KPMG

Regulatory Roundup

Financial reporting and regulatory developments for Q1 FY 2026-27

Board Leadership Center (India)

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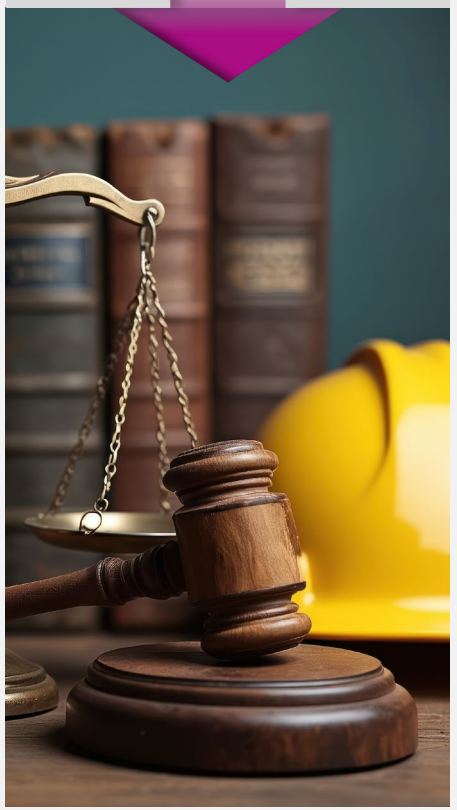

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Ind AS updates[1]

Effective for annual reporting periods beginning on or after **1 April 2026**, Ind AS 1, *Presentation of Financial Statements* has been amended to align with the corresponding requirements of IAS 1. As part of this amendment, the existing Indian carve-out relating to breaches of loan covenants has been removed. Under the amended requirements, the classification of borrowings as current or non-current will depend on the rights that exist at the reporting date. Consequently, where a covenant breach at the reporting date makes a borrowing repayable on demand, a waiver obtained from the lender after the reporting date will no longer support non-current classification. The amendment aligns Ind AS more closely with IFRS and may affect liability classification, liquidity ratios, and covenant management strategies for entities with debt financing arrangements.

Questions for the Audit Committee

1. Has management identified all borrowing arrangements containing financial or non-financial covenants, and assessed whether any covenant breaches could occur at future reporting dates?
2. What processes and controls has management implemented to monitor covenant compliance on an ongoing basis and provide early warning of potential breaches?
3. How does management plan to engage with lenders where covenant breaches are anticipated, and can any required waivers, amendments, or grace periods be secured before the reporting date?
4. What would be the impact on the company's liquidity ratios, debt covenant metrics, financing arrangements, and stakeholder communications if borrowings currently classified as non-current were required to be reclassified as current under the amended requirements?

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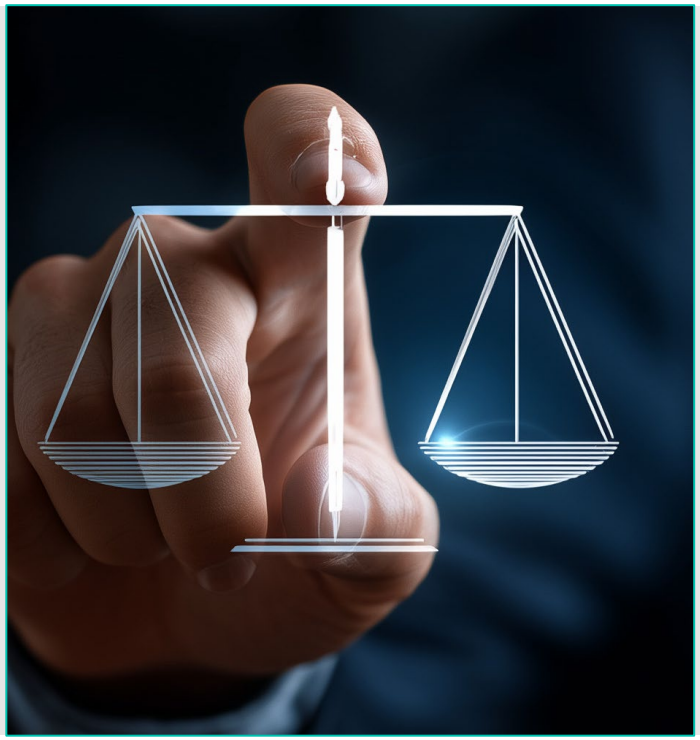
Ind AS updates[2]

