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# Regulatory updates for the month of January 2026

31 January 2026

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# Introduction

The regulatory updates publication issued by the Foundation for Audit Quality (FAQ) highlights the latest developments in auditing, accounting and regulatory space in India and internationally. This month's edition covers important updates on auditing, accounting and regulatory matters from regulators for the period from 1 January 2026 to 31 January 2026.

## **Some of the key topics covered in this edition include:**

- NFRA circular emphasising effective communication between statutory auditors and Those Charged with Governance (TCWG) and enhanced regulatory expectations under SA 260 (Revised) and SA 265
- NFRA's Audit Practice Toolkit on Risk of Material Misstatement (ROMM), providing practical guidance on assertion-level risk assessment
- NFRA's review and recommendation of Ind AS 118 (converged with IFRS 18), introducing significant changes to presentation and disclosure of financial statements
- Accounting and disclosure implications arising from the New Labour Codes, including ICAI FAQs and draft labour code rules
- SEBI regulatory updates, including amendments to Mutual Fund, ICDR, LODR and NCS Regulations, covering revised expense disclosures, IPO lock-in and prospectus requirements, governance relaxations for HVDLEs, investor servicing and IEPF transfers, targeted incentives in debt issuances, and periodic disclosure requirements for Securitised Debt Instruments (SDIs).
- RBI updates, including amendments to concentration risk management and capital adequacy frameworks, introduction of preferential risk-weight treatment for high-quality infrastructure projects, enhanced financial statement disclosures (including CRM and related-party exposures), and a strengthened credit risk management framework for lending to related parties.
- ICAI updates, including exposure drafts on Information Systems Audit Standards (ISAS) and proposed amendments to Ind AS 21
- International developments from FASB, IASB, and IAASB, covering codification improvements, illustrative examples on reporting uncertainties, and amendments related to the use of experts in audits.

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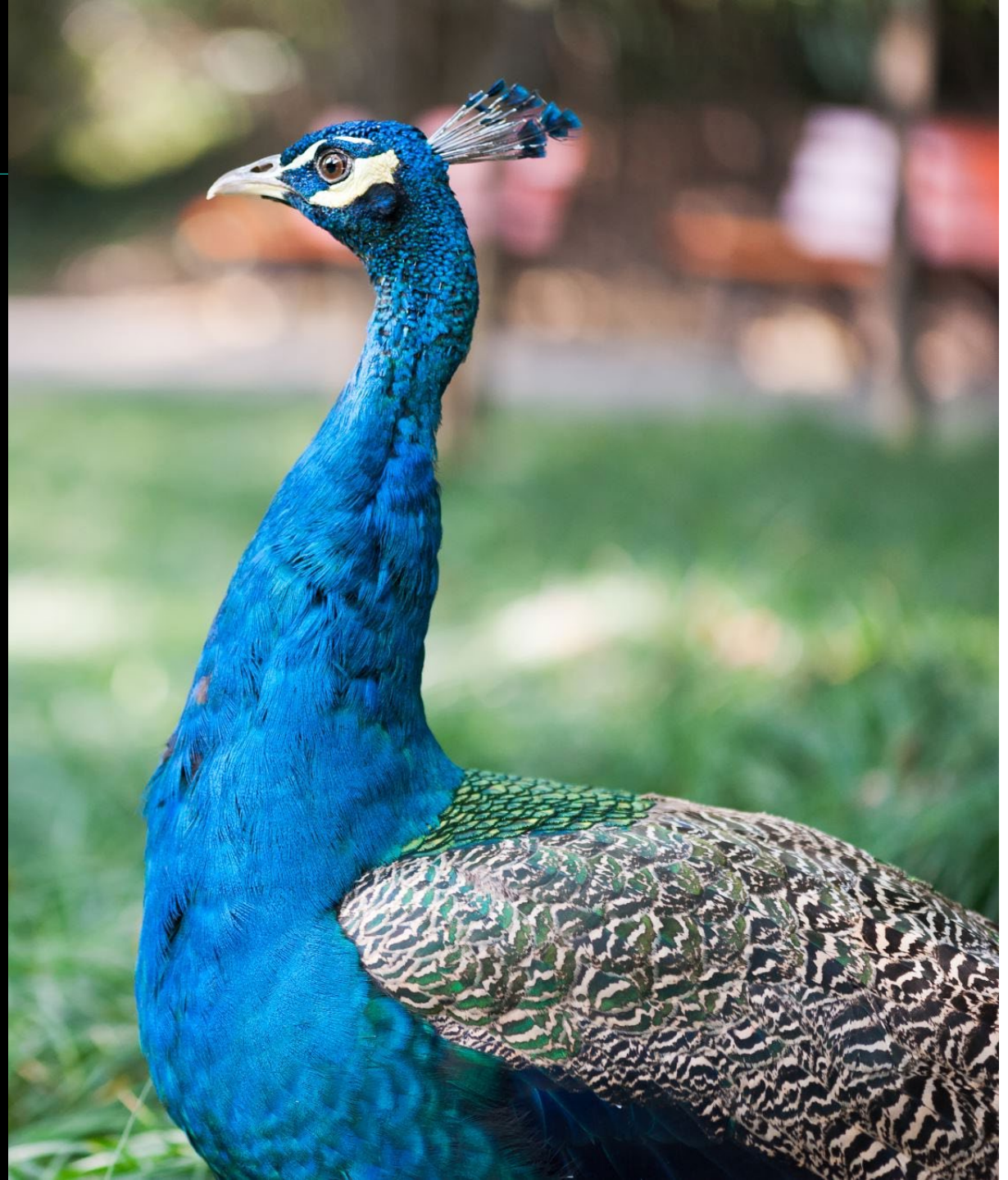


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## NFRA Circular on effective communication between statutory auditor and TCWG

The National Financial Reporting Authority (NFRA) has issued a circular emphasising the need to significantly strengthen communication between statutory auditors and Those Charged with Governance (TCWG), including Audit Committees, in line with the Companies Act, 2013 and Standards on Auditing (notably SA 260 (Revised) and SA 265).

While the underlying requirements already existed under the Standards on Auditing, NFRA has observed widespread non-compliance in practice during its investigations. The circular, therefore, raises the regulatory expectation and clarifies that ineffective or poorly documented communication with TCWG will be treated as a serious audit quality and governance failure, not a procedural lapse.

NFRA has explicitly highlighted recurring deficiencies such as:

- Incorrect identification of TCWG (often limiting it only to the Audit Committee or management)
- One-way or last-minute communications just before approval of financial statements
- Failure to communicate key audit matters, significant risks, going-concern issues, unusual transactions, regulatory non-compliances, and internal control deficiencies
- Inadequate or absent documentation of auditor–TCWG interactions.



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## What this means for auditors

The circular materially raises the bar for auditors' professional conduct and documentation. Auditors are now expected to demonstrate robust, timely, two-way, and well-documented engagement with TCWG throughout the audit cycle.

Specifically, auditors must:

- **Determine and document TCWG at the start of the audit**, considering whether communication with the full Board is required in addition to any sub-group (e.g., Audit Committee)
- **Establish a formal communication framework**, including form, timing, agenda, escalation mechanisms, and frequency of interactions
- **Engage in regular two-way communication**, including at least one meeting before audit commencement and another well before financial statement approval
- **Communicate in writing** all significant matters, including audit strategy, materiality, key risks, significant judgements and estimates, internal control deficiencies, fraud risks, unusual transactions, and independence considerations;
- **Ensure communications are substantive and specific**, not limited to high-level presentations, engagement letters, or emails implying tacit acceptance **Document all communications comprehensively** as part of audit working papers, including oral discussions, views of TCWG, and outcomes of deliberations.



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NFRA has clearly signalled that non-compliance with SA 260 (Revised), SA 265 and related standards will attract regulatory scrutiny and may form the basis for findings of professional misconduct. The circular reinforces that effective auditor–TCWG communication is central to audit quality, governance, and investor confidence, particularly for entities in the public interest domain.

## What this means for companies

The circular also places heightened responsibility on Boards of Directors, Audit Committees, and senior management.

For companies, this means:

- **Boards and Audit Committees must actively engage with auditors**, rather than treating communication as a formality at year-end.
- **Audit Committees and TCWG can no longer rely solely on summary presentations**; they are expected to participate in substantive discussions on audit planning, risks, judgements, internal controls, compliance issues, and auditor independence.
- **TCWG must establish and document a clear communication framework** with auditors, including designated nodal persons, meeting schedules, escalation protocols, and documentation practices.



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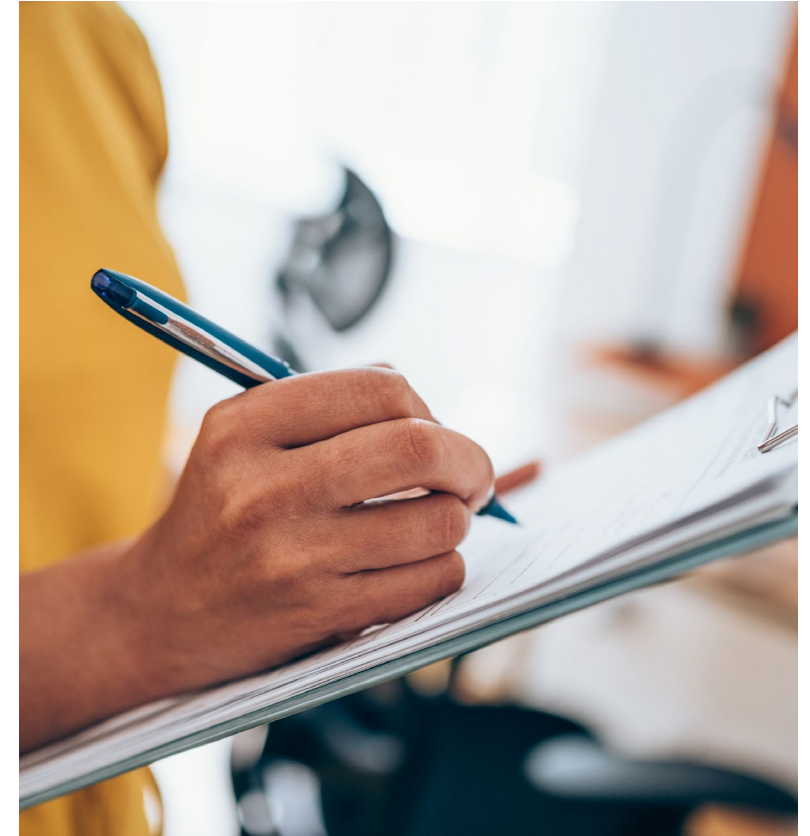
- **Independent Directors are expected to exercise enhanced oversight**, including ensuring that audit concerns, disagreements, or unresolved issues are properly deliberated and documented in minutes.
- Failure by TCWG to engage effectively or respond to auditor communications may be viewed as a governance failure, with potential regulatory and reputational consequences.

The circular reinforces that an audit does not dilute the responsibilities of the Board or Audit Committee; instead, it requires active and informed oversight of the financial reporting and audit process.

