration provision is immaterial.

However, costs to settle these obligations will be high and there is a significant and increasing risk that the entity might be required to close the facilities earlier than it expects.

This risk stems from efforts to transition to a lower-carbon economy and possible regulatory and policy actions to reduce greenhouse gas emissions.

The entity concludes that although the plant decommissioning and site-restoration obligations have an immaterial effect on the carrying amount of its plant decommissioning and site-restoration provision, information about these obligations is material. The entity discloses a brief description of the nature of the obligations and the expected timing of the outflows of economic benefits required to settle them and an indication of the uncertainties about the amount or timing of the outflows.

DISAGGREGATION

The following example illustrates the principles of aggregation and disaggregation in IFRS 18 *Presentation and Disclosure in Financial Statement*.

Example 6: —Disclosure of disaggregated information in the notes

The property, plant and equipment (PP&E) of an entity emits high amounts of greenhouse gas.

Investment has been made in alternative PP&E of the same class with lower emissions.

Use of the high-emission PP&E continues.

These two types of PP&E have significantly different vulnerabilities to climate-related transition risks. For example, possible future regulations to reduce greenhouse gas emissions or changes in consumer demands could affect these two types of PP&E in significantly different ways.

The entity concludes that the two types of PP&E have sufficiently dissimilar risk characteristics and that disaggregating information about these types of PP&E would result in material information. Accordingly, the entity disaggregates information provided in the notes about the PP&E between the two types of PP&E.

BEYOND CLIMATE

The IASB observed that these near-final examples may apply not only to uncertainties arising from climate-related risks but to uncertainties in general. Building on the IASB's near final examples, the following example relating to uncertainties other than climate change.

Example 7: Material uncertainty in relation to going concern

Gamex Limited is a diversified gaming and sports media platform.

Semiconductors and logistics bottlenecks have increased costs for consoles, GPUs, and virtual reality headsets, limiting the uptake of high-end gaming and delays in the transitions to next-generation platforms.

Gamex Limited is experiencing reduced subscription renewals, and slower uptake of newly released products.

Uncertainty around the levy of indirect tax and litigation around 'games of skill vs. chance' have created volatile conditions, making future growth necessary to continue operations uncertain.

Gamex Limited notes its current and future operations dependent on discretionary consumer spending, inflation and cost pressures, regulatory and taxation uncertainties and overall investment climate. Accordingly, Gamex Limited discloses information about the material uncertainties (both quantitative and qualitative in nature) such as assumptions made about uncertain future events, information on estimation techniques used in assessing the ability of the entity to continue as a going concern, such as stress testing and/or scenario analysis and mitigating factors and the entity's strategy to address material uncertainties.

OUR TAKE – NEXT STEPS

The near-final examples do not add to or change any of the requirements of IFRS Accounting Standards, however, they may cause entities to reconsider the disclosures included in financial statements relating to climate-related risks as well as other uncertainties. Entities should review their financial statements and consider the disclosures necessary to provide material information to users of financial statements in light of the near-final climate examples. Regulators and enforcers are expected to continue focusing on the effects of climate-related risks in financial statements, as well as other uncertainties.

ABOUT ASSOCHAM

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's apex national chamber since 1920. It advocates actionable policy suggestions to strengthen the Indian economy by leveraging its extensive membership reach of over 450,000 companies, comprising of large corporates and SMEs. With over 70 Sector and State Councils, ASSOCHAM effectively represents diverse segments of Indian industry and focusses on aligning industry priorities with the nation's growth aspirations.

ABOUT BDO

BDO GLOBAL

BDO is an international network of independent public accounting, tax and advisory firms. We support organisations with an unwavering focus on quality, industry expertise, and the innovative use of technology to deliver impactful solutions. Our commitment to people, clients, and communities is at the core of everything we do. With our people-first culture, we foster an environment where diversity thrives, growth is nurtured, and continuous learning drives lasting progress for a sustainable future.

US$15 BN	+7%	1,800	166	119,611
GLOBAL REVENUE	REVENUE INCREASE	OFFICES WORLWIDE	COUNTRIES & TERRITORIES	PEOPLE WORLDWIDE

BDO INDIA

BDO India offers Assurance, Tax, Advisory, Technology Products & Solutions, Digital Transformation, and Managed Services & Outsourcing to domestic and international clients across various industries. Bringing together expertise, innovatively driven and delivered through technology, we empower businesses to navigate their unique challenges with transformative, impactful, client-centric solutions. The team in India comprises over 11,000* professionals, led by more than 350 Partners and Directors, operating out of 20 offices across 14 key cities.

11000+
STAFF*

14
CITIES

20
OFFICES

350+
PARTNERS
DIRECTORS

*Includes employees from BDO RISE and BDO EDGE

ASSOCHAM®
Ideate · Innovate · Impact

THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

4th Floor, YMCA Cultural Centre and Library Building, 01,
Jai Singh Road, New Delhi – 110001
www.assocham.org

CONTACTS AT ASSOCHAM

AVINASH SHARMA
Director
ASSOCHAM
avinash.sharma@assocham.com

JATIN KOCHAR
Assistant Director
ASSOCHAM
jatin.kochar@assocham.com

FOR MORE INFORMATION:
CONTACTS AT BDO INDIA

YOGESH SHARMA
Group Managing Director
BDO India
yogeshsharma@bdo.in

AMIT AGARWAL
Partner Assurance Leader Accounting
Advisory Services
amitkagarwal@bdo.in

MAYANK PAREKH
Partner Accounting Advisory
BDO India
mayankparekh@bdo.in

Ahmedabad | Bengaluru | Bhopal | Chandigarh | Chennai | Coimbatore | Delhi | Goa | Hyderabad | Kochi | Kolkata | Mumbai | Pune | Vadodara

BDO®