Ind AS 118, *Presentation and Disclosure in Financial Statements* which is aligned with IFRS 18, is expected to introduce the most significant changes to financial statement presentation in recent years. The standard is designed to improve comparability and transparency by introducing a more structured statement of profit and loss, enhanced principles for aggregation and disaggregation of information, and new disclosure requirements for Management-defined Performance Measures (MPMs). While the standard does not fundamentally change recognition or measurement principles, it may require changes to reporting systems, performance metrics and investor communications. The standard is expected to be applicable in India for annual reporting periods beginning on or after 1 April 2027, with comparative information required to be restated.



Questions for the Audit Committee

1. Has management performed a preliminary impact assessment of Ind AS 118 and identified the key changes required to the presentation of the statement of profit and loss and related disclosures?
2. Has management evaluated which performance measures currently communicated to investors, analysts and the Board may qualify as Management-defined Performance Measures (MPMs), and how these will be reconciled and disclosed under the new requirements?
3. Are existing financial reporting systems, chart of accounts and management reporting processes capable of generating the information required for the new presentation, aggregation/disaggregation and disclosure requirements?
4. What is management's implementation road map, including timelines, responsibilities, comparative restatement requirements and governance over readiness for the expected 1 April 2027 effective date?

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MCA updates[3]

CSR Rules amended

On 27 May 2026, the Ministry of Corporate Affairs (MCA) notified the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026, along with amendments to Schedule VII of the Companies Act, 2013. These amendments permit companies to discharge a portion of their Corporate Social Responsibility (CSR) obligations through subscriptions to Zero Coupon Zero Principal (ZCZP) instruments issued by Non-Profit Organisations (NPOs) and listed on the Social Stock Exchange (SSE). However, such subscriptions are capped at 10 per cent of a company's total annual CSR obligation. Further, an impact assessment under the CSR Rules is not required for projects funded through ZCZP instruments. The issuing NPO is required to implement the project within three succeeding financial years from the date of issuance of the ZCZP instruments. In the event of delisting of the NPO, any unspent amount must be transferred to a fund specified under Schedule VII, with the requisite reporting made to SEBI.

Questions for the Audit Committee

1. Does the Company plan to use the new ZCZP instrument route to meet CSR obligation and how much of the 10 per cent cap is being considered for such subscription.
2. What due diligence will the CSR committee apply in selecting SSE registered NPOs given it is a new and largely untested funding channel?
3. Since ZCZP subscriptions are exempt from CSR impact assessment requirement, how would the management monitor whether these fund deliver real outcomes?
4. Has the Company's CSR Policy and Board's Report disclosure been updated to reflect this new eligibility activity?

Applicability: All Companies to which CSR requirements applicable under the Companies Act, 2013

Click here and here to access the relevant MCA notifications

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Labour code updates[4]

Labour Codes - Central Rules notified and PF Scheme notified

On 8 May 2026, the Ministry of Labour and Employment (MoLE) notified the Central Rules for four codes[1] which apply to sectors where the Centre is the 'appropriate government' – Government companies, Public Sector Undertakings (PSUs), railways, oil fields, major ports, air transport, telecommunication etc. Arunachal Pradesh, Bihar, Gujarat and Meghalaya have notified respective State Rules; other states are still at various stages of notification of rules. Further, factories will need to comply with OSH State Rules[1] and establishments operating in more than one state to comply with Central COSS[1]. Additionally, on 29 June 2026, EPF Scheme[2], Pension Scheme and EDLI Scheme[2] were notified. Accordingly, erstwhile schemes stand superseded. Contribution percentages being - (a) PF - 12 per cent of wages for all employees; (b) Pension - 8.33 per cent of wages for all employees; (c) EDLI - for employees of Central Government (CG) - 0.5 per cent of wages; other employees to follow old rules until the new rates are notified. Old ceiling of INR15,000 continues to apply until wage ceiling is notified. Contribution to these scheme to be computed on definition of wages under the Labour Codes.