## Action Points for Auditors should promptly:

- **Revisit audit methodologies, templates, and engagement documentation to align with NFRA's expectations**
- **Engage with companies to identify TCWG, planning communications, and documenting interactions;**
- **Proactively engage with TCWG to agree on communication protocols early in the audit cycle.**

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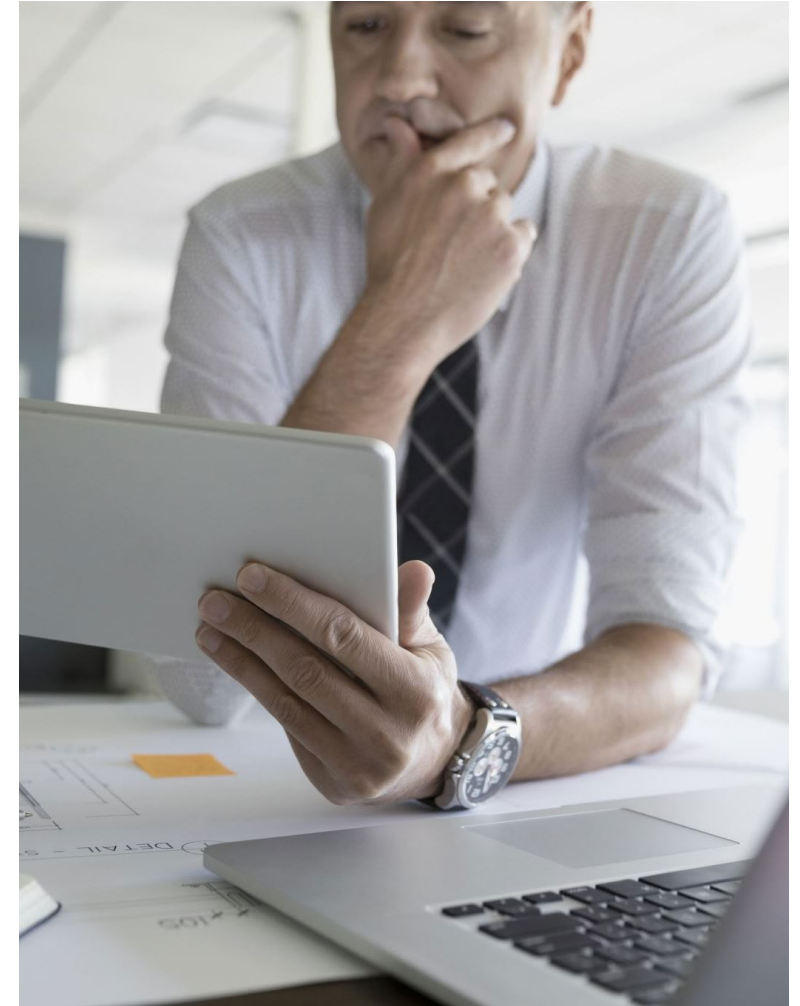
## NFRA audit practice toolkit: ROMM Sample document

The National Financial Reporting Authority (NFRA) has released a staff-developed Audit Practice Toolkit focused on assessing the Risk of Material Misstatement (ROMM) at the assertion level for revenue. Issued as an educational resource, the toolkit is intended to support auditors in enhancing audit quality and strengthening their understanding and application of key auditing standards, particularly SA 315 (*Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*) and SA 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*).

The toolkit explains the purpose and methodology of risk assessment, outlines auditors' responsibilities under the Standards on Auditing, and demonstrates how ROMM should be identified and evaluated at the assertion level through a practical illustrative case study involving revenue from the sale of products.

### Action Points for Auditors:

- **Annual, entity-specific risk assessment (SA 315):** Perform a fresh ROMM assessment each year, grounded in business understanding and professional skepticism—avoid roll-forward of prior-year risks.
- **Assertion-level ROMM identification:** Identify and document risks at the assertion level with clear rationale; generic or account-level risks are insufficient.
- **Risk–response linkage:** Clearly link identified risks to tailored audit procedures and conclusions; audit strategy must demonstrably flow from assessed risks.



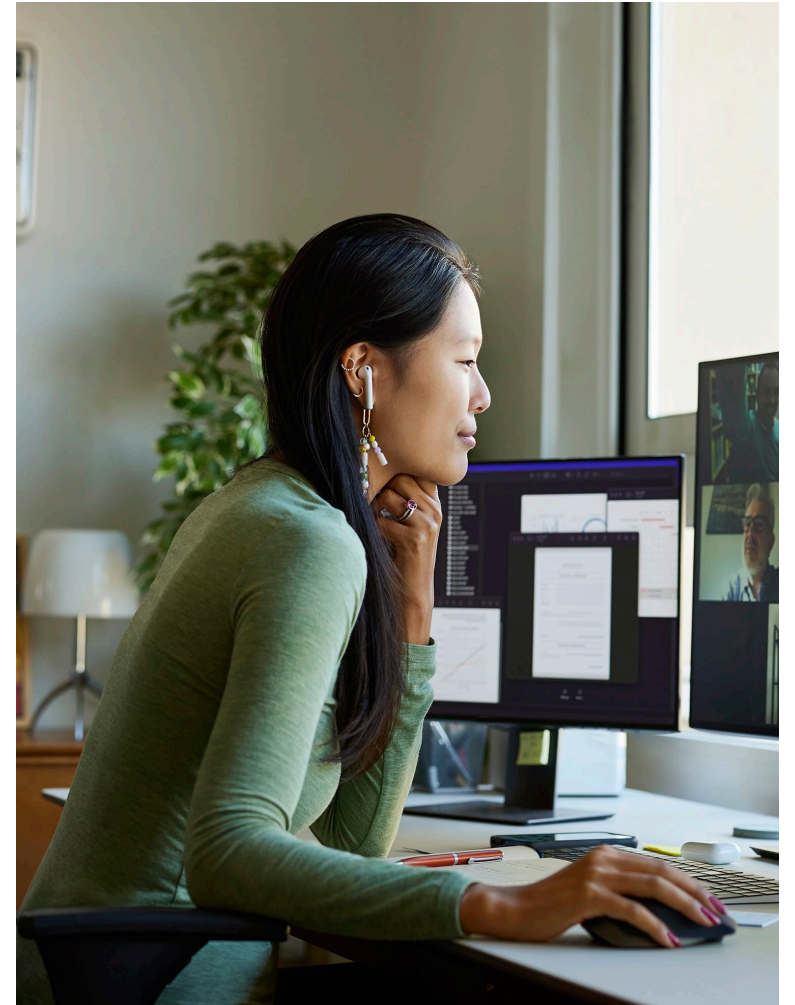
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- **Focus on judgment-intensive areas:** Apply heightened scrutiny to revenue, estimates, and provisions based on entity-specific facts, complexity, IT reliance, and fraud risk.
- **High-quality documentation:** Audit files should reflect judgement, thought process, and conclusions—avoid boiler-plate language and mechanical templates.
- **Strong partner and senior team involvement:** Evidence active partner and senior review, challenge, and resolution of key judgements.
- **Timely TCWG communication:** Communicate significant risks and audit focus areas to TCWG at the planning stage and document discussions.
- **Inspection readiness:** Embed NFRA guidance into methodologies, training, and internal reviews to ensure inspection-ready audit files.

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## NFRA reviews and recommends Ind AS 118

The National Financial Reporting Authority (NFRA) held its 22nd meeting on 22 December 2025 to deliberate on the proposed Ind AS 118, Presentation and Disclosure in Financial Statements, which is converged with IFRS 18, issued by the IASB in 2024 following extensive global consultation. The Institute of Chartered Accountants of India (ICAI) had issued the exposure draft of Ind AS 118 on 6 January 2025.

Ind AS 118 represents a significant change to financial reporting, primarily revising the presentation of the Statement of Profit and Loss to improve clarity, comparability, and transparency. Key features discussed included a revised P&L structure with clearer subtotals, enhanced principles for aggregation and disaggregation of information, and the introduction of management-defined performance measures (MPMs) within the financial statements, supported by robust disclosure and consistency requirements. An important India-specific aspect highlighted was the option to classify expenses by nature or by function, allowing flexibility to reflect different business models and industry practices.

The discussions also recognised the need for consequential amendments to Schedule III of the Companies Act, 2013, as well as corresponding updates to SEBI's reporting formats, to facilitate effective implementation of the new Standard.

NFRA considered the proposed effective date, noting that companies would require adequate lead time to implement the revised presentation requirements and restate comparative information. Special consideration was given to Indian subsidiaries of foreign companies following a calendar-year reporting period, to avoid misalignment with parent entities adopting IFRS 18.



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Following the deliberations, NFRA decided to recommend Ind AS 118 to the Central Government for notification, with an effective date for annual reporting periods beginning on or after 1 April 2027. Early adoption from 1 January 2027 was recommended for companies following a calendar-year reporting period. NFRA also resolved to suggest that the Ministry of Corporate Affairs (MCA) and SEBI consider necessary amendments to Schedule III and related regulatory guidance to align with the new Standard.

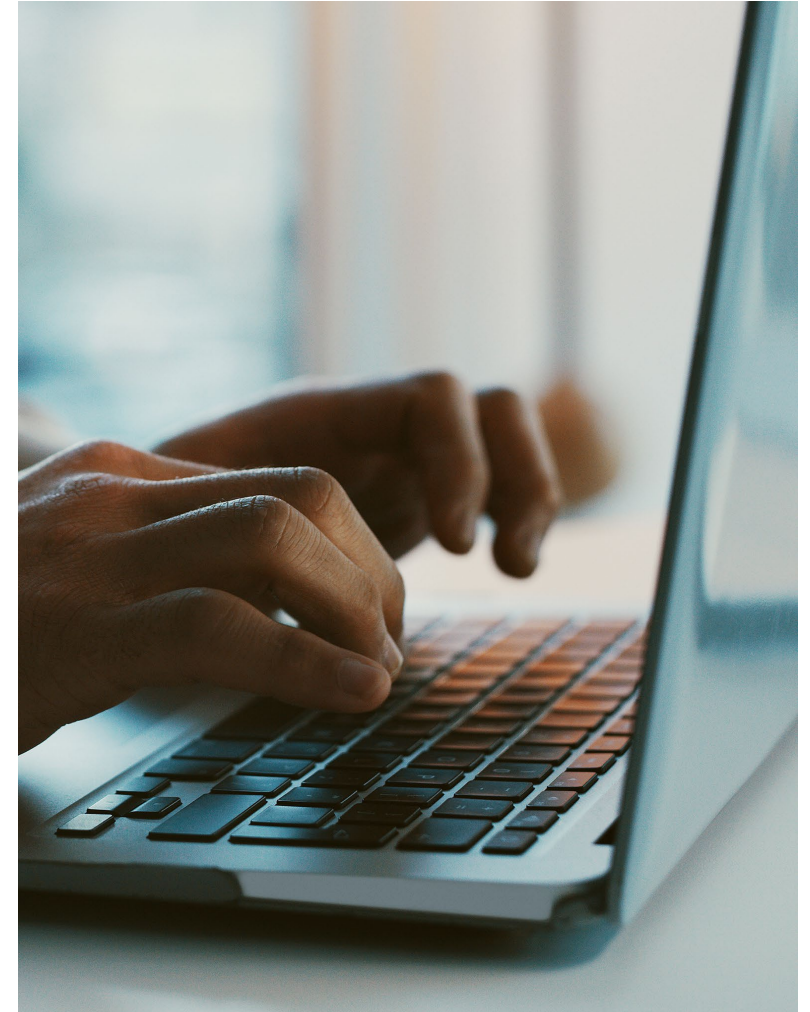
## Implications for companies

Companies will need to re-evaluate the presentation of their Statement of Profit and Loss, including the structure of subtotals, aggregation and disaggregation of line items, and the identification and disclosure of management-defined performance measures. Early impact assessments, system and chart-of-accounts changes, and stakeholders' communication planning will be critical, particularly given the requirement to restate comparative information. Boards and Audit Committees will need to exercise enhanced oversight over presentation choices, MPM disclosures, and consistency with internal performance reporting.

## Action Points for Auditors

**Auditors will need to develop a deep understanding of the new presentation principles, including the appropriateness of management-defined performance measures and related disclosures. Audit procedures will need to address judgement in classification, aggregation, and consistency of MPMs, and assess compliance with revised Schedule III and SEBI reporting formats once notified. Early planning will be essential to support clients through transition, comparative restatement, and alignment with global reporting where IFRS 18 is adopted by parent entities.**

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## ICAI Updates

### Exposure draft of Information Systems Audit Standards (ISAS)

The Digital Accounting and Assurance Board (DAAB) of the Institute of Chartered Accountants of India (ICAI) has released the draft Information Systems Auditing Standards (ISAS). The draft proposes a principle-based framework for evaluating the integrity, confidentiality, availability, reliability, and security of information systems.

The proposed standards are intended to provide professionals with a structured and globally aligned approach to Information Systems (IS) Audit, encompassing governance, IT general controls, application controls, cybersecurity assurance, technology risk management, incident response, data protection compliance, and system implementation reviews.

