



THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

GST: 2.0

SIMPLIFYING TAX, POWERING GROWTH



Nation Building to Global Collaboration: Strengthening Trust, Enabling Growth



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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)



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**EVERY RUPEE COUNTS
EVERY GESTURE HEALS**

Weaving the Tapestry of Viksit Bharat Through Reforms

A bamboo seed takes a few years to grow underground before it sprouts above the soil. During those years, it develops a strong root system to support its rapid growth once it appears. Similarly, a nation attains its moment of true emergence when all its government and private institutions, systems, and capacities collectively realize their fullest potential.

It is rightly said, “Without continual growth and progress, such words as improvement, achievement, and success have no meaning.” In response, India has undertaken a series of transformative measures, which are supported by professionals across finance, technology, education, regulation, and governance, strengthening its economic foundations and fortifying the nation as a whole.

The New Income-Tax Act is going to be one of the most significant steps in India’s financial reform journey. Simplifying provisions, rationalizing rates, and streamlining compliance requirements, the Act aims to reduce ambiguity and improve ease of doing business. The simplification reduces procedural bottlenecks, and the transitional phase demands meticulous attention to compliance nuances, interpretation of provisions, and advisory support for individuals and corporates navigating these changes for the profession.

Alongside, the rationalization of TDS and TCS thresholds provides relief to the middle class, making compliance less cumbersome while broadening the tax base. The profession’s role has become pivotal, as it is the responsibility of Chartered Accountants to guide their clients about threshold limits, optimize compliance, and ensure timely reporting, all aspects where the profession adds tangible value.

India’s indirect taxation landscape has also undergone a transformative shift with GST 2.0 reforms. Simplifying slabs, rationalizing the rate structure, and easing compliance measures are particularly beneficial for MSMEs, which form the backbone of the Indian economy. For CA firms advising such businesses, understanding the new framework, recalibrating IT systems, and helping clients leverage Input Tax Credit efficiently are critical tasks. GST 2.0 illustrates how incremental, yet thoughtful reforms can significantly enhance economic efficiency and competitiveness.

To prepare the youth of India, there are many initiatives undertaken in the realm of education and professional development. The ICAI’s decision to hold CA Final exams thrice a year is aimed at increasing flexibility, reducing student stress, and enhancing preparedness. While this reform offers students a chance to plan and pace their learning, it also requires rigorous time management and

adaptability, skills that are indispensable for future finance professionals.

Equally noteworthy is the curriculum revamp by ICAI, emphasizing AI, ESG, and international standards. By preparing students and skill enrichment of members for the audit and advisory challenges of tomorrow, these reforms ensure that the CA profession remains relevant, future-ready, and capable of meeting the complex needs of global businesses. Coupled with this is the proactive work on an early-warning mechanism to pre-empt fraud in listed companies, which positions CAs as key custodians of trust, governance, and investor protection in India’s capital markets.

In audit and compliance, the Institute has introduced a cap of 60 tax audits per partner per year, prioritizing audit quality. Complementing this, the required changes in auditing standards, including Ind ASs and quality management guidelines, bring Indian audit practices closer to global benchmarks while remaining practical for local firms. Together, these reforms strengthen governance, accountability, and transparency in corporate India.

Globalization of practice is another key focus area for the nation. The ICAI’s provision to allow mirror firms in GIFT IFSC and dual Certificates of Practice opens international avenues for Chartered Accountants. This reform enables Indian professionals to offer services globally while maintaining regulatory compliance, marking India’s emergence as a hub for high-quality finance and audit expertise.

Taken together, these reforms reflect a holistic approach to strengthening India’s financial ecosystem, from taxation and compliance to audit, professional education, and global engagement. They demonstrate a commitment to transparency, efficiency, and long-term sustainability. For Chartered Accountants, this is an era of opportunity: the chance to be advisors, auditors, educators, and change-makers. By understanding, implementing, and guiding clients through these reforms, CAs play a crucial role in translating policy into progress.

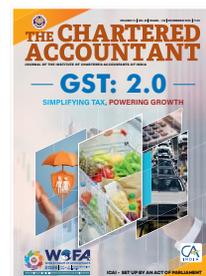
As we embrace these reforms, the message is clear: *change is not to be feared, but to be harnessed*. With each legislative, regulatory, and educational step, India strengthens its bridge to the future, a future where growth is inclusive, governance is robust, and the CA profession continues to be a cornerstone of national development. In shaping reforms today, we are truly weaving the fabric of a Viksit Bharat, ready to meet global challenges with confidence, competence, and commitment.

-Editorial Board ICAI

Partner in Nation Building

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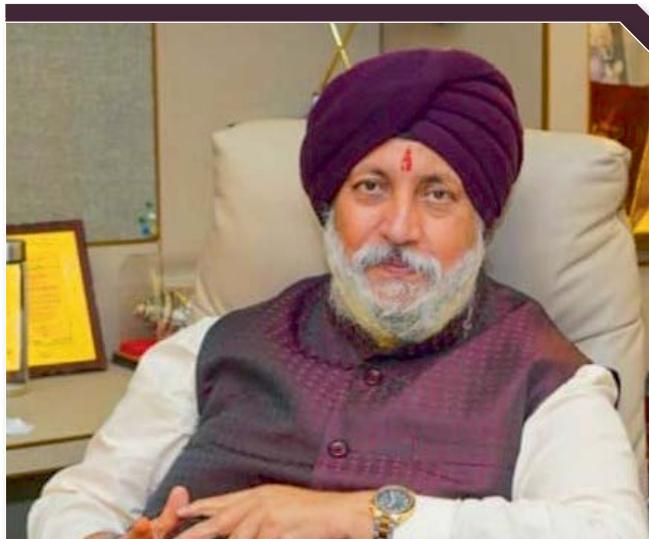
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From the President



CA. Charanjot Singh Nanda
President, ICAI

Dear Professional Colleagues,

“An idea not coupled with action will never get any bigger than the brain cell it occupied.”

I have always believed that the true value of ideas lies not just in eloquent boardroom discussions but in their translation into meaningful actions in the real world. Every idea offers two possibilities: it either succeeds or teaches us valuable lessons for a better future. Success brings new challenges that require innovation and reform, while setbacks call for a transformation in our thinking.

India today stands at a remarkable juncture where strategic execution and reforms are delivering visible results that uplift millions. From a Chartered Accountant’s perspective, the nation’s balance sheet reflects significant progress. The numbers and narratives reaffirm our shared mission of “Viksit Bharat”- a developed nation. As the old saying goes, “a bundle of sticks bound together can never be broken.” We are united by a common goal to build a prosperous nation.

A key reform driving this transformation is undoubtedly GST 2.0, which has sparked widespread conversations beyond boardrooms to everyday chai stalls. While the initial GST rollout in 2017 required an adjustment period, GST 2.0 promises greater transparency,

simplicity, and equity. Consumers have benefited from more affordable essential goods along with significant price reductions in automobiles and electronics.

Aligned with the vision of “Vocal for Local”, and in the face of global uncertainties and increasing tariffs on imported goods, the Government’s emphasis on domestic manufacturing, skill enhancement, and ease of doing business is empowering MSMEs as vital engines of growth. GST 2.0 acts as a catalyst in this journey by simplifying compliance through faster automated refunds, improving cash flows, and reducing disputes via streamlined tax rates.

I firmly believe that the reduction in input taxes and acceleration of refund mechanisms will significantly enhance export competitiveness, stimulate domestic consumption, and fortify overall economic growth. These landmark reforms under GST 2.0 bring tangible relief

to the common man while promoting transparency and efficiency in the taxation framework. The 56th GST Council Meeting was held in New Delhi under the chairpersonship of Hon’ble Union Finance Minister Smt. Nirmala Sitharaman marked a pivotal moment in India’s tax reform journey. Alongside the introduction of GST 2.0, the Council also addressed critical issues such as the correction of inverted duty structures in key sectors like manmade textiles and fertilizers, and the operationalization of the Goods and Services Tax Appellate Tribunal (GSTAT) by December 2025.

In alignment with the nation’s reform momentum, the Institute has also taken forward-looking initiatives to strengthen India’s professional ecosystem. Visionary step like homegrown multi-disciplinary firms seeks to nurture indigenous professional service giants capable of competing on an international stage, supporting India’s aspiration to become a developed economy by 2047. Collectively, these reforms and initiatives embody a citizen-centric, transparent, and growth-oriented approach, bringing us closer to realizing the vision of *One Nation, One Tax, One Market*.

Progress, in its truest sense, is not a destination but a continuum- a reflection of our collective advancement across every sphere of development. Today, as India

moves steadily towards becoming a more developed and inclusive society, *technology and sustainability* stand as the twin pillars of this transformation. We have entered an era where technology empowers us, enhancing efficiency, transparency, and accountability, rather than fostering dependence. Our profession has embraced this evolution with agility, incorporating tools such as AI, Robotic Process Automation (RPA), and data analytics to elevate accuracy and insights in financial reporting and auditing. Simultaneously, the rising emphasis on ESG reporting highlights our deep commitment to sustainability, reminding us that progress must go hand in hand with responsibility toward the planet.

The month of November, which commemorates the adoption of the Constitution of India on 26th November, 1949, serves as a powerful reminder of the laws and values that unify us as one nation. In this spirit of reform and modernization, India's financial systems continue to evolve, exemplified by the recent T+0 cheque clearing initiative by NPCI, which will significantly hasten fund settlements, reinforcing India's dedication to digital excellence. Undoubtedly, our journey does not end here; a long path lies ahead, and we stand ready to face every challenge with determination. Together, these strides showcase a nation in motion: driven by innovation, governed by values, and committed to sustainable growth.

Let's have a glimpse at some of the developments related to the profession and institute:

World Forum of Accountants 2.0

India is now the world's fourth-largest economy, projected to become the third-largest by 2030. This growth is driven by digital transformation and progressive regulatory reforms, positioning India as a beacon of economic dynamism, powered by its skilled human and intellectual capital.

The World Forum of Accountants, WOFA 2.0, aligned with our collective vision of *Viksit Bharat* by 2047, aims to position India as the Global Professional Hub. WOFA 2.0 will highlight and celebrate the professional excellence of the accounting community in an evolving landscape that embraces innovation, technology, and global best practices.

To showcase the strength of the Indian accounting profession on the world stage, we encourage active participation from Indian CA Firms in WOFA 2.0. This event offers a unique annual opportunity for global exposure, professional collaboration, and networking with peers from around the world.

As we prepare to make WOFA 2.0 a landmark global event for the accounting profession, I urge all members and CA firms to register and participate wholeheartedly to make it a resounding success.

Benchmarking of ICAI qualification from ECCTIS

The institute has always striven for academic and professional excellence for its key stakeholders, i.e., Students and Members. Aiming to expand opportunities for professionals in foreign jurisdictions, the Institute engaged ECCTIS to conduct an independent benchmarking study. This study evaluated the comparability of the ICAI Intermediate and Final levels against the frameworks of Australia, US, UAE, Canada, UK, and European framework. Subsequently, the Chartered Accountant designation has been deemed equivalent to a Master's degree in this evaluation. This recognition marks a significant milestone in our efforts to enhance international avenues for the profession and establish Indian Chartered Accountants as globally recognized professionals.

ICAI MSME Connect Stakeholders Strategic Meet 2025

In line with its vision to support sustainable economic growth and inclusive development, ICAI has been actively working to strengthen the MSME and startup ecosystem across India. As part of this commitment, the institute successfully conducted ICAI MSME Connect Stakeholders Strategic Meet 2025 on 24th October, 2025 in New Delhi. The meet was graced by Smt. Smriti Irani, Former Union Minister and provided a common platform to deliberate on MSME empowerment initiatives and key challenges & opportunities for the sector.

During this landmark event, the ICAI launched the 'MSME Clinic Programme', an innovative initiative for handholding and facilitating Micro, Small, and Medium Enterprises (MSMEs) through structured professional support, guidance, and awareness. Under this program, MSME Clinics are being inaugurated at 183 ICAI Branches and Regional Offices across the country. These MSME Clinics will offer expert advisory services in finance, compliance, taxation, accounting, digital transformation & business sustainability to the MSMEs.

