CHAPTER 1

Accounting for environmental obligations in India

This article discusses accounting implications of environment compliance frameworks in India.

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Introduction

Environmental regulations in India are undergoing a marked transformation, evolving from a compliance-oriented framework into a system of enforceable obligations with direct financial consequences. This shift is most visible in the proliferation of Extended Producer Responsibility (EPR) regimes and emission-related schemes, both of which impose measurable and, in many cases, unavoidable costs on regulated entities. For corporates, these obligations are no longer peripheral; they increasingly influence financial position, performance, and disclosures.

India, in particular, has witnessed a sharp and sustained acceleration in the enactment and enforcement of both categories of obligation. EPR regimes span multiple waste streams, ranging from plastic packaging and e-waste to batteries and vehicles, while emission-related mechanisms regulate energy consumption, greenhouse gas intensity, and fuel efficiency across key industrial sectors. These frameworks extend compliance obligations not only to energy-consuming and emissions-intensive industries, but also more broadly to waste-generating entities across diverse sectors, irrespective of the nature of waste generated.

At the core of these frameworks lies the 'polluter pays' principle, under which entities that introduce products into the market or generate emissions are required to bear the costs of managing their environmental impact. In practice, this translates into legally mandated requirements to collect waste, meet recycling or efficiency targets, or address any non-compliance through environmental compensation mechanisms.

As a result, these obligations interact directly with the accounting framework under Indian Accounting Standard (Ind AS) 37, *Provisions, Contingent Liabilities and Contingent Assets*, particularly in determining whether a present obligation exists, when it arises, and how it should be measured.

This evolution of environmental regulations is also reflected globally, where EPR regimes have expanded rapidly. The European Union (EU) emerged as one of the earliest large-scale adopters of a modern EPR model through the Waste Electrical and Electronic Equipment (WEEE) Directive, the Packaging and Packaging Waste Regulation (PPWR), the Batteries Regulation, and the End-of-Life Vehicles Directive. In parallel, emissions-related mechanisms such as the EU Emissions Trading System (EU ETS), the United Kingdom Carbon Budget framework, and an increasing number of national carbon markets have introduced financial obligations for energy-intensive industries based on their emissions performance.

This article discusses:

- key environmental compliance frameworks in India, including EPR regimes across notified waste streams and key emission-related schemes;
- the current accounting treatment under Ind AS 37, read with relevant Appendix C on levies[1], with a focus on the timing of recognition of obligations; and
- the potential implications of the International Accounting Standards Board's (IASB) proposed amendments to International Accounting Standard (IAS) 37, *Provisions, Contingent Liabilities and Contingent Assets* (the international equivalent of Ind AS 37), including the withdrawal of IFRIC 21, if applied or adopted in India, for the recognition and measurement of EPR and emission-related liabilities.

1. Appendix C which is an integral part of Ind AS 37 is based on International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*.

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Overview of environmental compliance obligations in India

India's environmental compliance architecture comprises a combination of product lifecycle obligations and performance-based emission mechanisms. The table below summarises the principal schemes[2], outlining the nature of the obligation, basis of applicability (i.e., the underlying regulated activity such as placing products in the market, emission targets, etc.), the applicability of Environmental Compensation (EC) for non-compliance and indicative sectors impacted:

Regulatory framework	Description of basis of applicability	Imposition of EC for non-compliance	Potential sectors impacted[3]													
			Plastic products – industrial	Fast Moving Consumer Goods (FMCG)	Consumer electronics	Telecom	Other electrical equipment	Computers hardware and equipment	Household appliances	Automotive*	Industrial products	Realty	Petrochemicals	Refineries and marketing	Power and utility	Cement
Plastic Waste Management Rules, 2016 and amendments thereof[4]	Plastic packaging sold or introduced into the market	Yes														
E-Waste / Electrical and Electronic Equipment (E-Waste Management Rules, 2022[5])	Electrical and electronic equipment placed in the market	Yes														
Battery waste (Battery Waste Management Rules, 2022 and amendments thereof[6])	Quantity of batteries placed in the market	Yes														

* (including auto components and equipment, tyres and rubber products)