The consultation period for submitting comments on the draft concluded on 25 January 2026.

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## Exposure draft on Ind AS 21

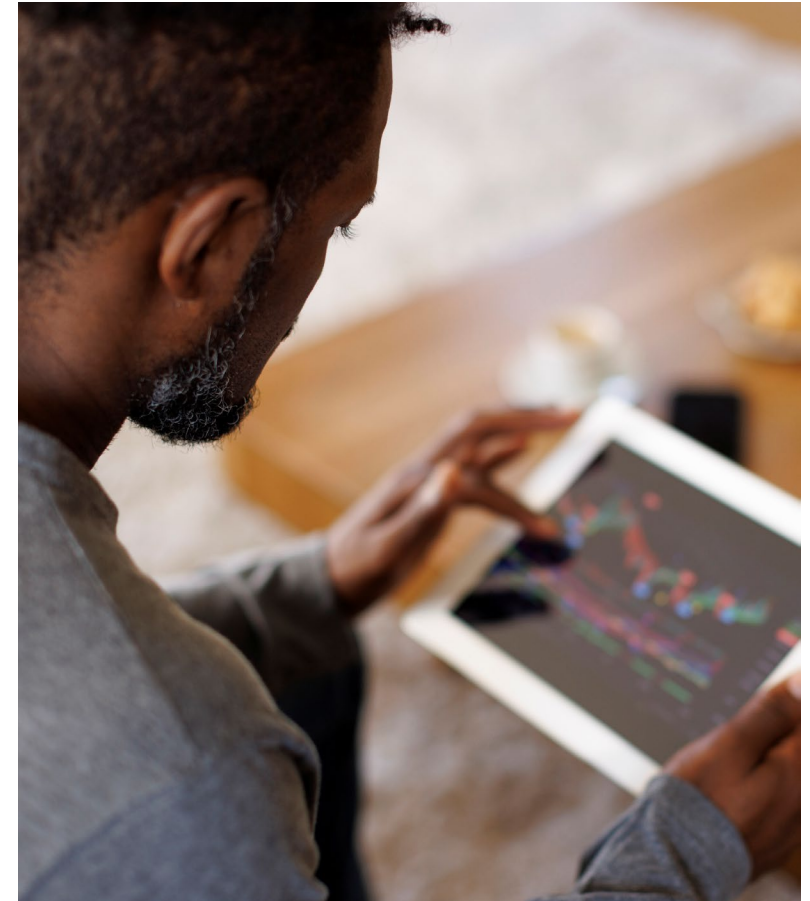
On 26 December 2025, the Institute of Chartered Accountants of India (ICAI) issued an exposure draft proposing amendments to Indian Accounting Standard (Ind AS) 21 *Effects of Changes in Foreign Exchange Rates*, specifically relating to the translation of financial statements into a hyperinflationary presentation currency. The proposed amendments seek to align Ind AS 21 with recent updates issued by the International Accounting Standards Board (IASB).

Before the proposed amendment, Ind AS 21 provided limited guidance on translating financial statements where an entity's functional currency and presentation currency were associated with hyperinflationary and non-hyperinflationary economies, particularly in circumstances where exchangeability between currencies was restricted. This resulted in practical challenges in determining appropriate exchange rates and ensuring faithful representation of financial information in hyperinflationary environments.

Under the proposed amendment, the draft clarifies how entities should translate financial statements when the functional and presentation currencies relate to hyperinflationary or non-hyperinflationary economies. It introduces new guidance on determining exchange rates in situations where a currency lacks exchangeability and proposes additional application guidance, transitional provisions, and enhanced disclosure requirements. These changes are intended to ensure that financial reporting more accurately reflects economic realities in jurisdictions affected by hyperinflation.

The period for submitting comments on the exposure draft closed on 25 January 2026.

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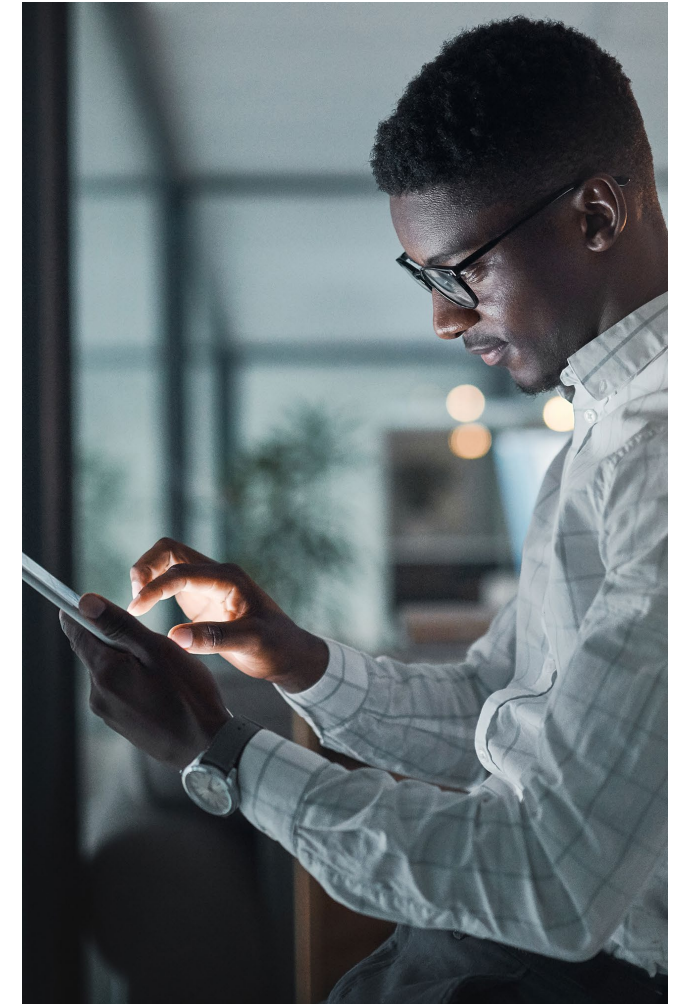
## ICAI ASB FAQs on Accounting Implications of the New Labour Codes

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI), vide its announcement dated 26 December 2025, has issued FAQs on key accounting implications arising from the New Labour Codes. The FAQs have been issued to provide clarity and promote consistency in the application of existing Accounting Standards in light of the four New Labour Codes notified by the Government of India. These FAQs serve as interpretative guidance and do not create new accounting requirements.

The FAQs aim to address practical accounting questions arising from changes introduced by the New Labour Codes, particularly in relation to employee benefits, gratuity, leave encashment, social security contributions, and recognition of related liabilities and expenses. The guidance clarifies how existing Accounting Standards, especially AS 15 / Ind AS 19, Employee Benefits, should be applied when entities assess the impact of revised wage definitions and expanded benefit coverage under the New Labour Codes.

The FAQs clarify that changes in wage structure arising from implementation of the New Labour Codes may result in remeasurement of defined benefit obligations, including gratuity and other post-employment benefits. Such changes are required to be accounted for as plan amendments or actuarial remeasurements, as applicable, in accordance with the relevant accounting standard. The guidance also clarifies the timing of recognition of additional liabilities, stating that accounting impact should be recognised only when the entity has a present obligation, and the relevant provisions of the New Labour Codes have become effective and enforceable for the entity.

Further, the FAQs address treatment of past service costs, employer contributions to social security schemes, and disclosures required in the financial statements where the impact of the New Labour Codes is material. The FAQs emphasise that mere enactment of the Codes does not automatically trigger accounting adjustments unless the provisions are notified and implemented, and the obligation has crystallised.



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Entities are expected to evaluate whether the impact of the New Labour Codes is material and, where applicable, provide appropriate disclosures regarding the nature and financial impact of the changes. The FAQs also highlight the need for judgement and estimation, particularly in determining revised salary structures, actuarial assumptions, and transition timing. Where implementation is pending, entities may consider providing qualitative disclosures about potential future impact.

The FAQs are clarificatory in nature and are intended to support uniform application of existing Accounting Standards. They are applicable to entities preparing financial statements under Indian Accounting Standards (Ind AS) as well as Accounting Standards (AS), as relevant. The FAQs do not override any notified Accounting Standard and are to be read in conjunction with applicable statutory requirements.

## Auditor Action Points

- **Assess whether provisions of the New Labour Codes have become effective and enforceable for the entity.**
- **Evaluate impact of revised wage definitions on employee benefit obligations, particularly gratuity and leave encashment.**
- **Review actuarial valuations for identification of plan amendments or remeasurements.**
- **Verify timing of recognition of additional liabilities based on existence of a present obligation.**
- **Check adequacy and appropriateness of financial statement disclosures, including qualitative disclosures where impact is not yet recognised.**
- **Assess consistency of accounting treatment with AS 15 / Ind AS 19 and ICAI ASB guidance.**

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## Companies (Appointment and Qualification of Directors) Amendment Rules, 2025

The Ministry of Corporate Affairs (MCA), vide notification dated 31 December 2025, has notified the Companies (Appointment and Qualification of Directors) Amendment Rules, 2025, to further amend the Companies (Appointment and Qualification of Directors) Rules, 2014. The amended rules shall come into force with effect from **31 March 2026**.

The notification revises references to the competent authority under Rule 11 by substituting 'Regional Director (Northern Region), Noida' with 'Regional Director, Northern Region Directorate I' and streamlines provisions relating to Director Identification Number (DIN) compliance by mandating the exclusive use of **Form DIR-3 KYC-Web** in place of earlier forms and web services.

Further, Rule 12A has been substituted to rationalise the Director KYC framework. Under the revised rule, every individual holding a DIN as on 31 March of a financial year is required to file KYC intimation in **Form DIR-3 KYC-Web once every three consecutive financial years**, on or before **30 June** of the relevant year. In addition, any change in a director's personal mobile number, email address, or residential address must be intimated through DIR-3 KYC-Web **within 30 days of such change**, along with the prescribed fee.

The notification also replaces the existing annexed forms with **Form DIR-3 KYC-Web**, which will be used for KYC compliance, updation of particulars, and reactivation of DINs, thereby simplifying and standardising the director KYC process.

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## Draft labour code rules

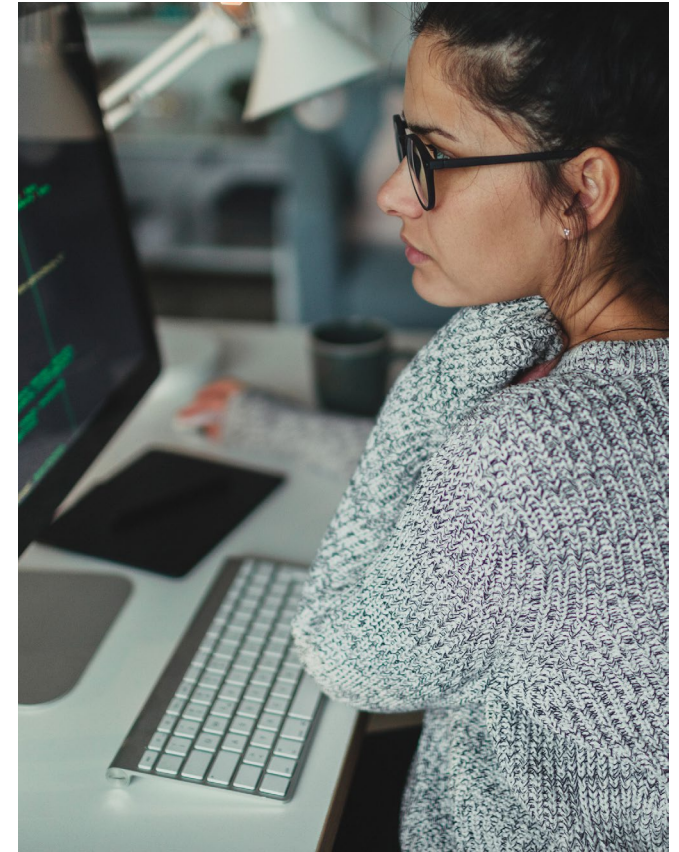
On 30 December 2025, the Ministry of Labour and Employment issued draft Central Rules under all four Labour Codes:

- The Code on Wages, 2019
- Code on Social Security, 2020
- Occupational Safety, Health and Working Conditions Code, 2020 and
- The Industrial Relations Code, 2020

Through an official Gazette notification, inviting public comments. The draft rules provide operational clarity on wages, social security coverage (including gig and platform workers), contract labour compliance, industrial relations processes, and workplace safety requirements, and are intended to enable full implementation of the Labour Codes, which came into force on 21 November 2025.

