

CHAPTER 3

# Regulatory updates



## REITs reclassified as equity related instruments

The Securities and Exchange Board of India (SEBI) through notification<sup>1</sup> issued on 31 October 2025 issued amendments to SEBI (Mutual Funds) Regulations, 1996 wherein it reclassified REITs as equity related instruments in order to facilitate enhanced participation by Mutual Funds and Specialised Investment Funds (SIFs) in Real Estate Investment Trusts (REITs). To give effect to the above, SEBI has now issued a circular on 28 November 2025 with the following provisions:

- **Reclassification:** Effective 1 January 2026, investments by Mutual Funds and SIFs in REITs will be treated as equity-related instruments. However, Infrastructure Investment Trusts (InvITs) will continue to be classified as hybrid instruments.
- **Grandfathering of existing investments:** Existing investments in REITs held by debt schemes of mutual funds and investment strategies of SIF as of 31 December 2025, will be grandfathered. Asset Management Companies (AMCs) are encouraged to gradually divest REITs from portfolios of debt schemes considering market conditions and investor interests.
- **Market capitalisation classification:** Association of Mutual Funds in India (AMFI) will update its scrip classification list to include REITs based on market capitalisation.
- **Scheme documentation:** AMCs should issue addendums to reflect these changes in the scheme documents which will not be considered a fundamental attribute change.
- **Index inclusion:** REITs can be included in equity indices only after 1 July 2026, allowing a six-month transition period.

(Source: SEBI Circular HO/24/13/12(1)2025-IMD-POD-2//157/2025 'Subject: Reclassification of Real Estate Investment Trusts (REITs) as equity related instruments for facilitating enhanced participation by Mutual Funds and Specialised Investment Funds (SIFs)', dated 28 November 2025)

1. Gazette notification no. SEBI/LAD-NRO/GN/2025/272 dated 31 October 2025

## SEBI amends the share-based employee benefits and sweat equity regulations

SEBI has issued the SEBI (Share Based Employee Benefits and Sweat Equity) (Second Amendment) Regulations, 2025 to amend the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations (SBEB and SE Regulations), 2021. Following are the key amendments:

- **Definition of valuer:** The term valuer will now align with Section 247 of the Companies Act, 2013.
- **Valuation responsibility:** Valuations previously mandated to be done by a merchant banker will now be required to be done by an independent registered valuer. Merchant bankers handling ongoing valuation assignments before the amendment becomes effective must complete them within nine months of the new regulations coming into force.

The amendment is effective from 2 January 2026 (thirtieth day from the date of publication in the Official Gazette).

(Source: SEBI Notification F. No. SEBI/LAD-NRO/GN/2025/284, Securities And Exchange Board Of India (Share Based Employee Benefits And Sweat Equity) (Second Amendment) Regulations, 2025, dated 3 December 2025)



## SEBI amends the substantial acquisition of shares and takeovers regulations

SEBI has issued the SEBI (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2025 which would come into force on 2 January 2026. These amendment regulations introduce the following key amendments to the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011:

- **Definition of valuer:** A new clause introduces the term 'valuer', which will have the same meaning as under Section 247 of the Companies Act, 2013.
- **Independent valuation:** In cases where shares are infrequently traded, valuation will now be carried out by an independent registered valuer, replacing the earlier requirement for the acquirer and the manager to the open offer to determine the price. Similar changes apply to other valuation-related provisions under Regulations 8 and 9. Ongoing valuation assignments undertaken by merchant bankers or chartered accountants before the amendment must be completed within nine months from the effective date.

(Source: SEBI Notification F.No. SEBI/LAD-NRO/GN/2025/283, Securities And Exchange Board Of India (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2025, dated 3 December 2025)



## Extension of timelines under the FEMA (Export of Goods and Services) Regulations

The Reserve Bank of India (RBI) issued the Foreign Exchange Management (Export of Goods and Services) (Second Amendment) Regulations, 2025 (Second amendment regulations) on 13 November 2025 to amend the Foreign Exchange Management (Export of Goods and Services) Regulations, 2015 (2015 Regulations). The amendments introduce changes to timelines for realisation of export proceeds and advance payment obligations. Following are the key amendments:

- **Regulation 9 - time period for realisation of export proceeds:** Under the 2015 Regulations, export proceeds (from the export of goods, software, or services) were required to be realised and repatriated to India within nine months from the date of export. The Second Amendment Regulations have extended this timeline to fifteen months. Further, the RBI retains the power to grant additional extensions for a reasonable cause. This amendment also applies to exports made by units in Special Economic Zones (SEZs), Status Holder exporters, Export Oriented Units (EOUs), and units in Electronics Hardware Technology Parks (EHTPs), Software Technology Parks (STPs), and Bio-Technology Parks (BTPs), as defined in the prevailing Foreign Trade Policy.
- **Regulation 15 - advance payment against exports:** As per 2015 Regulations, shipment of goods against advance payments had to be completed within one year from receipt of advance. This period has now been extended to three years from receipt of advance.

