



Accounting and Auditing Update

Issue no. 123/2026

October 2026

kpmg.com/in

KPMG. Make the Difference.



Editorial

This edition of the Accounting and Auditing Update (AAU) covers key accounting and financial reporting considerations relating to non-common control mergers and amalgamations implemented through schemes of arrangement. Such transactions remain an important means of pursuing growth, achieving synergies and reorganising businesses. As transaction structures become more nuanced, the accounting continues to involve more judgement. This chapter examines the application of Indian Accounting Standard (Ind AS) 103, *Business Combinations*, including the identification of the accounting acquirer, the treatment of reverse acquisitions and newly incorporated entities, and the determination of the acquisition date where a scheme specifies an appointed date. It also considers related implications for deferred tax and comparative information in the financial statements, alongside the requirements under the Companies Act, 2013 and the Securities and Exchange Board of India ('SEBI') framework for schemes of arrangement. Early consideration of these matters, supported by robust documentation and the involvement of accounting, valuation, legal and regulatory teams, is critical to achieving transparent financial reporting.

This edition also examines the accounting for employee remuneration arrangements linked to shares, equity values, initial public offerings and other exit events. As businesses, including private equity-backed entities, increasingly use such arrangements to attract and retain talent and align employee and investor interests, their terms have become more varied and their accounting more judgemental. The chapter highlights the importance of determining whether an arrangement falls within Ind AS 102, *Share-based Payment*, or Ind AS 19, *Employee Benefits*, and assessing the substance of

the arrangement when distinguishing employee share purchase plans from employee stock options and equity-settled awards from cash-settled awards. It also explores the implications of buy-back provisions, contingent settlement features, vesting conditions linked to an initial public offering and loans provided to employees to acquire shares. These considerations demonstrate why the accounting consequences should be evaluated when remuneration arrangements are designed, to ensure that the commercial objectives, contractual terms and resulting financial reporting are appropriately aligned.

This edition also covers recent regulatory developments that may affect corporate reporting and governance. Among the key developments is the issuance of Standard on Sustainability Assurance (SSA) 5000, *General Requirements for Sustainability Assurance* Engagements by the Institute of Chartered Accountants of India (ICAI), which establishes an overarching framework for sustainability assurance engagements. The chapter also covers the next publication in the National Financial Reporting Authority's Auditor - Audit Committee Interaction Series on going concern, highlighting the importance of reliable forecasts, realistic assumptions, robust sensitivity analysis and feasible mitigation plans. It also covers other important updates from SEBI, the Reserve Bank of India (RBI), the Insurance Regulatory and Development Authority of India (IRDAI), and other regulators, as well as certain international developments.

We would be delighted to receive feedback or suggestions from you on the topics we should cover in the forthcoming editions of the AAU.



Rushank Muthreja
Partner - Assurance
KPMG in India

CHAPTER 1

**Business combinations
- non-common control
mergers and schemes
of arrangement**

CHAPTER 2

**Share-based
payments**

CHAPTER 3

**Regulatory
updates**



CHAPTER 1

Business combinations - non-common control mergers and schemes of arrangement

This article discusses key aspects relating to non-common control mergers and amalgamations through schemes of arrangement under Ind AS 103, *Business Combinations*.

Background

Mergers and amalgamations continue to be an important form of acquisitions and corporate restructuring to pursue growth, achieve synergies and realign operations. As transaction structures become increasingly nuanced, the accounting for business combinations under Ind AS 103, *Business Combinations*, continues to involve significant judgement.

In India, mergers and amalgamations are commonly implemented through schemes of arrangement under Sections 230 to 232 (and Section 233 applicable for merger or amalgamation of certain specified companies) of the Companies Act, 2013. Depending on the nature and structure of the transaction, schemes require approval of the National Company Law Tribunal (NCLT) or the Regional Director (RD).

The increasing use of complex transaction structures, including New Company (NewCo) arrangements, reverse acquisitions and multi-step combinations, has elevated the importance of carefully assessing the substance of these transactions rather than relying solely on their legal form.

The August 2026 edition of the Accounting and Auditing Update (AAU) discussed key accounting and valuation aspects of Purchase Price Allocation (PPA), while the September 2026 issue focused on the identification, measurement and accounting for purchase consideration.

Building on these discussions, this issue focuses on key accounting and financial reporting considerations arising in non-common control mergers and amalgamations undertaken through schemes of arrangement in India. It examines the application of Ind AS 103, including the identification of the accounting acquirer, assessment of when control is obtained and determination of the acquisition date. Additionally, the article considers the implications of the Ministry of Corporate Affairs' clarification that the appointed date specified in the scheme is deemed to be the acquisition date for

accounting purposes.

The article also explores financial reporting implications of such transactions, including their impact on tax accounting and assessment of subsequent events occurring between the reporting date and date of approval of financial statements. Together, these topics aim to provide a practical perspective on some of the key accounting and reporting complexities that may arise in non-common control mergers and amalgamations in India.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Acquisition accounting

A. Identifying the acquirer:

Identifying the acquirer is a key first step in applying acquisition accounting under Ind AS 103. While the assessment may be straightforward in many transactions, certain structures require additional consideration. The following sections discuss two such scenarios: reverse acquisitions and business combinations involving a newly formed entity.

i) Reverse acquisitions

Many merger and share-swap schemes may be legally structured with the listed or surviving company issuing shares, while the commercial substance of the transaction may indicate that the former shareholders of the transferor or merging entity obtain control of the combined entity, resulting in a reverse acquisition. Ind AS 103 requires the acquirer to be identified by applying the guidance in Ind AS 110, *Consolidated Financial Statements* (i.e., the entity that obtains control of the acquiree is the acquirer). Where the guidance in Ind AS 110 does not clearly indicate which of the combining entities is the acquirer, the factors in paragraphs B14-B18 of Ind AS 103 shall be considered in making that determination. These include, among others, relative voting rights, composition of its governing body and senior management, relative size of the combining entities and which entity initiated the transaction. Paragraphs B19-B27 of Ind AS 103 address the accounting of reverse acquisition, where the legal acquirer may be the accounting acquiree.

The case study 1 illustrates the application of these principles and consequent accounting.

Case study 1:

Facts:

- In FY 2026-27, Nova Care Pvt. Ltd. (Nova), an unlisted operating entity, proposed to acquire Solace Clinics Ltd. (Solace), a listed entity.
- Nova seeks to obtain a stock exchange listing without undertaking a public offering.
- Accordingly, the transaction is structured such that Solace acquires 100 per cent stake in Nova and Nova then merges within Solace. Solace issues its own equity shares as consideration to Nova's shareholders.

Balance sheet of both entities at the acquisition date:

Amount in INR	Solace	Nova
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Retained earnings	800	1,400
Issued equity	300 (100 ordinary shares)	600 (60 ordinary shares)
Total liabilities and equity	1,800	3,700

A. Identifying the acquirer: (contd.)

- The fair values of Solace's identifiable assets and liabilities are the same as their carrying amounts, except that the fair value of Solace's non-current assets is INR1,500.
- The fair value per equity share at the acquisition date of Solace and Nova is INR16 and INR90, respectively.
- Nova is a significantly larger entity as compared to Solace in terms of assets, revenues and profit.
- Solace issues five ordinary shares for each ordinary share of Nova as consideration for acquisition/merger. Solace therefore issues 300 shares in exchange for all 60 shares of Nova.
- Thus, Nova's shareholders own 75 per cent of the issued shares of the combined entity (i.e., 300 out of 400 issued shares). The remaining 25 per cent is owned by Solace's shareholders.
- Following the acquisition/merger, Nova's shareholders have the ability to elect, appoint or remove a majority of the members of the board of directors of the combined entity.
- In addition, Nova's shareholders hold senior management positions in the combined entity including Chief Executive Officer (CEO), Managing director, Chief Financial Officer (CFO) and other C-suite executives.

Analysis:

Identification of accounting acquirer

- Solace legally issues shares and is the surviving entity post the merger - Solace is the legal acquirer.
- However, the former shareholders of Nova hold 75 per cent of the voting rights in the combined entity.

The table below explains the post-combination ownership:

Shareholder group	Shares in Solace after transaction	Ownership (in percentage)
Existing shareholders of Solace	100	25
Former shareholders of Nova	300	75
Total	400	100

- Further, Nova is a significantly larger entity as compared to Solace and post the merger, Nova's shareholders have the ability to elect or appoint or to remove a majority of the members of the board of directors of the combined entity. Nova's shareholders also hold senior management position in the combined entity.
- Accordingly, Nova is the accounting acquirer and Solace is the accounting acquiree.
- Accordingly, this is a case of reverse acquisition.

Measurement of consideration

- In a reverse acquisition, the consideration is based on the number of equity interests the accounting acquirer would notionally be required to issue so that the owners of the legal acquirer retain the same percentage interest in the combined entity.
- Accordingly, in this situation, how many shares would Nova theoretically have needed to issue to Solace's shareholders so that Solace's shareholders owned 25 per cent of the combined company. **The notional shares to be issued by Nova are:**

Let X = notional Nova shares issued to Solace shareholders

$$X \text{ shares} / (60 \text{ shares} + X \text{ shares}) = 25 \text{ per cent}$$

$$X = 20 \text{ shares}$$

A. Identifying the acquirer: (contd.)

Analysis: (contd.)

Fair value of consideration

Basic	Calculation	Amount
Nova's share value	20 notional shares x INR90	INR1,800
Consideration transferred = INR1,800		

Fair value of identifiable net assets acquired

Solace is the accounting acquiree. Its identifiable assets and liabilities are recognised at acquisition-date fair values.

Solace identifiable items	Fair value in INR
Current assets	500
Non-current assets	1,500
Total identifiable assets	2,000
Current liabilities	(300)
Non-current liabilities	(400)
Fair value of identifiable net assets	1,300

Accordingly, Goodwill = Consideration transferred - Fair value of identifiable net assets

$$\text{INR1,800} - \text{INR1,300} = \text{INR500}$$

Equity presentation

- Retained earnings and other equity balances are those of Nova, the accounting acquirer, immediately before the combination. Pre-acquisition retained earnings of Solace is set to zero in the combined entity.
- The amount recognised as issued equity is INR1,800.
- The number and type of equity instruments presented follow Solace's legal equity structure, including the shares issued to effect the combination.

Post merger balance sheet of combined entity

The financial statements post the merger are issued under Solace's legal name but are, in substance, a continuation of Nova's financial statements. Nova's assets and liabilities and reserves continue at pre-combination carrying amounts, while Solace's identifiable assets and liabilities are recognised at acquisition-date fair values.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

A. Identifying the acquirer: (contd.)

Analysis: (contd.)

Post merger balance sheet of combined entity (contd.)