Stakeholders were given 30 days to submit comments on the draft rules under the Industrial Relations Code and 45 days for the draft rules under the other three Codes. The Central Rules will apply to establishments under the Central Government's jurisdiction and are also expected to guide States in finalising their respective rules. Government communications and industry updates indicate that final Central and State rules are expected to be notified by 1 April 2026, paving the way for full-scale implementation of the new labour law framework across India.

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## RBI Updates

### RBI issues NBFC – concentration risk management amendment directions

The Reserve Bank of India, pursuant to a review of the RBI (Non-Banking Financial Companies – Concentration Risk Management) Directions, 2025, has issued the RBI (NBFC – Concentration Risk Management) Amendment Directions, 2026, in exercise of its powers under Chapter III-B of the RBI Act, 1934.

Through this amendment, RBI has inserted a proviso to paragraph 4(4) of the Directions, introducing a formal classification of ‘high-quality infrastructure projects’. Infrastructure lending shall qualify under this category where the project has completed at least one year of operations post commercial operations, the exposure is classified as standard, revenues are derived from government or statutory concessions/contracts with adequate protection, and the contractual framework provides strong lender safeguards, including escrow mechanisms, pari-passu charge over assets, termination protection, adequate funding arrangements, and restrictions on actions detrimental to lenders.

The amendment directions shall apply from the date an NBFC opts to implement the RBI (NBFC – Prudential Norms on Capital Adequacy) Amendment Directions, 2026, or 1 April 2026, whichever is earlier.

Under the earlier Concentration Risk Management Directions, infrastructure exposure was treated largely on a uniform basis, without a distinct regulatory recognition for operational, lower-risk infrastructure projects. The 2026 amendment marks a significant shift by introducing a new regulatory classification of ‘high-quality infrastructure projects’, backed by objective operational, financial, and contractual criteria.

This change allows RBI to differentiate between construction-phase or higher-risk projects and stable, revenue-generating infrastructure assets, enabling calibrated regulatory treatment under related prudential frameworks. The amendment strengthens risk sensitivity by linking regulatory recognition to demonstrated operational stability, asset quality, and lender protection, while also placing greater emphasis on ongoing compliance and monitoring by NBFCs.



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## Action Points for Auditors

- **Verify eligibility classification of infrastructure loans as high-quality infrastructure projects against RBI-specified operational, contractual, and prudential criteria.**
- **Check accurate application of risk weights and linkage to repayment milestones, ensuring repayment is measured on sanctioned project debt.**
- **Confirm aggregation of additional / takeover loans with original sanctions while assessing repayment thresholds.**
- **Assess ongoing monitoring controls to identify any loss of qualifying status and ensure timely reversion to standard risk weights, where applicable.**
- **Review impact on capital adequacy reporting, including correct reflection in CRAR calculations, regulatory returns, and internal policies.**

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## NBFC prudential norms on capital adequacy amended

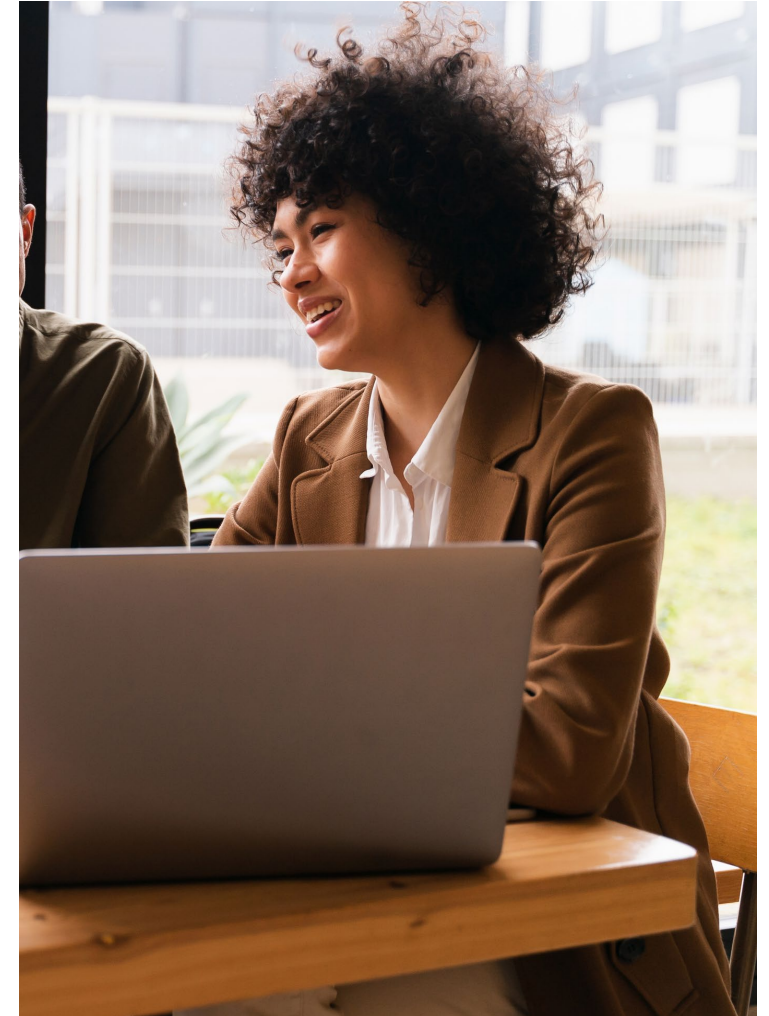
The Reserve Bank of India, vide its notification dated 1 January 2026, has issued the RBI (Non-Banking Financial Companies – Prudential Norms on Capital Adequacy) Amendment Directions, 2026. These Amendment Directions modify the existing NBFC – Prudential Norms on Capital Adequacy Directions, 2025 and have been issued under Chapter III-B of the Reserve Bank of India Act, 1934. The amendment aligns capital adequacy requirements with the revised concentration risk framework for infrastructure lending.

Under this change RBI has introduced preferential risk weights for lending to ‘High-quality infrastructure projects’. Risk weights are now linked to minimum repayment milestones achieved by the borrower.

### Revised risk weights (On-balance sheet exposures)

- **75% risk weight**  
Where borrower has repaid  $\geq 2\%$  of sanctioned project debt
- **50% risk weight**  
Where borrower has repaid  $\geq 5\%$  of sanctioned project debt.

The key conditions and safeguards require that the repayment threshold be calculated with reference to the sanctioned project debt, rather than the outstanding balance. Further, any additional debt sanctioned, including debt arising from loan takeovers or subsequent enhancements, must be aggregated with the original sanctions against the project assets and/or cash flows for the purpose of determining compliance with the repayment threshold. If a project ceases to meet the criteria for classification as a ‘high-quality infrastructure project’, the associated exposure will no longer be eligible for preferential treatment and will revert to the standard risk weights prescribed under the general regulatory framework.



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The amendment incentivises NBFCs to lend to operational and stable infrastructure projects by allowing lower risk weights once defined repayment milestones are achieved. It provides capital relief linked to demonstrated repayment performance, thereby aligning regulatory benefits with asset quality and cash-flow stability. At the same time, it necessitates enhanced ongoing monitoring by NBFCs to ensure continued compliance with repayment thresholds and eligibility criteria for classification as high-quality infrastructure projects.

The Amendment Directions will become applicable from the date the NBFC opts to implement the RBI (NBFC – Prudential Norms on Capital Adequacy) Amendment Directions, 2026, or from 1 April 2026, whichever is earlier.

## Action Points for Auditors

**Eligibility verification** – Confirm that infrastructure loans classified as *high-quality infrastructure projects* meet RBI-prescribed eligibility conditions on an ongoing basis.

**Risk-weight accuracy** – Verify correct application of 75% / 50% risk weights based on achievement of 2% / 5% repayment milestones, respectively.

**Repayment threshold computation** – Ensure repayment percentages are calculated on total sanctioned project debt, with all additional or takeover loans appropriately aggregated.

**Ongoing monitoring and reversals** – Assess controls to identify any breach of qualifying conditions and ensure timely reversion to standard risk weights where required.

**Capital adequacy and governance impact** – Check accurate reflection of revised risk weights in Capital to Risk-Weighted Assets Ratio (CRAR) calculations, regulatory returns, internal policies, and Audit Committee reporting.

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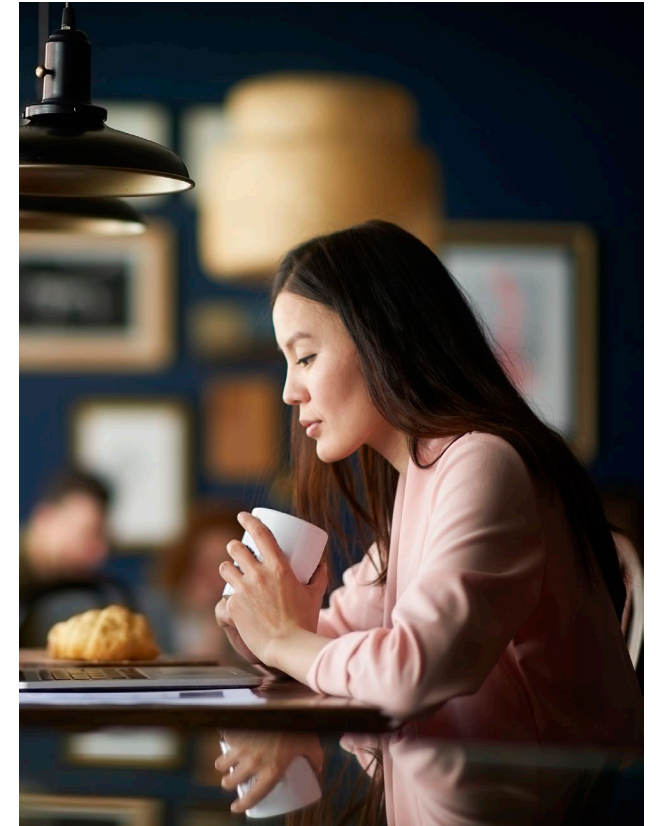
## Commercial banks – amendments to presentation and disclosure in financial statements

The Reserve Bank of India, vide its notification dated 1 January 2026, has issued the RBI (Commercial Banks – Financial Statements: Presentation and Disclosures) Amendment Directions, 2026. These directions amend the existing Directions, 2025 to enhance transparency in capital disclosures, particularly in relation to Credit Risk Mitigation (CRM). Before the amendment, banks especially foreign banks operating in India were required to maintain deposits under Section 11(2) of the Banking Regulation Act, 1949, but there was no explicit disclosure requirement to separately identify the portion of such deposits earmarked for CRM relating to non-centrally cleared derivative exposures. As a result, the treatment and regulatory capital status of these earmarked amounts was not clearly visible in the financial statements.

After the amendment, RBI has mandated that banks must specifically disclose, by way of a note under Schedule 1 (Capital) of the balance sheet, the amount held under Section 11(2) of the Banking Regulation Act that is earmarked and designated as Credit Risk Mitigation (CRM) for offsetting risks arising from non-centrally cleared derivative exposures to the Head Office (including overseas branches). The disclosure must also clearly state that such earmarked amounts are not reckoned as regulatory capital or for any other statutory capital requirements.

The amendment aligns financial statement disclosures with the revised Concentration Risk Management framework, thereby ensuring that capital set aside for CRM purposes is transparent and not inadvertently double-counted as regulatory capital.

The amendment becomes effective from the date a bank opts to implement paragraphs 3(1) to 3(4) of the RBI (Commercial Banks – Concentration Risk Management) Amendment Directions, 2025, or 1 April 2026, whichever is earlier.