Further, an MoU was exchanged with NPCI Bharat BillPay Limited (NBBL) through the 'Bharat Connect for Business' platform to promote digital payments among MSMEs, Startups, and members, strengthening financial inclusion. Also, ICAI joined hands with 'Foundation for Innovation and Technology Transfer (FITT) IIT Delhi' to

nurture innovation and entrepreneurship, by supporting startups with mentorship, industry networking, investor access, and capacity-building, integrating technology with financial and regulatory excellence.

I am elated to share with you that the ICAI was felicitated by World Book of Records, Asia Book of Records & India Book of Records for achieving a remarkable milestone of “Maximum MSME Mentorship Felicitations Achieved in a Day”. On 27th June 2025, a total of 19,355 MSMEs were mentored across different branches of the ICAI.

ICAI Fosters Collaboration at TNGSS 2025 and UP International Trade Show 2025

The ICAI, in collaboration with Startup Tamil Nadu, participated in the Tamil Nadu Global Startup Summit (TNGSS) 2025, which was held on 9th and 10th October 2025, in Coimbatore. Further, the institute participated in the Uttar Pradesh International Trade Show 2025 held from 25th to 29th September 2025, in Greater Noida. The ICAI stall attracted significant attention from visitors and industry stakeholders, underscoring the Institute’s role in promoting financial literacy, professional excellence, and entrepreneurial development. In recognition of its participation, the ICAI was honoured by the Government of Uttar Pradesh, and the award was presented by Shri Rakesh Sachan, Hon’ble Minister of MSME, Khadi, Village Industries, Sericulture & Textiles, UP.

ICAI Supporting Women Entrepreneurship

ICAI has strengthened its commitment to women’s entrepreneurship through a formal association for knowledge dissemination with the Women’s Collective Forum, marked by the launch of SPARK – The 100K Collective Program, inaugurated by Smt. Smriti Irani, Former Union Minister. The collaboration aims to empower women-led MSMEs and startups by leveraging ICAI’s expertise in financial and regulatory compliance. Through such initiatives, ICAI continues to champion women’s empowerment while fostering growth and resilience within the broader MSME and startup ecosystem.

International Research Awards 2025

ICAI aspires to inspire and recognize the global research community for its significant contributions in advancing innovation and value creation in the areas of Accounting, Auditing, Finance, Economics, and Taxation. The Institute organized the 6th International Research Awards 2025 on 14th October 2025 in Goa. This year, a total of 316 research papers were received from 14 countries, out of which 16 researchers were honoured for their exemplary contributions. The ceremony was

graced by distinguished dignitaries, including Mr. John Turner, CEO, XBRL International, Jury Chairperson and CA. Lalita Correia Afonso, Former CFO, SESA Goa Ltd, who was the Guest of Honour.

Strengthening Public Sector Accounting

■ Supporting the Government Accounting Standards Advisory Board (GASAB)

The Institute continues to play a pivotal role in promoting transparency and accountability in public financial management through its close collaboration with the Government Accounting Standards Advisory Board (GASAB). The 37th Board Meeting of GASAB, held on 26th September 2025 under the aegis of the Comptroller and Auditor General (C&AG) of India, was attended by ICAI representatives.

Recognizing the growing importance of Urban Local Bodies (ULBs), GASAB has initiated work on Accounting Standards for Local Bodies through a dedicated Core Committee. In acknowledgment of ICAI’s expertise and leadership in standard-setting, the institute will be nominated as a member of the newly constituted core committee.

■ MoU with the National Institute of Urban Affairs (NIUA)

The ICAI, through the Committee on Public and Government Financial Management (CPGFM), entered into a Memorandum of Understanding (MoU) with the National Institute of Urban Affairs (NIUA) on 16th October 2025. NIUA, established under the aegis of the Ministry of Housing and Urban Affairs (MoHUA), is a premier national think tank dedicated to research, policy development, and capacity building in the domain of urban planning and development. This strategic collaboration aims to strengthen municipal finance and urban financial management across the country. Through joint initiatives in research, capacity building, and policy advisory, ICAI and NIUA seek to enhance financial accountability, promote sustainable urban governance, and build institutional capacity within Urban Local Bodies (ULBs).

IFAC Connect MENA 2025

As part of ICAI’s global strategy to engage with international forums, I recently attended the IFAC Connect MENA 2025 in Riyadh, Saudi Arabia, on 2nd October 2025. The event provided a platform to share diverse perspectives and identify practical measures to further enhance values like integrity, innovation, and public value within the profession. I had the privilege

to address the forum on the topic 'Importance of Global Standards and Regulation'.

During the visit, I met Dr. Ahmad Almeghames, CEO of the Saudi Organization for Chartered & Professional Accountants (SOCPA), to discuss strengthening collaboration between ICAI & SOCPA to achieve Global Excellence in Accountancy. Additionally, I met Dr. Suhel Ajaz Khan, Ambassador of India to the Kingdom of Saudi Arabia, and discussed ways to enhance the brand value of Indian Chartered Accountants in Saudi Arabia.

Visit to Bahrain

Leadership must be global in vision, inclusive in approach, and sustainable in its outcomes, and its light today must shine across geographies, bridging cultures, harmonizing differences, and fostering collaboration.

Recently, I visited Bahrain to engage with key stakeholders and promote the growth of the profession in the region. During the visit, I met H.E. Mr. Vinod K. Jacob, Ambassador of India to the Kingdom of Bahrain; Mr. Abbas Abdulmohsin Radhi, President, Bahrain Accountants & Auditors Association; and Ms. Abeer Shaikh Ebrahim AlSaad, Executive Director – Policy & Enforcement, Central Bank of Bahrain. The discussions focused on strengthening member engagement, deepening professional collaboration, advancing digital transformation, and recognizing the increasing contribution of Indian Chartered Accountants in Bahrain.

I also had the honour of addressing an event organized by the ICAI Bahrain Chapter on the theme 'Leadership, Legacy & Vision – Celebrating ICAI Vision and the Festival of Lights', where I highlighted that true leadership transcends boundaries and inspires collective progress in today's interconnected world.

ICAI CMEPS Residential Meet

The Institute hosted a Residential Meet on 12th October 2025 in Goa, themed on 'Chartered Accountants' Role in Realizing the Vision of Viksit Bharat @ 2047'. The Meet brought together eminent Chartered Accountants serving across the Judiciary, IAS, IPS, IFS, and other public services. The deliberations at the event focused on strengthening the connection between ICAI and its members in public service, and on how the profession's financial acumen, governance expertise, and ethical leadership serve as catalysts in the journey towards a developed India.

ICAI Media Residential Meet

The Institute organized a Media Residential Workshop in Goa on 11th-12th October 2025, aimed at equipping

the media fraternity with deep insights into the evolving financial and regulatory landscape. The workshop featured expert-led sessions covering the evolving CA profession, ICAI's regulatory role, audit innovations leveraging AI, ESG and sustainability reporting, forensic accounting, accounting standards, and global opportunities. This proactive engagement underscores ICAI's commitment to helping the media understand and explain complex financial developments clearly, thereby promoting accurate and informed reporting as well as raising awareness about ICAI's initiatives.

Conclusion

Our scriptures have articulated this timeless wisdom beautifully: when the aim is clear, no challenge is insurmountable. Much like Arjuna, whose staunch focus led him to success, our purpose is equally steadfast- to see India rise as the *Vishwaguru*, guiding the world with wisdom, ethics, and strength.

We live in an era marked by shifting global alliances, economic uncertainties, and growing interdependence. Reducing external dependence means strengthening our internal foundations. When we produce within, we empower our people and move closer to a true *Aatmanirbhar Bharat*. Here lies our role as Chartered Accountants, not merely as number-crunchers, but as nation builders. Our ethics fuel ideas, our expertise nurtures entrepreneurs, and our guidance helps businesses grow with integrity.

I firmly believe that our profession has evolved. Today, we are strategic advisors, growth partners, and trusted voices in shaping India's economic destiny. I urge each one of you to continue learning, keep upskilling, and keep inspiring. The title before your name signifies more than a qualification; it is a commitment to drive change.

As Mahatma Gandhi rightly said, "*The future depends on what you do today.*"

Let us continue to work with resilience, foresight, and service above self toward building an India that is self-reliant, respected, and ready to lead the world.

दूढ़ोगे अगर तो ही रास्ते मिलेंगे,
मंजिलों की फितरत है खुद चल कर नहीं आती ।



CA. Charanjot Singh Nanda
President, ICAI
New Delhi, 29th October, 2025

1. Meeting with MD & CEO, NSE



CA. Charanjot Singh Nanda, President, ICAI & CA. Prasanna Kumar D., Vice-President, ICAI met Shri Ashish Chauhan, MD & CEO, NSE in Mumbai on October 15, 2025. Discussions focused on strengthening India's Financial Ecosystem through Trust, Technology & Transformative Collaboration.

2. MoU with National Institute of Urban Affairs (NIUA)



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Member, Secretary, ICAI & Dr. Debolina Kundu, Director, NIUA signed an MoU between ICAI & National Institute of Urban Affairs (NIUA) on October 15, 2025 in New Delhi, to strengthen Municipal Finance & Urban Financial Management, a visionary step towards Tech-driven & Sustainable cities for Viksit Bharat.

3. Residential Meet for Members in Public Service



CA. Charanjot Singh Nanda, President, ICAI along with CA. Prasanna Kumar D., Vice-President, ICAI, Central Council Members & Secretary, ICAI addressed Members in Public Service at the Residential Meet on "CAs' Role in Realizing the Vision of Viksit Bharat @ 2047" held on October 14, 2025 in Goa, highlighting the profession's role in nation building.

4. ICAI MSME Connect Stakeholder Strategic Meet



CA. Charanjot Singh Nanda, President, ICAI with Smt. Smriti Irani, Chief Guest, Central Council Members & Secretary, ICAI attended the MSME Connect Stakeholder Strategic Meet held in New Delhi on October 24, 2025, sharing insightful views on entrepreneurial growth & path toward a resilient MSME ecosystem.

5. ICAI Felicitated by World Book of Records



CA. Charanjot Singh Nanda, President, on behalf of ICAI received World Book of Records on October 24, 2025 in New Delhi, for achieving a remarkable milestone of "Maximum MSME Mentorship Felicitations Achieved in a Day".

6. Media Residential Meet



CA. Charanjot Singh Nanda, President, ICAI along with CA. Prasanna Kumar D., Vice-President, ICAI, Central Council Members & Secretary, ICAI shared Institute's vision with Members of Media at the ICAI Media Residential Meet organized in Goa on October 11 & 12, 2025, inspiring proactive communication to strengthen ICAI's brand & outreach.

7. Meeting with Ambassador of India to the Kingdom of Saudi Arabia



CA. Charanjot Singh Nanda, President, ICAI along with Riyadh Chapter representatives met Dr. Suhel Ajaz Khan, Hon'ble Ambassador of India to the Kingdom of Saudi Arabia, in Riyadh on October 2, 2025 to strengthen professional collaboration and explore new global opportunities for Indian CAs.

8. 6th ICAI International Research Awards 2025



CA. Charanjot Singh Nanda, President, ICAI along with Guests of Honors Mr. John Turner, CEO, XBRL Int. & CA. Lalita Correia Afonso, Former CFO-SESA Goa Ltd., ICAI Central Council Members, Secretary, ICAI, & other dignitaries Conferred Awards to winners at 6th ICAI International Research Awards 2025 organised on October 14, 2025 in Goa.

9. 3rd GCC Summit



CA. Charanjot Singh Nanda, President, ICAI along with Past Presidents, Central Council Members & other dignitaries, shared visionary insights at the Inaugural Ceremony of the 3rd GCC Summit 2025 organised on October 9, 2025 in Hyderabad, highlighting global opportunities.

10. Annual Day of RVG Educational Foundation



CA. Charanjot Singh Nanda, President, ICAI along with other dignitaries shared words of wisdom as Chief Guest at the Annual Day of RVG Educational Foundation, held in Mumbai on October 5, 2025. He inspired students with his anecdotes on Ethics, Excellence & opportunities in the profession.

11. Meeting with CEO, SOCPA


CA. Charanjot Singh Nanda, President, ICAI along with Riyadh Chapter representatives met Dr. Ahmad Almeghames, CEO, Saudi Organization for Chartered & Professional Accountants in Riyadh on October 2, 2025. The Meeting fostered discussions on strengthening collaboration between ICAI & SOCPA for global Excellence in Accountancy.