2. This list does not constitute an exhaustive overview of all applicable environmental regulations in India and entities may be subject to additional environmental obligations beyond those discussed, including schemes outside the EPR and emission frameworks. Entities should perform an independent assessment of the regulations applicable and monitor them on a continuous basis.
3. The sectoral mapping presented above is indicative and intended to highlight key sectors that may be impacted based on the underlying activities covered under the respective regulatory frameworks. The list is not exhaustive, and additional sectors may be impacted depending on entity-specific operations.
4. Plastic Waste Management (Amendment) Rules, 2022 dated 16 February 2022
5. E-Waste (Management) Rules, 2022 dated 2 November 2022
6. Battery Waste Management Rules, 2022 dated 22 August 2022 and Battery Waste Management (Amendment) Rules, 2023 dated 25 October 2023

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Overview of environmental compliance obligations in India (*contd.*)

Regulatory framework	Description of basis of applicability	Imposition of EC for non-compliance	Potential sectors impacted[3]													
			Plastic products – industrial	FMCG	Consumer electronics	Telecom	Other electrical equipment	Computers hardware and equipment	Household appliances	Automotive	Industrial products	Realty	Petrochemicals	Refineries and marketing	Power and utility	Cement
End-of-Life vehicles (ELV) (Environment Protection (End-of-Life Vehicles) Rules, 2025[7])	Steel content in ELVs	Yes								■						
Tyres (Hazardous and Other Wastes Rules, 2016 and amendments thereof[8])	Manufacture, sale or import of tyres	Yes								■						
Used Oil (Hazardous and Other Wastes Rules, 2016 and amendments thereof[9])	Sale or import of base/lubrication oil	Yes											■	■		
Non-ferrous metals - aluminium, copper, zinc or their alloys (Hazardous and Other Wastes (Management and Transboundary Movement) Rules, 2016 and amendments thereof[10])	Manufacture of non-ferrous metal products	Yes		■	■	■	■	■	■	■	■	■				

7. Environment Protection (End-of-Life Vehicles) Rules, 2025 dated 6 January 2025
8. Hazardous and Other Wastes (Management and Transboundary Movement) Amendment Rules, 2022 dated 21 July 2022
9. Hazardous and Other Wastes (Management and Transboundary Movement) Second Amendment Rules, 2023 dated 18 September 2023
10. Hazardous and Other Wastes (Management and Transboundary Movement) Amendment Rules, 2025 dated 1 July 2025

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Overview of environmental compliance obligations in India (*contd.*)

Regulatory framework	Description of basis of applicability	Imposition of EC for non-compliance	Potential sectors impacted[3]														
			Plastic products – industrial	FMCG	Consumer electronics	Telecom	Other electrical equipment	Computers hardware and equipment	Household appliances	Automotive	Industrial products	Realty	Petrochemicals	Refineries and marketing	Power and utility	Cement
Construction and demolition (C&D) waste (Environment (Construction and Demolition) Waste Management) Rules, 2025[11])	Generation of C&D waste	Yes										■				
Greenhouse Gases Emission Intensity (GHG EI) Target Rules, 2025 and amendments thereof[12]	GHG emission-intensity targets	Yes												■	■	■
Perform, Achieve and Trade (PAT) Scheme[13]	Specific energy consumption targets	Yes											■	■	■	■
Corporate Average Fuel Efficiency (CAFE) Norms (Energy Conservation (Amendment) Act, 2022[14])	Fuel efficiency targets	Yes								■						

11. Environment (Construction and Demolition) Waste Management Rules, 2025 dated 2 April 2025
12. Greenhouse Gases Emission Intensity Target Rules, 2025 dated 8 October 2025 read with Greenhouse Gases Emission Intensity Target (Amendment) Rules, 2025 dated 16 January 2026
13. Energy Conservation (Amendment) Act 2022 read with Energy Conservation (Energy Consumption Norms and Standards for Designated Consumers, Form, Time within which, and Manner of Preparation and Implementation of Scheme, Procedure for Issue of Energy Savings Certificate and Value of Per Metric Ton of Oil Equivalent of Energy Consumed) Rules, 2012
14. Energy Conservation (Amendment) Act, 2022 read with Notification S.O. 1072(E) by Ministry of Power dated 23 April 2015

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Overview of environmental compliance obligations in India (*contd.*)

A review of these schemes highlights several structural features that are critical from an accounting perspective. Under the EPR schemes, the compliance obligations are generally determined based upon products manufactured or placed in the market, sales made, or waste generated in earlier periods. The resulting compliance responsibility arises in a subsequent year, creating a time lag between the activity that gives rise to the obligation and the period in which it is assessed.