The amendments are applicable from 13 November 2025.

(Source: RBI, Foreign Exchange Department, Notification No. FEMA 23(R)/(7)/2025-RB. 'Foreign Exchange Management (Export of Goods and Services) (Second Amendment) Regulations, 2025', dated 13 November 2025)





SEBI updates

RBI Updates

Other updates

International updates

## MCA revises the definition of a small company

The Ministry of Corporate Affairs (MCA) notified the Companies (Specification of definition details) Amendment Rules, 2025, wherein it has revised the definition of a small company under Section 2(85) of the Companies Act, 2013. Under the revised criteria, a company will qualify as a small company if:

- its paid-up share capital does not exceed INR10 crore (increased from previous limit of INR4 crore) and
- its turnover does not exceed INR100 crore (increased from previous limit of INR40 crore)

This amendment is effective from 1 December 2025 and aims to broaden the scope of companies eligible for simplified compliance requirements and promote ease of doing business for greater number of entities.

(Source: MCA, Notification G.S.R. 880(E), dated 1 December 2025)



## NFRA issues circular for maintenance, archival and submission of audit files

The National Financial Reporting Authority (NFRA), pursuant to Rule 3 of the NFRA Rules, 2018, is vested with the authority to monitor and enforce compliance with accounting and auditing standards, oversee the quality of services rendered, and conduct investigations into statutory auditors of Public Interest Entities (PIEs). In exercise of these powers, NFRA requires such audit firms to submit audit files as an evidence of work performed in relation to specific audit engagements.

However, NFRA observed deficiencies in the certain audit files submitted, particularly with respect to the requirements for maintenance and submission of audit documentation as prescribed under the Standards on Auditing (SAs) and Standard on Quality Control (SQC 1).

In this regard, on 16 December 2025, NFRA issued a circular to reiterate the following requirements to ensure integrity of audit files is maintained.

- a) Requirements of professional standards:** SAs and SQC 1 provide guidance on the definition of an audit file and its evidentiary values. Accordingly, audit firms are required to design policies, procedures and controls ensuring completeness, timely archival, and control around authorised access to archived files.
- b) Components and attributes of an audit file:** As per SA 230, *Audit Documentation*, an audit file comprises of audit documentation for a specific engagement. The objective of maintaining audit documentation is to provide (a) sufficient and appropriate record of the basis of the auditor's report and (b) evidence that the audit was planned and performed in accordance with the SAs and applicable legal and regulatory requirements.

Therefore, mandatory audit documentation is required, in accordance with SA 230, of the nature and extent of the audit procedures, the audit evidence obtained, significant professional judgements, and the discussion of the important matters with the management, those charged with governance, and others.

**c) Timely completion, archival, and retention** As per the requirements specified in the SAs read with SQC 1, an auditor is required to assemble an audit file not more than 60 days after the date of the auditor's report. Further, the auditor is also required to mandatorily retain the audit documentation for a period not shorter than seven years from the date of the auditor's report or, if later, the date of the group auditor's report. In case of retention of original paper documentation, SQC 1, lays down the requirements for converting such original paper documentation into electronic files.

SQC 1 also states that the engagement documentation is the property of the audit firm and thus, the audit firm must establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of the engagement documentation. It also provides caution if the documentation is subsequently compromised.

**d) Observed delays in submission of audit files to NFRA, beyond reasonable time:** Despite the abovementioned requirements for timely and contemporaneous completion and archiving of audit documentation, NFRA has observed that some auditors seek unreasonable extension of time for submitting audit files. In certain instances, these extensions have been used to convert physical files to electronic formats or vice versa, and even to prepare fresh or additional documentation after the prescribed timeline for assembly and archival, solely for submission to NFRA.

**e) Instances of loss of data and loss of integrity of audit files:** NFRA has noted that converting audit files between file format such as - printing electronic documents and scanning them into unsearchable PDFs, or altering original documentation, can compromise the integrity and authenticity of audit evidence. Such practices not only violate requirements in the SAs and SQC 1, but also obscure original content and evidence of work done by the auditors. It results in loss of embedded documents, formulae and links to establish the basis for values and relationships between data, loss of interactive elements of spreadsheets which is crucial for understanding the context and interpretation of data.