12. Meeting with CEO, IFAC


CA. Charanjot Singh Nanda, President, ICAI met Mr. Lee White, CEO, IFAC in Riyadh on October 1, 2025. Discussions focused on Global Collaboration—Standards, Ethics, Sustainability & AI-readiness—to strengthen the Accountancy Profession.

13. Members' Meet, Riyadh


CA. Charanjot Singh Nanda, President, ICAI along with ICAI Riyadh Chapter Team shared his words of wisdom at the Members' Meet held in Riyadh on October 2, 2025 inspiring the fraternity with his vision for a future-ready profession driven by Trust, Technology & Transformation.

14. Meeting with Ambassador of India to the Kingdom of Bahrain


CA. Charanjot Singh Nanda, President, ICAI with the Bahrain Chapter team met H.E. Shri Vinod K. Jacob, Ambassador of India to the Kingdom of Bahrain at Bahrain on October 25, 2025, to discuss strengthening ICAI's global outreach, professional collaboration & member support.

15. Meeting with Central Bank of Bahrain in Bahrain


CA. Charanjot Singh Nanda, President, ICAI met Ms. Abeer Shaikh Ebrahim AlSaad, ED - Policy & Enforcement, Central Bank of Bahrain in Bahrain on October 25, 2025 with the Bahrain Chapter team to explore collaborative initiatives in professional excellence & digital transformation.



CA. Rishabh A Parikh
Member of the Institute

GST 2.0 Reforms: A Bird's Eye View

Since its roll-out in 2017, the GST regime in India has seen periodic tweaks, rationalisations, and administrative refinements. However, 2025 marks perhaps one of the most sweeping and structural reforms since inception, referred to as “GST 2.0” or the “next-generation GST.”

We have witnessed transformative changes in its framework in 2025, with reforms in GST rates, compliance procedures, and legal provisions resulting from recommendations of the 56th GST Council meeting. These changes aim to simplify the tax structure, enhance ease of business, and promote economic growth through rate rationalisation and procedural simplifications.

The 2025 GST overhaul marks a departure from the current 4 – tiered tax rate system towards a citizen-friendly ‘Simple Tax’, 2 rate structure, making it simpler for businesses and consumers alike. This transition is a product of recommendations made by the 56th GST Council, heralding “GST 2.0”—a next-generation tax regime prioritising simplicity and trust-based compliance. This article attempts to provide a summary of changes recommended in the 56th GST Council Meeting.

A. Summary of GST Rate Changes

Old vs. New Structure

India’s GST previously operated on four principal tax slabs—5%, 12%, 18%, and 28%—plus special rates for select supplies.

These have been consolidated into:

- Merit Rate: 5% (for essentials and priority sectors)
- Standard Rate: 18% (for most goods and services)
- Demerit Rate: 40% (for luxury/sin goods)

- Nil/Exempt (for specific health, education, and dairy products and necessities)

The changes in rates of GST (which have been made effective from 22nd September 2025) were notified by the Government on 17th September 2025 vide *Notification No. 9/2025 Central Tax (Rate)* for goods and by way of *Notification No. 15/2025 Central Tax (Rate)* for services.

A wide range of goods and services that were earlier taxed at 12% or 18%, including processed foods, specified garments, agricultural machinery and hotel accommodation services, have now been brought under the 5% slab, offering significant relief to consumers and small businesses. Similarly, automobiles and electronic appliances, which previously attracted up to 28% GST, will now be taxed at 18%, while lifesaving drugs, medical apparatus, and devices have seen a substantial reduction to either Nil or 5%, enhancing healthcare affordability.

GST on labour-intensive goods such as handicrafts, marble and travertine blocks, granite and intermediate leather products has been reduced from 12% to 5%. Gyms, salons, barbers, and yoga

centres will now attract a lower rate of 5%, down from the earlier 18%.

Additionally, through *Notification No. 14/2025–Central Tax (Rate)*, the Government has prescribed a 12% GST rate (6% CGST + 6% SGST) on fly ash bricks, building bricks, aggregates, earthen and roofing tiles, aligning tax policy with sustainable infrastructure development.

The Government, through *Notification No. 10/2025–Central Tax (Rate)*, has provided exemption from GST on various essential goods.

With respect to GST Compensation Cess, the Government has amended *Notification No. 1/2017- Compensation Cess (Rate)* dated 28th June 2017 vide *Notification No. 2/2025- Compensation Cess (Rate)* dated 17th September 2025 to notify the changes in compensation cess rates.

However, certain items such as pan masala, gutkha, cigarettes, chewing tobacco products like zarda, unmanufactured tobacco, and bidis will continue to attract the existing GST rates along with applicable compensation cess, until the outstanding loan and interest

obligations under the compensation account are fully settled. Furthermore, GST on these tobacco-related products will now be levied on the Retail Sale Price (RSP) instead of the transaction value, ensuring better transparency and compliance.

Insurance Sector

The Government, on the recommendations of the GST Council vide *Notification 16/2025 Central Tax (Rate) dated 17-September-2025*, has made a significant change in life insurance services, health insurance services and reinsurance services of the same by exempting these services from GST where the insured is not a group.

These exemptions have been added as Entry no. 36C, 36D and 36E in *Notification 12/2017 CT(R)*.

Readers may specifically note that the above exemption shall not apply to group insurances but shall apply specifically to a contract of insurance where the insured is an individual, or an individual and family.

(Family for the above purpose shall include all individuals insured as family in the contract of insurance).

Further, the term 'Group' for the above-mentioned exemption purpose shall mean "group of persons who join together with a commonality of purpose or for engaging in a common economic activity, other than availing insurance, and includes:

- a. **Employer**– employee groups, where an employer-employee relationship exists between the master/group policyholder and the members of the group in accordance with the applicable laws;



- b. **Non employer**– employee groups, where a clearly evident relationship exists between the master/group policyholder and the members of the group, for services/activities other than insurance.”

Local Delivery Services

Local delivery services have been inserted under Section 9(5) of the CGST Act vide *Notification No. 17/2025-Central Tax (Rate) dated 17th September 2025*, in cases where the person supplying such services through electronic commerce operator is not liable for registration under GST. The applicable rate on such services is 18%. Further, local delivery services provided by and through an ECO have been excluded from the scope of GTA services.

'Specified premises' in the Context of Taxability of Restaurant Services

The Council has recommended to add an explanation to the definition of 'specified premises' in the context of taxability of restaurant services in order to clarify the position that a stand-alone restaurant cannot declare itself as a 'specified premises' and consequently cannot avail the option of paying GST at the rate of 18% with ITC.

Thereby, the Government by virtue of *Notification No. 15/2025 Central Tax (Rate) dated 17th September 2025*, has inserted an explanation (effective from 1st April 2025) to *para 4, in clause (xxxvi) of Notification No. 11/2017 Central Tax (Rate)* read with *Notification 05/2025 Central Tax (Rate) dated 16th January 2025* that 'premises' shall mean a place from where hotel accommodation services are being supplied or are to be supplied.

B. Legislative Changes

The GST Council's 56th meeting produced not only rate reforms but also substantial legal and procedural improvements that define the GST regime's future trajectory.

“The GST Council's 56th meeting produced not only rate reforms but also substantial legal and procedural improvements that define the GST regime's future trajectory.”

Introduction of Simplified Registration Scheme for small suppliers supplying through electronic commerce operators:

Businesses, especially small suppliers and persons supplying through e-commerce platforms, benefit from streamlined registration and automated returns, reducing administrative burdens and improving compliance.

The Council approved in-principle the concept of a simplified GST registration mechanism for small suppliers, making supplies through e-commerce operators (ECOs) across multiple States facing challenges in maintaining principal place of business in each State, as currently required under the GST framework.

It is expected to ease compliance for such suppliers and facilitate their participation in e-commerce across States.

Simplified GST Registration Scheme for Small & Low-Risk Businesses:

In order to simplify the registration process, the Council has recommended the introduction of an optional simplified GST registration scheme wherein registration shall be granted on an automated basis within three working days from the date of submission of application in case of low-risk applicants and applicants who, based on their own assessment, *determine that their output tax liability on supplies to registered persons will not exceed Rs. 2.5 lakh per month* (inclusive of CGST, SGST/UTGST

“Refund claims will now be provisionally sanctioned (90% of the claimed amount) based on risk categorization by the system. Applications categorised as “low-risk” will be fast-tracked for provisional refunds.”

and IGST). The scheme will provide for voluntary opting into and withdrawal from the scheme.

This optional scheme is expected to benefit around 96% of new applicants applying for GST registration and is expected to be operational from 1st November, 2025.

Post Sale Discounts

Clear statutory amendments regarding post-sale discounts have been introduced to reduce litigation and ambiguity.

CBIC has clarified on the below mentioned aspects in respect of post supply discounts *vide Circular No. 251/08/2025-GST dated 12th September, 2025*.

The Circular clarifies on-

- i. non-reversal of Input Tax Credit on account of post-sale discount through financial/commercial credit note;
- ii. treatment of the post-sale discount provided by manufacturer to the dealer as additional consideration, in the transaction between dealer and end-customer;
- iii. treatment of post-sale discount as consideration in lieu of promotional activities etc. performed by the dealer.

Further, the Council has also recommended for amendment of Section 15 and Section 34 of the CGST Act, 2017 in respect of Post Sale Discount:

In this regard, the Council has recommended:

- To omit Section 15(3)(b)(i) of the CGST Act, 2017 thereby omitting the requirement of establishing the discount in terms of an agreement entered into before or at the time of such supply and specifically linking of the same with relevant invoices,
- To amend Section 15(3)(b) of the CGST Act, 2017 to provide that discount should be granted through a credit note issued under Section 34 of the CGST Act and to correspondingly amend Section 34 to include a reference to Section 15(3)(b), so as to provide for reversal of Input Tax Credit by the recipient in case where a post-sale discount is given and value of supply is reduced through the GST Credit note.

The CBIC, *vide Circular No. 253/10/2025 – GST dated 1st October 2025*, in order to ensure uniformity, has withdrawn *Circular No. 212/6/2024-GST dated 26th June 2024* wherein clarifications were given in relation to mechanism for providing evidence of compliance of conditions of Section 15(3)(b)(ii) of the CGST Act, 2017 by the suppliers. Therefore, the procedure prescribed *vide* the aforesaid circular

A summary of the Circular is given below for readers reference

Topic / Issue	Question	Clarification	Key Condition
ITC & Credit Notes	If a supplier gives a postsale discount via financial or commercial credit note, does the recipient have to reverse the already claimed ITC?	No reversal required as long as the credit note is <i>financial/commercial</i> and doesn't reduce GST liability or taxable value.	Supplier's tax liability must remain unchanged; original transaction value (for GST) must remain as originally declared.
Discounts from Manufacturer to Dealer	Is the discount from the manufacturer to the dealer included in the dealer's sale price to the end customer (i.e. part of consideration)?	Generally, No — it is just a reduction in cost, not a payment for supply.	Applies when there is no direct agreement between the manufacturer and the customer.
Agreed Discount for End Customer	What happens if the manufacturer agrees with the end customer for a reduced price, and the dealer is compensated by the manufacturer?	Then the discount is treated as an inducement/consideration in the dealer's supply.	There must be a prior agreement linking the manufacturer, dealer, and end customer.
Promotional / Service Activities	Could the discount be treated as a consideration for services performed by the dealer (e.g. marketing)?	Only when there is a formal agreement that defines the service and consideration — then GST applies.	Must specify services and consideration; mere expectation of promotional benefit is not enough.

“The move to a 2-rate structure of 5% and 18%, combined with select higher rates for sin goods, reduces costs for businesses and consumers, makes compliances smoother, and boosts consumption and manufacturing.”

for providing evidence of compliance of conditions of Section 15(3)(b)(ii) shall not be required.

Place of Supply for Services

For intermediary services, the Council recommends omission of clause (b) of Section 13(8) of the IGST Act 2017. Accordingly, after the said amendment takes place, the place of supply for “intermediary services” will be determined as per the default provision under Section 13(2) of the IGST Act, 2017 i.e. the location of the recipient of such services.

This will help Indian exporters of such services to claim export benefits and bolster the competitiveness of Indian exporters.

System-Based Risk Evaluation for Provisional GST Refunds

In a major move to streamline GST refund processes and enhance trade facilitation, the GST Council recommended amendments to certain CGST Rules. In relation to the above, the Government has issued *Notification No. 13/2025 -Central Tax dated 17th September 2025*, making changes with effect from 1st October 2025 in rule 91(2) and further issued instruction vide *Instruction No. 6/2025 - GST dated 3rd October 2025*.