Questions for the Audit Committee

1. Has readiness been assessed across all 4 Central Rules – including new wage definition and single registration requirements?
2. What is the estimated increase in PF, gratuity and bonus costs from the revised statutory wages definition?
3. Have payroll and HR systems been updated for the new EPF, EPS and EDLI Schemes, 2026?

Applicability: Sectors where 'Central Government' is the appropriate government and all companies.

Ministry of Labour & Employment, notification on the labour codes

1. Code on Wages, 2019; Code on Social Security, 2020 (COSS); Industrial Relations Code, 2020; and Operational Safety, Health and Working Conditions Code, 2020 (OSH)
2. Employees' Provident Funds Scheme, 2026 ('EPF Scheme'), Employees' Pension Scheme, 2026 ('Pension Scheme'), Employees' Deposit Linked Insurance Scheme, 2026 (EDLI Scheme)

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International updates[5]

US tariffs: Supreme Court ruling and refund

On 20 February 2026, the Supreme Court of United States of America (US Court) held that International Emergency Economic Powers Act (IEEPA) does not authorise the 'reciprocal' tariffs and struck them down, including tariffs on India. Consequently, on 4 March 2026, the US Court of International Trade (CIT) directed the US Customs and Border Protection (CBP) agency to reliquidate entries without applying any IEEPA tariffs. The CIT's order provided direction to CBP to develop a process to refund such IEEPA tariffs. On 20 April 2026, CBP launched the refund mechanism - Consolidated Administration and Processing of Entries (CAPE) within the Automated Commercial Environment (ACE) for importers of record/brokers to claim their refunds, and began processing refunds as well.

Questions for the Audit Committee

1. Has the management identified all IEEPA-related tariffs paid on exports to the US that are eligible for refund, and initiated the claim process through CBPs refund mechanism?
2. Does the removal of these reciprocal tariff's require the management to revisit its US pricing, contracts or margins that may have been adjusted to absorb the earlier tariff costs?
3. What is the estimated refund amount and how will it be accounted for and disclosed in the financial statements?

Applicability: All entities exporting to the US

Click here and here to access the relevant updates

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Reserve Bank of India (RBI)[6]

FEMA - Export of Goods and Services - First Amendment - 2026

Under Foreign Exchange Management (Export of Goods and Services) Regulations, 2015 (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. Reserve Bank of India (RBI) introduced a relaxation on 13 November 2025, wherein the time period was extended from 9 months to 15 months. The extension was applicable across exporters, including those operating in Special Economic Zones (SEZs) and similar schemes. Foreign Exchange Management (Export of Goods and Services) (First Amendment) Regulations, 2026 (Amendment Regulations 2026) now reverts the realisation and repatriation period to 9 months, effective 5 June 2026.

Questions for the Audit Committee

1. How has management ensured that export proceeds for shipments made in the transition period are being realised within revised timelines?
2. Is the management working closely with the AD Banks to manage this transition and access any relief or extensions where needed?
3. What is the current exposure of unrealised export receivables relying on the earlier 15-month window and could this regulatory change affect their compliance status? What steps are being taken to address them?

Applicability: – All Exporter of goods.

Click here to access the RBI Notification

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Reserve Bank of India (RBI)[7]

Asset Classification, Provisioning and Income Recognition - ECL Directions

On 27 April 2026, RBI issued the RBI (Commercial Banks - Asset Classification, Provisioning, and Income Recognition) Directions, 2026 (ECL Directions), effective from 1 April 2027. These directions introduce forward-looking Expected Credit Loss (ECL) based provisioning, replacing existing incurred-loss approach. A three-stage model has been introduced for recognisng loss allowance:

Stage 1 (12-month ECL): No significant increase in credit risk.

Stage 2/3 (Lifetime ECL): Significant increase in credit risk (Stage 2) or credit-impaired (Stage 3); lifetime expected credit losses recognised.

Banks are required to incorporate macroeconomic factors, probability-weighted scenarios, and credit risk parameters like Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) in provisioning, strengthening credit risk management practices. Banks are required to adopt fully automated systems for Non-Performing Asset (NPA) classification and provisioning, minimising manual intervention and improving consistency.