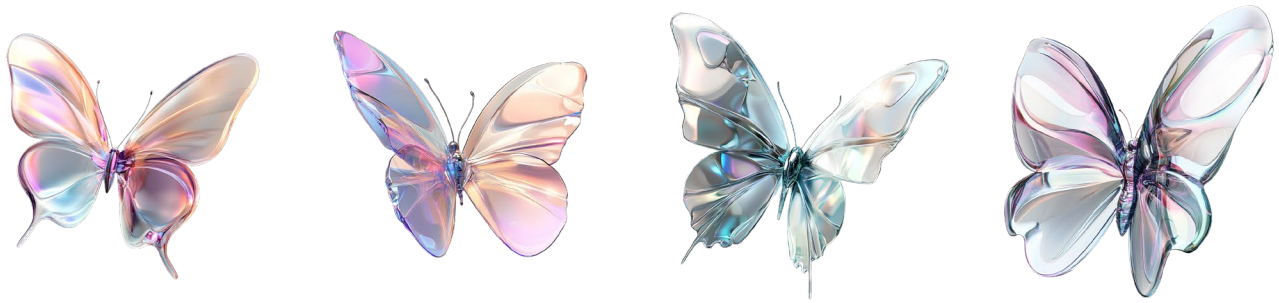
In contrast, emission-related schemes operate differently, with obligations accruing progressively over the compliance period (the regulatory compliance period over which emissions are measured against specified thresholds) based on cumulative production or sales activity and becoming fully quantifiable only at the end of the compliance period, or once the prescribed threshold is breached, at which point the entity has no practical alternative but to settle the obligation.

The key accounting challenge in relation to EPR and emission obligations is whether such obligations should be analysed solely under the general 'provisions' recognition principles provided in Ind AS 37 or classified as 'levies' within the scope of Appendix C to Ind AS 37. The subsequent section discusses the accounting implications of EPR obligations and emissions-related obligations.

Accounting considerations for EPR obligations

India's EPR framework covers multiple categories of waste, and imposes obligations on producers, importers, and brand owners. Each scheme, as outlined in the table on the next page, determines annual targets by reference to a base year, based on past production or market activity.

Certain product categories may be subject to overlapping regulatory frameworks, such that more than one EPR obligation can apply to the same entity, for example, vehicles, batteries, tyres, and used oil under their respective EPR regulations, thereby increasing the complexity of assessment and nature of compliance for entities. Further, there are certain regulations where companies are required to discharge EPR even after operations cease, adding another layer of complexity to the recognition and measurement of such obligations.



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Accounting considerations for EPR obligations (*contd.*)

The table below provides an overview of the key EPR categories in India, including the basis for determining compliance targets and the presence of cessation clause under the applicable regulations. A cessation clause refers to a provision under which a producer[15], even after discontinuing its operations, remains responsible for meeting its EPR obligations for products that were already placed in the market till the closure of operations, in accordance with the relevant rules.

EPR category	Requirements of the scheme	Is there a cessation clause in the relevant Rule?
Plastic packaging	• Producers, importers, and brand-owners (PIBOs) must collect and recycle plastic packaging waste equal to annual targets set by Central Pollution Control Board (CPCB). • Targets are expressed as a percentage of plastic packaging sold (for producers), plastic packaging imported and sold (for importers) and plastic packaging introduced in the market (for brand owners) in previous financial years. • PIBOs shall obtain certificate from Plastic waste processors (PWP) according to quantity of plastic waste processed by PWPs and use such certificates to meet their EPR targets.	No
E-Waste (EEE)	• Producers of Electrical and Electronic Equipment (EEE) must collect and recycle certain percentage of EEE placed in the market in year Y−X (where Y = the relevant year of compliance and X = average product life) through a registered recycler of e-waste. • New entrants have different targets with Y−2 sales as base. • The producer shall fulfil their EPR through online purchase of EPR certificate from registered recyclers.	No, However, as per Rule 17 of the E-Waste (Management) Rules, 2022 read with Schedule V, the local bodies (urban and rural) are responsible for ensuring that e-waste pertaining to orphan products is collected and channelized to registered recyclers or refurbishers.
Battery waste	Producers of all battery types must collect and recycle and/or refurbish a prescribed proportion of batteries made available in the market. The annual targets are based on average life of the battery.	Yes, Rule 6A of Battery Waste Management Rules, 2022 (issued vide Battery Waste Management (Amendment) Rules, 2023 dated 25 October 2023) provides that in case the producer stops its operations, the Producer shall have to discharge its EPR obligation in respect of Batteries already made available in the market till closure of operations.
Tyres	• Manufacturer and/or seller of new tyres, imported new/waste tyres, importers of vehicles fitted with new tyres, is responsible for ensuring environmentally sound management of waste tyres. • EPR Targets are based on manufacture/import of new tyres in year Y−2, where Y is current year. • For waste tyre importer, the EPR obligation is based on 100 per cent of the tyre imported in Y-1, where Y is current year. • The producer shall fulfil their EPR obligation through online purchase of EPR certificate from registered recyclers only	No