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## Action Points for Auditors

Auditors should specifically evaluate the following to capture the impact of the amendment:

- **Disclosure compliance:** Verify that a separate note under Schedule 1 (Capital) clearly discloses the amount earmarked as CRM under Section 11(2) of the Banking Regulation Act, with comparative prior-year figures.
- **Correct classification:** Confirm that only amounts specifically designated for offsetting non-centrally cleared derivative exposures are included in the CRM disclosure.
- **Capital computation integrity:** Check that the earmarked CRM amounts are excluded from regulatory capital, CRAR computations, and other statutory capital measures.
- **Consistency with risk management framework:** Assess alignment between CRM disclosures, derivative exposure data, and the bank's implementation of the Concentration Risk Management Amendment Directions.
- **Governance and controls:** Review internal controls and documentation supporting the earmarking, monitoring, and disclosure of CRM-related capital.



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## RBI issued amendments related to financial statement disclosures

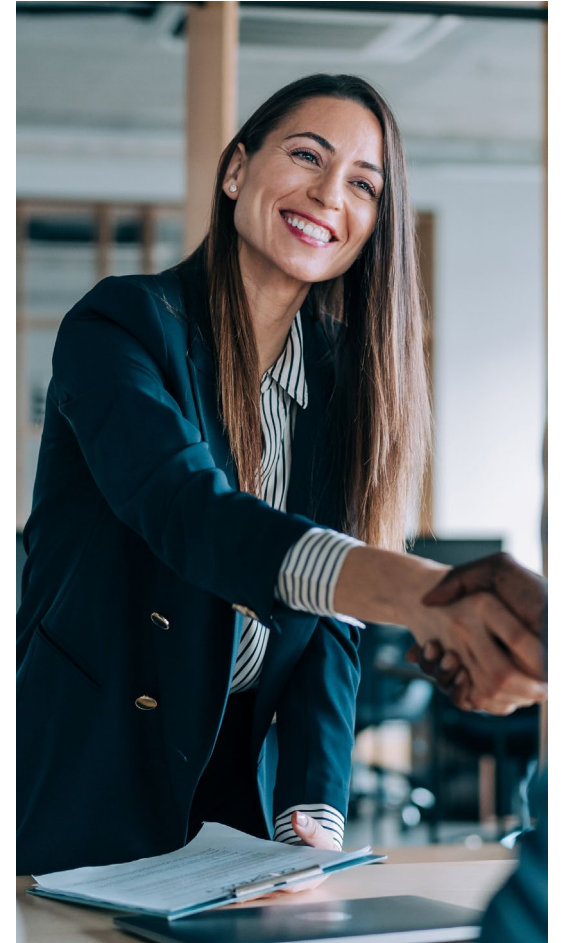
The Reserve Bank of India has issued the RBI (NBFC – Financial Statements: Presentation and Disclosures) Amendment Directions, 2026 and the RBI (Commercial Banks – Financial Statements: Presentation and Disclosures) Second Amendment Directions, 2026. These directions amend the existing financial statement disclosure framework for NBFCs and commercial banks. These amendments build upon recent changes to the Credit Risk Management framework and are intended to enhance transparency and consistency in disclosures relating to related party exposures.

Prior to the amendment, disclosures on lending and other dealings with related parties were largely dispersed across different notes and did not require a standardised, comprehensive presentation capturing the overall extent, quality, and risk profile of related party exposures. Information such as loans sanctioned during the year, outstanding balances, stress classification, and provisions relating to related parties was not required to be presented in a consolidated and structured manner.

Under the revised framework, regulated entities are now required to present a dedicated and standardised set of disclosures on loans and other transactions with related parties.

The new disclosure format mandates reporting of:

- (i) The aggregate value of loans sanctioned to related parties during the year
- (ii) outstanding loan balances at year-end
- (iii) related party exposures as a proportion of total credit exposure
- (iv) classification of such exposures under stress categories (Special Mention Account (SMA)/ Non-Performing Asset (NPA)).
- (v) provisions held against related party loans, and
- (vi) The aggregate value of contracts and arrangements awarded to, and outstanding with, related parties during the year. This enables stakeholders to better assess the scale, concentration, and credit quality of related party dealings.



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The amendment comes into effect from 1 April 2026, with an option for early adoption. Similar amendments have also been issued for All India Financial Institutions, Local Area Banks, Rural Cooperative Banks, Regional Rural Banks, Small Finance Banks, and Urban Cooperative Banks, thereby ensuring uniformity in related party disclosure practices across the regulated financial sector.

## Action Points for Auditors

- **Verify identification of related parties in line with Credit Risk Management Directions.**
- **Check completeness and accuracy of related-party exposure disclosures.**
- **Reconcile disclosed figures with loan registers and contract records.**
- **Verify classification of related-party exposures (SMA/NPA) and adequacy of provisions.**
- **Ensure comparative disclosures are appropriately presented.**



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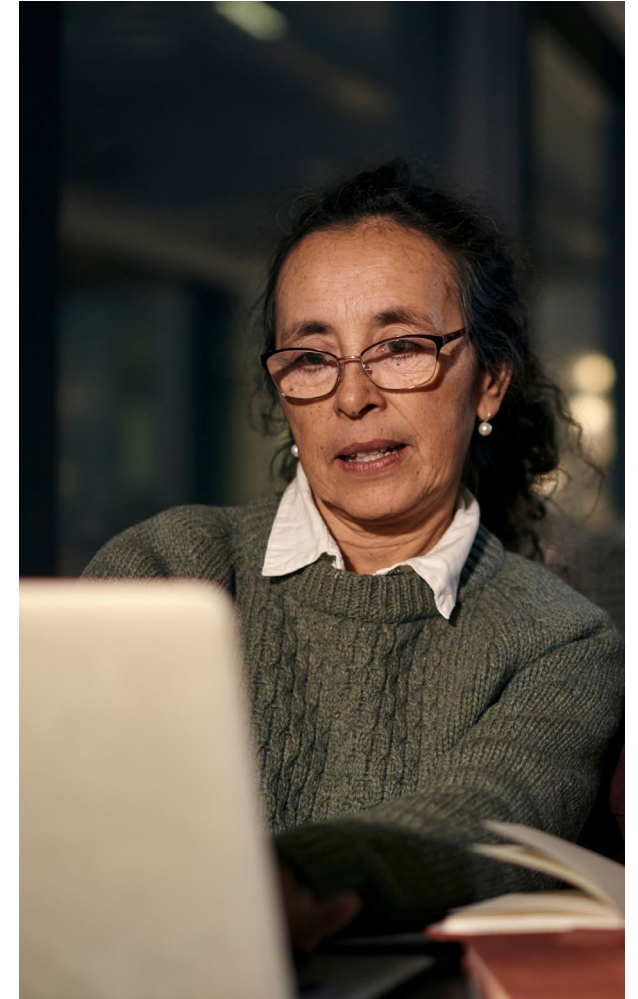
## RBI issues prudential norms amendment for Commercial Banks

The Reserve Bank of India has issued the RBI (Commercial Banks – Prudential Norms on Capital Adequacy) Amendment Directions, 2026. These directions amend the existing capital adequacy framework prescribed under the RBI (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025. The amendment primarily revises the risk-weighting treatment of claims on non-resident corporates and expands the list of recognised international credit rating agencies for capital adequacy purposes.

Prior to the amendment, claims on non-resident corporates were risk-weighted based on ratings assigned by select international rating agencies such as S&P, Fitch, and Moody's, with a uniform mapping framework. There was no specific recognition or differentiated risk-weight mapping for ratings assigned by CareEdge Global IFSC Limited, nor was there a separate framework for claims originating from the International Financial Services Centre (IFSC). Additionally, the list of eligible external credit rating agencies was more limited.

Under the amended framework, RBI has introduced a revised and more granular risk-weight mapping for claims on non-resident corporates. While the existing mapping for ratings assigned by S&P, Fitch, and Moody's continues, a separate risk-weight table has been prescribed for claims originating at IFSCs where ratings are assigned by CareEdge Global IFSC Limited, with risk weights ranging from 20% to 150% based on the credit rating. The amendment also clarifies that large unrated exposures (above specified system-wide thresholds) and exposures that have lost ratings will attract a higher risk weight of 150%, and that unrated claims cannot receive a preferential risk weight compared to the sovereign of incorporation. Further, RBI has formally expanded the list of recognised rating agencies to include CareEdge Global IFSC Limited (for IFSC-originated non-resident corporate exposures), in addition to Fitch, Moody's, and Standard & Poor's.

The amendment comes into force with immediate effect, strengthening risk sensitivity in capital adequacy norms and aligning the framework with the evolving role of IFSCs and global rating agencies in cross-border exposures.



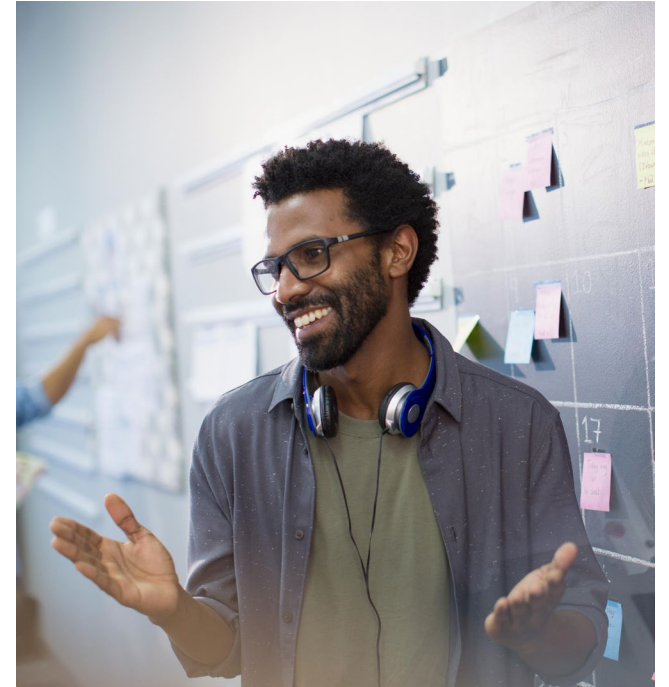
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## Action Points for Auditors

- Identify non-resident corporate exposures, including those originating at IFSCs.
- Verify correct mapping of credit ratings to prescribed risk weights.
- Check recognition and appropriate use of eligible rating agencies, including CareEdge Global IFSC Limited.
- Review treatment of unrated exposures and compliance with enhanced risk-weight thresholds.
- Ensure no unrated exposure is assigned a risk weight lower than that of the borrower's sovereign.
- Validate timely implementation of revised risk-weight norms in capital adequacy computations.



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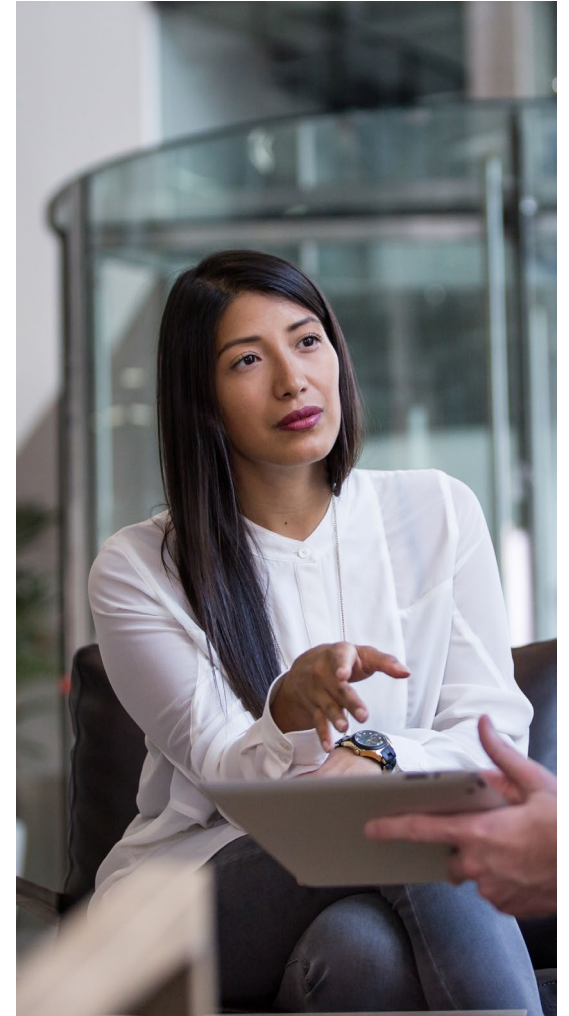
## RBI issues credit risk management amendment directions

The Reserve Bank of India has issued the RBI (Commercial Banks – Credit Risk Management) Amendment Directions, 2026, substantially overhauling the framework governing lending to related parties under the existing Credit Risk Management Directions, 2025. The amendment is aimed at strengthening governance, improving transparency, and mitigating conflicts of interest in related party lending.

