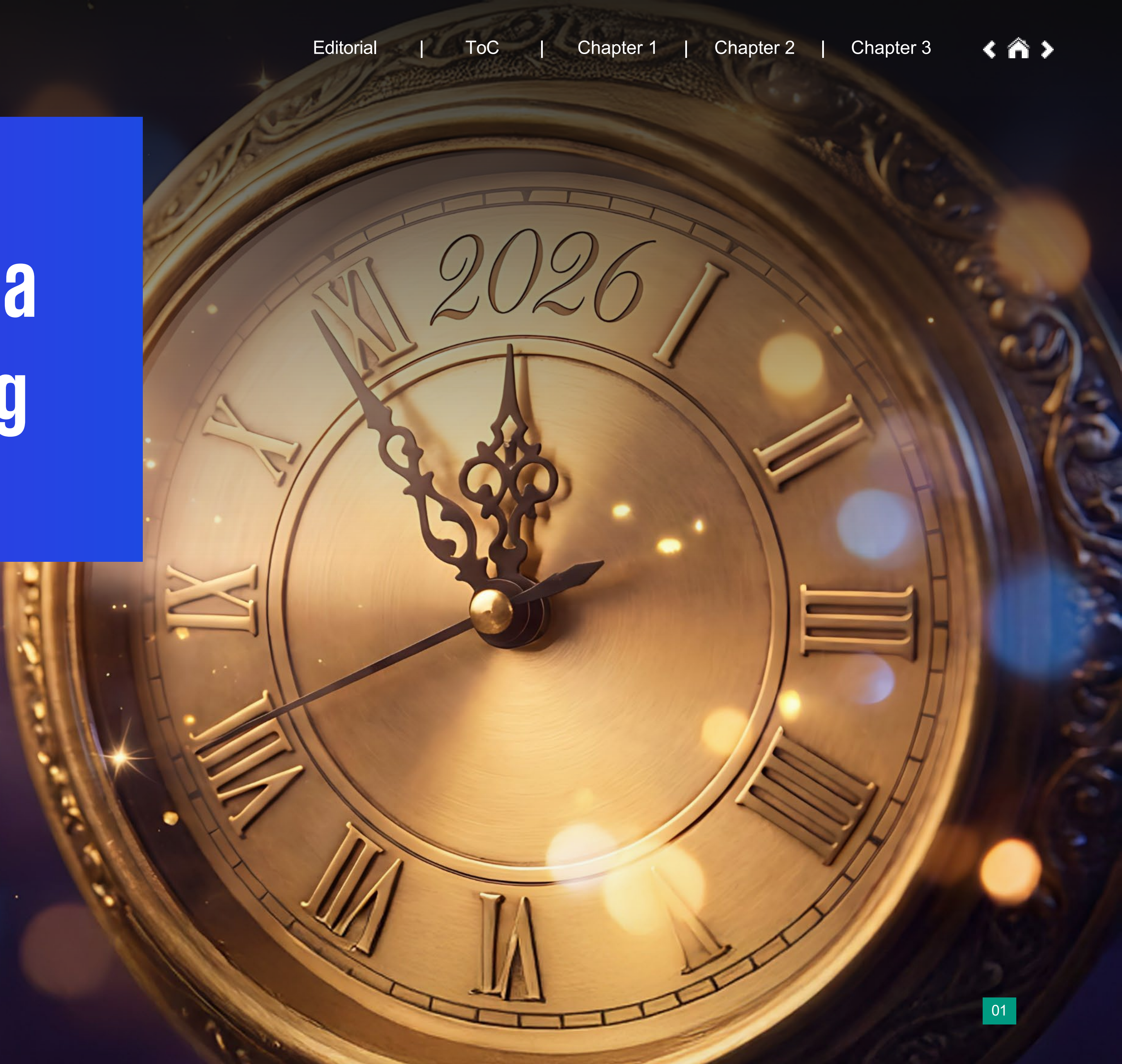
CHAPTER 1

GHG emission targets : navigating a new phase of emission accounting



Introduction

As India accelerates its transition towards a low-carbon economy, sustainability has emerged as a key strategic priority for corporate India. Central to this transition are government-mandated targets and responsibilities that entities must integrate into their broader sustainability strategies. These responsibilities are underpinned by India's commitment to achieve net-zero emissions by 2070[1], supported by intermediate climate goals for 2030 and an expanding regulatory framework, including sector-specific emission-intensity targets.

Over the years, the Government has introduced several schemes that set measurable targets and compliance requirements to support this goal. These schemes typically prescribe specific targets for entities to achieve, along with defined compliance mechanisms, and in certain cases also specify the consequences where entities fail to meet the prescribed targets. As a result, climate commitments are no longer purely aspirational but are increasingly supported by government-mandated targets and responsibilities.