Few key points of the above Notification and instruction include:

■ System-Driven Risk Assessment:

Refund claims will now be provisionally sanctioned (90% of the claimed amount) based on risk categorization

by the system. Applications categorised as “low-risk” will be fast-tracked for provisional refunds.

■ Officer’s Discretion – Proviso to Rule 91(2)

In applications not categorised as “low-risk”, refund shall not be sanctioned on provisional basis and in such cases, the proper officer shall proceed with detailed scrutiny of refund application.

■ Exclusions from Provisional Refund

The Government vide *Notification No. 14/2025-Central Tax dated 17th September 2025* has provided the following category of registered persons who shall not be allowed refund on provisional basis:

- (i) Any person, who has not undergone Aadhaar authentication under rule 10B,
- (ii) Any person, who is engaged in the supply of areca nuts or pan masala or tobacco and manufactured tobacco substitutes or essential oils.

■ Provisional Refund for Inverted Duty Structure (IDS)

Pending legislative amendment to Section 54(6), the government has, as an interim measure, permitted provisional sanction of 90% of IDS refund claims filed on or after 01.10.2025, under the same process and conditions as for zero-rated supplies.

This system-led, risk-based refund mechanism marks a significant shift in GST administration, balancing trade facilitation with fraud control. While easing genuine taxpayer burdens, it ensures accountability and careful scrutiny where risks are high.

C. GSTAT Operationalisation

The Goods and Services Tax Appellate Tribunal (GSTAT) will be made operational and will commence hearing before the end of December this year, providing speedy dispute resolution and reducing strain on High Courts. The Council also recommended the date of 30.06.2026 for limitation of filing of backlog appeals.

The Principal Bench of the GSTAT will also serve as the National Appellate Authority for Advance Ruling.

These measures will significantly strengthen the institutional framework of GST by providing a robust mechanism for dispute resolution, ensuring consistency in advance rulings, and offering greater certainty to taxpayers. This will further enhance trust, transparency, and ease of doing business under the GST regime.

Future Outlook & Conclusion

The 2025 GST reforms in India, spearheaded by the recommendations of the 56th GST Council meeting, represent a major leap toward simplification, efficiency, and inclusiveness in indirect taxation. The move to a 2-rate structure of 5% and 18%, combined with select higher rates for sin goods, reduces costs for businesses and consumers, makes compliances smoother, and boosts consumption and manufacturing. The reforms have intentionally omitted the reinstatement of anti-profiteering measures, relying instead on trust in businesses to pass on benefits to consumers. The Council’s commitment to technology-driven, trust-based administration enhances transparency and positions India’s GST regime at par with global best practices.

These changes, effective from 22nd September 2025, will have profound long-term impacts on the economic landscape, promoting ease of business, resolving litigation issues, and improving the quality of life for millions of Indians. With simpler rates, faster refunds, and strategic legal amendments, GST in India stands poised for a new era of growth and stability.

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Former Chief Commissioner,
Customs & Indirect Taxes

GST 2.0: The Next-Gen Reform and the Dawn of Rate Rationalization

India's GST framework has entered a new and transformative era with the introduction of GST 2.0, popularly known as the "Next-Generation GST". Announced during the 56th GST Council Meeting and made effective from 22nd September 2025, this reform marks a historic recalibration of India's indirect tax system. It represents a decisive step towards creating a simpler, technology-integrated, and more equitable tax regime, one that harmonizes the interests of the Centre, States, industry and consumers alike.

GST 2.0 seeks to strengthen, simplify and future-proof the entire GST ecosystem. The reform aims to address structural inefficiencies, minimize litigation and enhance digital transparency, thus aligning India's tax system with global best practices.

At its core, GST 2.0 is built upon four foundational pillars – Structural Changes, Rate Rationalization, Ease of Living and Ease of Doing Business, each designed to serve a distinct yet interconnected objective. This article focuses on "Rate Rationalization".

Rate Rationalization constitutes the most visible reform under GST 2.0. The earlier four-tier structure, 5%, 12%, 18% and 28%, along with a separate compensation cess, has been replaced with a simplified two-tier tax system: 5% for essential goods and services and 18% for standard-rated supplies, while introducing a 40% demerit rate for sin and luxury goods such as motor vehicles, aerated beverages and certain actionable claims. This consolidation aims to remove anomalies, correct the inverted duty structure and bring greater clarity and predictability for businesses. The abolition of the 12% slab and near-complete phase-out of the 28% category, except for tobacco products, underscores the Council's intent to promote uniformity,

transparency and affordability. This exercise has also resulted in ease of living as the indirect tax burden on the common citizen has been lowered on essential commodities, healthcare, education, renewable energy and agricultural inputs. By rationalizing rates on daily-use goods and exempting key life and health insurance services, the reform ensures that GST 2.0 is not merely a fiscal measure but a people-centric policy.

Rate Changes for Goods

The Council approved rate changes for approximately 400 goods, affecting nearly every sector of the economy. Under the new rationalized structure, 176 goods are exempted from tax (earlier 169), while 590 goods (earlier 299) now attract a 5% tax rate. A total of 635 goods (earlier 651) attract an 18% standard rate, whereas 19 goods (earlier Nil), including beverages, motor cars and certain actionable claims, are taxed at 40%, a newly introduced rate merging the earlier tax rate and cess components. Special rates continue to apply on precious metals and stones, articles of goldsmiths, and rough diamonds. Tobacco products continue to attract 28% GST alongwith compensation cess, while bricks are subject to two distinct rates, 6% without ITC and 12% with ITC entitlement.

This extensive restructuring has touched virtually every corner of the economy. Sectors such as food, agriculture, fertilizers, coal, renewable energy, textiles, healthcare, and education have all been impacted, along with common household items, consumer electronics, paper, transport, sports goods, toys, leather, footwear, wood, defence supplies, construction materials and handicrafts. The abolition of the 12% slab, except for bricks, is among the most notable aspects of this reform. Most goods (about 276) previously taxed at 12% have either been moved to the 5% category or fully exempted. Similarly, the 28% slab (about 36 goods fell in this slab) has been abolished, except in the case of tobacco products.

Another significant development is the abolition of the compensation cess, which will remain applicable only for

“The introduction of the 40% slab represents a structural merger of the previous rate and cess components, thereby simplifying computation and reporting.”

tobacco products until the outstanding compensation loans are fully repaid. The introduction of the 40% slab represents a structural merger of the previous rate and cess components, thereby simplifying computation and reporting. Apparel and footwear valued up to Rs. 2,500/-, as against the earlier threshold of Rs. 1,000/-, will now attract 5% GST, a relief measure aimed at the mass retail sector. Furthermore, the earlier tax rate/exemption Notification (No. 01/2017 and 02/2017) have been superseded vide Notification No. 09/2025 and 10/2025 respectively.

Rate Changes for Services

Parallel to the rationalization of goods, around 30 categories of services have undergone significant rate adjustments. The 12% and 28% slabs applicable to services have been abolished entirely, thereby simplifying the rate structure. A new 40% slab has been introduced for certain specified actionable claims such as online gaming, casinos, horse racing and gambling. Services earlier falling under the 12% rate have been redistributed; some have been moved to 5%, others to 5% without ITC, while certain categories have been reclassified under the 18% standard rate or exempted altogether.

Among the most noteworthy changes is the exemption granted to personal life and health insurance services, a move intended to improve affordability and coverage penetration across the country. While the exemption is a positive step for policyholders, it introduces substantial complexity for insurers. As only individual life and health insurance contracts are exempt, insurers must maintain granular records to segregate eligible and ineligible transactions. In accordance with Rules 42 and 43 of the CGST Rules, insurers will now be required to reverse proportionate ITC attributable to exempt policies, resulting in an increase in operational costs. The combined effects of ITC reversal, GST on ceding commission and the requirement of additional manpower for increased reconciliation

“Among the most noteworthy changes is the exemption granted to personal life and health insurance services, a move intended to improve affordability and coverage penetration across the country.”

and compliance significantly increase the cost of doing business for insurers. Ironically, while the exemption is designed to benefit customers, the net benefit ultimately passed on to policyholders may be marginal once higher compliance and credit reversal costs are factored in. From an anti-profiteering standpoint, insurers will be expected to substantiate that any tax benefits have been duly passed on to consumers, necessitating careful documentation and computation. The risk of interpretational disputes or future show cause notices, therefore, remains high, potentially leading to increased litigation in the insurance sector.

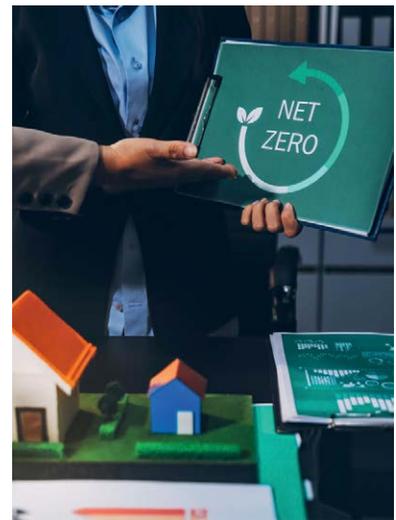
Another key reform under the services category pertains to multimodal transport services. Prior to 22nd September 2025, multimodal transport services within India were generally taxable at 12% with full ITC availability. Under GST 2.0, the Council has aligned the rate more closely with the operational composition of the transport service. Accordingly, where the multimodal service does not involve an air transport leg, GST will now apply @ 5% with restricted ITC, whereas multimodal services including an air leg will attract GST @ 18% with full ITC. While this structure aims to achieve operational neutrality, it requires businesses to reassess cost models and compliance systems due to the introduction of the dual credit framework.

Further, services of renting and leasing of motor vehicles have also undergone substantial changes effective from 22nd

September 2025. Under the earlier regime, renting without operator was taxed @ 18%, while the supply of motor vehicles as goods attracted GST @ 28% along with Compensation Cess of up to 22%. With the withdrawal of Compensation Cess and the merger of rates, certain categories of motor vehicles now attract GST @ 40%. As the GST rate for renting without operator continues to mirror that applicable on the supply of like goods, leasing or renting of such vehicles will now also be taxed @ 40%. This steep increase is likely to impact demand and profitability across the leasing sector. In contrast, renting with an operator has seen rationalization, and the earlier 12% option with ITC has been replaced with GST @ 18% with full ITC, leaving taxpayers with the choice of 5% with ITC restrictions or 18% with full credit.

Implementation Framework and Transitional Considerations

The implementation of GST 2.0 requires meticulous planning at both the policy and enterprise levels. Registered persons must continue with their existing GST registration unless all goods or services supplied have become fully exempt, in which case surrender of registration may be warranted. Similarly, the necessity of maintaining an ISD registration should be reassessed where outward supplies have become exempt.



With respect to the rate applicability, the rate for goods will be determined based on the date of invoice, whereas for services, the applicable rate will depend on the completion of any two out of three events, the date of supply, the date of invoice and the date of payment. Goods sent for approval will be taxed as per the rate applicable on the date of approval, and any debit or credit notes issued subsequently will follow the rate applicable to the original supply.

With regards to input tax credit, no change arises in cases of mere rate reduction; however, where the output supply becomes exempt or subject to a rate without ITC, credit reversal or payment in cash will be required in accordance with Section 18(4) of the CGST Act, read with Rule 44 of the CGST Rules. Such transitions may lead to inversion or deepened inversion in certain sectors, resulting in the accumulation of input credits. Refund of accumulated ITC continues to be available in respect of inputs but remains ineligible for input services and capital goods. This inversion, coupled with the cost of litigation and refund delays, may add to working capital pressures for businesses.

Where exemption or no-ITC rates apply, the input side taxes effectively become part of the cost structure, leading to an increase in the cost of sales of goods/services. Businesses



“The implementation of GST 2.0 requires meticulous planning at both policy and enterprise level. Registered persons must continue with their existing GST registration unless all goods or services supplied have become fully exempt, in which case surrender of registration may be warranted.”

dealing with both exempt/no-ITC and taxable supplies post 22nd September 2025 will be required to reverse ITC proportionately under Section 17(2) of the CGST Act, read with Rule 42 and 43 of the CGST Rules in respect of fresh inward supplies and under Section 18(4) of the CGST Act read with Rule 44 of the CGST Rules in respect of existing stocks.