15. It is important to note that, for the purposes of EPR frameworks, the term 'producer' extends beyond manufacturers and generally includes importers, brand owners and others that introduce products or packaging into the market, thereby expanding the scope of entities on which compliance obligations are imposed.

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Accounting considerations for EPR obligations (*contd.*)

EPR category	Requirements of the scheme	Is there a cessation clause in the relevant Rule?
ELV	• Vehicle producers must collect and scrap steel from ELVs in environmentally sound manner, applicable for different categories of vehicle, based on the average life of the vehicle. • Producers are required to fulfil EPR obligation for the vehicles that the producer has introduced or introduces in the domestic market, including vehicles put to self-use. • EPR for batteries and waste tyres will be as per EPR for battery waste and tyres, respectively. • EPR targets based upon weight of steel recovered from the ELVs are prescribed separately for transport and non-transport vehicles.	Yes, Rule 6 of Environment Protection (End-of-Life Vehicles) Rules, 2025 provides that in case the producer stops its operations, the producer must comply with its EPR in respect of vehicles already made available in the market till closure of operations.
Used oil	• Producers of base oil/lubricants or importer of used oil must collect and recycle used oil only through registered recyclers to ensure environmentally sound management of used oil. • For producers of base oil or lubrication oil, targets are based on Y−2 sales/imports, where Y is current year. • EPR obligation for 'used oil' importers in a year (Y) shall be 100 per cent of the 'used oil' imported in year (Y-1). The import of 'used oil' is permitted for the purpose of re-refining only • For units established after 1 April 2024, the EPR obligation will start after 2 years from the end of the financial year in which the unit was established. • The producers may fulfil their EPR through online purchase of EPR certificates from registered recyclers only.	No
Non-ferrous metals	• Producer of non-ferrous metal products must collect and recycle a prescribed proportion of the scrap based on Y−X production volumes (where X is average product life and Y is current year). • The EPR obligation for importers of used devices or products or scrap of non-ferrous metals in the year (Y) shall be 100 per cent of the non-ferrous metals imported in Y-1. • For units established after 1 April 2026, the EPR obligation will start after 2 years. • A producer is required to fulfil its EPR target by purchasing EPR certificates through the online portal from registered recyclers only.	No. However, as per Rule 58(2) of the Hazardous and Other Wastes (Management and Transboundary Movement) Amendment Rules, 2025, the municipalities and local bodies are responsible for ensuring that scrap of non-ferrous metals pertaining to orphan products (produced by a company which has closed its operations) is collected and channelised to the registered recycler.
C&D waste	• Producers of C&D waste must process waste generated in year Y−1 (where Y is current year) per prescribed recycling targets. • A producer shall meet their EPR target through purchase of EPR certificates from ~~a~~ registered recyclers irrespective of mode of deposition of waste.	No However, as per Rule 16 of Environment (Construction and Demolition) Waste Management Rules, 2025, the local or development authority, as appropriate, shall be responsible for taking measures for the management of legacy or orphan waste.

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Accounting considerations for EPR obligations (*contd.*)

Under the current framework, the recognition and measurement of EPR-related obligations are guided by Ind AS 37 and Appendix C to Ind AS 37.