Beyond achieving these targets, entities are also required to consider the obligations that may arise if such targets are not met, and how these obligations are measured and accounted for in their financial statements. Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the accounting framework for recognising and measuring such obligations. Applying this standard requires significant judgement, particularly in determining when an obligating event arises and estimating the best measure of settlement. Transparent accounting and comprehensive disclosures of climate-related risks are critical to ensure comparability, maintain investor confidence and align Indian financial reporting with global sustainability standards. As organisations navigate this evolving regulatory environment, strong governance mechanisms and effective internal controls will be critical.

This article focusses on the Greenhouse Gas (GHG) Emission Intensity Target Rules, 2025, issued in October 2025, and examines how emission-related obligations interact with the provisions' framework under Ind AS 37, with particular emphasis on the recognition of provisions.

1. Source: Press release by Ministry of Science & Technology dated 28 September 2023 (Press Information Bureau Delhi)

GHG Emission Intensity Target Rules, 2025

On 8 October 2025, the Ministry of Environment, Forest and Climate Change (MoEFCC) notified the Greenhouse Gas (GHG) Emission Intensity Target Rules, 2025 (the GHG 2025 Rules) under the Energy Conservation Act, 2001 and the Carbon Credit Trading Scheme, 2023. These GHG Rules introduce binding emission intensity targets for designated entities across key industrial sectors, enable carbon credit trading and enforce compliance through penalties, effective from Financial Year (FY) 2025 - 26.

The key requirements of the GHG 2025 Rules are as follows:

- **Sectors covered:** Targets apply to designated entities operating in sectors such as aluminium, cement, and paper and pulp, with annual performance tracking.
- **Emission intensity targets**: Emission reduction requirements are expressed as emission intensity targets, defined in terms of carbon dioxide (CO_2) per unit of output, with progressive reductions over FY 2025 - 26 and FY 2026 - 27.

GHG Emission Intensity Target Rules, 2025 (contd.)

- **Compliance obligations:** To meet their compliance obligations entities must register on the Indian carbon market portal, submit required documentation, and meet annual targets.
- **Carbon credit issuance:** Entities that outperform the prescribed targets are eligible to receive carbon credits, while those that fall short must either purchase additional credits from the market or utilise banked credits from earlier periods to bridge the gap.
- **Environmental compensation:** Non-compliance may attract penalties equal to twice the average market price of carbon credits. The proceeds from such penalties are intended to support the development and strengthening of the carbon market.
- **Targets:** The Schedule to the rules includes industry-wise list of designated entities, baseline (FY 2023 - 24) emission intensity, and targets for FY 2025 - 26 and FY 2026 - 27.

On 13 January 2026, the MoEFCC notified the Greenhouse Gases Emission Intensity Target (Amendment) Rules (GHG Amendment Rules) supplementing the Greenhouse Gases Emission Intensity Target Rules, 2025 issued in October 2025. The GHG Amendment Rules introduce a new schedule extending the framework to four additional sectors - secondary aluminium, petroleum refineries, petrochemical units (gas and/or naphtha crackers), and the textile sector(with specific sub-categories covering spinning, processing, fibre, and composite units).

Collectively, the GHG 2025 Rules and the GHG Amendment Rules (together, the GHG Rules) establish a mandatory compliance regime for designated entities, transforming greenhouse gas emission intensity targets from voluntary goals into legally binding targets.

Accounting considerations

Against this backdrop, it becomes critical to assess how these regulatory obligations translate into financial reporting and accounting requirements. This section examines the relevant considerations under Ind AS in respect of recognition of provisions. Ind AS 37 sets out the principles governing the recognition and measurement of provisions and contingent liabilities. In accordance with this standard, a provision is recognised only when all of the following conditions are met:

A. There is a **present obligation** (legal or constructive) arising from a past event.

B. It is **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation.

C. A **reliable estimate** of the amount can be made.

In the above context, a key area of judgement is determining what is the present obligation. As per Ind AS 37, a past event that gives rise to a present obligation is referred to as an **obligating event**. Hence, importantly, Ind AS 37 emphasises that only obligations resulting from past events - existing independently of an entity's future actions - are recognised as provisions. If an entity can avoid the expenditure through future actions (e.g., by changing its operations), no present obligation exists, and no provision is recognised.