Before the amendment, the Directions contained limited and fragmented provisions on lending to related parties, largely anchored around statutory restrictions under the Banking Regulation Act. Definitions of related parties were narrower, governance structures were not explicitly prescribed, and there was no comprehensive framework covering materiality thresholds, approval processes, recusal requirements, monitoring mechanisms, or whistleblowing safeguards. Oversight of related party lending was therefore less structured and varied across banks.

After the amendment, RBI has introduced a comprehensive, principle-based and governance-driven framework for lending to related parties. The Directions now include detailed and aligned definitions of related parties, related persons, promoters, Key Management Personnels (KMPs), specified employees, control, contracts and arrangements, largely harmonised with the Companies Act, 2013 (2013 Act) and the Insolvency and Bankruptcy Code, 2016. A new, dedicated chapter on 'Lending to Related Parties' has been inserted, replacing earlier sections, and clearly setting out board responsibilities, mandatory Board-approved policies, aggregate and sub-limits, materiality thresholds linked to bank size, and explicit approval requirements through the Board or a designated 'Committee on Lending to Related Parties'.

The amended framework also introduces strict regulatory prohibitions on exposures to promoters, significant shareholders, and entities under their control (subject to limited carve-outs), along with mandatory recusal of interested directors, KMPs, and specified employees from decision-making. Robust monitoring, internal audit review, Audit Committee reporting, whistleblower mechanisms, and anti-circumvention provisions have been prescribed, with explicit enforcement consequences for non-compliance.



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To ensure non-disruptive transition, existing non-compliant exposures are permitted to run off till maturity, but cannot be renewed or enhanced unless aligned with the new framework.

The amendments come into effect from 1 April 2026, with an option for early adoption, and are supported by corresponding changes to financial statement disclosure requirements to ensure consistency between risk management and transparency.

## Action Points for Auditors

- Identify whether the NBFC qualifies as a Notified NBFC for applicability of enhanced credit risk evaluation provisions.
- Review updates to credit risk management and related-party lending policies.
- Verify constitution and functioning of the Board-level committee for sanctioning related-party loans.
- Test identification and classification of related parties in line with revised definitions.
- Ensure lending to related parties excludes equity investments and is appropriately approved and documented.
- Assess consistency of implementation with other contemporaneous RBI amendments affecting NBFCs.



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## SEBI Updates

### SEBI Board Meeting

#### 1. SEBI Updates Mutual Fund Regulations

SEBI has approved a new set of Mutual Fund regulations SEBI (Mutual Funds) Regulations, 2026 with the objective of making the framework simpler, transparent, and investor-friendly. The changes are the result of extensive consultation with the mutual fund industry and are designed to improve clarity while strengthening investor protection.

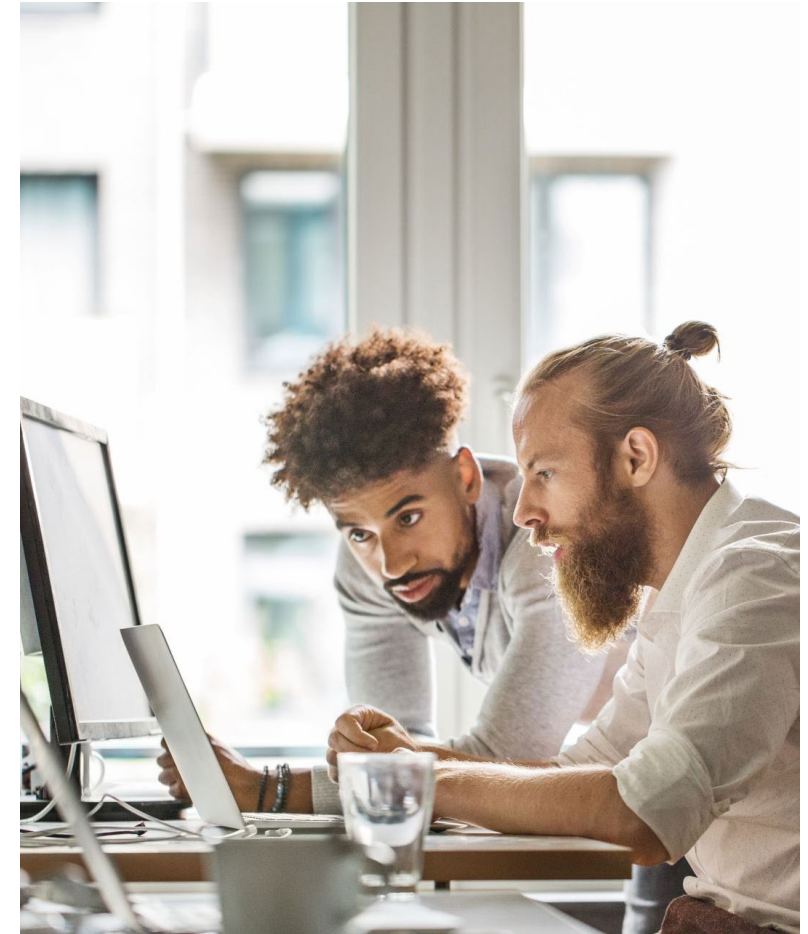
##### **Clearer and simpler regulations**

The revised regulations have been significantly simplified by reorganising and consolidating provisions, removing overlaps, and using clearer language. Key areas such as sponsor eligibility, the roles of Asset Management Companies (AMCs) and Trustees, and investment and valuation norms have been restructured to make the regulatory framework easier to understand and comply with.

##### **Greater transparency on costs**

A key investor-focussed change relates to how scheme expenses are disclosed and charged:

- SEBI has introduced the Base Expense Ratio (BER), which excludes statutory and regulatory levies such as GST, stamp duty, Securities Transaction Tax (STT)/ Commodities Transaction Tax (CTT), and exchange fees.
- These statutory charges will now be charged separately on an actual basis.



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- The Total Expense Ratio (TER) will clearly show the sum of BER, brokerage, and applicable statutory and regulatory levies.

This change improves transparency by helping investors better understand the true cost of managing their investments.

## Revised expense ratio limits

SEBI has revised expense ratio limits across different types of schemes, including:

- Index funds and Exchange-Traded Funds (ETFs)
- Fund of Funds
- Open-ended and close-ended schemes (with Asset Under Management-based slabs).

For larger equity-oriented schemes, limits have been calibrated to ensure that the exclusion of statutory levies does not significantly disrupt Asset Management Company cost structures, while still benefiting investors through clearer disclosures.

## Lower brokerage costs

To further protect investor interests:

- Brokerage limits for cash market and derivative transactions have been reduced and separated from statutory levies.



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- An additional expense allowance that was temporarily permitted for certain schemes has been withdrawn. These measures are expected to help control overall scheme costs over time.

## Easier compliance, more digital disclosures

SEBI has simplified compliance and reporting requirements by:

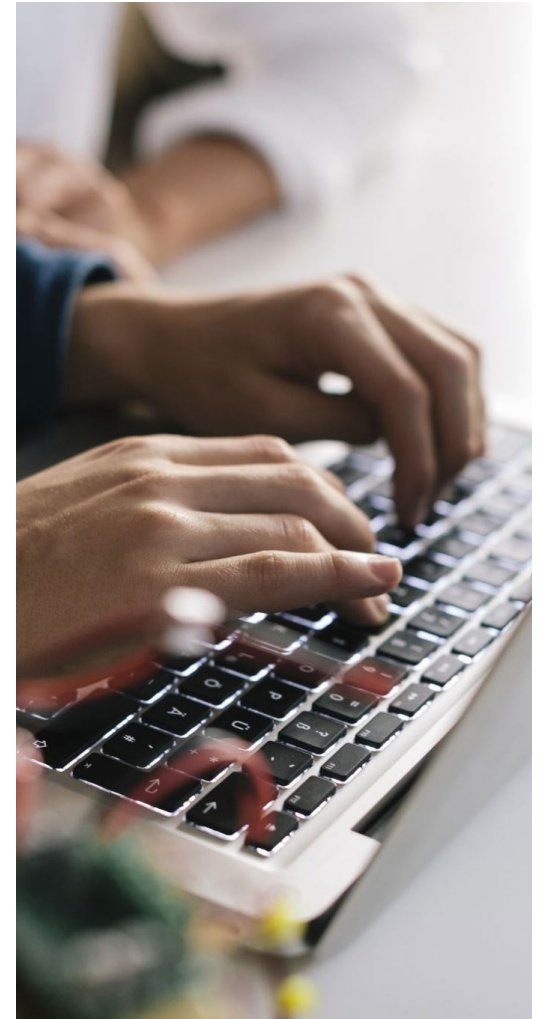
- Reducing duplicative filings and rationalising reporting obligations.
- Moving towards digital-first disclosures, including online monitoring, website disclosures, and electronic communication, instead of physical submissions and newspaper advertisements.
- Streamlining borrowing rules to help certain funds manage short-term liquidity needs more efficiently.

## 2. Amendments to SEBI ICDR Regulations

SEBI has approved amendments to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (SEBI ICDR Regulations) with the objective of streamlining requirements relating to public issues. The key changes are summarised below:

### Simplification of the lock-in process

SEBI has addressed practical challenges faced by issuers in complying with Initial Public Offer (IPO) lock-in requirements, under which all pre-issue capital held by non-promoters (other than specified exempt categories) is required to be locked in for six months from the date of allotment. Under the amended framework, depositories are permitted to mark such securities as 'non-transferable' for the duration of the lock-in period.



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This approach ensures regulatory compliance while avoiding disruption to existing pledges or financing arrangements.

## Availability of abridged prospectus at the DRHP stage

Currently, all material information relating to a public issue is required to be disclosed in the Draft Red Herring Prospectus (DRHP) and the Red Herring Prospectus (RHP), with an abridged prospectus filed at the RHP stage. To enhance retail investor engagement and participation in the IPO process, SEBI has approved the introduction of a concise and focussed draft abridged prospectus at the DRHP stage itself, in addition to the existing requirement of filing an abridged prospectus at the RHP stage.

Source: ?

## 3. Relaxation for High Value Debt Listed Entities (HVDLEs)

SEBI has approved a series of significant amendments relating to High Value Debt Listed Entities (HVDLEs) under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations). Following approval at its Board meeting, SEBI notified the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2026 on 20 January 2026, introducing the following key changes to the HVDLE framework:

**Increase in threshold for HVDLE classification:** The threshold for classification as an HVDLE has been enhanced from INR1,000 crore to INR5,000 crore of outstanding non-convertible debt. This revision is expected to facilitate easier fund-raising for regulated entities such as Non-Banking Financial Companies (NBFCs), Housing Finance Companies (HFCs), Asset Reconstruction Companies (ARCs), insurance companies, and Real Estate Investment Trusts (REITs).



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**Alignment of corporate governance norms with equity-listed entities:** Corporate governance requirements applicable to HVDLEs have been aligned with the updated governance framework for equity-listed companies. This harmonisation is intended to streamline compliance requirements and enhance ease of doing business.

**Changes relating to the board of directors and board committees:** The amendments introduce several governance-related refinements, including:

- Requirement of shareholders' approval by special resolution for the continuation of non-executive directors beyond the age of 75 years.
- Exclusion of time taken to obtain regulatory or government approvals from the shareholders' approval timelines for director appointments.
- Exemption from shareholders' approval for the appointment of nominee directors appointed by regulators, debenture trustees, courts, or tribunals.
- Mandate to fill board committee vacancies within three months.
- Requirement that all board recommendations placed before shareholders clearly articulate the rationale underlying such recommendations.