The abolition of the compensation cess on goods like aerated water, motor vehicles, etc., also presents transitional complexities. Any balance of cess lying unutilized in the electronic credit ledger will lapse and become part of the cost while any shortfall against the required reversal will need to be discharged in cash. As for the stock of finished goods held by traders on 22nd September 2025 where the rate has been reduced, the position remains debatable. Although Circular No. 135/05/2020 (as amended vide Circular No. 173/05/2022) clarifies that such cases do not qualify as inverted duty scenarios, several High Court decisions, including *BMG Informatics Pvt. Ltd. v. UOI*, *Shivaco Associates v. JC SGST*, *Baker Hughes Asia Pacific Ltd. v. UOI*, and *IOCL v. Commissioner CGST*, have adopted a more taxpayer-friendly approach and considered such cases as eligible for refund under the IDS category.

Taxpayers are required to comply with the OM No. I-10/14/2020-W&M dated 18th September 2025 issued by the Department of Consumer Affairs and OM F. No. 12(24)/2021/DP/NPPA/Div.II (Vol.11)- Part (1) issued by the Department of Pharmaceuticals regarding revision of MRP.

Anticipated Challenges in Filing GST Returns for September 2025 due to a Change in Rates

The implementation of GST 2.0 midway through a tax period will create substantial compliance challenges for taxpayers while filing returns for the tax period of September 2025. The foremost issue will be the dual rate application within a single tax period. Supplies made between 1st and 21st September 2025 will be governed by the pre-revision rates and ITC rules, whereas supplies from 22nd to 30th September will attract the revised rates, altered ITC restrictions, and new provisions. This will require taxpayers to maintain precise segregation of transactions by date and HSN code within their accounting and invoicing systems.

Another area of concern is HSN and tax classification confusion, since the same goods or services may attract different rates before and after 22nd September 2025. For industries such as hospitality, leasing and transportation, identical HSN codes could reflect differing rates and ITC treatments across the same filing period, leading to potential mismatches, reconciliation errors and notices from tax authorities.

The month is also expected to see a surge in documentation and computation burdens. Taxpayers will need to ensure proper maintenance of records to support ITC segregation, rate applicability, and credit reversals under Section 17(2) of the CGST Act, read with Rule 42 and Rule 43 of the CGST Rules, as well as reversals under Section 18(4) of the CGST Act. These requirements will increase manual intervention, calculation complexity and reconciliation workload.

Further, the GSTR-1 filing process for September 2025 will pose unique operational challenges. As invoice-level reporting mandates correct HSN, tax rate and value, businesses will effectively have to maintain two distinct invoicing systems, one for transactions up to 21st September under the old structure, and another for those post 22nd September reflecting new rates, exemptions and ITC restrictions. This dual structure significantly heightens the probability of clerical errors, data mismatches and system-generated discrepancies in returns.

Collectively, these factors will result in increased administrative effort, working capital stress, and potential delays in filing. Businesses must proactively update ERP configurations, redesign invoicing templates, and conduct advanced reconciliation exercises to ensure accuracy. The September 2025 return cycle will likely be one of the most complex compliance periods since the inception of GST, underscoring the need for advance preparation, robust internal controls, and professional oversight to mitigate litigation risks and ensure seamless reporting.

Strategic Considerations for Rate Selection and IT System Readiness

Beyond compliance, GST 2.0 introduces strategic choices for taxpayers, particularly in cases where dual rate options exist, such as hotel accommodation or renting services. Businesses must carefully evaluate the trade-off between a lower rate without ITC and a higher rate with full ITC. Selecting the lower rate without ITC may offer short-term relief to customers by lowering prices but simultaneously increases the cost of inputs due to reduced / no credits, potentially eroding margins. Conversely, opting for a higher rate with ITC preserves the credit chain, improves working capital efficiency, and ensures long-term sustainability, albeit at the cost of a higher headline rate to the end consumer.

Accurate implementation of these options demands strong ERP and IT

“The introduction of GST 2.0 is more than a rate rationalization exercise, it marks the dawn of a smarter, digitally integrated and economically balanced tax regime.”

systems. Systems must be configured to apply correct tax rates on a per-unit and per-date basis, assign appropriate HSN codes under revised classifications, and accurately track eligible and blocked ITC. Further, seamless segregation of supplies before and after the rate change is critical to avoid errors in reporting and reconciliation. Businesses must also strengthen compliance controls by monitoring ITC utilisation, reversals under Rule 42/43, and adjustments under Section 18(4). Regular reconciliations and internal audits will be essential to ensure that rate selections optimise both cost efficiency and compliance while mitigating the risk of disputes or misstatements in returns.

Anti-Profitteering and Compliance Requirements

Section 171 of the CGST Act, dealing with anti-profitteering, remains operative, although no fresh complaints will be entertained after 1st April 2025 as per *Notification No. 19/2024 dated 30th September 2024*. The Government, however, expects that businesses will pass on the commensurate benefits of tax rate reductions to consumers. In sectors such as insurance, logistics, leasing and hospitality, where exemptions and restricted ITC regimes have significantly altered cost structures, taxpayers must be particularly vigilant in documenting and demonstrating benefit pass-through computations. Traders and manufacturers are advised to maintain adequate documentation to substantiate that benefits have indeed been transferred. Consumers, on the other hand, can continue to lodge complaints through the National

Consumer Helpline at toll-free number 1915 or via WhatsApp at 8800001915, and as per newspaper reports, more than 3000 complaints have already been filed.

In addition, businesses are urged to update their ERP, invoicing, and point-of-sale systems to align with new rate notifications, even for goods and services whose rates remain unchanged in view of new tax rate / exemption notifications on the goods side. Long-term contracts with vendors and customers must be reviewed to accommodate revised rates, and marketing strategies must be revisited in light of new rate structures, especially where supplies involve goods or services attracting different rates.

Conclusion: The Road Ahead for GST 2.0

The introduction of GST 2.0 is more than a rate rationalization exercise; it marks the dawn of a smarter, digitally integrated and economically balanced tax regime. While transitional challenges such as ITC reversals, dual-rate compliance, and system reconfigurations are inevitable, the reform's long-term benefits are poised to outweigh its short-term complexities. The overarching objective is clear – to create a simpler, fairer and more efficient GST framework that supports India's vision of becoming a globally competitive and digitally empowered economy.

By consolidating rates, removing redundancies, and phasing out cess-based taxation, GST 2.0 seeks to strengthen both consumer welfare and business efficiency. For taxpayers, it represents an opportunity to align processes, embrace transparency and contribute to the evolution of a truly unified “One Nation, One Tax” ecosystem, a GST architecture designed for the future.

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Cascading of Tax is Inevitable in Exemption from GST

A good tax regime seeks to avoid the cascading of tax. On the other hand, a value-added tax regime permits multi-point incidence of tax, while eliminating any cascading. The 56th GST Council decisions were rolled out from 22nd September 2025. While there is plenty to cheer about for consumers, registered taxpayers holding tax-paid inventory have to grapple with credit that was once allowed on their assurance that it would be utilized to discharge output tax which is now 'nil'. Whether it is complete exemption from GST or only

from Cess, taxpayers find themselves having to bear the burden of credits that have lost their shelf-life. Section 18(4) of the CGST Act seeks credit 'equivalent' to inventory on 21st September 2025, whether it remains unused or has already been used up. If output tax is not payable, the credit of input tax availed is liable to be returned in full. This article dives deep into the contours of the tax regime, illustrates the working of 'tax cascading' and exposes the quandary of taxpayers this Diwali.

Plurality of a Single Tax System

'Dual tax' refers to a situation where two (2) separate legislations apply to the same transaction and are implemented at the same time by a single regulator. GST on intra-State supplies is a dual tax wherein the Central GST Act and the State/UT GST Act are two separate legislations that are pressed into service to impose tax on the same 'taxable event'. A taxable event is that event upon the happening of which the levy to tax is attracted and fastens to the subject matter of the said tax. Being an event, it happens at a point in time and not over a period of time. For this reason, the taxable event specified in the charging provision must be specific and its culmination should be amenable to determination with great precision. GST relies on eight (8) forms of supply which are *nomen juris* expressions – whose meaning, interpretation and boundaries are well-established under substantive laws – and the object of such supply is either goods or services, which

are mutually exclusive with their own meaning, interpretation and boundaries available in law, consensus about it being a work in progress that will take years to reach.

Transactions in inter-State operate under another legislation i.e., the Integrated GST Act, which doubles the incidence to ensure flow of tax revenues to the destination State, as determined by the rules on place of supply rather than by the taxpayer based on transactional facts. Another legislation to overlay another tax i.e., the GST (Compensation to States) Act (that goes by the 'Cess Act'), applies to the same taxable base in addition to CGST-SGST or IGST on specified goods or services. These two legislations i.e., the IGST Act and the Cess Act, borrow all machinery provisions from the dual tax legislations – the Central GST Act and the State/UT GST Act – so as to avoid duplication, and better still, reduce the burden on the law-making exercise when the administration of these legislations cannot but be identical to that of the dual tax legislations.

The Drawback of Cascading Taxes

Where tax is charged on the transaction price paid or payable, taxes paid on costs incurred and embedded in the transaction price of the sale by the taxpayer will cause a bloating of taxes beyond the tariff rate prescribed. Each taxpayer adds their own value to the inputs used in the output they supply. An illustration would help demonstrate this drawback of cascading (reference to 'buy' and 'sell' are made without reference to the form of supply involved but only to indicate the inward and outward limbs of a trading transaction by a hypothetical taxpayer), as well as the methods available to overcome it and the one selected in GST as depicted in Table 1.

“A taxable event is that event upon the happening of which the levy to tax is attracted and fastens to the subject matter of the said tax.”

Table 1.

Description *	Price	Tax	Total
'Buy side' trade	100	10	110
Value added	50	–	50
Sub-total	150	10	160
'Sell side' tax at 10%	15	1	16
Total	165	11	176

* A tax rate of 10 per cent is assumed for ease of illustration

Cascading is when the sell-side tax of Rs. 16 includes a tax of Re. 1 on the buy-side tax of Rs. 10 incurred by the taxpayer. Taxes paid on the buy-side transaction must be excluded while computing the sell-side price of the transaction to be true to the quantum of tax imposed by the legislation. To achieve this, there are alternative methods under the value added on tax system:

Value added method		Tax added method	
'Sell side' price	150	'Sell side' tax at 10%	15
'Buy side' price	(100)	'Buy side' tax at 10%	(10)
Value added (VA)	50	Tax at 10% on VA	5
Tax at 10% on VA	5		

GST operates as a multi-point tax where the tax incidence is attracted at every stage through which the object (of supply) passes, applied on the taxable base, i.e., the transaction price paid or payable on the sell side of the trade. To prevent the incidence of tax-on-tax, or the 'cascading of tax', credit for taxes paid on the buy side is permitted. The admissible credit of the buy-side tax operates as sell side tax that is pre-paid, and carried forward until the time to settle it arrives.

Exemption attracts Denial of 'Equivalent' Credit

There is a fundamental assumption in any anti-cascading exercise that tax is levied on the sell-side transaction so that credit of tax paid on the buy-side becomes admissible. If, for a higher policy reason, the transaction undertaken by the taxpayer is exempt from tax, then taxes paid on their COGS cannot be permitted to be set-off as it will result in a situation of 'credit overflow,' and will have to be refunded. Tariff policies are guided by net tax revenue from a sector and do not permit set-off in a vacuum. Set-off presupposes a positive tax liability on the sell-side that will accommodate utilization of tax paid

on the buy-side. Taxpayers whose supply is not exempt on the sell side are free to avail the credit of tax paid on the buy side and accumulate it when there is a build-up of inventory and sales are slow. When sales pick up, accumulated credits are available to be set-off. Credits accumulated have an unlimited shelf life and are co-terminus only with the closure of the taxpayer's business.