Questions for the Audit Committee

1. Is the companies' data infrastructure and credit risk model inventory on track for the 1 April 2027 transition, given the scale of change from incurred-loss to a three stage ECL approach?
2. What is the estimated increase in provisions from moving to forward looking, scenario weighted ECL and the new prudential floors and how will it affect capital adequacy?
3. Are the auditors engaged early on model validation and disclosure readiness?

Applicability: – Commercial Banks

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Reserve Bank of India (RBI)[8]

Basel III - Capital Charge for Credit Risk under Standardised Approach

On 27 April 2026, RBI issued the RBI (Scheduled Commercial Banks - Capital Charge for Credit Risk - Standardised Approach) Directions, 2026 (Basel III Directions), effective from 1 April 2027, which will replace the existing standardised credit risk framework to operationalise Basel III final reforms in India. The framework lowers risk weights for specific rated entities (AA, BBB, BB) and A1-rated short-term instruments and risk weights are now differentiated by phase (pre-operational vs. operational), with high-quality operational projects receiving lower weights. Additionally, refined treatment for collateral, unhedged foreign currency exposures, and specialised lending has been introduced and the definition of eligible Micro, Small and Medium Enterprises (MSME) exposure has been broadened, and threshold for regulatory retail exposure increased to INR10 crore from INR7.5 crore.

Questions for the Audit Committee

1. What is the expected change in risk-weighted assets and capital adequacy ratios once the revised risk weights and thresholds take effect on 1 April 2027?
2. Are the systems and processes ready to implement the phase-differentiated risk weights for project finance and the revised MSME/retail exposure thresholds?
3. Will the revised capital requirements result in any changes to the Company's risk management approach or pricing strategy for specific lending segments?

Applicability: – Commercial Banks

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Reserve Bank of India (RBI)[9]

Update in relation to Unregistered Type I Non-Banking Financial Companies (NBFCs) – effective 1 July 2026

The RBI has issued the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 to refine the regulatory framework for Non-Banking Financial Companies (NBFCs), effective 1 July 2026. The RBI has introduced a new classification framework wherein there is Type I NBFC (with registration) when no public funds availed and there is no customer interface and all others are classified as Type II NBFC. Further, unregistered Type I NBFCs' have been introduced – these are those which do not have access to public funds, no customer interface and have group-aggregated assets below INR1,000 crore. These NBFCs are exempt from the certificate of registration (Section 45-IA of RBI Act, 1934) and reserve-fund requirements (Section 45-IC of RBI Act, 1934). The eligible existing NBFCs (including currently registered Type I NBFCs) may apply for deregistration upto 31 December 2026.

Questions for the Audit Committee

1. Does the group have any NBFC entities that now qualify as 'unregistered Type I' NBFC?
2. For any currently registered Type I NBFCs in the group, is the management evaluating whether to apply for de-registration before 31 December 2026 deadline and what are the trade-offs?
3. If the certificate of registration and reserve fund requirement is exited, has the management identified internal controls that will replace this regulatory oversight to manage risks?
4. Does the reclassification affect how any group NBFC entities are treated for consolidation, related party or other regulatory reporting purposes?

Applicability: – NBFCs

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Reserve Bank of India (RBI)[10]

NBFC- Upper layer – effective immediately i.e. from 24 June 2026

The RBI has issued the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Second Amendment Directions, 2026 on 24 June 2026 under which Upper Layer NBFC (NBFC-UL) will now include NBFCs with asset size ≥ INR1 lakh crore, identified annually. This threshold will be reviewed every 3 years and it replaces RBI's multi-criteria approach. Further, NBFCs that are group entities of Scheduled Commercial Banks must also comply with bank-related financial services regulations where activities overlap, while still being classified under the existing scale-based layers.

Questions for the Audit Committee

1. Does the group have any NBFC entities with asset size at or close to INR1Lakh crore that could now fall into or out of the Upper Layer classification under this new simplified criterion?
2. Who is accountable for monitoring the classifications status and ensuring timely compliance with any new requirements?
3. If any NBFC is a group entity of a Scheduled Commercial Bank, then has the management identified which bank related regulations now apply due to overlapping activities?
4. Given the threshold is to be reviewed every 3 years what process is in place to track the classification status going forward?

Applicability: – NBFCs

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