CHAPTER 3

Regulatory updates

RBI restores export realisation timeline under FEMA

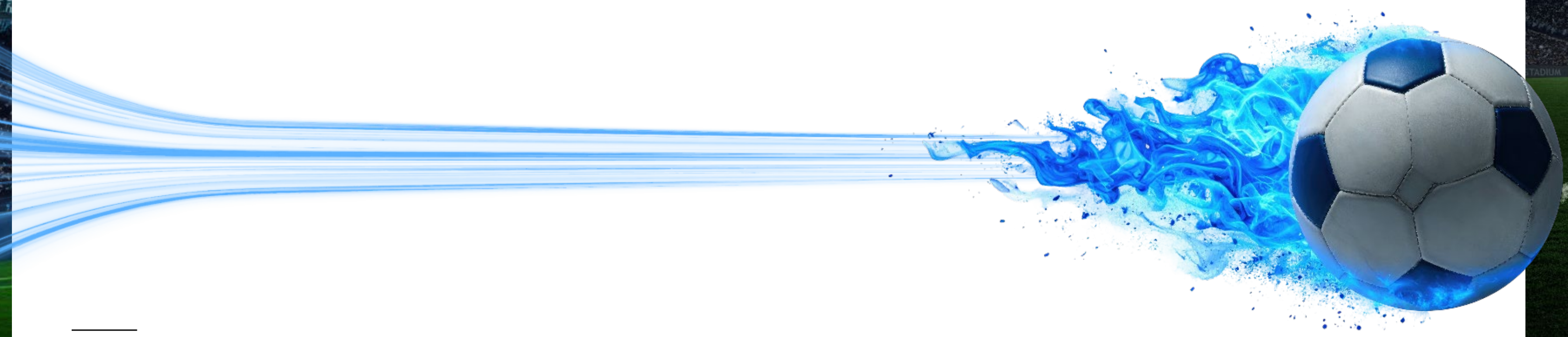
The Reserve Bank of India (RBI), through the Foreign Exchange Management (Export of Goods and Services) (First Amendment) Regulations, 2026 (Amendment Regulations 2026) dated 5 June 2026, has introduced amendments to the regulatory framework governing export realisation timeline under Foreign Exchange Management (Export of Goods & Services) Regulations, 2015[1] (FEMA Regulations 2015).

Under the FEMA Regulations 2015, exporters were initially required to realise and repatriate the full value of exports to India within 9 months from the date of export.

The RBI introduced a significant relaxation through a notification issued on 13 November 2025[2], wherein the amendment extended the time period for realisation of export proceeds from 9 months to 15 months. The extension was applicable across exporters, including those operating in Special Economic Zones (SEZs) and similar schemes.

The RBI through the Amendment Regulations 2026, has revisited the November 2025 relaxation, and reversed the extended timeline under Regulation 9 restoring the earlier position. Consequently, export proceeds are to be realised within 9 months, in place of the 15-month period introduced in November 2025. This change applies both to the general rule under Regulation 9(1) and to the corresponding provision under Regulation 9(2)(a)[3] of the FEMA Regulations 2015 and is applicable from 5 June 2026.

(Source: RBI, Foreign Exchange Department, Central Office, Notification No F. No. FEMA 23(R)/(8)/2026-RB, ‘Foreign Exchange Management (Export of Goods and Services) (First Amendment) Regulations, 2026, dated 5 June 2026’)



1. Notification No. FEMA 23(R)/2015-RB dated 12 January 2016
2. Notification No. FEMA 23(R)/(7)/2025-RB, ‘Foreign Exchange Management (Export of Goods and Services) (Second Amendment) Regulations, 2025’.
3. Applicable to units in Special Economic Zones (SEZ) / Status Holder exporter / Export Oriented Units (EOUs) and units in Electronics Hardware Technology Parks (EHTPs), Software Technology Parks (STPs) and Bio-Technology Parks (BTPs)

RBI finalises framework for bank lending to REITs and aligns InvIT guidelines

The RBI, through its press release dated 10 June 2026, has issued final amendment directions introducing a framework for lending to Real Estate Investment Trust (REITs) and revising the existing norms for Infrastructure Investment Trusts (InvITs), following draft proposals released in February 2026. The key highlight is the formal permission for commercial banks to extend credit to REITs, subject to specified prudential safeguards such as exposure limits, risk controls, and regulatory conditions to ensure financial stability.