Tax on the buy-side will be excluded from the definition of 'cost' in AS-2 on the premise that it is "subsequently recoverable from a taxing authority". It



“ GST operates as a multi-point tax where the tax incidence is attracted at every stage through which the object (of supply) passes, applied on the taxable base, i.e., the transaction price paid or payable on the sell side of the trade. ”

is for this reason that creditable (buy-side) taxes are carried as a current asset in the financials, subject to the fulfilment of conditions to avail such credit, and are not added to the carried value of the inventory. Where tax on the sell-side is exempt, then tax incurred on the buy-side is not admissible as it breaks the continuum due to exemption and for this reason is readily added to COGS (Cost of Goods Sold), even if the same taxpayer has other products or lines of business where sell-side taxes are substantial and tax paid (which is inadmissible due to exemption) can always be put to good use.

Section 17(2) carries this divesting condition whereby the credit admissible under Section 16(1) and subject to fulfilment of conditions under Section 16(2) is liable to be reversed from the credit pool (from which the set-off of tax payable on the sell side is made) or, more specifically, the Electronic Credit Ledger (ECrL). When the sell-side tax is payable at the time when buy side taxes were incurred, credit is admissible on the condition that, when the event of sale occurs, the incidence of sell-side tax that permitted the claim of credit (of buy-side tax) must continue to be payable. If, due to an intervening policy review, tax paid and credit availed on the expectation that the sell-side transaction will be taxable were to undergo a change and sell-side tax was to be exempted, then Section 18(4) instantaneously demands restoration of the *status quo ante* read with this exemption. That is, Section 18(4) demands that the credit availed on that fundamental assumption



be undone as if this exemption were known at that time itself. The balance in the ECrL must now reflect exactly the position that would have prevailed had this exemption been applicable from the outset.

Overdrawn Balance in ECrL

A one-to-one correlation is not required. That is, the credit in the ECrL is a pool comprising various streams of credit that flow after undergoing pre-scrutiny for the buy-side compliance with applicable vesting conditions, contingent only on the divesting condition under Section 18(4). When it comes to discharging the sell-side tax, Section 49 permits the exhaustion of the balance in ECrL before discharging outstanding tax 'in cash'. Electronic Cash Ledger (ECL) is, in general, used to discharge the sell-side tax when there is an insufficient balance in the ECrL. Another illustration may help in addressing this concept of the ECrL being a common medley of credits as depicted in the table below.

In this illustration, the net tax position discharged individually will require the sell-side tax of Rs. 200 on Product A to be discharged *via* ECL and the carry forward ECrL balance of Rs. 350 for Product B. But with ECrL being a common pool, the entire sell-side tax of Rs. 450 is permitted to be discharged out of the total credit pool of Rs. 600. If ECrL were to operate separately, then the homogeneity of transactions at the level of a 'distinct person' will need to be further separated *qua* product or line of business, for which there is neither a statutory basis beyond Section 25(4) and 25(5), nor is it possible to maintain records *qua* each tariff classification that arises on the sell-side.

Further, on a closer examination of the above illustration, it is unmistakable from the balance in ECrL that the credit 'equivalent' to Product A is Rs. Nil and that of Product B is Rs. 350. But with the actual balance in ECrL standing at Rs. 150, credit from Product B has been overdrawn to that extent (and used to discharge tax on Product A). This is a direct result of fungibility of credit permitted under this common medley of ECrL, due to the inapplicability of one-to-one correlation in availing, maintaining and utilizing credit balances. By extension, there is an overflow of credit from Product B of Rs. 350, which is the exact extent of the shortfall (of its own sources of credit to discharge tax) on Product A of Rs. 200, that would have been lying unutilized had the taxpayer undertaken trade in Product B alone. The *status quo ante* does not permit

“Taxpayers whose supply is not exempt on the sell side are free to avail the credit of tax paid on the buy side and accumulate it when there is a build-up of inventory and sales are slow.”

overdrawn credits to be unpaid or overflow credits to be retained. Section 18(4) requires the reversal of:

- credit utilized that the product was not entitled to be availed; and
- any overflow of admissible credit on this product to be lapsed, as there will be no further occasion to utilize such balance embedded in ECrL usage due to an exemption that eliminated any tax in future on the sell side.

Now consider that 2 units of each product were purchased and 1 unit of each was sold when:

- a notification is issued that exempts Product A from sell-side tax. Credit 'equivalent' to 1 unit of Product A in stock is inadmissible due to the operation of the divesting condition and Rs. 100 is liable to be reversed to comply with section 18(4). Since the balance in ECrL is Rs. 300 (due to 2 units of each involved), this reversal can uneventfully be carried out when the first returns after exemption fall due by filing Form GST ITC3 online; and
- if a notification is issued that exempts Product B from sell-side tax, credit 'equivalent' to 1 unit of Product B lying in stock becomes inadmissible, and Rs. 500 is liable to be reversed. With a balance in ECrL of Rs. 300, the entire balance is liable to be reversed and a further Rs. 200 is liable to be discharged via ECL to comply with this mandate.

Without adding complexity to the illustrated discussion above by involving capital goods and input services, where

Description *	Product A	Product B	Total
'Buy side' tax	100	500	600
'Sell side' tax	(300)	(150)	(450)
Net tax payable	(200)	350	150
▪ Paid via segmental ECrL	(100)	(150)	(250)
▪ Balance via ECL	(200)	–	(200)
▪ Paid via common ECrL	(300)	(150)	(450)
▪ Balance via ECL	–	–	–

* all products deal with the taxpayer under common GSTIN



the treatment discussed is *mutatis mutandis* applicable to them, it is more important to call to attention to the fact that the ECrL balance is a common medley across all products or lines of business operating under a common GSTIN. Due to the simultaneous implementation of four (4) separate legislations, ECrL is independent in respect of (i) CGST, (ii) SGST or UTGST, (iii) IGST, and (iv) Cess. Fungibility of credit utilization is within these four pools, with a limited cross-utilization of IGST, which is not relevant for this discussion.

The 56th GST Council Decisions

GST operates under a three-tier construct of notifying tariff rates, allowing exemptions, and placing the responsibility to discharge the effective tariff payable on supply of goods or services according to their tariff classification.

Tariff rates of goods or services are notified under Section 9(1) of the Central GST Act or Section 5(1) of the Integrated GST Act and Section 6(1) of the Cess Act. Exemptions are notified with specific reference to those goods or services under Section 11(1) of the Central GST Act or Section 6(1) of the Integrated GST Act, and use cases where the mandate in Section 18(4) applies, which have also been included in recent recommendations of the GST Council, are as follows:

- Sell-side tax newly exempted *vide* notification 10/2025-Central Tax (Rate) dated 17th September 2025, where the credit of buy-side tax, if any, availed earlier, becomes inadmissible, and such credit, 'equivalent' to stock-on-hand, is liable to be computed and reversed in Table 4B1 in the upcoming GSTR3B to be filed on 20th October 2025;
- Sell-side tax on taxable services reduced to 5 per cent, with restriction on input tax credit, which is to be treated as exempt supply by operation of legal fiction in para 4, (iv) of the tariff notification of service for the purposes of Section 17(2);
- Sell-side Cess on taxable supplies of goods and services being exempted *vide* notification 2/2025-Compensation Cess (Rate) dated 17th September 2025, which constitutes exempt supply in the independent pool of Cess credits, to which reversal of credit under Section 18(4) applies immediately.

Notifications issued pursuant to decisions taken in the 56th GSTC are only one instance when the above implications arise; in every other instance, the credit of buy-side taxes

loses ground when sell-side tax is exempted or treated as exempt by a specific tariff condition that imposes restriction on credit.

Recoup Lost Credits

Credit claimed reduces COGS and by implication, credit lost increases COGS. Increase in COGS due to loss of credit will be passed on to customers. But no tax can be collected "as tax" without attracting the ire of Section 76. The decision in *Unison Metals Ltd. v. CCE, Ahd 2006 (204) ELT 323 (Tri. LB)* affirms that credit lost that is recouped from customers, contractual terms permitting, in addition to the transaction price, is not barred under the equivalent provision in Section 11D of the Central Excise Act. FAQs issued by CBIC following the tariff review in the 56th GST Council meeting have confirmed both the likelihood of increase in cost from credit lost due to exemption and that this increase in COGS is likely to translate into an increase in the taxable base on the sell side. But in any case, the rate of tax to be charged after 22nd September 2025 must be the new rate to steer clear of any enquiry into profiteering at the expense of customers.

Conclusion

There is no equity in taxation. The verdict is still out on whether credit is a vested and indefeasible right or a statutory concession. But the mandate is clear that admissibility of credit of buy-side tax presupposes incidence of sell-side tax. Exemption is the antithesis of a multi-point tax regime. But policy prerogatives prevail over any economic implications against granting exemptions. Exemption is mandatory and so are conditional exemptions. Exemption will cause cascading of credits, not that this drawback is acceptable, but the good is expected to reach consumers this Diwali.

Description	CGST Act	SGST Act	UT Act	IGST Act	Cess Act
Tariff rates	9(1)	9(1)	7(1)	5(1)	8(2)
Exemption	11(1)	11(4) *	8(1)	6(1)	–
RCM	9(3)	9(3)	7(3)	5(3)	–

* exemption under the CGST Act will operate as exemption under the SGST Act

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Procedures for Issuing Returnable Delivery Challan for Job Work

In the context of Central Excise, a returnable delivery challan refers to a document and procedural framework that enables the temporary removal of excisable goods from a manufacturer's premises without attracting excise duty. This mechanism ensures compliance with tax regulations while allowing goods to be moved for purposes like job work, testing, repairs, exhibitions, or approvals, with the expectation of their return to the original premises. The returnable challan is crucial for

tracking these goods, preventing tax evasion, and facilitating duty reversal or refunds upon their return, if applicable.

With the introduction of the Goods and Services Tax (GST) on July 1, 2017, Central Excise on most goods was integrated into GST, shifting the focus to a unified tax system. Nevertheless, the concept of returnable delivery challan from Central Excise has directly influenced GST provisions, particularly under Rule 55 of the CGST Rules, 2017. This rule prescribes the use of delivery challans for non-supply movements, such as job work under Section 143, sale-or-return, or exhibitions. Let us now explore the procedure that the principal must follow for removing GST-paid goods for job work.

Overview of Job Work Under GST

Clause (68) of Section 2 of the Central Goods and Services Tax Act, 2017, defined the term "job work" as any treatment, processing, or operation carried out by an individual or entity (referred to as the "job worker") on goods that belong to another person who is registered under the GST regime. The job worker is the individual or entity responsible for carrying out specific processes or treatments on goods provided by another party.

These processes could include activities such as manufacturing, assembling, packaging, testing, or any other form of processing that enhances or modifies the goods as per the requirements of the owner. The principal is the person who owns the goods and supplies them to the job worker for processing.

The transaction between the principal and the job worker falls under the scope of supply as prescribed under Section 7, read with Schedule II of the CGST Act, 2017. This means that the job work services (as per Schedule II) provided by the job worker to the principal are subject to GST. The job worker typically issues an invoice for the services rendered, and GST is levied on the value of the job work charges as per the applicable GST rates. While job work transactions are generally taxable, Section 143(1) of the CGST Act provides for the movement of goods from the principal to the job worker without tax payout, to facilitate ease of operations for businesses. In other words, this section allows a registered principal to send inputs (raw materials, components, etc.) or capital goods (machinery, equipment, etc.) to a job worker for processing without payment of GST at the time of dispatch, subject to specified conditions.

To avail this benefit, the principal must comply with the conditions specified under Section 143, such as intimating the jurisdictional officer and ensuring that the goods are returned to the principal (or supplied directly from the job worker's premises to another person on the principal's instructions) within the stipulated time frame:

- Inputs: Must be returned within one year from the date of dispatch to the job worker.
- Capital Goods: Must be returned within three years from the date of dispatch.

If the goods are not returned within these time limits, the transaction is treated as a supply, and GST becomes payable on the value of the inputs or capital goods.

To facilitate trade, the Central Board of Indirect Taxes and Customs (CBIC), vide *Circular No. 38/12/2018 dated 26th March 2018*, clarified the procedural aspects relating to the issuance of challans, furnishing of intimation and other documentary requirements in this regard. This process ensures seamless tracking of goods sent for job work while maintaining compliance with GST regulations. The triplicate

and duplicate challan system facilitates proper documentation, and FORM GST ITC-04 acts as a consolidated report to inform the tax authorities about the movement of goods. *The principal must maintain meticulous records to avoid tax liabilities in case of delays or non-return of goods.*

Situations

Goods sent from principal's location

Goods sent directly to job worker's location

Goods sent from one job worker's location to another job worker's location

The detailed discussion on the movement of the goods in each situation is explained below:

Situation 1: Goods Sent to a Single Job Worker and Returned After Job Work

In this scenario, the principal sends goods to a single job worker for processing, and the goods are returned after completion of the job work.