Amount in INR	Nova carrying amount	Solace fair value/adjustment	Consolidated values
Current assets	700	500	1,200
Non-current assets	3,000	1,500	4,500
Goodwill	-	500	500
Total assets	3,700	2,500	6,200
Current liabilities	600	300	900
Non-current liabilities	1,100	400	1,500
Retained earnings	1,400	- (pre acquisition retained earnings of accounting acquiree)	1,400
Issued equity	600	1,800 (consideration)	2,400
Total liabilities and equity	3,700	2,500	6,200

Source: KPMG in India analysis, 2026

To summarise, identification of the acquirer plays a very important role in business combination accounting and acquirer would not necessarily be the legal acquirer in a share acquisition or the surviving entity in a merger or amalgamation. Factors specified in paragraphs B14-B18 of Ind AS 103 require careful evaluation. The table below summarises key implications of correct identification of acquirer:

Acquisition date fair value of identifiable assets and liabilities	<p>Nova's assets and liabilities continue at pre-combination carrying amounts, while Solace's identifiable assets and liabilities are recognised at acquisition-date fair values.</p> <p>If Solace were incorrectly identified as the accounting acquirer, then this treatment would be reversed, resulting in Nova's assets and liabilities being recognised at fair value instead of those of Solace.</p>
Consideration	<p>The consideration is based on the number of equity interests the accounting acquirer would notionally have needed to issue so that the owners of the legal acquirer retain the same percentage interest in the combined entity. Thus, consideration was INR1,800.</p> <p>If Solace were incorrectly identified as the accounting acquirer, consideration would instead be based on the shares issued by Solace to Nova's shareholders, resulting in incorrect consideration of INR4,800.</p>
Equity	<p>Pre-acquisition retained earnings of Solace is set to zero in the combined entity. Retained earnings and other equity balances of Nova continue at pre-combination carrying amounts.</p> <p>If Solace were incorrectly identified as the accounting acquirer, pre-acquisition retained earnings of Nova would have been incorrectly set to zero in the combined entity and Solace's retained earnings and other equity balances would continue at pre-combination carrying amounts.</p>
Goodwill/bargain gain	<p>Consequential impact would have arisen on goodwill or bargain gain.</p>

A. Identifying the acquirer: (contd.)

ii) Newly incorporated company involved in a business combination/ merger

Business combinations are frequently executed through a newly incorporated entity (NewCo) established solely to facilitate the acquisition. However, the creation of a NewCo does not automatically make it the accounting acquirer. NewCo formations generally fall into two categories:

- a) they are either used to effect a business combination involving a third party, or
- b) in a restructuring among entities under common control.

Consistent with Ind AS 103, the assessment should focus on the economic substance of the transaction rather than its legal form.

When a NewCo is formed to issue equity interests to acquire the combining entities, paragraph B18 of Ind AS 103 generally requires one of the pre-existing entities to be identified as the accounting acquirer after considering the indicators in paragraphs B13–B17. In contrast, where a NewCo provides cash, other assets, or incurs liabilities as consideration, it may be identified as the acquirer, depending on the specific facts and circumstances.

In assessing the appropriate accounting treatment of a business combination involving a NewCo, consideration should be given to the commercial purpose of establishing the NewCo. Relevant factors may include whether NewCo was created solely to facilitate the transaction, the source of consideration, the post-combination ownership and governance structure, the relative size of the combining entities, and whether NewCo has substantive commercial objectives or activities beyond effecting the business combination. The case study 2 demonstrates how these principles apply in practice and the resulting accounting implications.

Case study 2:

Facts:

- Company P has three businesses B1, B2 and B3.
- Company P enters into an agreement with Company X for transfer of business B1. As per the agreement, the transfer was structured as below:
 - Company P was required to incorporate NewCo and demerge its business B1 into NewCo
 - The NewCo would issue its own shares to Company P as consideration
 - Post the aforesaid demerger, Company X would acquire 100 per cent stake in NewCo.
- This raises the question of whether NewCo is the acquirer for purposes of Ind AS 103 and should apply the acquisition method to Business B1, or whether the transaction is, in substance, a restructuring

Analysis:

As discussed in the earlier sections, the accounting acquirer in a NewCo formation depends on the nature of the arrangement. In this example, the transfer of business B1 to NewCo is pursuant to the arrangement between Company P and Company X - it is a pre-condition for the transaction. Thus, NewCo is used as a vehicle by Company X to acquire business B1. Hence, NewCo is the accounting acquirer in the given case and should account for the acquisition of business B1 using the acquisition method under Ind AS 103.

Source: KPMG in India analysis, 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

B. Determination of acquisition date

Another important aspect of accounting for a business combination is determining the acquisition date. Accounting for a business combination that is not a common control business combination under Ind AS 103 is based on the economic substance of the transaction. The acquisition method under Ind AS 103 requires the acquirer to determine of the date of acquisition i.e., the date on which the acquirer obtains control of the acquiree.

Determining the date of acquisition is important because it is the date as at which the fair value of the consideration transferred and of the identifiable assets acquired and liabilities assumed is measured, and goodwill is measured and recognised. It is also only from this date that the results of the acquiree are included in the financial statements of the acquirer.

While the determination of the acquisition date generally follows the control principle under Ind AS 103, an additional consideration arises in India where a business combination is effected through a scheme of arrangement approved by the NCLT/RD. In these cases the scheme is required to specify an 'appointed date' which may precede the acquisition date that would otherwise be determined under Ind AS 103 (commonly referred to as retrospective appointed date).

Under Ind AS, a statutory or regulatory requirement or a judicial decision overrides the Generally Accepted Accounting Principles (GAAP) applicable in a situation. It is also well established that a court/NCLT approved scheme has an overriding effect over other provisions of the Companies Act, 2013, including the requirements of accounting standards prescribed under the Companies Act, 2013.

Accordingly, where an approved scheme has an 'appointed date' that precedes the acquisition date determined under Ind AS 103, the scheme is given effect from the appointed date. Issue 8 of Bulletin 12 of the ITFG Clarification issued by the Institute of Chartered Accountants of India (the ICAI) also provides the same guidance. This position was subsequently also clarified by the MCA vide its Circular no. 09/2019,

F.No.7/12/2019/CL-I, dated 21 August 2019, which states that 'the appointed date identified under the scheme shall also be deemed to be the acquisition date and date of transfer of control for the purpose of conforming to accounting standards'.

Thus, where a scheme specifies an 'appointed date' that precedes the acquisition date that would otherwise be determined under Ind AS 103, given the fact that appointed date specified in the scheme overrides the acquisition date determined as per Ind AS 103:

- The accounting for the business combination, including measurement of consideration transferred, purchase price allocation, etc. is to be done considering the appointed date as the acquisition date;
- The results of the acquiree are to be included from the appointed date.
- Where the appointed date falls in the preceding financial year, the comparative information is required to be restated;

Further, the financial statements should include appropriate disclosures explaining the accounting treatment prescribed by the scheme and the impact of the deviation from the accounting standards. This is based on the *ICAI's Announcement published in 2004, Announcement on Disclosures in cases where a Court/Tribunal makes an order sanctioning an accounting treatment which is different from that prescribed by an Accounting Standard.*¹

Reference may also be made to ICAI Expert Advisory Committee Opinion (EAC) Opinion, Query No. 30 of Volume 34, dated 7 November 2014, *Impact of differential treatment to a court approved scheme on the financial statements and audit report in the subsequent years*, which considers the implications of such differential accounting treatment for the financial statements and the auditor's report in subsequent years.

1. <https://www.icaai.org/post/asb-announcements-clarifications-faqs>>Announcements of the Council Regarding Status of Various Documents Issued by the Institute of Chartered Accountants of India >XXIV Announcement on Disclosures in cases where a Court/Tribunal makes an order sanctioning an accounting treatment which is different from that prescribed by an Accounting Standard



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

B. Determination of acquisition date (contd.)

Further, the management should also consider discussing the impact of such deviation on the audit report with their auditors.

The case study 3 illustrates the application of these principles where the appointed date specified in an NCLT-approved scheme precedes the date on which the scheme receives regulatory approval.

Case study 3:

Facts:

- Zenith Digital Solutions Private Limited (Zenith or the Company) is a private limited company incorporated in India and engaged in the business of software development and technology support services.
- The Company filed a Scheme of Merger by Absorption (the Scheme) of Quantum Software Labs Private Limited (Quantum or the transferor company) with Zenith and its shareholders under Sections 230 to 232 of the Companies Act, 2013 and other applicable provisions thereof with the NCLT, Bengaluru Bench.
- Quantum filed the Scheme with the NCLT, Mumbai Bench.
- The acquisition of Quantum by Zenith represents a non-common control business combination and is therefore required to be accounted for using the acquisition method in accordance with Ind AS 103.
- The Scheme specified an appointed date of 1 October 2024.
- Quantum received approval of the Scheme from NCLT Mumbai Bench on 9 February 2026.

- Zenith received approval of the Scheme from the NCLT Bengaluru Bench on 20 March 2026.

Analysis:

As per Ind AS 103, the date of acquisition cannot be earlier than the date on which approval is obtained from the competent authority if the approval is considered to be a substantive approval. In the given case, NCLT approval is considered to be a substantive approval which is received on 20 March 2026.

Hence, as per Ind AS 103, if the overriding effect of the Scheme is not considered, the acquisition date is 20 March 2026.

However, the Scheme specifically provides an appointed date of 1 October 2024.

Applying the principles discussed, and notwithstanding the fact that acquisition date as per Ind AS 103 is 20 March 2026, Zenith Digital Solutions Private Limited should account for the business combination from 1 October 2024, the appointed date prescribed in the Scheme.

Consequently, the assets and liabilities would be recognised at fair value on such appointed date and financial performance of Quantum would be incorporated in the financial statements of Zenith with effect from 1 October 2024.

Accordingly, all accounting implications of the business combination, including measurement of consideration and purchase price allocation, should be determined with reference to the appointed date. The results of Quantum should also be incorporated from that date and, since the appointed date falls in an earlier period, the comparative information should be restated, along with appropriate disclosures regarding the resulting deviation from Ind AS 103.

Source: KPMG in India analysis, 2026



Editorial

ToC

Chapter 1

Chapter 2

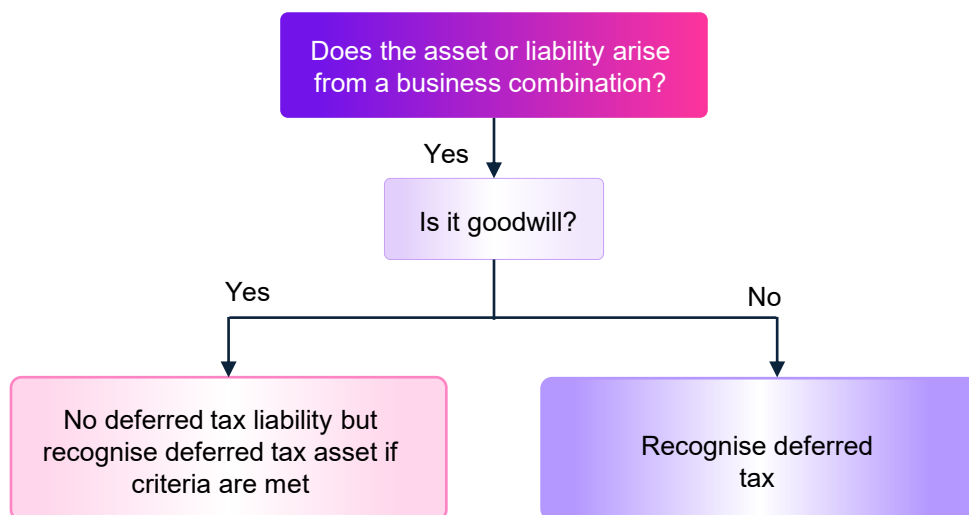
Chapter 3

Other relevant considerations in case of scheme of arrangements

A. Deferred tax

Temporary differences may arise in a business combination. In accordance with Ind AS 103 read with Ind AS 12, *Income Taxes*, an entity recognises any resulting deferred tax assets (DTA) to the extent that they meet the recognition criteria or deferred tax liabilities (DTL) as identifiable assets and liabilities at the acquisition date. Consequently, those deferred tax assets and deferred tax liabilities affect the amount of goodwill or the bargain purchase gain the entity recognises. However, an entity does not recognise deferred tax liabilities arising from the initial recognition of goodwill as per paragraph 15 of Ind AS 12.