Another important aspect of the amendment is the harmonisation of the existing lending framework for InvITs with the newly introduced approach for REITs. Earlier, the InvIT lending norms applied to commercial banks, small finance banks, and All India Financial Institutions (AIFIs), albeit with certain distinctions. The amendment aligns both asset classes under a consistent prudential philosophy, ensuring uniformity in treatment of trust-based investment vehicles.

To operationalise the above-mentioned framework, RBI simultaneously amended multiple master directions across different regulatory domains effective 1 October 2026. The impact of key amendments are as follows:

1. **RBI (Commercial Banks – Credit Facilities) Third Amendment Directions, 2026 (Credit Amendment Directions, 2026):** This amendment formally enables commercial banks to lend to REITs by inserting them within the scope of permissible borrowers under credit facility norms. Following are the key aspects:
   - **Expanded scope:** Banks are now expressly permitted to extend both fund based and non-fund based facilities to REITs and InvITs, both of which must be registered with and regulated by SEBI.
   - **Prudential framework:** Banks must follow board-approved policies, ensure proper appraisal, monitor end-use of funds, and lend only to trusts with stable, income-generating assets and cash flows.
   - **Exposure and leverage caps:** Lending is linked to underlying income-generating real estate assets, ensuring cash flow-backed exposure, with following key condition:
     - Aggregate bank exposure (including underlying Special Purpose Vehicles (SPVs)) is capped at 49 per cent of asset value of the REIT/InvIT
     - Overall leverage must remain within SEBI-prescribed limits.
   - **Risk mitigation measures:** Lending must be fully secured, backed by assets/cash flows, with restrictions on risky structures such as bullet repayments and safeguards like escrow mechanisms.
   - **Effective date:** The framework comes into force from 1 October 2026 or an earlier date when adopted by a bank in entirety. To ensure smooth, non-disruptive implementation, banks may allow existing loans to InvITs that are not compliant as on the effective date to run off till maturity. However, such loans must not be renewed, reviewed, or enhanced, whether on same or revised terms, unless brought into compliance with these amendments, even if renewal rights exist in the contract.

Parallelly, amendments extend similar permissions to All India Financial Institutions (AIFIs) under the RBI (AIFI – Credit Facilities) Amendment Directions, 2026. However, the AIFI directions permit lending only to SEBI-registered and listed InvITs, subject to strict conditions on asset quality (minimum 80% in completed, cash-generating projects). This direction not only allows lending to InvITs with similar prudential conditions as the Credit Amendment Directions 2026, but also specifically enables and regulates acquisition financing by InvITs, including conditions for control acquisition, valuation, exposure limits, and refinancing of acquisition debt.

(Source: RBI Press Release 2026-2027/429 'RBI issues Final Amendment Directions on Lending to Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs)'; RBI Notification RBI/2026-27/109 DOR.CRE.REC.89/07.01.001/2026-27, 'Reserve Bank of India (Commercial Banks – Credit Facilities) Third Amendment Directions, 2026'; and RBI Notification RBI/2026-27/113 DOR.CRE.REC.93/07.01.007/2026-27, 'Reserve Bank of India (All India Financial Institutions – Credit Facilities) Amendment Directions, 2026', all dated 10 June 2026))

RBI finalises framework for bank lending to REITs and aligns InvIT guidelines (*contd.*)

2. **Reserve Bank of India (Commercial Banks – Concentration Risk Management) Third Amendment Directions 2026:** This amendment removes an earlier provision and integrates REIT exposure based on the Credit Amendment Directions 2026 into the large exposure and concentration risk framework applicable to banks. Banks are now required to set internal limits on their overall exposure to the real estate sector, along with sub-limits for specific segments, based on their business. Within these limits, exposure to REITs is capped at 10 per cent of the bank's eligible capital base, ensuring controlled risk concentration. This Direction shall come into force from 1 October 2026, or an earlier date if the directions contained in the Credit Amendment Directions, 2026 are adopted by a bank in entirety.