**Subsidiary-related and IBC-related relaxations:** The amendments remove the requirement for shareholders' approval for the sale of assets of a material subsidiary to another entity within the same group. In addition, companies emerging from the Corporate Insolvency Resolution Process (CIRP) have been granted three months to fill Key Managerial Personnel (KMP) vacancies, provided at least one full-time KMP is already in place.



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**Framework for appointment of secretarial auditors:** A formal framework has been introduced governing the appointment, reappointment, removal, and disqualification of secretarial auditors for HVDLEs.

**Harmonisation of Related Party Transaction (RPT) provisions:** RPT requirements applicable to HVDLEs have been aligned with those applicable to equity-listed companies. However, the existing requirement to obtain a No Objection Certificate (NOC) from debenture trustees and debenture holders has been retained.

Source: ?

## 4. Amendments to Regulation 39 and 40 of LODR Regulations

SEBI has approved the following amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations):

### Amendments to Regulation 39 – Investor service requests

The requirement to issue a Letter of Confirmation (LOC) for investor service requests has been removed. Securities will now be credited directly to the investor’s demat account after completion of due diligence. This change significantly reduces the processing timeline from 150 days to 30 days, thereby enhancing efficiency and investor convenience.

### Amendments to Regulation 40 – Transfer of physical securities

Investors holding original physical security certificates along with transfer deeds for securities purchased prior to 1 April 2019 are now permitted to lodge such transfer deeds together with the original share certificates. This facility will be available during a specified window and will be subject to conditions as may be prescribed by SEBI.



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## Transfer of unclaimed amounts to Investor Education and Protection Fund (IEPF)

Issuers of listed non-convertible securities are now required to transfer all unclaimed interest, dividend, and redemption amounts to the Investor Education and Protection Fund (IEPF/IPEF) in a single transfer after seven years from the maturity of the security, instead of seven years from the date such amounts remain unclaimed. This amendment provides investors with a longer window to claim their dues.

Source: ?

## 5. Amendments to SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations)

SEBI has approved a proposal permitting debt issuers to offer targeted incentives, such as additional interest or price discounts, to specified categories of investors, including senior citizens, women, members of the armed forces, and retail investors, with the objective of enhancing retail participation in public debt issuances. These incentives will be applicable only at the time of initial allotment and will not apply to secondary market transfers.

### Action Points for Auditors

- Update compliance frameworks to align with simplified and restructured SEBI regulations (MF, LODR, ICDR, NCS) and revise audit checklists accordingly.
- Verify expense disclosures for Mutual Funds, ensuring correct segregation and reporting of Base Expense Ratio (BER), statutory levies, brokerage, and Total Expense Ratio (TER).
- Test compliance with revised expense and brokerage limits across mutual fund scheme categories and confirm withdrawal of any discontinued expense allowances.



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- Assess IPO compliance under ICDR amendments, including correct lock-in marking of pre-issue non-promoter shares and consistency of abridged prospectus disclosures at DRHP and RHP stages.
- Re-evaluate HVDLE applicability based on the enhanced INR5,000 crore debt threshold and identify changes in governance and reporting obligations.
- Review board and committee governance controls for HVDLEs, including age-related approvals, committee vacancy timelines, nominee director exemptions, and rationale disclosures in shareholders' notes.
- Check alignment of Related Party Transaction (RPT) controls for HVDLEs with equity-listed norms, while ensuring continued compliance with debenture trustee NOC requirements.
- Verify revised investor servicing processes, ensuring elimination of Letters of Confirmation (LOCs), timely demat credit (30 days), and controlled handling of physical share transfers during the permitted window.
- Confirm revised IEPF transfer timelines, ensuring unclaimed interest/dividend/redemption amounts are transferred after seven years from maturity, supported by robust reconciliation controls.
- Review controls over targeted incentives in debt issuances, ensuring incentives are offered only to eligible investor categories, only at initial allotment, and are clearly disclosed in offer documents.



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## Periodic disclosure requirements for SDIs

SEBI, vide its circular dated 16 December 2025, has prescribed detailed periodic disclosure requirements for Securitised Debt Instruments (SDIs) in exercise of its powers under the SEBI Act, 1992 read with the SEBI (Issue and Listing of Securitised Debt Instruments and Security Receipts) Regulations, 2008. Regulation 11B already required half-yearly reporting; however, this Circular standardises the manner, format, responsibility, and timelines for such disclosures.

### Responsibility for disclosures

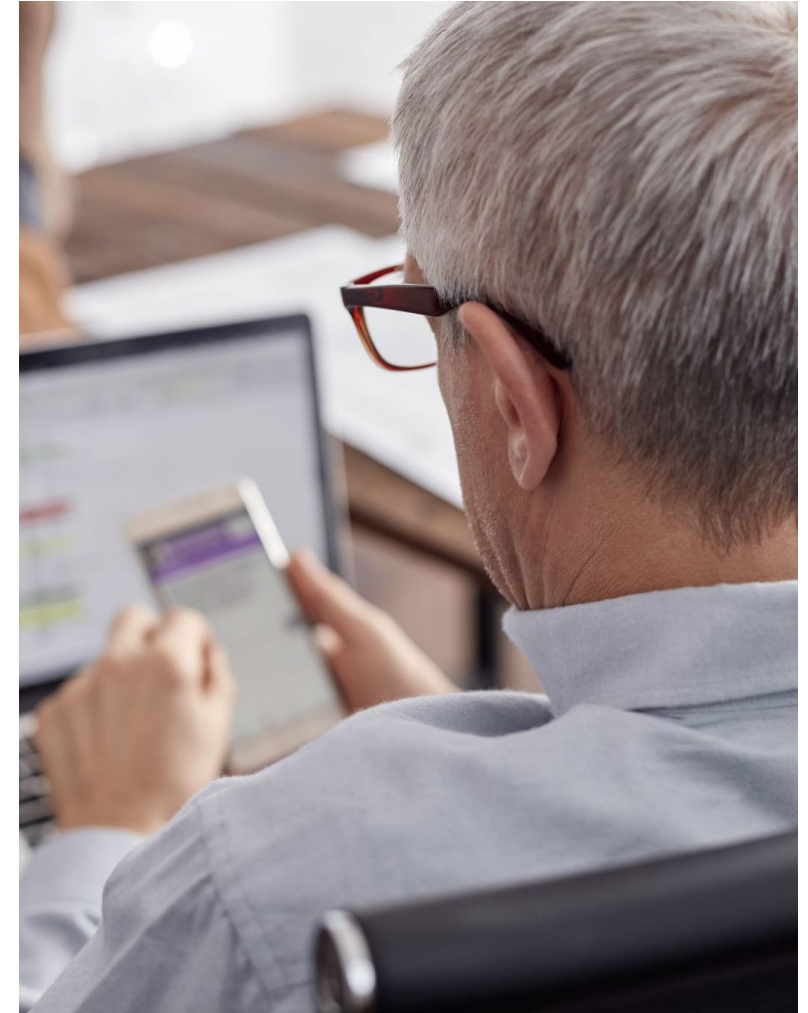
The circular clearly designates the Trustee of the special purpose distinct entity as the entity responsible for submitting the prescribed disclosures. The Trustee is required to submit these disclosures both to SEBI and to the recognised stock exchange(s) where the SDIs are listed. While the underlying data may be sourced from the originator or servicer, regulatory accountability for accuracy, completeness, and timely submission rests with the Trustee.

### Frequency and timelines

Disclosures are required to be made on a half-yearly basis and submitted within 30 days from the end of March and September. This introduces a fixed compliance timeline and necessitates robust internal processes to ensure timely collation, validation, and submission of information.

### Disclosure framework and scope

The circular introduces two standardised disclosure formats based on the nature of underlying exposures. Annexure I applies to securitisation transactions backed by loans, listed debt securities, or credit facility exposures, while Annexure II applies to securitisation of other exposures. The applicable annexure must be selected based on the underlying asset characteristics, and the disclosures must be made strictly in the prescribed format.



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## Key enhancements in disclosure requirements

The disclosure requirements have been significantly expanded and now cover detailed information on maturity characteristics, Minimum retention requirement and its composition, credit quality of the underlying assets, historical and current performance indicators, utilisation of credit enhancement and liquidity facilities, post-securitisation amendments, and compliance with Minimum Holding Period norms. For certain metrics such as weighted average maturity, weighted average rating, and average default rates, the Circular provides illustrative guidance to ensure consistency in computation and reporting.

## Effective date and implementation impact

The Circular is effective from 31 March 2026, and therefore, applies to disclosures for half-year ending on or after this date. Trustees and transaction parties are required to ensure readiness of systems, data availability, and internal controls prior to the first reporting cycle to avoid compliance gaps.

## Action Points for Auditors

- Verify applicability of the Circular and confirm whether the SDIs are listed and subject to stock exchange disclosures.
- Confirm correct identification and application of the relevant disclosure format (Annexure I or Annexure II).
- Check compliance with the prescribed half-yearly timelines, particularly the 30-day submission requirement.



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- Assess whether the Trustee has assumed formal responsibility for disclosures and has adequate governance and review controls in place.
- Validate the accuracy and consistency of key computations such as weighted average maturity, weighted average rating, and average default rates with the illustrative guidance.
- Test completeness of disclosures, including post-securitisation amendments, credit enhancement utilisation, servicing defaults, and Minimum Retention Requirement (MRR)/ Minimum Holding Period (MHP) compliance.
- Review reconciliation between servicer data, trustee records, and investor reporting to ensure data integrity.
- Obtain and retain evidence of regulatory submissions and internal approvals as part of audit documentation.

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## Other Updates

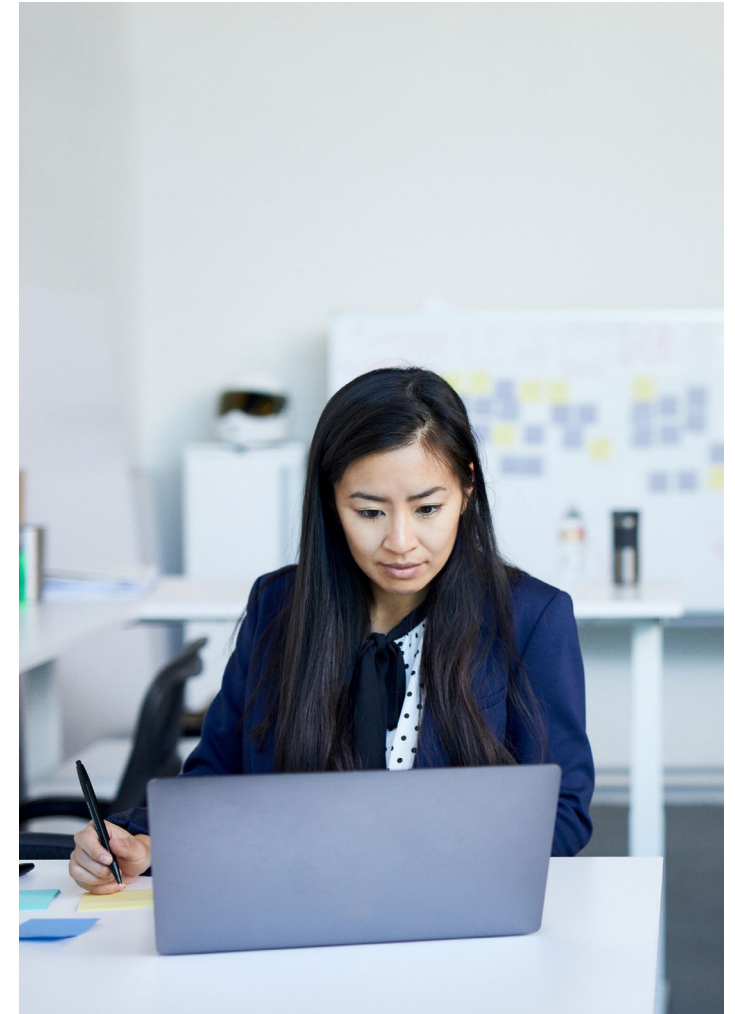
### BSE issues FAQ on submission of financial results under Regulation 33 of the SEBI LODR

BSE Limited, vide circular dated 18 November 2025, issued a set of Frequently Asked Questions (FAQs) to clarify the requirements relating to the submission of financial results under Regulation 33 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, read with the applicable SEBI Master Circular, as amended from time to time. The FAQs are intended to address practical and interpretational issues faced by listed entities in complying with periodic financial reporting obligations and to promote consistency and uniformity in filings made with the stock exchange.