The following chart summarises the key considerations in determining the deferred tax implications arising from a business combination:



- The Case study 4 illustrates the deferred tax implications of acquisition accounting and how these are impacted by a subsequent merger.

Case study 4:

Facts:

- Company A acquired 100 per cent of the equity shares of Company B on 1 April 2025 for a consideration of INR1,300.
- Company A accounted for the transaction as a business combination under Ind AS 103.
- On the date of acquisition, the carrying value and the tax base of the net assets of Company B were as follows:

Particulars	Carrying amount as per B's books	Tax base	Temporary difference	Deferred tax liability at 30 per cent
Property, plant and equipment	1,000	600	400	(120)
Current assets	100	100	-	-
Current liabilities	(200)	(200)	-	-
Deferred tax liability	(120)			
Net assets	780			

A. Deferred tax (contd.)

- At the acquisition date, the fair value of the identifiable net assets was the same as their carrying amount, except that an identifiable intangible asset of INR300 was recognised.
- There was no change in tax base upon acquisition by Company A.
- Immediately, Company A then filed for a scheme of merger of Company B within Company A on 1 June 2026 with 1 April 2025 as the appointed date.
- As per the scheme of merger Company A has proposed to account for the carrying values of Company B's net assets at values as appearing in the consolidated financial statements of Company A post acquisition.
- The intangible identified on acquisition will be tax deductible on merger.

Analysis:

- The acquisition was accounted for as follows on 1 April 2025 in the consolidated financial statements (CFS) of Company A:

Particulars	Book base (carrying amount as per A's CFS)	Tax base	Temporary difference	Deferred tax liability at 30 per cent
Property, plant and equipment	1,000	600	400	(120)
Goodwill	310**	-	_*	_*
Other intangible assets	300	-	300	90
Current assets	100	100	-	-
Current liabilities	(200)	(200)	-	-
Deferred tax liability	(210)			
Net assets	1,300			

* No deferred tax is recognised on goodwill arising in a business combination as per Ind AS 12

** Goodwill = INR1,300 – INR990 (existing net assets of B of INR780 + identifiable intangible recognised on acquisition of INR300 - DTL on intangible of INR90 at 30 per cent of 300)



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

A. Deferred tax (contd.)

Analysis: (contd.)

Pursuant to the merger of Company B with Company A with 1 April 2025 as the appointed date:

- the assets and liabilities are recognised by Company A at carrying amount as appearing in the consolidated financial statements of Company A as per the NCLT approved scheme.
- Pursuant to the merger tax base of assets and liabilities should be reassessed.
- Assuming that pursuant to the merger, the tax base of assets and liabilities is same as the amounts at which assets and liabilities are recognised by Company A as per the NCLT approved Scheme (i.e. carrying amount as appearing in the consolidated financial statements of Company A), then there is no deferred tax liability that is required to be recognised as per Ind AS 12.
- Thus, upon the merger, the deferred tax liability should be derecognised.

Source: KPMG in India analysis, 2026

B. Impact of subsequent events and comparative restatement

In practice, a scheme of arrangement may be filed with the NCLT during a financial year, while the approval of the scheme may be received only after the reporting date but before the financial statements are authorised for issue. Where the scheme specifies an appointed date that falls on or before the reporting date, this raises an important question as to whether the approval received after the reporting period requires adjustment to the financial statements under Ind AS 10, Events after the Reporting Period.

The case study 5 illustrates the accounting considerations in such a situation.

Case study 5:

Facts:

- Company A is proposed to be merged with Company B pursuant to a scheme of arrangement, with 1 April 2025 specified as the appointed date.
- The scheme is approved by NCLT on 24 April 2026, after the close of financial year date i.e., 31 March 2026 but before approval of Company B's financial statements by the Board.
- This raises the question of whether the merger should be given effect to in the financial statements of Company B for the year ended 31 March 2026

Analysis:

- Paragraph 22(a) of Ind AS 10 provides that a major business combination after the reporting period is an example of a non-adjusting event.
- However, in this instance, the NCLT-approved Scheme specifies an appointed date of 1 April 2025, which falls within the financial year ended 31 March 2026.
- In this context, reference is made to ITFG Clarification Bulletin 14, Issue 4. As clarified in the said ITFG, where an NCLT order approving a Scheme is received after the reporting date but before the financial statements are authorised for issue, and the Scheme specifies a retrospective appointed date preceding the reporting date, the merger is given accounting effect from such appointed date.
- Applying the guidance discussed, in the given instance since the NCLT order approved the scheme with a retrospective effect subsequent to the balance sheet date but before the approval of financial statements, the effect of merger will be given in the financial statements for the year ended 31 March 2026 as an adjusting event.

Source: KPMG in India analysis, 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

B. Other accounting considerations

Beyond the accounting considerations discussed in the earlier sections, merger transactions may give rise to several other matters requiring careful evaluation and, in some cases, significant judgement. Some of the key considerations are discussed below.

Purchase consideration including evaluation of pre-existing relationships between transacting entities

Purchase consideration often involves significant judgement in determining whether amounts paid form part of the consideration transferred or represent separate transactions. Challenges commonly arise in assessing contingent consideration, deferred consideration, working capital adjustments, indemnification arrangements, and whether certain payments are remuneration in substance. Ind AS 103 also requires entities to determine whether arrangements between the parties form part of the business combination or represent separate transactions. These assessments, including an assessment of the substance of the contract, commercial or other pre-existing relationships, can have a significant impact on the measurement of consideration transferred, goodwill, bargain purchase gains and subsequent accounting. These considerations were discussed in the September 2026 issue of the AAU in the chapter *Business Combination Series 2 – Purchase Consideration in Business Combinations*.

Purchase Price Allocation (PPA) including identification of intangible assets

The acquisition method requires identifiable assets acquired and liabilities assumed to be recognised and measured at acquisition-date fair values. This includes identifying intangible assets that may not have previously been recognised in the acquiree's financial statements, such as customer relationships, brands and technology. The identification and valuation of such assets, as well as other assets and liabilities acquired, may involve significant judgement in selecting appropriate valuation methodologies and assumptions and determining the need for valuation specialists. The August 2026 issue of the AAU discussed these aspects in the *chapter Business Combination Series 1 – Purchase Price Allocation*.

Acquisition costs

Another common consideration in accounting for a business combination is the treatment of acquisition-related costs, such as stamp duty incurred by the acquirer. Under Ind AS 103, stamp duty incurred on the transfer of assets pursuant to a business combination is considered an acquisition-related cost. Such cost is incurred to effect the business combination but does not form part of the consideration transferred for obtaining control. Further, the stamp duty does not enhance the future economic benefits of the identifiable assets acquired, which are separately recognised at fair value. Accordingly, stamp duty should generally be recognised as an expense in the period in which it is incurred and should not be capitalised as part of the cost of acquisition.

Measurement period

The acquisition method under Ind AS 103 permits the use of provisional amounts when the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs. A key area of judgement is determining whether the new information relates to facts and circumstances that existed at the acquisition date and consequently whether the same qualifies as a measurement period adjustment. Such adjustments affect the measurement of identifiable assets, liabilities and goodwill, together with the related disclosures. These considerations were discussed in detail in the February 2025 issue of the AAU in the chapter *The measurement period in business combination 1*.

Evaluating scheme documentation and appointed versus effective date considerations

For mergers implemented through a scheme of arrangement, careful evaluation of the scheme document and NCLT/RD order is essential. A key challenge is assessing the interaction between the appointed date specified in the scheme and the acquisition-date requirements under Ind AS 103, together with the terms and conditions governing the transaction.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

B. Other accounting considerations (contd.)

Hedging relationship post-merger

In a business combination, the acquiree's existing hedging relationship does not automatically continue after the acquisition. Instead, the original hedge relationship is effectively terminated and the combined entity must assess whether it wishes to designate the acquired derivative instruments in a new hedging relationship. Any such new designation must independently satisfy all applicable hedge accounting requirements, including the assessment of expected hedge effectiveness.

Obtaining hedge accounting for a newly designated hedge following an acquisition may be nuanced for a number of reasons. First, the acquired derivative instruments are likely to have a non-zero fair value at the acquisition date. Second, the hedged assets and liabilities are generally remeasured as part of acquisition accounting, resulting in a measurement basis that may differ from that used in the original hedging relationship. Third, the likelihood of the forecast transaction underlying the hedge may need to be

reassessed in light of the facts and circumstances existing after the business combination. Consequently, transactions involving acquired hedging relationships should be carefully assessed as part of the business combination and purchase price allocation exercise.

Disclosures

The accounting for a business combination is accompanied by extensive disclosure requirements under Ind AS 103. These are primarily governed by paragraphs 59-63 and Appendix B (paragraphs B64-B67) of Ind AS 103 and are intended to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Accordingly, disclosure requirements should be considered throughout the business combination accounting process rather than only at the financial statement preparation stage, particularly where the transaction involves significant judgements, provisional accounting or complex arrangements.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3



C. Compliance requirements under Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) (contd.)

Compliance under the Companies Act, 2013

Sections 230 to 232 of the Companies Act, 2013 provide the framework for compromises, arrangements, mergers and amalgamations of companies through a scheme sanctioned by the NCLT. Where a compromise or arrangement is proposed between a company and its creditors or members, an application may be made to the NCLT for convening meetings of the relevant creditors or members. The company is required to disclose all material facts relating to the company, including its latest financial position, auditor's report, pending investigations or proceedings, and, where applicable, a valuation report prepared by a registered valuer. Notices of the proposed scheme are required to be circulated to creditors, members and debenture holders, together with the details and effects of the arrangement and other prescribed information.

In the case of a scheme involving merger or amalgamation, the companies are additionally required to circulate the draft scheme, confirmation of filing of the draft scheme with the Registrar, a report explaining the effect of the scheme on shareholders and other stakeholders, the share exchange ratio and valuation matters, the valuation report, if any, and a supplementary accounting statement where required. The NCLT may sanction the scheme after being satisfied that the prescribed procedures have been complied with. The scheme is required to clearly indicate the appointed date from which it shall be effective, and the companies must file the NCLT's order with the Registrar and continue to report compliance with the scheme until its completion.

Section 233 of the Companies Act, 2013 provides a simplified framework for mergers or amalgamations between two or more small companies, a holding company and its wholly-owned subsidiary company, or such other class or classes of companies as may be prescribed. Companies covered under this section may undertake a merger or amalgamation through the approval process prescribed in Section 233, subject to

obtaining the requisite approvals from members, creditors, and regulatory authorities, and compliance with the prescribed procedural requirements. Under Section 233(1)(b) and (d) of the Companies Act, 2013, read with Rule 25 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, the scheme is required to be approved by members holding at least 90 per cent of the total number of shares and by a majority representing nine-tenths in value of the creditors or class of creditors, either at the duly convened meeting or, in the case of creditors, through written approval. In addition, pursuant to Section 233(1)(c) read with Rule 25(2), each company involved in the merger is required to file a declaration of solvency in Form CAA.10, along with the prescribed fee, with the Registrar before convening the meetings of members and creditors for approval of the scheme.

Pursuant to the Companies (Compromises, Arrangements and Amalgamations) Amendment Rules, 2025, the scope of the fast-track merger mechanism under Section 233 of the Companies Act, 2013 has been significantly expanded. In addition to mergers involving small companies and holding companies with their wholly-owned subsidiaries, the fast-track route is now available to specified categories of unlisted companies, holding-subsidary structures, fellow subsidiaries, and mergers of a foreign holding company into its Indian wholly-owned subsidiary. Further, the amendment introduces a simplified approval framework for schemes involving the division or transfer of undertakings by providing that Rule 25 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016 shall apply, mutatis mutandis, to such transactions. Consequently, a wider range of intra-group reorganisations, mergers, amalgamations, demergers and scheme of division or transfer of the undertaking of a company may now be implemented through the Regional Director/Central Government route, thereby reducing reliance on the conventional NCLT approval process, subject to compliance with the prescribed eligibility conditions and procedural requirements.