Paragraph 4 of Appendix C to Ind AS 37 states that a levy represents an outflow of resources imposed by a government in accordance with legislation i.e. laws/regulations, other than income taxes and penalties for breach. The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. If the levy-triggering activity takes place over time (such as generating revenue), the liability is recognised progressively as that activity occurs. Where a levy is triggered only upon reaching a minimum threshold, the liability is recognised only when that threshold is met. Further, paragraph 10 of Appendix C to Ind AS 37 states that the mere preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

EPR obligations, although operationally discharged through the purchase of recycling certificates from authorised agencies, are imposed under regulatory frameworks and, in substance, represent payments to government-designated agents. Accordingly, it may be appropriate to characterise such payments as levies within the scope of Appendix C to Ind AS 37. In practice, EPR schemes in India often fall into two broad categories depending on how the underlying rules address payment of EPR obligations upon cessation of operations.

(a) EPR obligations continuing post cessation of company's operations:

In the first category, the regulations require producers to discharge EPR obligations for products already placed in the market, even after their operations have ceased. This approach is evident in the battery and ELV frameworks. In these cases, the sale or making the product available in the market is generally considered as the obligating event, because the obligation attaches to products already introduced and is not contingent on continued operations in a future period. In our experience, most regulations have been notified that impose obligations on the producer for the products already placed in the market in the earlier years i.e., prior to the notification date. Where such regulatory requirements are subsequently introduced, the past introduction of products or sales made in earlier years becomes an obligating event when the regulation comes into force. Accordingly, a present obligation arises in respect of sales made or products placed in the market in earlier years (as specified in the relevant EPR rules) up to the effective date of the regulation, and a provision may be required, subject to other recognition criteria in paragraph 14 of Ind AS 37 being met, even if the related outflows are expected to arise in future periods.

(b) EPR regulations which do not explicitly include a cessation clause:

In contrast, several EPR schemes, such as those relating to tyres, used oil, non-ferrous metals, and C&D waste, do not explicitly address cessation i.e., whether or not a producer is required to comply with EPR in respect of products already made available in the market till the closure of its operations. These situations require significant judgement. The key question is whether the obligation is conditional upon the entity being in operation at the time the compliance obligation falls due, or whether the obligation arises from the underlying economic activity, such as manufacture, import, or sale, regardless of the entity's future operational status. This distinction can be complex and may require entities to seek legal interpretation to evaluate the enforceability of the obligation in the event of cessation.

Where, based on such analysis, supported by legal advice, it is interpreted that in addition to carrying out the activity (e.g. products already placed in the market in the previous years), the entity is required to be in business in the relevant compliance period to discharge the obligation (year of payment), the levy guidance becomes relevant. In such circumstances, the obligating event is not merely the historical sale or manufacture, but the entity's existence or continued operation in the future period. Conversely, if the obligation is interpreted as arising unconditionally from past activity, a provision may need to be recognised at the point of such activity i.e., when products are sold or placed in the market.

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Accounting for emission related obligations

The table below provides an overview of key emission related frameworks in India, including the key requirements of the scheme:

Scheme/ regulation	Requirements of the scheme
GHG EI Target Rules, 2025 and amendments thereof	• Obligated entities in designated sectors must achieve sector-specific GHG emission-intensity targets in the respective compliance year. • Entities exceeding assigned targets must acquire carbon credits under the Carbon Credit Trading Scheme (CCTS) or pay Environmental Compensation.
PAT Scheme	• Designated Consumers (DCs) in energy-intensive sectors assigned Specific Energy Consumption (SEC) targets per PAT cycle. • Over-achievers earn Energy Saving Certificates (ESCs) for trading; under-achievers must purchase ESCs or face penalties.
CAFE Norms (Energy Conservation (Amendment) Act, 2022	• Vehicle manufacturers and importers selling vehicles in India must achieve fleet-average CO_2 / fuel efficiency targets. • Non-compliance requires purchase of compliance credits from over-performers or payment of penalty.

Emission-related schemes, including those based on greenhouse gas intensity, energy efficiency, or fuel efficiency, create obligations that arise from an entity's operational activity over a defined compliance period.

Unlike product-based EPR frameworks, where obligations are often linked to discrete events such as sale or manufacture, emission-related obligations typically accumulate progressively as the underlying activity generates emissions or energy consumption.

The recognition of a provision in relation to emission schemes is assessed in accordance with paragraph 14 of Ind AS 37 which requires an entity to assess whether:

- there is a present obligation arising from a past event
- an outflow of resources is probable, and
- the amount can be reliably estimated.