The FAQs provide guidance on key aspects such as the timelines for submission of quarterly, half-yearly, and annual financial results, the compliance requirements applicable to newly listed entities, and the manner of reporting by SME-listed entities. In particular, the circular clarifies that entities listed through an initial public offer are required to submit financial results for the quarter or financial year immediately succeeding the period covered in the offer document, within the timelines prescribed under Regulation 33 or within 21 days from the date of listing, whichever is later. This clarification seeks to ensure continuity of financial disclosures post listing.

In respect of SME-listed entities, the FAQs reiterate that while such entities may voluntarily opt to submit quarterly financial results, the disclosure of half-yearly figures remains mandatory in accordance with Regulation 33. The circular also explains the presentation of comparative figures and year-to-date information in such cases, thereby addressing common inconsistencies observed in practice. Overall, the FAQs are clarificatory in nature and do not introduce new regulatory requirements but provide authoritative guidance on the application of existing provisions of the SEBI (LODR) Regulations and the Master Circular.

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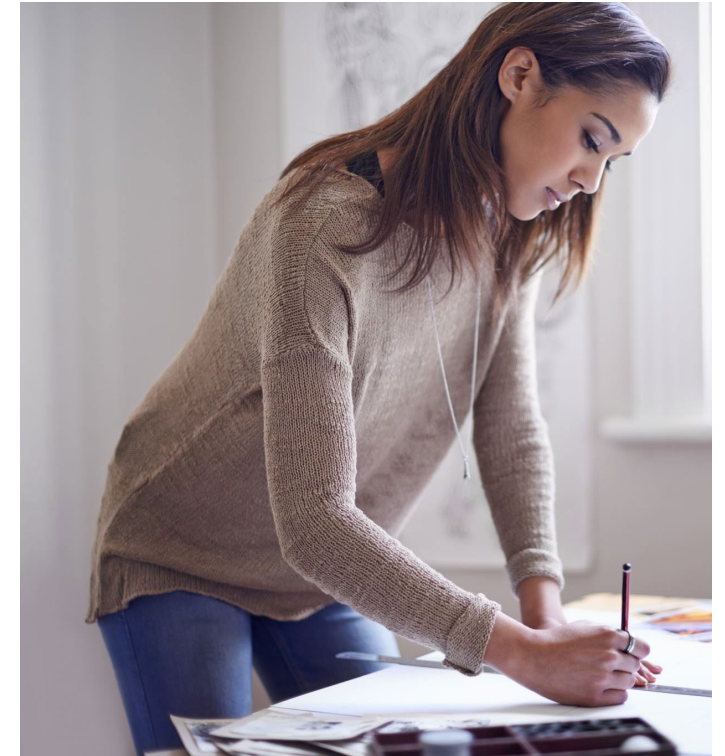


## Update in stock exchanges' single filing system

The National Stock Exchange (NSE) issued its original circular on 30 September 2024, introducing the first phase of the single filing system between stock exchanges. This phase applied to disclosures relating to Investor Grievance Redressal under Regulation 13(3) of the SEBI LODR Regulations, effective from 1 October 2024. Under this framework, listed entities were permitted to file disclosures with either exchange, with the filing automatically replicated on the other exchange. The initiative followed SEBI's June 2024 consultation paper, which advocated for streamlined compliance processes and the elimination of duplicate filings.

Subsequently, the NSE issued a further circular effective 3 January 2026, expanding the scope of the single filing system to cover Integrated Financial Filings under Regulation 33 of the SEBI LODR Regulations. This extension enables Application Programming Interface (API)-based submission of quarterly and annual financial results. The circular also clarifies that any queries raised by an exchange must be responded to directly by the listed entity on the respective exchange that raised the query.

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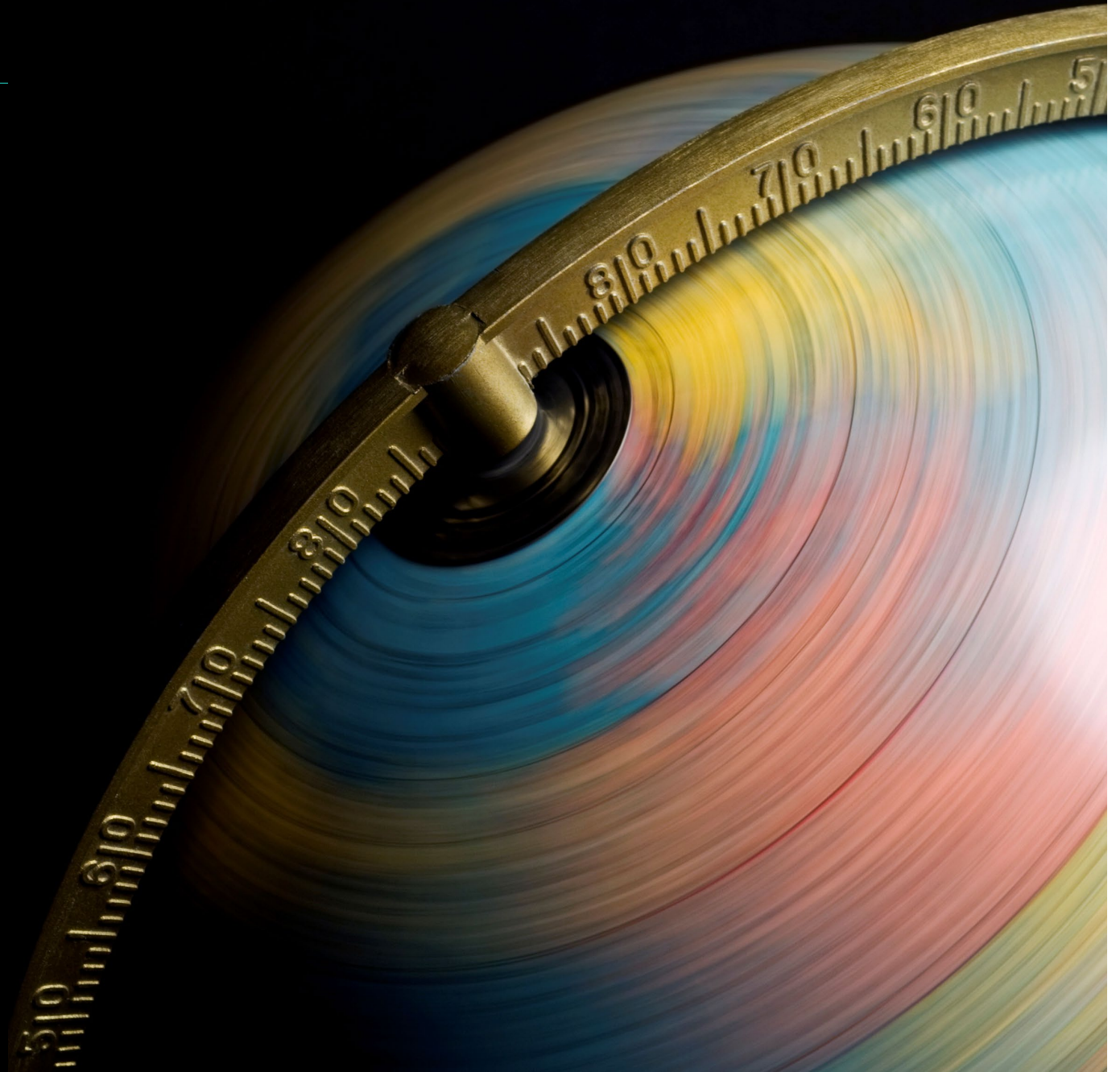


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## FASB issues ASU 2025 12: codification improvements

In December 2025, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2025-12, *Codification Improvements*, as part of its ongoing efforts to make targeted corrections, provide technical clarifications, and implement incremental improvements across the Accounting Standards Codification to simplify the application of U.S. Generally Accepted Accounting Principles (U.S. GAAP). The ASU incorporates 33 discrete amendments developed in response to stakeholders' feedback. These changes address a broad range of matters, including presentation and disclosure clarifications, correction of cross-references, removal of obsolete terminology, and alignment of guidance across related Codification sections. The amendments apply broadly to entities subject to the affected Codification topics.

The amendments are effective for annual reporting periods beginning after 15 December 2026, with early adoption permitted.

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## IAASB published narrow scope amendments related to IESBA's using the work of an expert

The International Auditing and Assurance Standards Board (IAASB) has issued narrow-scope amendments to several of its standards in response to recent revisions to the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics. The IESBA revisions introduced explicit ethical requirements governing the use of external experts in audit, assurance, and related engagements. These amendments are intended to maintain alignment, interoperability, and consistency between IAASB standards and the IESBA Code, reflecting the boards' continued coordination and collaboration.

The amendments apply to the following IAASB standards:

- ISA 620, *Using the Work of an Auditor's Expert*
- ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*
- ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*
- ISRS 4400 (Revised), *Agreed-upon Procedures Engagements*.

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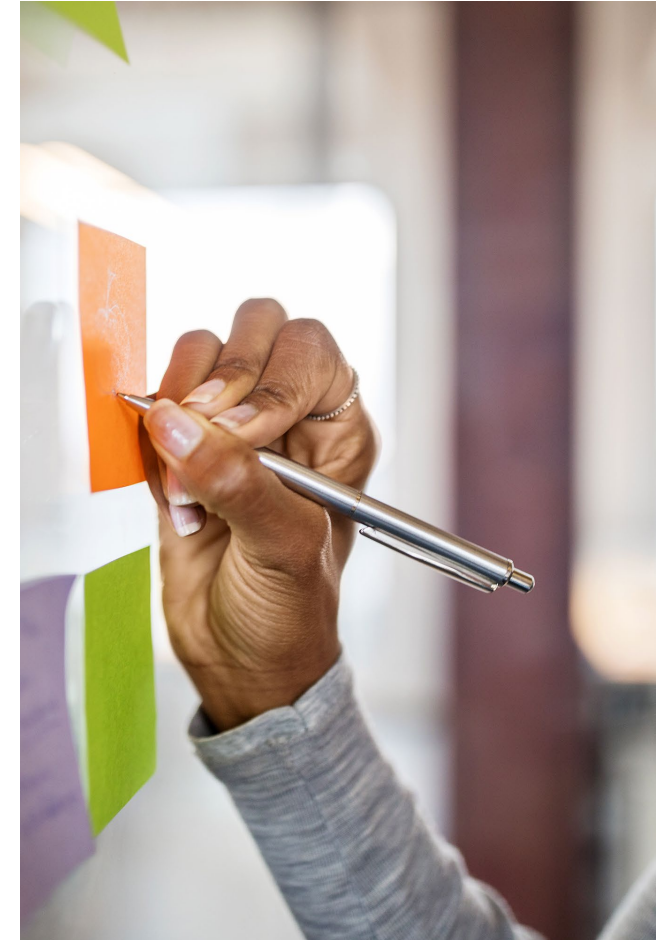


## IASB issues illustrative examples on reporting uncertainties

The International Accounting Standards Board (IASB) has issued new illustrative examples to support entities in applying existing IFRS Accounting Standards when reporting the effects of uncertainty in financial statements. While the examples are based on climate-related scenarios, the guidance is intended to be broadly applicable to all forms of uncertainty.

The examples are designed to enhance the quality and transparency of related disclosures by illustrating how current IFRS requirements should be applied in practice. As the examples accompany, rather than amend, IFRS Accounting Standards, they do not have a specified effective date; however, entities are expected to reflect any resulting improvements in their financial reporting on a timely basis.

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