Editorial

ToC

Chapter 1

Chapter 2

Chapter 3



C. Compliance requirements under Companies Act, 2013 and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) (contd.)

Compliance under SEBI Regulations

In addition to complying with the provisions of the Companies Act, 2013, listed companies are also required to comply with the applicable Securities and Exchange Board of India (SEBI) LODR Regulations and the related SEBI framework governing schemes of arrangement. SEBI's Master Circular on Scheme of Arrangement dated 20 June 2023² consolidates the requirements applicable to schemes involving entities with listed specified securities.

Regulation 37 of the LODR Regulations requires a listed entity proposing a scheme of arrangement under the relevant sections of Companies Act, 2013 to file the draft scheme with the recognised stock exchange(s) and obtain a No-Objection Letter before approaching the Court or Tribunal. The No-Objection Letter must be submitted to the Court or Tribunal while seeking approval and is valid for six months from the date of issuance. The 2023 Master Circular lays down a comprehensive framework covering valuation report, valuation and share exchange ratio, fairness opinion, recommendations of the Audit Committee and the Committee of Independent Directors, shareholder approval and e-voting requirements, creditor consents and disclosures. Importantly, from a financial reporting perspective, the accounting treatment contained in the scheme is required to comply with the applicable accounting standards, supported by a certificate from the statutory auditor. The circular also prescribes the framework for seeking relaxation from the requirements of Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957 where securities of an unlisted/resulting entity are proposed to be listed pursuant to a scheme without an IPO.

SEBI has also prescribed corresponding requirements for entities with listed debt securities. SEBI's Master Circular dated 21 May 2024³ consolidates the LODR requirements applicable to issuers of non-convertible securities, securitised debt instruments and commercial paper. In the context of schemes of arrangement, it sets out the framework under Regulation 59A for entities with listed non-convertible debt securities

(NCDs) or non-convertible redeemable preference shares (NCRPS), including requirements relating to filing of the draft scheme with the stock exchange(s), protection of debt holders, debenture trustee approvals and assessment of the resultant entity's ability to service interest and repay principal.

Recognising that schemes involve multiple regulatory steps, SEBI and the stock exchanges have also sought to make the process more structured for listed entities. The Master Circulars bring the key regulatory requirements together in a consolidated framework, helping companies identify upfront the approvals, reports, certifications and disclosures required when formulating a scheme. This has been supplemented by the Joint Standard Operating Procedure (SOP) by exchanges, which provides defined timelines for various stages of the stock exchange/SEBI review process. The SOP also lays down timelines for identification of deficiencies, exchange queries and responses by companies, making the review process easier for companies to plan and monitor.

The process is further supported by detailed checklists and Frequently Asked Questions (FAQs) issued by the stock exchanges, which provide practical guidance on matters such as documentation, valuation methodology, financial information, creditor NOCs and the contents of the draft scheme.

Accordingly, while schemes involving listed entities are subject to enhanced regulatory safeguards, the consolidated SEBI framework and the subsequent standardisation of procedures have made the regulatory journey more transparent and manageable for companies undertaking mergers, demergers and other schemes of arrangement.

2. SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 'Master Circular on (i) Scheme of Arrangement by Listed Entities and (ii) Relaxation under Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957' dated 20 June 2023

3. SEBI Master Circular No. SEBI/HO/DDHS/DDHS-PoD-1/P/CIR/2024/48 'Issuers who have listed Non-convertible Securities, Securitised Debt Instruments and/or Commercial Paper' dated 21 May 2024

Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

D. Conclusion

Merger transactions in India require careful consideration not only of the legal requirements under the Companies Act, 2013 and applicable SEBI regulations, but also of the accounting consequences arising under Ind AS 103. Entities should evaluate key judgemental areas such as whether the acquired set constitutes a business, determination of the acquisition date, purchase price allocation, identification and valuation of intangible assets, treatment of pre-existing relationships, purchase consideration arrangements and measurement period adjustments. In schemes of arrangement, particular attention should also be given to the terms of the scheme, the order issued by the relevant authority, the

appointed date and the regulatory approvals and disclosures required. As these assessments can significantly affect recognised assets and liabilities, goodwill, subsequent financial reporting and stakeholder outcomes, entities should ensure that the transaction is supported by robust analysis, appropriate documentation and timely involvement of accounting, valuation, legal and regulatory specialists. A thorough understanding of these areas can help entities navigate merger transactions more effectively and reduce execution and reporting risks.



Editorial

ToC

Chapter 1

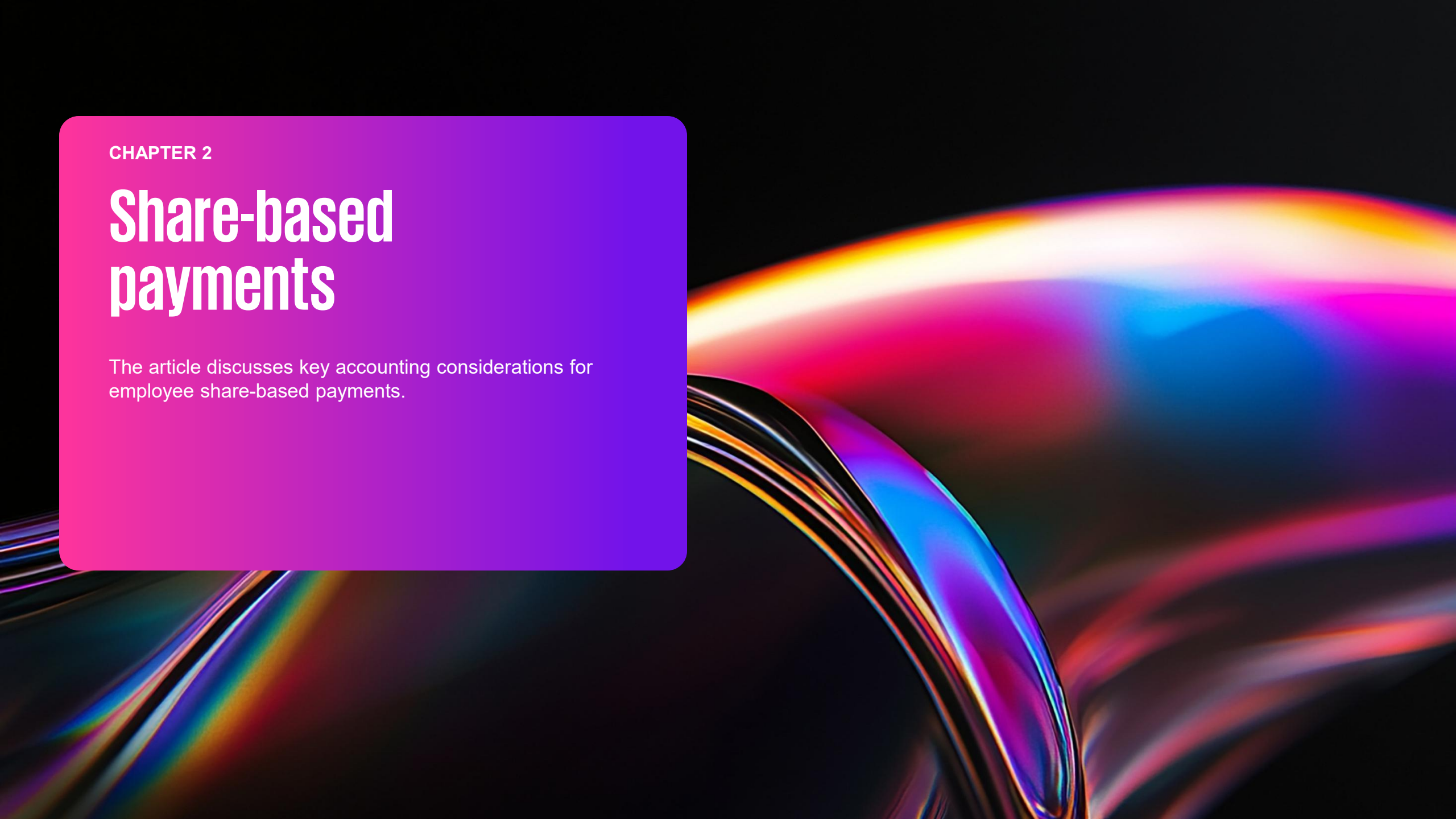
Chapter 2

Chapter 3

CHAPTER 2

Share-based payments

The article discusses key accounting considerations for employee share-based payments.



Introduction

India's capital markets have witnessed significant growth in recent years as reflected in the rising number of Initial Public Offers (IPOs) and private equity (PE) investments across a wide range of sectors. Alongside this growth, employee remuneration arrangements have also evolved, with entities increasingly using conventional employee stock options as well as arrangements linked to share prices, entity's performance, IPOs and other exit events. Such arrangements may be used to reward employees for their performance, retain talent, and align employee interests with those of shareholders and investors. The accounting for these arrangements is not always straightforward. Their legal form or commercial description may not, by itself, determine the appropriate accounting. Instead, an entity needs to carefully evaluate the underlying terms and economic substance of the arrangement to determine whether it falls within the scope of Ind AS 102, *Share-based Payment* (the Standard), and, if so, how the arrangement should be classified and accounted for.

Additionally, entities should evaluate the legal and regulatory requirements applicable to such arrangements, including the Companies Act, 2013 and, in the case of listed entities, the relevant SEBI regulations and associated disclosure obligations. This article explores some of the accounting considerations that commonly arise in applying the Standard to employee arrangements and focuses on identifying the appropriate accounting model and understanding the nature of the arrangement, including:

- distinguishing between Ind AS 102 and Ind AS 19, *Employee Benefits*;
- evaluating employee share purchase plans;
- determining whether awards are equity-settled or cash-settled;
- assessing vesting and settlement conditions linked to IPOs or other exit-related conditions; and
- assessing arrangements involving loans advanced to employees for acquiring shares of the entity.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Ind AS 102 vs Ind AS 19: assessing whether an award reflects changes in equity value

Incentives/compensation to employees may be paid either in cash or in equity shares. When equity shares are issued to employees for their services, the transaction is covered within the scope of Ind AS 102. Similarly, most performance-based cash incentives/payments to employees for their services would be covered by Ind AS 19.

The accounting analysis becomes more nuanced when settlement is made in cash and the amount payable is linked to the entity's performance, share price or equity value. Such arrangements do not automatically fall within the scope of Ind AS 102 and may need to be assessed to determine whether they should be accounted for under Ind AS 102 or Ind AS 19.

This classification determines the applicable recognition and measurement requirements. A cash-settled share-based payment is measured at fair value in accordance with Ind AS 102 and re-measured at each reporting date until settlement, with changes recognised in the statement of profit and loss. An 'other long-term employee benefit' under Ind AS 19 is measured using the projected unit credit method (an actuarial technique) and re-measured at each period-end.

When the amount paid under an award equals the increase in the share price over a specified period of time, it can be said that the counterparty directly participates in the changes in the fair value of the underlying equity instrument. In such a case, it may be said that the amount of compensation is determined based on the price or value of the equity instruments. When the amount paid under the plan is not directly linked to the changes to the entity's share price, application of judgement would be required to determine if the award is likely to reflect the fair value of the entity's share price.

Example

A Company enters into an arrangement with its employee under which the employee will receive a cash payment based on the positive difference in a fixed Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple between the start of Year 1 and end of Year 3. The employee is required to be in service at the end of Year 3 to receive the payment.