In case of emission-related obligations, in determining if a present obligation exists, a company needs to evaluate whether it has failed to meet the threshold under the scheme and whether it has a realistic alternative to settling the obligation.

Based upon the guidance in paragraph 17 of Ind AS 37, a present obligation in relation to such emissions scheme arises when the entity has commenced the activity to which the threshold is linked and has exceeded the allowable threshold. Consequently, in many emission schemes, this obligating event occurs when the entity exceeds the defined threshold during the compliance and the entity no longer has the ability to avoid the associated cost, provided other recognition criteria under Ind AS 37 are met.

For instance, under the GHG EI Target Rules, 2025, entities are assigned an annual emissions threshold for a financial year. As production occurs, emissions accumulate progressively; however, no obligation arises so long as emissions remain within the prescribed limit. Once the threshold is exceeded during the compliance period, the entity no longer has the ability to avoid the associated cost and is required to purchase carbon credits or incur EC. At this point, a present obligation arises, and a provision would be recognised, subject to the other recognition criteria under Ind AS 37 being met.

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Other accounting considerations

While Ind AS 37 requires an assessment of whether a present obligation exists based on an obligating event, companies also need to carefully evaluate the measurement aspects of such obligations under respective environmental and green regulatory schemes. While most schemes prescribe defined targets or recycling requirements, the detailed implementation frameworks and operational modalities may still be evolving, including aspects such as pricing mechanisms, for instance, for EPR certificates. In cases where a scheme does not specify a fixed penalty for non-compliance and/or there is no established active market for trading related certificates or credits, significant judgement may be required to determine whether the obligation can be measured reliably and consequently, whether a provision should be recognised in accordance with Ind AS 37.

Accordingly, companies should ensure that they provide clear and meaningful disclosures regarding the significant judgements and estimates applied, both in identifying the obligating event and in recognising and measuring any provisions or related assets arising from emissions or green schemes.

Potential implications of IASB's proposed amendments to IAS 37 if adopted in India

On 12 November 2024, the IASB published an Exposure Draft - Provisions - Targeted Improvements, proposed amendments to IAS 37. The IASB's proposed amendments to IAS 37 represent a significant shift in the approach to recognising obligations. The IASB proposed to amend the present obligation criterion because of the challenges faced by companies in applying the criteria including climate-related commitments, threshold-based obligations, and application of IFRIC 21. The proposed amendments, as summarised in *Annexure I – IAS 37 proposed amendments* to this article, inter-alia would:

- introduce refined concepts of present obligation and past event, along with the notion of 'practical ability to avoid'. The effect of these changes is to place greater emphasis on economic substance;
- withdraw IFRIC 21 in its entirety and replace it with illustrative examples in the Guidance on implementing IAS 37;
- withdraw IFRIC 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*.

Currently, a company considers its ability to avoid settling its obligation when determining whether it has a present obligation arising from a past event. Under the proposals, the test will shift from the **ability** to avoid the transfer of economic resources to the **practical ability** to avoid the obligation under the law or another specific mechanism. As a result, companies may need to recognise some provisions progressively and at an earlier date.

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Potential implications of IASB's proposed amendments to IAS 37 if adopted in India *(contd.)*

EPR obligations

For EPR frameworks, within the scope of guidance of Levies, the most notable impact of the proposed amendment would be the acceleration of provision recognition, more importantly for schemes where cessation provisions are not explicitly addressed. Under the current accounting framework, obligations in such cases are often recognised in the compliance period i.e., year of payment, even though the underlying activity, such as sale, manufacture, or market placement, has already occurred.

The proposed framework would instead require entities to assess whether, at the point of that activity, they have no practical ability to avoid the resulting obligation, subject to other recognition criteria in IAS 37 being met. For instance, if an EEE producer has assessed that it needs to meet following two actions to pay the EPR obligation under the E-Waste/Electrical and Electronic Equipment regulations:

• act of placing the goods in the market and

• being in operations in the year of payment.

In this case, the EEE producer may have no practical ability to avoid the second action because the economic consequences for it ceasing operations before the end of the year of payment would be significantly more adverse than the cost of fulfilling the EPR obligation for that year.