   (Source: RBI Notification RBI/2026-27/110 DOR.CRE.REC.90/07.03.001/2026-27, 'Reserve Bank of India (Commercial Banks – Concentration Risk Management) Third Amendment Directions, 2026', dated 10 June 2026)

3. **RBI (Commercial Banks - Prudential Norms on Capital Adequacy) Eighth Amendment Directions, 2026:** This amendment to the Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025 (Capital Adequacy Directions) aligns capital requirements with the newly permitted REIT exposures and introduces specific risk weights. Key aspects are as follows:
   - Lending to REITs will be treated as Commercial Real Estate (CRE) exposure and will generally attract a risk weight of 100 per cent for capital calculation.
   - If such exposures qualify as capital market exposure, a higher risk weight of 125 per cent will apply, reflecting increased risk.
   - Lending to REITs by overseas branches of Indian banks will attract a higher risk weight of 150 per cent.
   - This Direction shall come into force from 1 October 2026, or an earlier date if the directions contained in the Credit Amendment Directions, 2026 are adopted by a bank in entirety.

   (Source: RBI Notification RBI/2026-27/111 DOR.CRE.REC.91/21-01-002/2026-27, 'Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Eighth Amendment Directions, 2026', dated 10 June 2026)

RBI introduces forex swap facilities to boost foreign currency inflows

Amid global market volatility and capital flow uncertainty, the RBI has introduced the following targeted forex swap facilities to incentivise foreign currency inflows and support external stability on 8 June 2026:

1. Swap Facility for Foreign Currency Non-Resident Bank (FCNR (B)) Deposits

RBI has introduced a United States Dollar (USD) - Indian Rupee (INR) swap window for fresh FCNR (B) deposits mobilised by Authorised Dealer Category I banks (AD Banks):

- **Scope and tenor:** Available for fresh FCNR (B) deposits mobilised for 3-5 years with lock in period of 1 year. Tenor of the Swap shall be aligned with tenor of the deposit.
- **Mechanism:** Banks can swap foreign currency (being USD or converted to USD where required) with RBI at FBIL reference rate[4], with a reversal at the end of the tenor at the same rate (par swap).
- **Operational flexibility:** Banks may avail facility weekly (once per bank) based on deposits mobilised. Pricing of deposits remains market-driven within RBI ceilings.
- **Key feature:** RBI effectively absorbs exchange rate risk, enabling banks to offer attractive hedged returns on FCNR (B) deposits.
- **Validity:** The swap facility comes into immediate effect and will remain open up to 16 October 2026 for deposits mobilised between the date of the circular i.e. 8 June 2026 and 30 September 2026.

2. Swap Facility for ECBs and OFCBs

RBI has also introduced a concessional forex swap facility for select external borrowings. By offering concessional hedging, the facility promotes overseas borrowings by Public Sector Undertakings (PSUs) and banks, improving access to global capital at lower risk.

- **Coverage:** The swap will cover following two types of foreign currency borrowings with a minimum maturity of three years:
  - External Commercial Borrowings (ECBs) raised by specified PSUs. This includes fresh ECBs as well as eligible undrawn portions of existing ECBs, subject to specified conditions
  - Overseas Foreign Currency Borrowings (OFCBs) raised by AD banks.
- **Tenor:** The tenor of the swap is aligned with the maturity of the underlying borrowing, meaning it runs for the same duration as the ECB or OFCB, but for a maximum period of up to 5 years.
- **Mechanism:** Banks can swap foreign currency inflows (in USD or converted into USD where required) with RBI by undertaking a spot sale of USD at the FBIL reference rate, coupled with an agreement to repurchase the same amount of USD at the end of the tenor. This spot-plus-forward arrangement will be executed at a fixed swap cost of 1.5 per cent per annum (compounded semi-annually), ensuring that hedging costs remain fixed and predictable over the life of the borrowing, thereby protecting banks from exchange rate fluctuations.
- **Operational flexibility:** Banks may avail facility on all working days in a week, based on eligible ECB/ OFCB inflows raised in equivalent US Dollar terms during the preceding week(s).
- **Eligibility window:** The Swap Facility comes into effect from 8 June 2026 and will remain open up to 15 January 2027 for eligible ECB drawdowns made and OFCB flows received up to 31 December 2026.