The Company is required to evaluate whether the formula approximates the value of the Company's equity instruments. At the start of year 1, the Company determined that the fixed multiple is in line with EBITDA multiples used in practice to estimate total equity value of similar entities. However, the Company expects that the EBITDA multiple required to be applied to estimate the total equity value of the Company will change over time as market conditions change and the business grows. Therefore, since the EBITDA multiple is not likely to fairly represent the movement in equity value of the company at the time of payment, it may not be considered as a share-based payment under Ind AS 102.

Source: Adapted from KPMG Insights into IFRS, 23rd Edition 2026/27



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Ind AS 102 vs Ind AS 19: assessing whether an award reflects changes in equity value (contd.)

Similarly, there could be other terms such as the existence of a cap, floor, or payments linked to share-price bands. These additional terms do not, by themselves, determine the classification; rather, the specific terms of the arrangement and the nature of the share-price linkage need to be assessed.

The assessment should consider the substance of the arrangement and whether the amount ultimately payable is linked to the price or value of the entity's equity instruments in a manner that brings the arrangement within the definition of a cash-settled share-based payment. This classification impacts the corresponding accounting treatment and the relevant presentation/disclosure requirements.

While we consider the above principles to determine the accounting principles and the standard to apply for incentives/cash payments awarded to employees, a similar question may arise where employees are awarded shares (or when employees acquire shares), i.e., does the arrangement represent a straightforward employee share purchase, or does it contain a share-based payment for employee services?



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Classification of Employee Stock Options Plan (ESOPs) vs Employee Share Purchase Plans (ESPP)

When employees are allotted shares in return for a cash consideration, entities should evaluate whether these plans represent option plans or share purchase plans, by considering the various terms of the scheme/plan.

In an ESPP, employees are usually entitled to buy shares at a discounted price (the benefit being passed on to the employee is the discount), while an ESOP would contain an option to buy the entity's shares on a future date for a fixed price (the employee gets the benefit of future gains in the share price, subject to the terms of the plan which could include various service conditions and performance conditions).

The distinction between an ESPP and an ESOP arrangement is not always straightforward and requires an assessment of the specific features of the plan. Relevant factors include whether the shares are issued immediately or whether employees are granted rights or options that vest over a period of service, as well as the existence of restrictions on the shares, holding requirements, or other conditions linked to continued employment. It is also important to consider whether the offer is made broadly to all shareholders or exclusively to employees, and whether the benefit represents compensation for employee services rather than a simple discounted share purchase.

Examples of features that may indicate an option include a plan with lookback features (where employees are able to buy shares at a discount and choose whether the discount is applied to entity's share price at the date of grant or share price at the date of purchase), a plan where employees are allowed to decide after a significant period of time whether to participate in the plan, a plan in which employees are allowed to cancel their participation before or at the end of a specified period and obtain a refund of amounts paid into the plan, etc. This evaluation affects the determination of the grant date, the measurement approach, and the number of instruments recognised as per the Standard.

If the arrangement is, in substance, an ESOP (i.e., contains an option), the grant date fair value of the award is recognised as an employee compensation expense over the vesting period. By contrast, a true ESPP generally involves an immediate purchase of shares at a discount and does not give rise to compensation expense over a future vesting period. The accounting distinction is illustrated through the example below:

Example 1

An employee subscribes to fresh equity shares by paying a discounted price for a short window and the scheme does not require the employee to be in employment post this transaction. Further, there are no buy-back conditions or restrictions attached to the shares that are allocated to the employee. This would be considered as an ESPP and the discount provided to the employee is recognised as compensation cost when the employee subscribes to these shares.

Source: KPMG in India analysis, 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Classification of Employee stock options plan (ESOPs) vs Employee share purchase plans (ESPP) (contd.)

Example 2

In year 1, Company T grants a right to its employees to buy shares at a 20 per cent discount from its share price. This grant is made to 100 employees and 70 employees exercise them. If the substance of the offer is ESPP, then the grant date is when the employee accepts the offer and the recognition is based on the number of employees who accept the offer i.e., 70. Conversely, if the substance of offer is an option grant, then grant date is not dependent on explicit acceptance and the recognition is based on 100 employees to whom this option is extended and not on 70 employees on the date of grant.

Source: KPMG Share-based payments IFRS 2 handbook, October 2023 edition

Example 3

An employee subscribes to fresh equity shares by paying an amount that equals the fair value of the share on the grant date. The employee is required to remain in continuous employment for a specific period. If the employee leaves before the expiry of the specified term, then they are required to sell the share back at the lower of fair value or the amount paid.

In this instance, due to the conditions attached to the scheme, the employee can benefit from the increase in the share price only upon completion of the service conditions, i.e., continuous employment. Therefore, this scheme would be considered as an ESOP. However, in this case, it may be possible to say that the grant date fair value is nil, since the amount paid by the employee equals the fair value of the share on that date. Nevertheless, since this represents an ESOP, related disclosures under Ind AS 102 would be required to be made in the financial statements by the entity, including the description of the key terms, determination of fair value of the award.

Source: KPMG in India's analysis, 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Equity-settled vs cash-settled share-based Plans (SBPs)

Where an arrangement is determined to be an SBP, the next step is to identify the nature of the entity's settlement obligation. This determines whether the award is classified as equity-settled or cash-settled and, consequently, the applicable measurement requirements.

The classification of an SBP as either equity-settled or cash-settled is based on the nature of the entity's obligation to the counterparty. If the transaction is settled in equity instruments, then the transaction is classified as equity-settled. Equity-settled awards are measured once at grant date, with no subsequent remeasurement.

In contrast, cash-settled liabilities are remeasured to fair value every reporting date through the statement of profit and loss until settlement. Consequently, such arrangements may lead to volatility in reported earnings.

There are multiple classification related issues which may arise in practice. Questions may arise, for example, where an arrangement becomes cash-settleable upon the occurrence of an event outside the control of both the entity and the employee (contingently settled), or where buy-back clauses are embedded with redemption features in the arrangement. The following scenarios illustrate some of these classification considerations.

a) Buy-back clauses

Private equity investors may prefer shares to be held only by current employees, as they may not wish external parties or former employees to benefit from subsequent increases in the value of the entity. To implement this policy, they may include buy-back clauses in their SBP plans. Buy-back clauses can take different forms, such as mandatory redemptions and options exercisable by the employee, the employer or both. Such clauses are often triggered when an employee exits the entity or upon the occurrence of an exit event.

A buy-back feature does not, by itself, result in the award being considered as a cash-settled share-based payment. The classification of such SBP arrangements having buy-back features depends on the nature of the buy-back clause. The entity is required to determine whether it has a present obligation to settle the award in cash. If the entity has such a present obligation, then the transaction is accounted for as a cash-settled SBP; otherwise, it is accounted for as an equity-settled SBP.

In other words, where the employer has an option to buy-back shares, but the entity neither intends nor has a past practice of settling the arrangement in cash, and has the ability to settle it in equity, the arrangement would generally be considered as equity-settled SBP. Where these conditions are not met and the entity has a present obligation to settle in cash, the arrangement would be classified as cash-settled.

Example

Company X grants shares to its employees for a cash payment. The employees can require Y, a shareholder of Company X, to purchase the shares. Further, Company X has a call option over the shares but has no past practice or stated policy of exercising it.

In this case, the employees' put option does not create a cash-settlement obligation for Company X because the obligation to purchase the shares rests with Y, a shareholder of the Company X. Accordingly, from Company X's perspective, the existence of the put option does not, by itself, preclude equity-settled classification.

Source: KPMG in India's analysis, 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Equity-settled vs cash-settled SBPs (contd.)

b) Contingently cash settleable SBPs

In some cases, an award may become cash settleable upon the occurrence or non-occurrence of a specified event which may be outside the entity's control. This raises the question of whether such an award should be treated as equity-settled or cash-settled.

The Standard does not provide any specific guidance for awards whose settlement depends on the occurrence or non-occurrence of an event outside the entity's control. In determining the appropriate classification of such awards, one consideration may be applying the liability recognition principles in Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, including the probability of a cash outflow. The arrangement may be classified as either cash-settled or equity-settled depending on which settlement outcome is considered probable. This assessment may need to be revisited at each reporting date as facts and circumstances change. A change in the probability of the settlement outcome may therefore require reconsideration of the classification of the award.

For instance, an entity grants an award to its employees that will be settled in equity shares if an IPO occurs within five years of the grant date, provided the employees remain in service until the IPO date. If the IPO does not occur within the five-year period, then the award will be settled in cash.

At the end of year 1, if the entity determines that it is not considered probable that the IPO will occur within the defined period, then the award may be classified as cash-settled. Subsequently, if circumstances change and, at the end of year 2, an IPO before the end of year 5 is considered probable, the classification of the award may need to be reconsidered. In such circumstances, the award may be reclassified from cash-settled to equity-settled award. This would result in the reversal of the cash-settled liability through the statement of profit and loss. The cumulative expense for employee services received up to the date of reclassification would be recognised based on the requirements applicable to an equity-settled award using grant date fair value, with a corresponding credit to equity.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Vesting conditions linked to IPO

Classification determines how an award is accounted for and whether it is remeasured annually. The accounting also depends on the conditions that determine whether and when the employee becomes entitled to the award. This is particularly relevant where vesting is linked to an IPO or another exit event. Private equity transactions often involve a planned exit within 3-5 years of investment. Therefore, it is common for SBP arrangements to include a condition that an individual will only be unconditionally entitled to the award if an exit event such as an IPO occurs. An IPO condition affects SBPs in different ways depending on whether the employee is required to be in service when the exit occurs and if the exit is required to occur at a minimum price.

Where the plan requires the employee to be in employment when the IPO occurs, it will be considered as a service condition i.e., a vesting condition. However, if the employment condition does not exist, the IPO condition will be considered as a non-vesting condition. This assessment is relevant as it impacts the accounting treatment of the award. A non-

vesting condition is considered in the determination of the grant date fair value, whereas the effect of service condition is considered at the end of each reporting period to determine the number of options that will ultimately vest.

Where an IPO represents a non-market performance condition and the timing of the IPO may accelerate vesting, the arrangement may have a variable vesting period. For example, an award may vest on completion of a specified service period or earlier if an IPO occurs, while the employee remains in service. In such situations, the expected vesting period is based on the vesting alternative considered most likely to occur and is reassessed as expectations regarding the IPO change. If an earlier IPO becomes the most likely outcome, the expected vesting period is reduced, and the cumulative share-based payment expense is adjusted accordingly. If the most likely vesting alternative subsequently changes, then the accounting is updated to reflect the revised vesting path and subsequently the vesting period.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Shares funded by loans

Another feature commonly seen in employee SBPs is that employees may acquire shares in the entity using a loan provided by the entity itself. Although such an arrangement may legally take the form of a share purchase together with a loan, the accounting depends on the substance of the loan arrangement, particularly the entity's rights and intention to recover the amount advanced from the employee.

In order to determine the appropriate accounting treatment, one needs to consider whether the entity has a right to full recourse over the loan and if the entity will enforce that right. Indicators that may support the conclusion that a loan is full recourse include:

- The loan is reported by the entity to a credit agency in the same manner as commercial loans;
- The entity requests financial information from the employee to assess the employee's ability to repay the loan;
- The entity has an ongoing process for monitoring the collectability of the loan; and
- where relevant, the entity has a history of collection in full of other employee loans, such as housing loans.