Such format conversions from original electronic form to paper form, leads to loss of metadata (timestamps, authorship, edits, history of changes) which affects the authenticity and integrity of data.

**f) Retention of audit files:** Audit files constitute essential audit evidence, however, NFRA has observed that, some auditors take recourse of the seven-year retention period under SQC 1 as the maximum limit, even when audit matters remain under regulatory review or litigation. Preservation of audit evidence is not just the requirement of SAs and SQC 1, rather, any document or electronic record that may be required in legal or regulatory proceedings must be retained and protected from alteration or destruction. Accordingly, where any court or authority initiates proceedings, audit files must be preserved beyond the standard retention timelines until the matter is fully concluded.

**g) Points for compliance for auditors:**

- Adequate policy, procedures and controls for maintaining, archiving, and retaining audit files should be established in line with professional standards and all relevant Indian laws, including Information Technology Acts/Rules/ Regulations.
- Final audit files must be assembled and archived within 60 days of the auditor's report, as per SA 230 and SQC 1. Accordingly, audit firms should be able to provide these audit files to NFRA within a short notice.
- The retention period of audit files shall not ordinarily be less than seven years from the date of the auditor's report, the policy must also include retention beyond the seven-year period in certain circumstances such as enquiry/actions by oversight/ investigative agencies.

- Audit evidence that is originally obtained or prepared in electronic form must be preserved and maintained in that same form, unless conversion to another format can be done without any loss of evidentiary value. If audit files are requisitioned by NFRA, they must continue to be retained even if the standard retention period of seven years expires before the completion of NFRA proceedings.
- Original audit documentation that has been subjected to some format conversion before sending to NFRA or when printing some electronic form of workpapers (e.g., Excel worksheets) for inclusion in audit files maintained in paper form, do not meet SA and SQC 1 requirements and cannot be considered valid audit evidence.
- Audit files requisitioned by NFRA must be submitted in full and in the prescribed format within seven days of receipt NFRA's communication. If an extension is needed, audit firms must request it within seven days of receipt of NFRA's communication and provide:
  - i. Explanation and evidence of exceptional circumstances.
  - ii. Total number of pages of the audit files or paper documents that form part of the audit file and/or size of electronic files.
  - iii. Index/log of documents in the audit file.
  - iv. Advance copies of documents in the audit file- audit strategy, audit plan, risk assessment summary, summary of corrected and uncorrected misstatements, copies of all communications audit committee or board must be submitted along with the extension request.

(Source: [NFRA circular no. NF-22/52/2025-NFRA dated 16 December 2025](#))

## New Insurance Act receives President's assent

The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Bill, 2025 was tabled in the Lok Sabha on 16 December 2025 and it received the President's assent on 20 December 2025. The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 is effective from 21 December 2025 (the Act). The Act aims to revise key provisions of the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, and the Insurance Regulatory and Development Authority Act, 1999. Key aspects of the Act:

- **FDI in insurance companies:** The Act increased the foreign direct investment limit in Indian insurance companies from 74 per cent to 100 per cent of their paid-up equity capital, allowing complete foreign ownership. However, it mandates that at least one of the top executives, the chairman, managing director, chief executive officer must be an Indian.
- **Insurance intermediaries:** The definition of intermediaries is broadened to include managing general agents and insurance repositories, expanding the scope of regulated entities.
- **Share transfer approval:** Under the erstwhile law, IRDAI approval is required for share transfers exceeding 1 per cent of paid-up capital. The Act raises this threshold to 5 per cent, simplifying compliance for insurers.
- **Application to SEZs and IFSCs:** The Central Government's powers to modify provisions for insurers in Special Economic Zones (SEZs) are extended to International Financial Services Centres (IFSC) within SEZs. These powers will also apply to insurance intermediaries operating in these zones.
- **Enhanced powers of IRDAI:** Insurance Regulatory and Development Authority of India (IRDAI) will have the authority to approve schemes of arrangement between insurers and non-insurance companies, supersede an insurer's Board and appoint an administrator if policyholder interests are at risk, and regulate remuneration, commissions, and rewards for agents and intermediaries. Its powers of inspection and investigation will also extend to intermediaries.