Further, International Financial Reporting Interpretations Committee (IFRIC) interpretations[1] regarding legal or constructive obligations in the context of climate-related commitments discussed that **enactment of a law or publication of a policy alone does not create a present obligation.** The obligation arises only when the event to which the law or policy applies has occurred. For example, a company with a published policy to clean contaminated land incurs an obligation only when contamination actually happens – hence, while publishing the policy is necessary, that alone is not sufficient. Understanding these principles is critical but applying them in real-world scenarios often requires judgement.

To illustrate how Ind AS 37 operates in practice in context of the GHG Rules, a case study on the next page is considered. This case study demonstrates when an obligation arises and how it impacts financial reporting.

2. IFRIC Update – March 2024: IAS 37 – Recognition of Obligations under Mandatory Emissions Schemes

Case study

- Company A is a manufacturing company in India. The GHG Rules are applicable to Company A for the financial year ending 31 March 2026.
- These GHG Rules require the company to progressively reduce its CO_2 emissions over a multi-year period.
- Compliance is monitored annually, with each financial year (April - March) treated as a separate compliance period. Under the GHG Rules, companies are assigned an **annual emission threshold**. If actual emissions exceed this threshold, then the company must purchase carbon credits to cover the excess emissions.
- For the first year, the threshold is 21 tonnes of CO_2.
- Timeline of events:
  - 31 December 2025: The company has emitted 15 tonnes of CO_2
  - 30 January 2026: Emissions reach 22 tonnes of CO_2

Analysis:

- On 31 December 2025, Company A has emitted 15 tonnes of CO_2, well below the annual threshold. At this point, there is **no present obligation** because the threshold has not been breached.
- On 30 January 2026, Company A has emitted 22 tonnes of CO_2, exceeding the allowable threshold.

It is pertinent to note that since the threshold is **absolute**, meaning once exceeded, the company has **no realistic alternative** but to settle the obligation by purchasing and surrendering carbon credits. This event creates a legal obligation under the legislation. Thus, Company A will be required to assess whether the other recognition criteria under Ind AS 37 are met:

- Is an outflow of resources probable?
- Can the amount be estimated reliably?

If both conditions are satisfied, the company will be required to recognise a provision in its financial statements as on 30 January 2026.

Thus, under the GHG Rules, typically an obligating event occurs when the entity exceeds the defined threshold during the compliance period. Prior to that point, even though the regulatory framework may already be in force, no present obligation exists. This is because the company retains the ability to avoid the associated cost by managing or reducing its emissions and remaining within the applicable limits.

Other considerations

While this article focusses on the determination of present obligation or obligating event related to emission obligations, entities must also consider broader complexities. An integral feature of a provision is that it stems from a past event i.e., an obligating event that leaves the entity with **no realistic alternative** but to settle the obligation. Therefore, determining an obligating event under a mandatory emissions scheme is inherently judgemental and requires timely assessment. As this is an evolving area, entities must remain abreast of developments and evaluate obligations early to avoid unexpected outcomes. In this regard, companies should inter-alia carefully assess the following:

- whether the activity is linked to the target or threshold
- whether the target is absolute or cumulative and
- what is the compliance period and settlement mechanism

While the GHG Rules prescribe mandatory emission-intensity targets, in other jurisdictions entities may also be subject to voluntary targets adopted by companies as part of their broader climate or sustainability strategies. The distinction between mandatory vs voluntary targets is essential because mandatory frameworks create enforceable legal obligations, generally enabling clearer identification, recognition, and measurement of liabilities. In contrast, voluntary commitments require an assessment of constructive obligations, stakeholders' expectations, and the credibility of public declarations, all of which involve significant judgement. In both cases, emission-related commitments can affect financial statements. Key considerations for companies include the nature of the obligation (mandatory vs voluntary), the event that triggers recognition, the timing of liability recognition, the appropriate measurement and remeasurement basis, and the interaction with any associated assets. Additional complexities also include disclosure implications arising from emission targets and carbon credits.

Transparent reporting under Ind AS 37 is essential. Entities are required to disclose the nature of provisions, expected cash outflows, timing, and associated uncertainties or contingencies. Proactive evaluation and robust disclosures not only ensure compliance but also enhance stakeholders' confidence.

The International Accounting Standards Board (IASB) has proposed amendments to IAS37, which serves as the equivalent standard to Ind AS 37 in India, to strengthen recognition and measurement guidance for provisions. These changes reflect the evolving business environment and the increasing complexity of transactions, particularly those related to climate commitments and threshold-based obligations. One key amendment aims to refine recognition principles for provisions. Entities should closely monitor these global developments and their adoption in India, as they could significantly reshape how provisions are recognised and measured. Importantly, assessments will need to be revisited once these amendments become effective, given their potential impact on accounting for emissions-related obligations.