Where a full recourse exists, the arrangement is accounted for as an issue of shares together with a loan receivable. This does not, however, preclude the arrangement from containing a share-based payment component, for example, where the shares are issued at a discount or the loan contains features such as interest being waived on achievement of a specified target. Similarly, a below-market interest rate may itself represent an employee benefit and, depending on whether the loan is integral to the share purchase arrangement, may fall within Ind AS 102 or be accounted for separately as an employee benefit.

Conversely, where the entity does not have full recourse, or has full recourse but would not enforce that right, the arrangement is accounted for as an in-substance option. In that case, the share issue and loan receivable are not recognised at inception. Until exercise of the options, the shares issued to employees are treated as treasury shares and the accounting for the share issue occurs when the employee settles the loan.

Conclusion

Equity-linked remuneration arrangements are becoming increasingly mature and complex. While these plans are often designed to align management incentives with shareholder value creation, their accounting analysis requires careful consideration of the underlying rights, obligations and economic substance of the arrangement rather than its legal form or commercial description. As these arrangements evolve, management should consider the accounting consequences alongside the commercial objectives at the design stage, rather than as a separate assessment once the terms have been finalised.

This makes a cohesive, cross-functional approach particularly important. Finance, legal, human resources, tax and valuation teams, together with relevant shareholders or investors, should have a common understanding of how the arrangement is intended to operate in practice. Terms relating to vesting, settlement alternatives, buy-backs, exit events, employee funding and recovery of loans can each influence the accounting outcome, and therefore should be considered collectively rather than in isolation. Early assessment and well-considered approach at the design stage can help align the commercial objectives of the arrangement with its accounting outcomes and support consistent and transparent financial reporting as these arrangements evolve.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

CHAPTER 3

Regulatory updates

ICAI issues SSA 5000 on sustainability assurance

The Institute of Chartered Accountants of India (ICAI) issued the Standard on Sustainability Assurance (SSA) 5000, *General Requirements for Sustainability Assurance Engagements*. SSA 5000 is aligned closely with the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements* issued by the International Auditing and Assurance Standards Board (IAASB), with certain carve-outs to facilitate its application in the Indian context.

SSA 5000 is applicable to all assurance engagements on sustainability information, irrespective of how such information is presented, and covers both reasonable and limited assurance engagements. The Framework for Sustainability Assurance Engagements notes that an assurance engagement may be either an attestation engagement or a direct engagement. SSA 5000 provides guidance in respect of only attestation engagements¹, and assurance on forward-looking statements is outside its purview. Some of the key aspects discussed in SSA 5000 relate to:

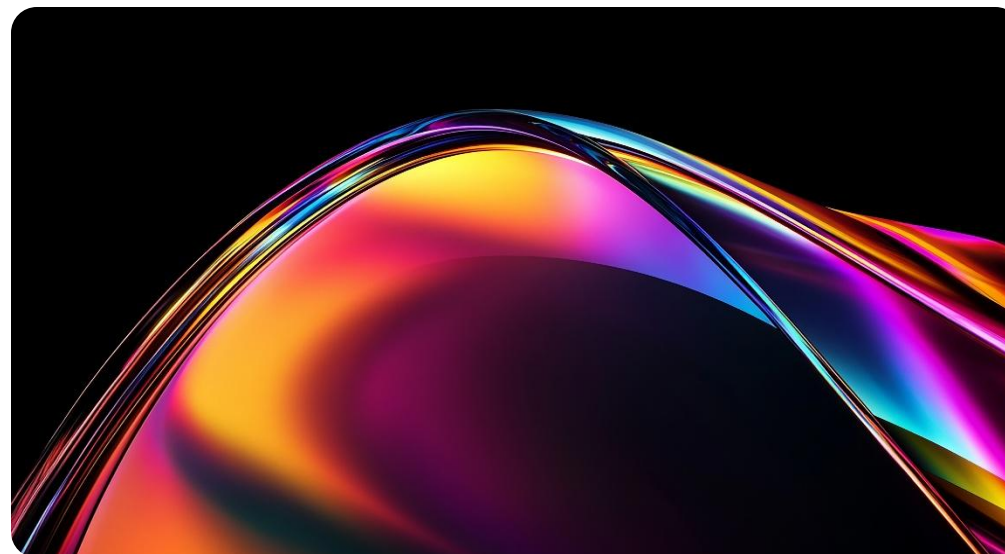
- **Assurance framework:** SSA 5000 provides an overarching framework, incorporating guidance on key elements of a sustainability assurance engagement, including acceptance and continuance, quality control and independence considerations, planning and materiality, risk assessment and evidence, internal controls, use of experts and other practitioners, evaluation of misstatements and assurance reporting.
- **Suitable reporting criteria:** Practitioners should evaluate whether the criteria, (i.e., the benchmarks used to measure or evaluate the sustainability matters) are relevant, complete, reliable, neutral and understandable. Where the reporting criteria require both financial and impact materiality in preparing the sustainability information, the practitioner should take into consideration both perspectives.
- **Assurance reporting:** SSA 5000 prescribes minimum elements of an assurance report and addresses reasonable, limited and combined assurance engagements, modified conclusions, other information and comparative information

¹. Attestation engagement is an assurance engagement in which a party other than the practitioner measures or evaluates the sustainability matters against the applicable criteria.

- **Carve-outs from ISSA 5000:** Some of the key carve-outs from ISSA 5000 include – excluding assurance on forward-looking statements, modifying certain requirements relating to component/other practitioners to align with SA 600, *Using the Work of Another Auditor*, and aligning references to quality management standards with the Indian framework.

SSA 5000 is effective for assurance engagements on sustainability information reported for periods beginning on or after 1 April 2027. Once effective, Standard on Sustainability Assurance Engagements (SSAE) 3000, *Assurance Engagements on Sustainability Information*, and Standard on Assurance Engagements (SAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*, would be withdrawn.

Source: ICAI announcement, 'ICAI issues SSA 5000 to align sustainability assurance with global standards', September 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

Auditor – Audit Committee Interaction Series 6 dealing with Going Concern Assessment

On 30 September 2026, the National Financial Reporting Authority (NFRA) released the *Auditor – Audit Committee - Interaction Series 6 dealing with Going Concern Assessment: SA 570 (Revised)*. The publication outlines key areas of engagement between auditors and audit committees in relation to going concern assessment, including the following:

- **Adequacy of management's assessment of going concern:** The publication emphasises the need for a comprehensive going concern assessment that covers the appropriate review period, reflects any changes in assessment methodology and considers all relevant events, conditions and developments, including those arising beyond the formal assessment period.
- **Quality and reliability of forecasts and assumptions:** The publication underscores the importance of cash flow forecasts supported by appropriate evidence, informed by management's historical forecasting accuracy, subjected to robust sensitivity analysis and based on realistic assumptions that adequately reflect downside risks.
- **Feasibility of management's mitigation plans:** NFRA highlights the importance of assessing the feasibility of management's mitigation plans, including the availability of supporting evidence and the likelihood of successful execution of proposed asset disposals, refinancing arrangements or capital infusions.
- **Liquidity, funding and financial resilience:** The publication discusses considerations relating to liquidity and funding resilience, including potential covenant breaches, funding dependencies

and the entity's ability to meet obligations as they fall due. Particular attention is drawn to situations where the going concern assessment relies on support from promoters, group entities or other stakeholders, including the enforceability of support arrangements and the financial capacity of supporting parties to fulfil their commitments.

- **Disclosures and reporting implications:** Consideration is also given to the reporting implications of going concern assessment, including whether material uncertainties exist, the sufficiency of related disclosures and any consequences for auditor reporting, including Key Audit Matters (KAMs). The guidance also distinguishes the auditor's responsibilities under SA 570 (Revised) from the reporting required under Clause 3(xix) of CARO 2020, noting that the two assessments may be based on different criteria and could, therefore, result in different conclusions.

The publication also sets out the distinct responsibilities of management, the Board, the Audit Committee and the statutory auditor and emphasises that the assessments are not intended to be discharged in parallel or by relying on the auditor. The document also contains potential questions that an auditor may expect from the audit committee.

Source: NFRA, 'Auditor – Audit Committee – Interaction Series 6 dealing with Going Concern Assessment: SA 570 (Revised)', dated 30 September 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3



SEBI Board Meeting dated 24 September 2026

The Securities and Exchange Board of India (SEBI), at its board meeting held on 24 September 2026, approved various regulatory proposals. Some of the key decisions include:

- **Listing of non-convertible debt securities:** SEBI approved the amendments to Regulation 62A² of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the LODR Regulations) to omit the requirement for first-time issuers of Non-Convertible Debt Securities (NCDs) to mandatorily list all outstanding unlisted NCDs.

In this regard, on 12 October 2026, SEBI issued the SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2026, giving effect to the aforementioned amendment. Accordingly, an entity whose NCDs are listed on or after 12 October 2026, being the date of publication of the amendments in the Official Gazette, is required to list all NCDs issued after the date of such listing. The earlier requirement to list outstanding unlisted NCDs has been omitted.

- **Regulatory framework for REITs and InvITs:** SEBI in its board meeting approved the amendments to the SEBI (Real Estate Investment Trusts) Regulations, 2014 (the SEBI REIT Regulations) and SEBI (Infrastructure Investment Trusts) Regulations, 2014 (the SEBI InvIT Regulations). The amendments, among other matters, seek to enable the issuance of Depository Receipts (DRs) on REIT and InvIT units and revise the unitholder approval and exit-offer requirements for promoting ease of doing business.

In relation to REITs, SEBI notified the SEBI (Real Estate Investment Trusts) (Second Amendment) Regulations, 2026 on 12 October 2026. The amendments, which came into effect on the same date, permit issuance of DRs on REIT units; revise specified 75 per cent unitholder approval thresholds to be determined based on **votes cast on the resolution** (instead of the value of units held by all unitholders), revise requirements relating to sponsor exit, and broaden the scope of common infrastructure covered within the definition of real estate.

- **Common advertisement code for Specified SEBI Regulated Entities:** SEBI approved a Common Advertisement Code (CAC) for regulated entities³, replacing the entity-specific advertisement frameworks prescribed under the respective SEBI regulations. The CAC permits celebrity endorsements for brand/entity-level promotion, subject to prior approval and prescribed safeguards, while dispensing with the mandatory prior approval for other advertisements, which would instead be required to be reported within three working days of issuance. Recognising the need to distinguish routine, factual and investor-service communications from promotional content, the CAC also provides an illustrative list of communications that will not be considered advertisements. Regulated entities have also been permitted to advertise ratings and rankings assigned by Past Risk and Return Verification Agency.

Source: SEBI Press Release, PR No.59/2026, 'Key decisions taken in the SEBI Board Meeting dated 24th September, 2026', dated 24 September 2026; SEBI Notification No. SEBI/LAD-DOP/2026/329, 'Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2026', dated 12 October 2026; and SEBI Notification No. SEBI/LAD-DOP/2026/328, 'Securities and Exchange Board of India (Real Estate Investment Trusts) (Second Amendment) Regulations, 2026', dated 12 October 2026

2. Listing of subsequent issuances of non-convertible debt securities

3. Regulated entities include stock brokers, depository participants, investment advisers, research analysts, online bond platform providers, portfolio managers and mutual funds/asset management companies.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

SEBI introduces Credit Risk-o-Meter for debt securities

The Securities and Exchange Board of India (SEBI), through a circular dated 7 October 2026 introduced 'Credit Risk-o-Meter' ('the meter') as an additional disclosure mechanism for debt securities. The meter maps existing credit ratings to six colour-coded risk levels, ranging from lowest credit risk to high to very high risk of default.