## Patents (Amendment) Rules, 2025

The Ministry of Commerce and Industry has notified the Patents (Amendment) Rules, 2025 (Amendment rules) with effect from 25 November 2025, introducing significant changes to the Patents Rules, 2003 (the Rules). These amendments aim to streamline adjudication of penalties and appeals under the Patents Act, 1970. They provide clarity on enforcement and appeal processes, reducing ambiguity and improving efficiency.

Adjudication of penalties and appeals was not formally structured under the Rules, and hence, a new chapter XIV-A titled *Adjudication of Penalties and Appeals* has been inserted, providing a detailed mechanism for handling contraventions. Key aspects introduced are as follows:

- **Adjudicating authority:** There was no specific provision for an adjudicating officer under the Rules. Hence, the Amendment rules now define 'adjudicating officer' and 'Appellate Authority' with clear roles and responsibilities.
- **Filing of complaints:** The Rules did not prescribe any electronic process or standard forms for filing of complaints, the Amendment rules now provide complaints for contraventions under Sections 120, 122, and 123 to be filed electronically in Form 32.
- **Inquiry process:** The Amendment rules provide specific timelines for issue of notice, completion of inquiry and for orders to be uploaded on official website.
- **Appeals:** The Amendment rules provide structure, form and timelines for filing appeals against adjudicating officer's orders and for appellate authority to conclude proceedings.
- **Communication, timelines and penalty orders:** The erstwhile rules primarily relied on physical communication. The amended rules now require communication exclusively through electronic means, require all orders to be digitally signed and uploaded online, and stipulate that penalty amounts be credited to the Consolidated Fund of India.

(Source: Ministry of Commerce and Industry, (Department for Promotion of Industry and Internal Trade), Notification G.S.R. 865(E), dated 25 November 2025)

- **Policyholders' Education and Protection Fund:** The Act provides for the creation of a Policyholders' Education and Protection Fund, administered by IRDAI, to safeguard and educate policyholders. The Fund will be financed through government grants, IRDAI penalties, and other specified sources.

(Source: The Gazette of India, CG-DL-E-21122025-268698, Ministry of Law and Justice (Legislative Department), The Sabka Bima Sabki Raksha (Amendment of Insurance Laws) Act, 2025 dated 21 December 2025)



## Sustainability assurance illustrative reports for ISSA 5000 implementation

The International Auditing and Assurance Standards Board (IAASB) has released a set of illustrative practitioner's assurance reports designed to aid the implementation of International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. Developed in collaboration with jurisdictional standard setters, these examples provide practical guidance for applying ISSA 5000 in real-world scenarios. While ISSA 5000 includes four baseline illustrative reports, this new publication includes more specific examples, covering:

- **Five example reports with unmodified conclusions**, addressing common engagement types:
  - Assurance on sustainability disclosures aligned with IFRS S1 and S2 (both limited and reasonable assurance)
  - Assurance on selected disclosures in an entity's sustainability reports
  - Assurance on sustainability disclosures prepared under multiple reporting frameworks
  - Assurance engagements combining limited and reasonable assurance engagements.
- **Three example reports with modified conclusions**, illustrating:
  - Qualified conclusion
  - Disclaimer of conclusion
  - Adverse conclusion.

These examples reflect emerging questions and challenges faced by practitioners and regulators, bringing ISSA 5000 to a practical level and promoting consistent application. This initiative forms part of IAASB's broader efforts to support global adoption of sustainability assurance standards.

(Source: [IAASB.org>>publications>> ISSA 5000 Supplemental guidance, Sustainability Assurance Illustrative Reports](https://iaasb.org/publications/ISSA-5000-Supplemental-guidance-Sustainability-Assurance-Illustrative-Reports), dated 24 November 2025)

## Targeted amendments to IFRS S2

The International Sustainability Standards Board (ISSB) has issued targeted amendments to Greenhouse Gas (GHG) emissions disclosure requirements in IFRS S2 *Climate-related Disclosures*. These changes respond to practical challenges identified as companies began implementing the standard and aim to provide relief and clarifications that make application easier while maintaining the quality of investor-focused information.

The amendments, developed following stakeholders' consultation, are designed to minimise disruption for jurisdictions currently adopting or using ISSB Standards. The revised requirements apply to reporting periods beginning on or after 1 January 2027, with early application permitted. The amendments:

- clarify that an entity is permitted to restrict measurement and disclosure of Scope 3 Category 15 GHG emissions to financed emissions as defined in IFRS S2
- allow the use of alternative classification systems - beyond the Global Industry Classification Standard – for disaggregating information related to financed emissions
- clarify the availability of the jurisdictional relief from using the GHG Protocol Standard, if only part of an entity is required to use a different method for measuring GHG emissions and
- introduce jurisdictional relief from using global warming potential values from the latest Intergovernmental Panel of Climate Change (IPCC) Assessment Report for converting GHG emissions.