Procedure:

a. Preparation of Delivery Challan & Waybill:

- The principal prepares a returnable delivery challan in triplicate as per Rules 45 and 55 of the CGST Rules.
- The challan must include details such as the description, quantity, value of goods, and a statement indicating that the goods are sent for job work without payment of tax.
- The principal should also ensure that before the outward movement of goods, the details of the delivery challan are reported in the E-Way Bill portal, and a valid E-Way Bill copy is generated.
- Two copies (original & duplicate) of the delivery challan are sent along with the goods to the job worker.
- The third copy is retained by the principal for record-keeping for filing the intimation in the prescribed form.

b. Return of Goods:

■ In Full:

After completing the job work, the job worker returns the processed goods to the principal, endorsing a duplicate copy of the delivery challan sent by the principal. The returned goods must be accompanied by this duplicate copy to ensure proper documentation of the transaction.

■ Piecemeal Return or Further Movement:

If the goods are returned in parts (either to the principal or to another job worker), the original challan cannot be endorsed for partial quantities. In such a situation, the job worker must issue a fresh delivery challan for each partial movement, referencing the principal's original challan number and date. The job worker returns a copy of the principal's duplicate delivery challan along with the last instalment of goods, ensuring all movements are documented.

c. Maintenance of Job Work Register:

The Job Work Register is one of the vital records, used by the principal to track goods sent to a job worker for processing and their return, ensuring compliance with Section 143 of the CGST Act. It documents details, such as delivery challan number, date, job worker's GSTIN, goods description, HSN code, quantity, value, and

“ The transaction between the principal and the job worker falls under the scope of supply as prescribed under Section 7 read with Schedule II of the CGST Act, 2017. This means that the job work services (as per Schedule II) provided by the job worker to the principal are subject to GST. ”

nature of job work. The register records dispatch and return dates, including partial returns with fresh challans referencing the principal's original challan. It helps monitor compliance with return timelines, one year for inputs and three years for capital goods, to avoid treating non-returned goods as taxable supplies. The principal uses the register to file FORM GST ITC-04, reporting goods sent, returned, or pending.

Accurate maintenance prevents ITC loss, tax liabilities, and audit issues. Non-compliance may lead to GST payment with interest. The register thus ensures transparency and operational control.



d. Filing of FORM GST ITC-04:

The principal uses the details from the delivery challan and the returned goods to file FORM GST ITC-04, which serves as the intimation required under Section 143. This form reports the details of goods sent to the job worker, goods returned, and any goods still with the job worker.

e. Non-Compliance Consequences:

If the goods are not returned to the principal within the prescribed time (one year for inputs, three years for capital goods), the transaction is treated as a taxable supply.

The taxable value mentioned in the delivery challan is considered the assessable value, and the principal must pay the applicable GST along with interest from the due date until the date of payment.

Situation 2: Goods Sent for Further Processing from One Job Worker to Another

Under the “Bill to Ship to” arrangement, goods are transported directly from the supplier’s facility to the job worker’s premises, bypassing the principal’s location. In this model, the supplier issues an invoice to the principal (the “bill to” entity), while



“ If the goods are not returned to the principal within the prescribed time (one year for inputs, three years for capital goods), the transaction is treated as a taxable supply. ”

the goods are physically shipped to the job worker (the “ship to” entity) for processing or further work. This streamlined approach optimizes logistics by eliminating the need for intermediate storage or handling at the principal’s location.

Furthermore, this scenario extends to cases involving imported goods. When goods are brought into India, they are cleared at a customs station and, instead of being routed to the principal’s warehouse or facility, are directly dispatched from the customs station to the job worker’s location for processing. This direct shipment from the customs station ensures efficiency in the supply chain, reducing transit time and costs while enabling the job worker to commence operations promptly.

In such cases, the principal is expected to follow the process given below:

Procedure:

a. Preparation of Delivery Challan:

i. Domestic purchase:

- In this method, the supplier issues an invoice naming the principal as the buyer and the job worker as the consignee, as per Rule 46 (o) of the CGST Rules. This ensures that the principal is recognized as the owner of the goods for ITC purposes.
- Hence, the principal prepares a returnable delivery challan in triplicate under Rule 45 and sends two copies to the



job worker after the goods reach. The challan details the goods being sent for job work and references the supplier’s invoice.

- The third copy is retained by the principal for record-keeping for filing the intimation in the prescribed form.
- No E-way Bill is required to be prepared by the principal since no movement of goods was undertaken by him. However, the supplier might have issued the tax invoice and E-Way bill for the movement of goods to the job worker’s location under the “Bill to Ship to” mode.

ii. Imported Goods:

- The principal files a Bill of Entry at the customs station to clear imported goods intended for job work, ensuring compliance with customs regulations and facilitating the release of goods for further processing.
- After customs clearance, the principal prepares a delivery challan in triplicate as per Rule 45 of the CGST Rules, 2017, using the “Bill from and Dispatched from” method.

- The principal generates an E-way Bill under GST rules, referencing the delivery challan, to authorize the movement of goods from the customs station to the job worker.
- The goods are transported from the customs station to the job worker under the cover of the delivery challan, which specifies the goods sent for job work and references the Bill of Entry. This ensures a clear audit trail and compliance with GST regulations.
- Two copies of the delivery challan, along with a copy of the E-way Bill, are sent to the job worker to accompany the goods. The job worker endorses one copy upon receipt and returns it to the principal with the processed goods, while the second copy is retained by the job worker for their records.

(For the remaining procedure, please refer to points (b) to (e) of Situation I.)

Situation 3: Goods sent from one job worker's location to another job worker's location

Goods are sent from one job worker to another when a principal engages multiple job workers to perform sequential or specialized processes

“By adhering to Rules 45 and 55 and filing FORM GST ITC-04, the principal can claim ITC on goods sent for job work, even when they are not in their possession.”

on the same goods, such as cutting, dyeing, and stitching for textiles. This is common in industries, such as manufacturing, textiles, or electronics, where different expertise or equipment is needed at each stage. The need arises to optimize production efficiency, leverage specialized skills, or utilize specific machinery available at different job worker locations. The first job worker, after completing their task, transfers the goods to the next job worker under a fresh delivery challan, referencing the principal's original challan to maintain traceability. An E-way Bill is generated to authorize the movement, ensuring GST compliance. This process allows the principal to streamline complex production without moving goods back and forth unnecessarily. Accurate documentation prevents Input Tax Credit loss and potential tax liabilities. This multi-job worker process enhances operational flexibility while adhering to GST regulations. The principal needs to ensure the following procedure is followed when the goods are sent from one job worker's location to another:



- The principal issues a fresh delivery challan for the movement of goods from the first job worker to the second job worker, referencing the original challan.
- The first job worker can issue their own delivery challan, referencing the principal's original challan, or endorse the principal's challan by specifying the quantity and description of goods being sent to the next job worker.

(For the remaining procedure, please refer to points (b) to (e) of Situation I.)

Conclusion

The procedures for issuing a returnable delivery challan under the CGST Act, 2017, are designed to facilitate the movement of goods for job work while ensuring compliance with GST regulations. By adhering to Rules 45 and 55 and filing FORM GST ITC-04, the principal can claim ITC on goods sent for job work, even when they are not in their possession. The processes outlined for each scenario, single job worker, multiple job workers, direct supply to job worker, and piecemeal returns, provide a robust framework for managing job work transactions. Proper documentation, timely return of goods, and accurate reporting are critical to avoid tax liabilities and ensure compliance with the GST law.

Reference

- Circular No.38/12/2018-GST dated 26.03.2018



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Understanding the differences, interactions, and relationships between Penalties under Sections 73/74/74A and Section 122(2) of the CGST Act 2017

This article examines the differences and interconnections between penalties under Sections 73, 74, 74A, and 122(2) of the CGST Act, 2017. Sections 73, 74, and 74A authorize penalties for taxes that are unpaid, underpaid, or erroneously refunded due to errors or fraud, based on the nature of the offence. Section 122(2) specifies penalties for tax offences, both intentional (fraud) and unintentional (errors), but does

not define a “Proper Officer,” unlike Sections 73, 74, and 74A. The penalties under Sections 73, 74, 74A, and 122(2) are distinct and not interchangeable. Penalties under Section 122(2) apply when taxes are no longer recoverable under Sections 73, 74, or 74A due to the expiration of time limits. Section 127 empowers officers to levy penalties not addressed by other sections. Rule 142(1), which mentions Sections 122 and 125, conflicts with the absence of a “Proper Officer” in these sections. Notices or penalties under Section 122(2) are invalid if issued under the procedures of Sections 73, 74, or 74A.

The CGST Act, 2017, seeks to uphold tax compliance through well-defined penalty structures to address lapses in payment, fraudulent actions, or procedural non-adherence. Understanding the nuances of penalty provisions under Sections 73, 74, 74A, and 122(2) is critical for taxpayers, legal professionals, and tax officials. This article explores the interplay between these sections, addressing whether penalties are interchangeable, correlated, or supplementary while emphasizing their distinct nature. By examining statutory provisions and interrelations, this article clarifies key operational aspects to guide the lawful imposition of penalties within the GST framework.

This article aims to address the following questions:

- (i) Are the penalties stipulated under Sections 73/74/74A and Section 122(2) Identical?

- (ii) Does the proper officer possess the discretion to opt for imposing a penalty under Section 122(2) instead of Sections 73/74/74A?

- (iii) Is there any correlation between the penalties specified under Sections 73/74/74A and Section 122(2)?

- (iv) Does the penalty articulated in Sections 73, 74, and 74A stem from Section 122(2), or is it a separate penalty? Similarly, is the penalty delineated in Section 122(2) distinct from those outlined in Sections 73, 74, and 74A?

Analysis

Section 73

Determination of tax, pertaining to the period up to Financial Year 2023-24, not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised for any reason other than fraud or any willful-misstatement or suppression of facts.

Under Section 73, the proper officer is authorized to demand and recover tax, interest, and penalty in the following cases:

- Tax not paid or short paid or
- erroneously refunded or
- input tax credit wrongly availed or utilised for any reason other than fraud or any willful-misstatement or suppression of facts.

Section 74

Determination of tax, pertaining to the period up to Financial Year 2023-24, not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised for reason of fraud or any willful-misstatement or suppression of facts.

Under Section 74, the proper officer is authorized to demand and recover tax, interest, and penalty in the following cases:

- Tax not paid or short paid or
- erroneously refunded or

“It is not permissible if a notice is issued under Sections 73/74/74A and a penalty is imposed under Section 122(2) instead of the penalties specified in Sections 73/74/74A.”

- input tax credit wrongly availed or utilised by reason of fraud or any willful-misstatement or suppression of facts.

Section 74A

Determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised for any reason pertaining to Financial Year 2024-25 onwards.

Under Section 74A, the proper officer is authorized to demand and recover tax, interest, and penalty in the following cases:

- Tax not paid or short paid or erroneously refunded or
- input tax credit wrongly availed or utilised for any reason pertaining to Financial Year 2024-25 onwards.

Section 122(2) specifies the reasons, i.e., offences for which penalties can be imposed and the amount of penalty that can be levied.

Section 122(2) - Any registered person who supplies any goods or services or both on which any tax has not been paid or short-paid or erroneously refunded, or where the input tax credit has been wrongly availed or utilized:

- for any reason, other than the reason of fraud or any willful misstatement or suppression of facts to evade tax,
- for reason of fraud or any willful misstatement or suppression of facts to evade tax,

In the author's opinion, the reasons mentioned for imposing penalties under Sections 73/74/74A and Section 122(2) are similar, but the penalties

that can be imposed are not the same. There are fundamental differences in the provisions for imposing penalties under Sections 73/74/74A, and Section 122(2).

Key Differences:

The differences between Sections 73/74/74A and Section 122(2) are as follows.