The requirements apply to listed and proposed-to-be-listed Non-Convertible Securities (NCS), commercial papers, securitised debt instruments, security receipts and structured debt/market linked debentures, whether issued through a public issue or private placement. In this regard, the key requirements include:

- **Disclosure requirements:** The meter should be presented in pictorial format in offer document, abridged prospectus, private placement memorandum, all advertisements of issuer/ Online Bond Platform Providers (OBPPs), as well as on the web and mobile platforms of OBPPs. Issuers/OBPPs should clearly indicate that it represents only the credit risk associated with the debt security.
- **Determination of credit risk:** The meter should be based on the lowest rating where a security is rated by multiple credit rating agencies. The underlying credit rating and rating agency should also be disclosed, with unsecured instruments specifically identified as such.
- **Disclaimers:** Issuers/OBPPs should incorporate a disclaimer to state that the meter represents credit risk only and does not constitute investment advice. For unsecured perpetual bonds, such as AT1 bonds, an additional disclaimer is required highlighting that the meter does not reflect their unique structural risks and that such instruments may carry the risk of total loss of invested capital.

The requirements would come into effect after 45 days from the date of issuance of the circular, i.e., 7 October 2026.

Source: SEBI Circular No. HO/17/11/22(1)2026-DDHS-POD1/ I/23092/2026, 'Introduction of Credit Risk-o-Meter as an additional disclosure mechanism for debt securities', dated 7 October 2026

SEBI issues revised master circular for debenture trustees

On 28 September 2026, SEBI issued a revised master circular for debenture trustees ('the master circular'), consolidating the extant circulars applicable to debenture trustees. The master circular replaces the 'Master Circular dated 13 August 2025' and incorporates subsequent amendments into a consolidated framework. The consolidated framework brings together guidance on key aspects, including due diligence for creation of security, security and covenant monitoring, security cover certification, disclosure requirements and regulatory reporting. It also incorporates requirements relating to statutory auditor certification of book values in quarterly security cover certificates, quarterly certification of compliance with financial covenants, etc.

The master circular also supersedes the following circulars issued between August 2025 and April 2026:

- Timeline for submission of information by issuers to Debenture Trustee(s) dated 25 November 2025;
- Modifications to Chapter IV of the Master Circular for Debenture Trustees dated 25 November 2025;
- Specification of the terms and conditions for Debenture Trustees for carrying out activities outside the purview of SEBI dated 25 November 2025; and
- Extension of timeline for compliance with the terms and conditions for carrying out activities outside the purview of SEBI dated 28 April 2026. It incorporates the terms and conditions for Debenture Trustees undertaking activities outside the purview of SEBI, issued on 25 November 2025.

Source: SEBI Master Circular No. HO/17/11/12(2)2026-DDHS-POD1// 22420/2026, 'Master Circular for Debenture Trustees', dated 28 September 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

RBI Directions on minimum capital requirements for market risk

The Reserve Bank of India (RBI), through a press release dated 21 September 2026, issued the Reserve Bank of India (Commercial Banks – Minimum Capital Requirements for Market Risk) Directions, 2026 ('the Market Risk Directions'), thereby aligning the market risk guidelines for commercial banks with the revised Basel III framework.

'Market risk' means the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices. In this regard, the Market Risk Directions set out a comprehensive framework for measuring and managing market risk, incorporating the following key aspects:

- **Segregation of banking book and trading book:** The Market Risk Directions provide detailed guidance on the boundary between trading book⁴ and banking book⁵, restrictions on reclassification of instruments between the books after initial designation and the treatment of internal risk transfers⁶. It is also specified that any reclassification of instruments resulting in lower capital requirements may trigger a Pillar 1 capital surcharge, in addition to the capital requirements of the book in which instruments have been reclassified.
- **Scope of market risk and measurement:** Banks are required to maintain capital charge at both standalone and consolidated basis for interest rate risk and equity risk arising from trading book positions, and foreign exchange risk (including gold and precious metals) arising from both trading and banking book positions. Irrespective of the reporting frequency, capital requirements are required to be met by the bank on a continuous basis at the close of each business day.
- **Structural foreign exchange positions:** The framework permits banks to exclude certain structural foreign currency investments, such as investments in overseas subsidiaries, branches, joint ventures and associates, from the net open position

calculation, on both standalone and consolidated basis, subject to the specified conditions.

- **Simplified Standardised Approach (SSA):** Market risk capital requirements are computed using a Simplified Standardised Approach (SSA) under which risk-weighted assets are determined by multiplying the aggregate capital requirement by a factor of 12.5. The capital requirement arising from the SSA is the simple sum of the capital requirements arising from each of the three risk classes – namely interest rate (IR) risk, equity (EQ) risk, and foreign exchange (FX) risk. Separate, detailed methodologies are prescribed for determining IR (specific as well as general market risk), EQ and FX risks.
- **Enhanced Pillar 3 disclosures:** The Market Risk Directions specify that banks must provide quantitative and qualitative disclosures on market risk management, governance, internal risk transfer activities and market risk capital requirements under the Basel III Pillar 3 framework.

The Market Risk Directions would come into effect from 1 April 2027. Upon their implementation, Section D (except sub-section D.8) of Chapter IV of the RBI (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025, which prescribes the capital charge requirements for market risk, would stand repealed.

Source: RBI Press Release 2026-2027/1158, RBI issues Directions on Minimum Capital Requirements for Market Risk under Basel III for Commercial Banks, and RBI/DOR/2026-27/472 DOR.MRG.REC.227/21-01-002/2026-27, Reserve Bank of India (Commercial Banks - Minimum Capital Requirements for Market Risk) Directions, 2026, both dated 21 September 2026.

4. Trading book, for the purpose of capital adequacy, includes all instruments that are classified as 'Held for Trading' (HFT) as per the Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025.

5. Instruments classified under Held-to-Maturity (HTM), Available for Sale (AFS), Fair Value Through Profit and Loss (FVTPL) (non-HFT), investments in own subsidiaries, joint ventures and associates are included in the banking book.

6. Banks may refer paragraph 109 of the Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025, for the accounting of internal risk transfers.



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

RBI amends valuation requirements for InvIT and REIT units

RBI, through the RBI (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Third Amendment Directions, 2026 dated 22 September 2026, amended the RBI (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Directions, 2025 ('the Directions') to provide greater clarity and uniformity in the valuation of investments in Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs). The amendments insert paragraphs 84A and 84B in Chapter – IX of the Directions, relating to fair valuation of investments and specify that:

- Quoted securities issued by InvITs and REITs, including their units, should be valued in accordance with the existing requirements applicable to quoted securities.
- Unquoted InvIT and REIT units should be valued at the Net Asset Value (NAV) disclosed by the respective trust. In cases where NAV is not computed and disclosed in accordance with the manner and frequency prescribed under the applicable SEBI Regulations, or where the units are classified as infrequently traded, they should be valued at INR1 for the purposes of the Directions.
- Other unquoted instruments issued by InvITs and REITs should continue to be valued using the methodology prescribed for the respective instruments under the Directions.

The amendments came into effect from the date of issue, i.e., 22 September 2026.

Source: RBI Notification RBI/2026-27/264 DOR.MRG.REC.No.228/00-00-001/2026-27, 'Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Third Amendment Directions, 2026', dated 22 September 2026

RBI shortens export realisation timelines under FEMA

The RBI issued the Foreign Exchange Management (Export and Import of Goods and Services) (Amendment) Regulations, 2026, thereby shortening the export realisation timelines under Foreign Exchange Management (Export and Import of Goods and Services) Regulations, 2026 (Notification No. FEMA 23(R)/2026-RB dated 13 January 2026). Key amendments are as follows:

- In regulation 5(1) (a) and (b), export realisation timeline has been reduced to nine months (previously 15 months).
- In the first proviso to the above regulation, in case of export of goods and services which is invoiced or/and settled in Indian Rupees, the realisation timeline has been reduced to 12 months (previously 18 months).
- Authorised Dealers are now empowered to handle specified export, import and merchanting trade transactions undertaken before 1 October 2026 that previously required RBI approval.

The amendments have come into effect from 1 October 2026.

Source: RBI Notification No. FEMA 23(R)/(1)/2026-RB, 'Foreign Exchange Management (Export and Import of Goods and Services) (Amendment) Regulations, 2026', dated 22 September 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

RBI simplifies approval process for subsequent acquisition of major shareholding in banks

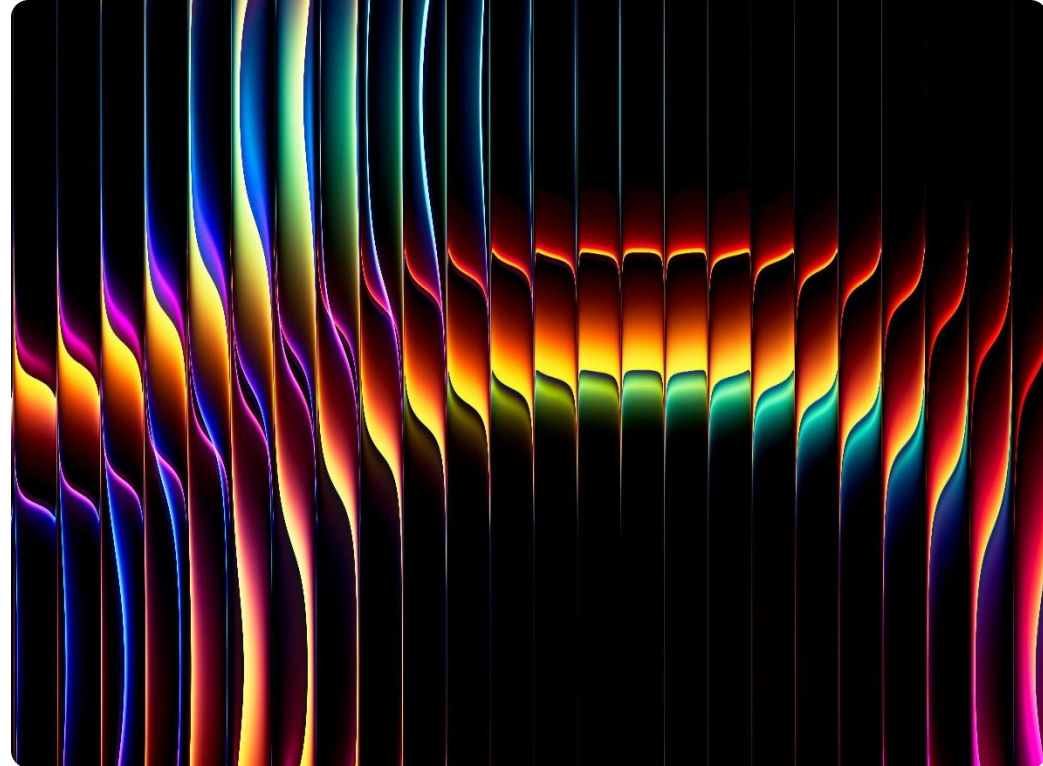
On 1 October 2026, RBI issued the RBI (Commercial Banks – Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026, thereby simplifying the approval framework for subsequent acquisitions of major shareholding in banking companies by mutual funds, insurance companies and pension funds.

As per the framework, acquisition of 5 per cent or more of the paid-up share capital or voting rights of a banking company constitutes a major shareholding, requiring prior RBI approval. While prior approval would continue to be required for the initial acquisition, qualifying investors may obtain a one-time approval for subsequent acquisitions of up to 10 per cent of the bank's paid-up share capital or voting rights. 'Qualifying investors' means a person which is a mutual fund registered with the Securities and Exchange Board of India, or a pension fund registered with the Pension Fund Regulatory and Development Authority, or an insurance company registered with the Insurance Regulatory and Development Authority of India; and the person does not belong to the promoter group or group of the investee banking company.