(Source: RBI Circular No. RBI/2026-27/99 FMOD.MAOG.No.S-56/01.06.016/2026-27, 'Swap Facility for FCNR (B) Deposits', dated 8 June 2026; RBI Circular No. RBI/2026-27/100 FMOD.MAOG.No.S-57/01.06.016/2026-27, 'Swap Facility for External Commercial Borrowings and Overseas Foreign Currency Borrowings', dated 8 June 2026)

4. FBIL rate refers to the rates published daily by Financial Benchmarks India Private Limited. This rate serves as a reference for market participants for transaction and valuation purposes.

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RBI issues Investment Fluctuation Reserve norms

On 18 May 2026, the RBI issued the Investment Fluctuation Reserve (IFR) norms. Below are some of the key amendments which are effective immediately:

RBI (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio) Second Amendment Directions, 2026: Under these directions, the requirement for maintaining IFR has been withdrawn with effect from 18 May 2026. The existing IFR balance as on 17 May 2026 must be transferred ‘below the line’ to either statutory reserve, general reserve, or the balance of profit and loss account. For foreign banks operating in India in branch mode, such balances are to be transferred to ‘statutory reserves kept in Indian books’ or to ‘remittable surplus retained in Indian books which is not repatriable so long as the bank functions in India’.

(Source: RBI/2026-27/83 DOR.MRG.REC.No.71/00-00-001/2026-27, ‘ Reserve Bank of India (Commercial Banks - Classification, Valuation, and Operation of Investment Portfolio) Second Amendment Directions, 2026’ dated 18 May 2026)

Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Sixth Amendment Directions, 2026: Through this amendment, the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Directions, 2025 have been amended to provide that IFR is no longer considered as part of general provisions and loss reserves categorized under Tier 2 capital for Indian banks.

(Source: RBI/2026-27/90 DOR.MRG.REC.No.78/21-01-002/2026-27, ‘Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Sixth Amendment Directions, 2026’ dated 18 May 2026)

RBI (Payments Banks - Classification, Valuation, and Operation of Investment Portfolio) Amendment Directions, 2026: Under these directions, Payments Banks are required to create IFR from realised gains on sale of investments, subject to availability of net profit, until the IFR balance reaches at least 2 per cent of the Available for Sale (AFS) and Fair Value Through Profit or Loss (FVTPL) (including Held for Trading (HFT)) portfolio. This minimum IFR requirement will now be assessed on an annual basis (based on the AFS and FVTPL portfolio values as at the balance sheet date), instead of being monitored on a continuous basis. Further, transfers to IFR must be made from net profit after mandatory appropriations, ensuring consistency in accounting treatment.

(Source: RBI/2026-27/85 DOR.MRG.REC.No.73/00-00-001/2026-27, ‘Reserve Bank of India (Payments Banks - Classification, Valuation, and Operation of Investment Portfolio) Amendment Directions, 2026’, dated 18 May 2026)

RBI (Local Area Banks - Classification, Valuation, and Operation of Investment Portfolio) Amendment Directions, 2026 – For the Local Area Banks (LABs), the RBI has discontinued the requirement to maintain IFR from 18 May 2026. Existing IFR balances as on 17 May 2026 must be transferred ‘below the line’ to statutory reserve, general reserve, or the balance of profit and loss account.

(Source: RBI/2026-27/86 DOR.MRG.REC.No.74/00-00-001/2026-27, ‘Reserve Bank of India (Local Area Banks - Classification, Valuation, and Operation of Investment Portfolio) Amendment Directions, 2026’ dated 18 May 2026)

RBI issues Investment Fluctuation Reserve norms (*contd.*)

RBI (Urban Co-operative Banks (UCBs) – Classification, Valuation, and Operation of Investment Portfolio) Amendment Directions, 2026: Under these directions, UCBs must maintain a minimum IFR of 5 per cent of their investment portfolio, calculated annually based on the book value of investments under HFT and AFS categories. UCBs can now build higher IFR levels at their discretion, depending on portfolio size and composition, subject to approval of their Board. The RBI has further permitted UCBs to draw down IFR balances exceeding the 5 per cent of its investments in AFS and HFT for credit to the balance of profit/loss as disclosed in the Profit and Loss Account at the end of any accounting year.