Thus, in the given instance, the EEE producer is considered to have satisfied the past-event condition at the time when it places the goods in the market and has no practical ability to avoid the second. Hence, the obligation builds up over time and the liability is recognised by the EEE producer progressively, resulting in earlier recognition of provisions, subject to other recognition criteria in Ind AS 37 being met.

Emission related obligations

For emission-related schemes, the proposed amendments would require entities to recognise obligations progressively as the underlying activity such as production, energy consumption, or emissions generation takes place. Accordingly, under the proposal, a present obligation would accumulate as the company carries out the activity linked to the threshold that it expects to exceed at the end of the compliance period. This introduces a requirement for intra-period measurement and accrual, potentially on a quarterly or more frequent basis, depending on reporting cycles, provided other recognition criteria in IAS 37 are also met, i.e., if it were probable that a transfer of economic resources would be required to settle the obligation, and a reliable estimate could be made of the amount of the obligation. Entities will need to develop reliable methods for estimating expected shortfalls and associated costs during the period, including assumptions regarding production levels, emission intensity, and market prices for compliance instruments such as carbon credits or energy certificates.

Across both EPR and emission-related schemes, the cumulative effect of these changes is expected to advance expense recognition. Industries with high volumes of regulated products, extended product life cycles, or significant energy usage are likely to experience the most pronounced impact. In addition, the earlier recognition of obligations may affect key financial metrics, including operating margins, leverage ratios, and covenant compliance, particularly during the transition period.

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Bottom line

Environmental compliance obligations in India have become a structurally significant element of financial reporting for large corporates, particularly those operating across multiple product categories. The increasing breadth of EPR and emission-related frameworks, combined with differences in obligating events and compliance structures, necessitates a nuanced and scheme-specific approach to accounting. In addition, certain product categories may be subject to overlapping regulatory frameworks, reinforcing the need for careful mapping of obligations and integrated assessment across applicable schemes.

Under the current Ind AS 37, recognition is driven by the legally defined obligating event, with significant judgement required in certain areas (such as cessation of operations of the company). Looking ahead, the proposed amendments to IAS 37, if adopted in India, are expected to shift the focus towards earlier recognition based on economic substance, resulting in more timely reflection of obligations in financial statements. This would also require entities to develop robust and reliable methodologies for estimating expected shortfalls.

The regulatory landscape in India is evolving rapidly, with frequent amendments and introduction of new regimes in recent years. This dynamic landscape underscores the need for companies to remain vigilant, continuously tracking regulatory developments, assessing their accounting implications, and ensuring timely alignment in both compliance and financial reporting. Boards and management play a critical role in overseeing adherence to legal requirements while also ensuring that the accounting outcomes faithfully reflect the underlying economic reality. Companies should also proactively engage with analysts and stakeholders to provide transparent and consistent communication on how evolving environmental obligations may impact performance and long-term strategy.

Ultimately, organisations that move early to strengthen capabilities - through stronger governance and internal controls, enhanced data systems, disciplined estimation processes, and cross-functional coordination, will be better positioned to navigate regulatory complexity.

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Annexure I - IAS 37 proposed amendments

Key proposals

introduces refined concepts of present obligation and past event, along with the notion of 'practical ability to avoid'

withdraws IFRIC 21, *Levies*

withdraws IFRIC 6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*

Current recognition model in IAS 37

1 Criterion 1
Does a present obligation exist?

If Yes (or >50% likely)

2 Criterion 2*
Is an outflow of resources probable?

Yes

3 Criterion 3*
Can the amount be estimated reliably?

Yes

Recognise a provision

Proposed amendment – Criterion 1

Criterion 1 - A provision is recognised only if all three of the following are satisfied:

1 Does the company have an obligation?

- Is there a **mechanism** that imposes a **responsibility** if the company obtains specific economic benefits or takes action?
- Does company owe that responsibility to **another party?**
- Practical ability to avoid the responsibility if company obtains benefits or takes action

2 Is the obligation to transfer an economic resource?

- Does obligation have **potential** to require the company to transfer an **economic resource**; and
- Transfer of economic resources is to another party

3 Is the obligation a present obligation resulting from a past event?

- Obtained **economic benefits or taken action**; and
- Consequently, **will or may need to transfer an economic resource.**

*No change in criteria 2 and 3.

Source: KPMG ISG's Talkbook, *Provisions Major Accounting Changes on the horizon*, Proposed amendments to IAS 37, November 2024.

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