The investors would be required to inform the RBI and the concerned bank within three working days, wherein their aggregate shareholding subsequently moves above or below the 5 per cent threshold.

The amendments have come into effect from 1 October 2026.

Source: RBI Press Release 2026-2027/1233 and RBI Notification No. RBI/2026-27/275 DOR.HOL.REC.No.235/ 16.13.100/2026-27 'Reserve Bank of India (Commercial Banks – Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026', dated 1 October 2026

[Editorial](#)[ToC](#)[Chapter 1](#)[Chapter 2](#)[Chapter 3](#)

RBI issues credit valuation adjustment framework for commercial banks

On 7 October 2026, RBI issued the RBI (Commercial Banks – Credit Valuation Adjustment Framework) Directions, 2026 (the CVA Directions), introducing a revised framework for computing the regulatory capital requirement for Credit Valuation Adjustment (CVA) risk on derivative exposures.

CVA risk is the risk of losses arising from change in CVA values in response to changes in counterparty credit spreads and market risk factors that drive prices of derivative transactions and Security Financing Transactions (SFTs). In this regard, some of the key aspects discussed in the CVA Directions include:

- **Scope:** Banks are required to compute capital requirements for CVA risk on a standalone basis for covered derivative transactions in the banking and trading books, including eligible transactions of domestic operations and overseas branches. Broadly, covered transactions include derivatives, subject to specified exclusions, including derivatives transacted directly with qualifying central counterparties. SFTs are excluded from the CVA capital-charge calculation.
- **CVA capital requirement:** Banks would ordinarily apply the Basic Approach for CVA (BA-CVA). The framework provides for a reduced version that does not recognise CVA

hedges and a full version that recognises eligible hedges. The framework also provides more risk-sensitive supervisory weights, based on counterparty sector and credit quality.

- **Alternate treatment:** A bank whose aggregate notional amount of non-centrally cleared derivatives is INR10 lakh crore or less, on a consolidated group-wide basis at the reporting date, can opt for an alternate treatment. Under this approach, its CVA capital requirement equals 100 per cent of its counterparty credit risk capital requirement, and CVA hedges cannot be recognised. RBI may, however, disallow this treatment where CVA risk materially contributes to the bank's overall risk.
- **Capital adequacy and disclosures:** CVA risk-weighted assets would be determined by applying a factor of 12.5 to the CVA capital charge. Banks would also be required to make related Pillar 3 disclosures on their CVA risk and capital requirements.

The CVA Directions would come into effect from 1 April 2027.

Source: RBI Notification RBI/DOR/2026-27/474 DOR.MRG.REC.No.246/00-00-001/2026-27, 'Reserve Bank of India (Commercial Banks – Credit Valuation Adjustment Framework) Directions, 2026', dated 7 October 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

IRDAI issues consultation paper on recalibrating economics of insurance distribution

The Insurance Regulatory and Development Authority of India (IRDAI) issued a two-part public consultation paper titled *Recalibrating Economics of Insurance Distribution*, proposing a comprehensive overhaul of the framework governing insurance distribution, its structure, expenses, commissions, market conduct and transparency. Part 1 discusses the proposed reforms and Part 2 provides the supporting distribution-cost and commission analysis. Some of the key proposals discussed in Part 1 of the consultation paper include:

- **Simplification of distribution architecture:** The existing distributor categories are proposed to be consolidated into three categories, based broadly on the legal structure: Insurance Distribution Entities (IDEs), Insurance Distribution Persons (IDPs) and Market Infrastructure Institutions for Insurance (MIIs). The framework seeks to align the scope of business, obligations and regulatory requirements for distributors with similar structures, while making a clearer distinction between open and closed distribution architecture.
- **Commission framework:** Product and channel-specific commission caps are proposed in the consultation paper, based on factors such as product complexity, distribution effort and distribution architecture. Commission is proposed to be defined on an all-inclusive basis, covering all monetary and non-monetary distributor rewards and payments.
- **Expenses of Management (EoM):** The consultation paper proposes progressively lower EoM limits over a five-year glide path, along with revised computation requirements, including Gross Direct Premium Income (GDPI)-based computation for general insurers and not allow netting of reinsurance commission against expenses.
- **Cost audit, governance and disclosures:** An annual cost audit is proposed for all insurers and IDEs with insurance commission income exceeding INR100 crore. In

addition, IDEs with insurance-related revenue exceeding INR50 crore should publicly disclose specified accounting information, including revenue, expenses, related-party payments and profit after tax. The consultation paper also proposes board-level certification by insurers and corresponding certification by distributors regarding compliance with the prescribed commission limits.

- **Market conduct and mis-selling:** The proposals strengthen safeguards against mis-selling through restrictions on compulsory bundling and sales-linked incentives, suitability assessments for specified insurance sales, seller-level accountability and commission claw back for mis-selling.

The comment period for the consultation paper ended on 25 October 2026.

Source: IRDAI Public Consultation Paper 'Recalibrating Economics of Insurance Distribution' (Parts 1 and 2), dated 23 September 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

BSE revises financial results filing requirements for insurers and reinsurers

Pursuant to the IRDAI circular dated 8 July 2026⁷, the IRDAI (Actuarial, Finance and Investment Functions of Insurers) (Amendment) Regulations, 2026, and the SEBI Master Circular dated 30 January 2026⁸, the formats for publishing unaudited/audited quarterly financial results were revised for life insurers, general insurers, health insurers and reinsurers. Accordingly, the Bombay Stock Exchange (BSE), through a notice dated 14 October 2026, has made available the Integrated Filing Financials – Insurance Ind AS Excel/XBRL utility on the BSE Listing Centre for preparation and submission of financial results in the revised format.

Listed insurers that have been granted forbearance from Ind AS implementation for FY2026-27 and continue to prepare financial statements under Schedule II of the IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024, would continue to publish their financial results under the existing formats prescribed by the IRDAI.

Source: BSE, BSE Notice No. 20261014-25, 'Update in the formats for publishing financial results as required under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and Filing of Financial Results in XBRL Mode by all Insurers and Reinsurers', dated 14 October 2026

CBDT amends TDS rules for purchase of immovable property from non-residents

The Central Board of Direct Taxes (CBDT), vide a notification dated 22 September 2026 issued the Income-tax (Fifth Amendment) Rules, 2026, thereby amending the Income-tax Rules, 2026 effective 1 October 2026.

The amendments extend the Tax Deducted at Source (TDS) compliance framework to resident individuals/Hindu Undivided Families (HUFs) acquiring immovable property from non-residents and revise Forms 132 (TDS certificate) and 141 (challan-cum-statement of TDS) to capture relevant transaction, seller and TDS details.

As per the amendments introduced, details of the non-resident seller, including overseas contact and address details, tax residency certificate and tax identification details, as applicable, are required to be furnished. Each deductor is required to file a separate form where there are multiple deductors.

Source: Gazette of India, Extraordinary, Part II, Section 3(i), G.S.R. 830(E), 'Income-tax (Fifth Amendment) Rules, 2026', dated 22 September 2026



7. Circular no. IRDAI/F&I/CIR/MISC/92/7/2026 dated 8 July 2026

8. SEBI Master Circular no. HO/49/14/14(7)2025-CFD-POD2/1/3762/2026 dated 30 January 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

IASB finalises amendments to IAS 28

The International Accounting Standards Board (IASB), at its September 2026 meeting, concluded technical deliberations on the Equity Method accounting project, which approved revisions to IAS 28, *Investments in Associates and Joint Ventures*. The revised standard is intended to address application questions and reduce diversity in practice, including in relation to:

- Initial measurement of the cost of an investment in an associate or joint venture.
- Accounting for changes in an investor's ownership interest in an associate or joint venture while retaining significant influence or joint control.
- Transactions with associates and joint ventures.
- Improved disclosures to help users of financial statements assess the effect of an investor's interest in associates and joint ventures.

The revised standard is expected to be issued in the first half of 2027 and would be effective for annual reporting periods beginning on or after 1 January 2029, with early application permitted.

Source: IFRS.org, 'IASB Update – September 2026' and 'IASB decision: September 2026 meeting'



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

IESBA issues 2026 handbook and implementation guidance on sustainability assurance

The International Ethics Standards Board for Accountants (IESBA) issued the 2026 Handbook of the International Code of Ethics for Professional Accountants on 24 September 2026, which replaces the 2025 edition. The new handbook incorporates the International Ethics Standards for Sustainability Assurance (IESSA), other sustainability-related revisions to the IESBA Code and new requirements relating to the use of external experts. The sustainability assurance provisions are generally effective from 15 December 2026, with certain independence requirements relating to value-chain components effective from 1 July 2028.

Additionally, on 29 September 2026, IESBA also issued the Staff Questions & Answers - International Ethics Standards for Sustainability Assurance (IESSA) (Q&As) to support its implementation. The Q&As focus on three key areas: effective date and transition provisions, rotation of sustainability assurance engagement leaders and non-assurance services.

The Q&As supplement earlier implementation guidance issued in June 2025 and form part of IESBA's ongoing monitoring of IESSA implementation.

Source: IESBA, 'Now Available: 2026 IESBA Handbook, including the Sustainability Standards', dated 24 September 2026 and 'IESBA Staff Questions & Answers – International Ethics Standards for Sustainability Assurance (IESSA)', dated 29 September 2026



Editorial

ToC

Chapter 1

Chapter 2

Chapter 3

First Notes

MCA issues amendments to Ind AS



On 12 August 2026, the MCA notified the Companies (Indian Accounting Standards) Amendment Rules, 2026 (Ind AS Amendment Rules 2026) to bring them into closer alignment with corresponding amendments issued by the International Accounting Standards Board (IASB) to the International Financial Reporting Standards (IFRS). These amendments respond to practical application challenges identified through the IASB's post-implementation review of the classification and measurement requirements, along with growing global use of ESG-linked lending, electronic payment systems, and nature dependent electricity contracts. The four key amendments are:

- Financial instruments with contingent features (Amendments in Ind AS 109 and Ind AS 107)
- Settlement through electronic payments (Amendments in Ind AS 109)
- Nature dependent electricity contracts (Amendments in Ind AS 109 and Ind AS 107)
- Annual improvements to Ind AS (Amendments in Ind AS 101, Ind AS 109, Ind AS 107, Ind AS 110, Ind AS 7)

All the amendments are applicable for annual reporting periods beginning on or after 1 April 2026.

This issue of First Notes aims to provide an overview of the key amendments to Ind AS notified by the MCA.

To access the First Notes, please click [here](#)

Illustrative Ind AS consolidated financial statements for the year ended 31 March 2026



Ind AS involves the application of several new and complex concepts, which require a significant level of judgement and estimation, accompanied by detailed qualitative and quantitative disclosures.

This publication is intended to help preparers in the preparation and presentation of consolidated financial statements in accordance with Indian Accounting Standards (Ind AS) and Division II of Schedule III to the Companies Act, 2013 by illustrating a format for

consolidated financial statements for a hypothetical multinational company involved in general business. This company ('Classic Company (India) Limited') issues its financial statements under Ind AS.

To access the publication, please click [here](#)



Voices on Reporting – Webinar

On 5 October 2026, KPMG in India hosted a webinar covering important regulatory updates, including recent amendments to Indian Accounting Standards (Ind AS), recent updates from Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Reserve Bank of India (RBI) and other updates during the quarter.

To access the publication, please click [here](#)

Follow us on:

kpmg.com/in/socialmedia



Previous editions are available to download from:

kpmg.com/in

Feedback/queries can be sent to

aaupdate@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

© 2026 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is for e-communication only. (NEWS_1026_SM)



Introducing



'Askquestion'

write to us at

aaupdate@kpmg.com