(Source: RBI/2026-27/87 DOR.MRG.REC.No.75/00-00-011/2026-27, 'Reserve Bank of India (Urban Co-operative Banks – Classification, Valuation, and Operation of Investment Portfolio) Amendment Directions, 2026', dated 18 May 2026)

RBI (Commercial Banks – Financial Statements: Presentation and Disclosures) Sixth Amendment Directions, 2026 and RBI (LABs – Financial Statements: Presentation and Disclosures) Third Amendment Directions, 2026: Under the respective amendment directions, the RBI has introduced changes in financial statement presentation. These directions clarify the definition of 'revenue reserve' as all reserves other than capital reserves and explicitly excludes amounts set aside for depreciation, asset diminution, or known liabilities. Further, commercial banks and LABs should disclose a detailed movement of provisions for Non-performing Investments (NPIs). The revised format mandates reporting of opening balances, provisions made during the year, write-offs or write backs of excess provisions, and closing balances for both current and previous years.

(Source: RBI/2026-27/91 DOR.MRG.REC.No.79/21-04-018/2026-27, 'Reserve Bank of India (Commercial Banks – Financial Statements: Presentation and Disclosures) Sixth Amendment Directions, 2026' dated 18 May 2026, RBI/2026-27/92 DOR.MRG.REC.No.80/21-04-018/2026-27 'Reserve Bank of India (Local Area Banks – Financial Statements: Presentation and Disclosures) Third Amendment Directions, 2026' dated 18 May 2026)

MCA amends the CSR framework

The Ministry of Corporate Affairs (MCA), through two notifications dated 27 May 2026, has issued the following:

1. The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026 (CSR Policy Amendment Rules), and
2. Amendments to Schedule VII of the Companies Act, 2013 (CA 2013 amendment),

These updates are intended to expand the scope of Corporate Social Responsibility (CSR) initiatives and strengthen the Social Stock Exchange (SSE) ecosystem. Under the amendments to the Companies Act, 2013 (CA 2013), investments in Zero Coupon Zero Principal[5] (ZCZP) instruments have now been explicitly recognised as an eligible CSR activity through their inclusion in Schedule VII of the CA 2013.

Additionally, the CSR Policy Amendment Rules prescribe safeguards to ensure responsible utilisation of such instruments. CSR expenditure through ZCZP instruments is capped at 10 per cent of a company's total CSR obligation for a given financial year. Further, companies investing through this route are exempt from conducting impact assessments for projects funded via these instruments, thereby reducing compliance burdens and encouraging wider participation.

At the same time, not-for-profit organisations (NPOs) issuing these instruments are subject to specific governance requirements, including:

- Undertaking projects with a duration not exceeding three consecutive financial years from the date of issuance of the ZCZP instruments; and
- Upon termination of the listing of such instruments, transferring any unutilised funds to a fund specified under Schedule VII of the CA 2013, along with fulfilling applicable reporting requirements to SEBI.

Overall, these amendments reflect a progressive step by the MCA toward integrating capital market instruments with social impact financing, enhancing transparency, and strengthening the role of the Social Stock Exchange within India's CSR framework.

(Source: MCA Notification No G.S.R. 415(E), and G.S.R. 416(E), both dated 27 May 2026)

5. Zero coupon zero principal instrument means an instrument declared as a security that is issued by a Not for Profit Organisation registered with the Social Stock Exchange segment of a recognised stock exchange in accordance with the regulations made by the SEBI.