(Source: [IFRS.org>>news and events>>ISSB issues targeted amendments to IFRS S2 to support implementation](https://www.ifrs.org/news-and-events/ISSB-issues-targeted-amendments-to-IFRS-S2-to-support-implementation), dated 11 December 2025)

SEBI updates

RBI Updates

Other updates

International  
updates

## IFRS for SME's – supporting material

The International Accounting Standards Board (IASB) had issued the third edition of the IFRS for Small and Medium-sized Entities (SMEs) Accounting Standard in February 2025. It is a streamlined standard designed specifically for SMEs, which represent over 95 per cent of companies globally. The standard offers a simplified alternative to full IFRS accounting standards, reducing complexity while maintaining high-quality financial reporting. On 28 November 2025, the IASB, through the IFRS Foundation, released a suite of supporting materials for the newly issued third edition of the IFRS for SMEs Accounting Standard.

These materials include:

- Module overviews for each section of the Standard (requirements, guidance, examples, comparisons with full IFRS).
- Practical tools like webcasts, podcasts, and knowledge checks.
- Educational resources to help SMEs and stakeholders implement the updated Standard effectively

(Source: [IFRS.org>>2025 IFRS for SMEs supporting materials](https://www.ifrs.org/updates/2025-11-28-ifrs-for-smes-supporting-materials))





SEBI updates

RBI Updates

Other updates

International updates

## FASB issues ASU on hedge accounting

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) 2025-09, *Derivatives and Hedging (Topic 815): Hedge Accounting Improvements*, to clarify and enhance hedge accounting guidance and address issues arising from global reference rate reform. The update aims to better align hedge accounting with the economics of risk management strategies, reduce complexity, and improve operability for entities applying hedge accounting. The key amendments introduced are in following areas:

- a) **Similar risk assessment for cash flow hedges:** The ASU broadens the range of hedged risks that can be aggregated across individual forecasted transactions, allowing entities to apply hedge accounting to more diverse portfolios
- b) **Hedging forecasted interest payments on choose-your-rate debt:** Introduces an optional model for hedging variable-rate debt instruments that permit borrowers to change interest rate indexes and tenors.
- c) **Cash flow hedges of nonfinancial forecasted transactions:** The ASU expands hedge accounting eligibility for forecasted purchases and sales of nonfinancial assets, subject to specific criteria.
- d) **Net written options as hedging instruments:** Eliminates the requirement to apply the net written option test in certain cases.
- e) **Foreign-currency-denominated debt as hedging instrument and hedged item (dual hedge):** The ASU eliminates recognition and presentation mismatches in dual hedge strategies, where a foreign-currency-denominated debt instrument serves as both the hedging instrument in a net investment hedge and the hedged item in a fair value hedge of interest rate risk.

For public business entities, the guidance is effective for fiscal years beginning after 15 December 2026, including interim periods within those years. For all other entities, it becomes effective for fiscal years beginning after 15 December 2027, including interim periods within those years. Early adoption is permitted for all entities. The ASU also includes the transition approach.

(Source: [FASB.org](https://www.fasb.org)>> ASU No. 2025-09, *Derivatives and Hedging (Topic 815) – Hedge Accounting Improvements*, dated November 2025)

## FASB issues new standard on accounting for government grants

The FASB released Accounting Standards Update (ASU) 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities*. This ASU introduces authoritative guidance in U.S. GAAP for the recognition, measurement, and presentation of government grants received by business entities - an area previously lacking specific standards. This ASU applies to business entities (excluding not-for-profits and employee benefit plans) receiving government grant.

The amendments in the ASU include:

- Definition and scope of government grants
- Establishing recognition criteria
- Disclosure requirements covering the nature of grants, applied accounting policies, and key terms and conditions.

The amendments are effective for public business entities for fiscal years beginning after 15 December 2028, including interim periods within those years. For all other entities, the guidance becomes effective for fiscal years beginning on or after 15 December 2029 and interim reporting periods within those annual reporting periods. Early adoption is permitted for all entities. The ASU also includes the transition provisions.

(Source: [FASB.org](https://www.fasb.org)>> ASU No. 2025-10, *Government grants (Topic 832) –Accounting for government grants received by business entities*, dated December 2025)