MCA relaxes additional fees for DPT-3 filing up to 31 July 2026

The MCA has issued a notification granting relaxation from payment of additional fees for filing Form DPT-3 (Return of Deposits) for the financial year 2025–26. While the original due date remains 30 June 2026 under the prescribed timeline, companies are allowed to file the form without additional fees up to 31 July 2026 due to data centre restoration activities following the fire incident on 5 June 2026.

(Source: MCA General Circular no. 02/2026, subject: Relaxation in paying additional fees in case of delay in filing DPT-3 for Financial Year ended on 31 March 2026 up to 31st July 2026 – reg. dated 27 May 2026)

Income-tax (Amendment) Ordinance, 2026

The Ministry of Law and Justice has issued the Income-tax (Amendment) Ordinance, 2026 (Ordinance), effective retrospectively from 1 April 2026. This Ordinance introduces targeted amendments to the Income-tax Act, 2025, primarily aimed at enhancing the attractiveness of Indian government securities for global investors. The amendment involves the insertion of new provisions granting tax exemptions on interest income and capital gains arising from government securities to Foreign Institutional Investors (FIIs) and the Bank for International Settlements (BIS)[6]. These exemptions are subject to compliance with prescribed reporting requirements.

(Source: Ministry of Law and Justice (Legislative Department), 'The Income-Tax (Amendment) Ordinance, 2026', dated 5 June 2026)

6. The Bank for International Settlements means the Bank for International Settlements established at the Hague Conference in 1930 and headquartered at Basel, Switzerland

IRDAI strengthens remuneration framework for KMP

The Insurance Regulatory and Development Authority of India (IRDAI), through its circular dated 25 May 2026, has introduced significant amendments to the Master Circular on Corporate Governance for Insurers, 2024 (Master Circular on CG)[7]. These changes are aimed at enhancing transparency, accountability, and aligning remuneration practices for Key Management Persons (KMPs) with policyholder interests. Some key amendments are as follows:

1. **Enhanced disclosure requirements:** Insurers are now required to publicly disclose the performance parameters used in determining KMP remuneration on their websites. Such disclosures must be presented in a simple and easily accessible manner, without requiring users to furnish personal information. In addition, insurers are mandated to provide comparable historical data for the preceding three years alongside current performance disclosures. The circular also prescribes the frequency of reporting. Financial soundness indicators are to be disclosed on a quarterly basis, while operational metrics, including product performance, claims handling efficiency, and grievance redressal, must be updated monthly.
2. **Stronger alignment between compensation and policyholder outcomes:** The Nomination and Remuneration Committee (NRC), in consultation with the Risk Management Committee, is required to adopt a holistic approach in designing such remuneration policy. These policies must ensure that compensation structures are closely aligned with policyholder interests and risk outcomes. Further, remuneration policies should incorporate risk adjustments across all categories, should be sensitive to short-term and long-term considerations, and maintain an appropriate mix of fixed and variable (cash and equity-linked) components.
3. **Standardised performance metrics:** To promote consistency and comparability, IRDAI has specified a minimum set of six performance parameters for evaluating KMP performance, applicable from FY 2026–27 onwards. These parameters will collectively account for 50 per cent of the overall performance assessment for determining variable pay. Insurers will retain the flexibility to define additional performance criteria for the remaining 50 per cent, enabling alignment with their specific business strategies and objectives.
4. **Increased board oversight and accountability:** The revised framework places greater responsibility on the board of directors and its committees. They are required to establish clearly defined performance benchmarks that are aligned with the organisation's strategic goals and policyholder value creation. The board must also ensure that performance evaluations are based on robust, complete, and consistent disclosures.

(Source: IRDAI Circular Ref: IRDAI/F&I/CIR/MISC/72/5/20, 'Subject: Remuneration to Key Management Persons (KMP)', dated 25 May 2026)

7. Issued vide ref: IRDAI/ F&I/CIR/MISC/82/5/2024, dated 22 May 2024

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IASB issues IFRS 20, *Regulatory Assets and Regulatory Liabilities*

The International Accounting Standards Board (IASB) has issued International Financial Reporting Standard (IFRS) 20 *Regulatory Assets and Regulatory Liabilities*, a new standard designed to enhance financial reporting for entities operating in rate regulated industries such as electricity, water, and gas. The standard aims to provide investors with clearer and more transparent insights on how rate regulation affects a company's financial performance, financial position, and future cash flows.

A key issue addressed by IFRS 20 is the 'difference in timing' between when goods/services are delivered and when companies recover charges from their customers for regulatory goods or services supplied. The standard requires companies to reflect the effects of these timing differences in their financial statements. IFRS 20 requires companies to present in their financial statements the total allowed compensation they are entitled to earn for regulatory goods and services supplied during the period. This is achieved through an 'overlay' approach under which a company first applies the requirements of existing IFRS Accounting Standards (e.g., recognising and measuring revenue in accordance with IFRS 15 Revenue from Contracts with Customers) and then recognises:

- A regulatory asset: when it has an enforceable present right to add an amount to be charged to customers in future periods to determine the regulated rate; and
- A regulatory liability: when it has an enforceable present obligation to deduct an amount to be charged to customers in future periods to determine the regulated rate.

Changes in regulatory assets and regulatory liabilities result in regulatory income and regulatory expense. Further, companies would generally need to measure their regulatory assets and regulatory liabilities using a cash flow measurement technique which:

- estimates expected future cash flows; and
- discounts the cash flows using the regulatory interest rate.

Regulatory income minus regulatory expense would be presented separately in the statement of financial performance, immediately below revenue, whereas regulatory assets and regulatory liabilities are to be presented separately from other assets and liabilities in the statement of financial position.

IFRS 20 also improves transparency by introducing robust disclosure requirements, including updated cash flow estimates, discounting using regulatory rates, and detailed disclosures such as reconciliations and maturity analysis.

Overall, these measures aim to provide a more comprehensive view of the regulated entities' financial health and reduce inconsistencies in existing accounting practices across jurisdictions.

The standard will become effective for annual reporting periods beginning on or after 1 January 2029, with early adoption permitted and will replace IFRS 14, *Regulatory Deferral Accounts.*

(Source: IFRS.org>>news and events>>'IASB issues IFRS 20 to improve financial reporting for companies subject to rate regulation', dated 27 May 2026)

ASU 2026-02 Environmental Credits and Environmental Credit Obligations

The Financial Accounting Standards Board (FASB) has issued ASU 2026-02, on *Environmental Credits and Environmental Credit Obligations* (Topic 818), introducing a comprehensive framework for the accounting and disclosure of environmental credits and environmental credit obligations. This update aims to improve transparency, comparability, and consistency in financial reporting. Some key aspects of the ASU are as follows:

- **Introduction of a dedicated accounting framework:** The ASU establishes specific guidance for recognising, measuring, presenting, and disclosing environmental credits (such as emissions allowances, renewable energy certificates, and carbon offsets) and related obligations, thereby reducing diversity in existing practices.
- **Scope:** Topic 818 applies to environmental credits and environmental compliance obligations (ECOs) that meet specific definitions. Environmental credits are enforceable, non-physical, non-financial rights used to reduce or control pollution and are transferable or usable to settle obligations, while ECOs are regulatory obligations to reduce emissions that can be settled using such credits. Although these items are outside derivatives guidance, contracts to acquire credits must still be assessed separately to determine if they are derivatives.
- **Enhanced presentation and disclosures:** The ASU requires separate presentation of environmental credit assets and environmental credit obligation liabilities on the balance sheet, along with detailed qualitative and quantitative disclosures. These include information on how credits are obtained and intended to be used, relevant accounting policies, key judgments, and the financial impact of related activities.
- **Effective date and transition:** The amendments are effective for public entities for annual periods beginning after 15 December 2027, and for other entities for annual periods beginning after 15 December 2028, with early adoption permitted. Transition is to be applied retrospectively through a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets on the balance sheet) as of the beginning of the annual reporting period of adoption. An entity should not recast any financial statement information before the period of adoption

Overall, Topic 818 will provide investors with more decision-useful information and enhance the credibility of sustainability-linked financial reporting.

(Source: FASB.org>>Standards>> Accounting Standard Update No. 2026-02, 'Environmental Credits and Environmental Credit Obligations (Topic 818)', dated May 2026)