S. No.	Section 73/74/74A	Section 122(2)
1	Mention the term “Proper Officer,” and Circular No. 3/3/2017 – GST, dated 05.07.2017, specifies who is the Proper Officer for the purposes of Sections 73/74/74A.	However, in Section 122(2), the term “Proper Officer” is not used. Even Circular No. 3/3/2017 – GST, dated 05.07.2017 does not mention any officer as the proper officer for the purpose of Section 122.
2	The proper officer is authorized to demand and recover penalties including tax and interest.	Since the term “Proper Officer” is not used in Section 122(2), the question of granting authority to a Proper Officer does not arise.
5	Without the tax amount, Sections 73/74/74A can't be initiated, hence penalties can't be demanded and recovered.	In contrast, Section 122(2) focuses on penalties only.
6	Sections 73/74/74A provide provisions regarding the time limits for issuing show cause notices.	In contrast, Section 122(2) does not provide any provisions for issuing show cause notices. It only specifies the penalties for various offences.
7	Sections 73/74/74A provide provisions regarding the time limits for issuing orders.	In contrast, Section 122(2) does not provide any provisions for issuing orders.
8	Sections 73/74/74A provide that if a person being penalized pays the tax within a specified time limit, then he will be granted a reduction in the penalty.	In contrast, Section 122(2) only specifies the penalties for various instances of non-compliance by a registered person. Nothing is contained regarding the reduction in penalties.

Interrelation and Interpretations

It is important to note that the reasons for imposing penalties under Sections 73/74/74A are similar to those mentioned under Section 122(2). However, the penalties under Sections 73/74/74A and Section 122(2) are not supplementary to each other. In other words, it is not permissible if a notice is issued under Sections 73/74/74A and a penalty is imposed under Section 122(2) instead of the penalties specified in Sections 73/74/74A. Nowhere in the entire CGST Act 2017 is it stated

that the penalties imposed under Sections 73/74/74A will be derived from Section 122(2) or that they are the same.

Now, a question arises as to why the reasons for imposing penalties under Sections 73/74/74A and Section 122(2) are similar. The reason is that if a registered person commits such offences for which the time limit for demand and recovery of tax under Sections 73/74/74A has expired, then Sections 73/74/74A can't be invoked, but a penalty can be imposed under the provisions of Section 122(2).

Another question arises: since the term “Proper Officer” is not used in Section 122(2), how will a penalty be imposed under Section 122(2)? I will discuss this matter further in this article.

It is important to mention Section 75(13) here, which provides special provisions.

Section 75(13) states that where a penalty is imposed under Sections 73/74/74A, no penalty shall be imposed under any other provision for the same act or omission on the same person.

This means that the reasons (act or omission) mentioned under Sections 73/74/74A are also listed elsewhere in the CGST Act. Therefore, Section 75(13) prohibits imposing a penalty under any other provision for the same act or omission if a penalty has already been imposed under Sections 73/74/74A.

These reasons (act or omission) are also listed in Section 122(2). Hence, it is reiterated and essential to consider that if the proper officer imposes a penalty under Sections 73/74/74A, he cannot impose a penalty again under Section 122(2).

Based on the above, it can be stated that the penalties mentioned under Sections 73/74/74A and Section 122(2) might seem similar because the reasons given are the same. However, in reality, they are not the same. The proper officer is not given the authority to choose to impose a penalty under Section 122(2) instead of the penalties specified in Sections 73/74/74A. The penalties mentioned under Sections 73/74/74A and Section 122(2) are not related to each other.

Now the question arises: if the term “Proper Officer” is not mentioned in Section 122(2), is it appropriate to issue a notice and impose a penalty under Section 122(2)? As mentioned earlier, no notice can be issued under Section 122(2).

Role of Section 127

It is now essential to mention Section 127, as without it, we cannot answer these questions.

Section 127. Power to impose penalty in certain cases.

Where the proper officer is of the view that a person is liable to a penalty and the same is not covered under any proceedings under Section 62 or Section 63 or Section 64 or Section 73 or Section 74 or Section 74A or Section 129 or Section 130, he may issue an order levying such penalty after giving a reasonable opportunity of being heard to such person.

Section 127 states that where penalties are not covered under Sections 62, 63, 64, 73, 74, 74A, 129, and 130, the proper officer can order penalties after providing an opportunity for a hearing.

Upon reading the above, it becomes clear that Section 127 allows the proper officer to use the power granted under this section to impose penalties if any

penalties are not covered by these Sections 62, 63, 64, 73, 74, 74A, 129, and 130 (eight sections). It is important to note that Section 127 uses the term “Proper Officer” and mentions issuing orders, but it does not specify any time limit for issuing these orders. Additionally, Section 127 does not mention imposing any taxes or interest.

Now, let us try to understand what type of penalties are not covered by these eight sections, and for which the proper officer can impose penalties using the power granted under Section 127 after providing a proper hearing opportunity.

When we read Sections 73/74/74A and Section 127 together, the question arises as to what type of penalties are not mentioned under Sections 73/74/74A and can be imposed on a person using the power granted under Section 127. To understand this, we need to refer to the following table.

Suppose Mr. “R” wrongly utilized the Input Tax Credit (ITC) of Rs. 18,000 in his GSTR-3B. In this case, if the proper officer issues a notice

S. No.	Reference to Section 122	Brief Description	Whether this offence is covered by Section 73/74/74A
1	Section 122(1)	Section 122(1) includes a total of 21 categories of offences, covering different types of offences. These offences and the penalties for them are not covered under Sections 73/74/74A but are covered under Section 122(1).	No
2	Section 122(1A)	The offences covered under Section 122(1A) are not covered under Sections 73/74/74A.	No.
3	Section 122(1B)	The offences covered under Section 122(1B) are not covered under Sections 73/74/74A.	No.
4	Section 122(2)	The offences and reasons for offences mentioned under Section 122(2) are also covered under Sections 73/74/74A.	Yes
5	Section 122(3)	Section 122(3) includes five categories of offences, covering different types of offences. These offences are not covered under Sections 73/74/74A but are covered under Section 122(3).	No.

under Sections 73/74/74A, Mr. “R” will have to submit a reply/response within the time limit specified in the notice. If Mr. “R” fails to respond within the specified time, then, because Mr. “R” has failed to furnish information called for by an officer, the proper officer can impose a penalty using the powers granted under Section 127, considering the offences under Section 122(1)(xvii). This penalty shall be apart from the penalty that will be levied under Sections 73/74/74A.

Section 122(1)(xvii) states that failure to furnish information or documents called for by an officer in accordance with the provisions of this Act or the rules made thereunder, or furnishing false information or documents during any proceedings under this Act, is an offence.

It is important to note that the action is initiated under Sections 73/74/74A against Mr. “R” for the demand and recovery of Rs. 18000. He is to be penalized under Sections 73/74/74A, but the penalty for offence (Non reply to the notice- u/s 122(1)(xvii)) is not covered under Sections 73/74/74A. Therefore, for such penalties, Section 127 provides that where penalties are not covered under Sections 73, 74, and 74A, the proper officer can impose a penalty after providing an opportunity for a hearing.



“Section 122(1)(xvii) states that failure to furnish information or documents called for by an officer in accordance with the provisions of this Act or the rules made thereunder, or furnishing false information or documents during any proceedings under this Act, is an offence.”

If we carefully read Section 122(2), we understand that the penalties covered under Sections 73/74/74A for wrongly utilized ITC are also covered under Section 122(2). However, this does not mean that penalties mentioned under Sections 73/74/74A and Section 122(2) can be imposed on the same person for the same act or omission. If a penalty has already been imposed under Sections 73/74/74A, no penalty can be imposed under Section 122(2) for the same act or omission.

Another important point is that Section 75(13) does not mention any other section. However, based on the above, it seems that it only prohibits imposing penalties under Section 122(2).

This means that since wrongly availed ITC is subject to action under Sections 73/74/74A, the penalty will also be proposed and imposed under these sections only. Therefore, if action is initiated under Sections 73/74/74A, no penalty can be imposed under Section 122(2) for the same offence. However, if the person has committed an offence that is covered under Sections 122(1), 122(1A), 122(1B), or 122(3), a penalty can only be imposed using the powers granted under Section 127.



Let’s try to understand this with another example. We know that Sections 62, 63, and 64 do not mention any penalties for non-compliance. If a person commits an offence under Sections 62, 63, and 64, then action can be taken/completed under these sections, but penalties are not mentioned.

Now, it is important to note that non-compliance should result in penalties. However, since these sections do not mention any penalties, how will penalties be imposed? Section 127 states that where penalties are not covered under Sections 62, 63, and 64, the proper officer can impose penalties after providing an opportunity for a hearing using the powers granted under Section 127. Therefore, since Sections 62, 63, and 64 do not mention any penalties, penalties can be imposed using the powers granted under Section 127.

It is also important to note that Sections 62, 63, and 64 do not mention any penalties because if they did, all the offences and penalties mentioned under Section 122 would have to be written in these sections also. To avoid writing these offences and penalties repeatedly, all penalties were mentioned under Section 122. Therefore, if action is taken under Sections 62, 63, and 64, and penalties need to be imposed, they

are all mentioned in one place under Section 122. Section 127 provides that where penalties are not covered under Sections 62, 63, and 64, the proper officer can impose penalties after providing an opportunity for a hearing.

It is crucial to understand that Sections 73/74/74A and 122(2) can only be invoked for imposing penalties if there is an outstanding tax liability. If a show cause notice has been issued under Sections 73/74/74A without mentioning the penalty, later penalties cannot be imposed under Section 122(2) by exercising powers under Section 127. The initial lines of Section 122(2) suggest that penalties under this section can only be imposed when there is a tax payable. Since tax recovery has already occurred under Sections 73/74/74A, there is no tax left or payable. Consequently, when no tax is payable, even if an offence falls under Section 122(2), a penalty cannot be imposed by exercising powers under Section 127, citing the absence of a time limit in Section 122(2) of the CGST Act, 2017.

Role of Rule 142

It is also essential to mention CGST Rule 142(1) here. Rule 142(1) is given below:

Rule 142(1) mentions 12 sections under which a notice can be issued. Notices can only be issued under those sections where the term “Proper Officer” is mentioned. Out of the 12 sections mentioned in Rule 142(1), I

“Sections 73/74/74A and 122(2) can only be invoked for imposing penalties if there is an outstanding tax liability. If a show cause notice has been issued under Sections 73/74/74A without mentioning the penalty, later penalties cannot be imposed under Section 122(2) by exercising powers under Section 127.”

will discuss only three sections: Section 122, Section 125, and Section 127.

A question arises as to why Rule 142(1) mentions issuing notices under Sections 122 and 125, even though the term “Proper Officer” is not used in these sections. On the other hand, the mention of Section 127 is appropriate because the term “Proper Officer” is used in Section 127. The officer, using the powers granted under Section 127, can issue a notice if an offence mentioned in Sections 122 and 125 occurs.

It appears that Sections 122 and 125 should not have been mentioned in Rule 142(1).

A penalty under Section 122(2) cannot be imposed by issuing a notice

under Sections 73/74/74A. If such a penalty is imposed using a notice under Sections 73/74/74A, it is invalid. It can be concluded that such an order was passed without issuing a show-cause notice and therefore holds no value.

Conclusion

The penalties listed in Sections 73, 74, 74A, and Section 122(2) of the CGST Act, 2017, serve different yet complementary purposes. The rationale for imposing penalties under Sections 73, 74, and 74A is similar to that under Section 122(2). However, the penalties in Sections 73, 74, 74A, and Section 122(2) are not supplementary. This means that if a notice is issued under Sections 73, 74, or 74A, it is impermissible to impose a penalty under Section 122(2) instead of the penalties specified in Sections 73, 74, or 74A. Moreover, any procedural overlap in the imposition of penalties under Sections 73, 74, 74A, and Section 122(2) would render the notice or order void.

References

- *Central Goods and Services Tax (CGST) Act, 2017-Sections 73, 74, 74A, 122(2), 127, 75(13)*
- *Circular No. 3/3/2017 – GST, Dated 05.07.2017 - Clarifications regarding Proper Officers.*
- *Rule 142 of the CGST Rules, 2017 - Provisions related to notices and penalties.*
- *Relevant interpretations of penalty provisions in the GST Act framework, emphasizing procedural adherence and lawful compliance.*



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Input Tax Credit Challenges and Notices under Section 74/74A of the CGST Act, 2017

Numerous genuine taxpayers have faced undue hardships due to the non-compliance of their suppliers, particularly in the context of input tax credit (ITC) restrictions. To ease the hardships experienced by honest taxpayers, the Government should consider implementing a mechanism that assesses suppliers' genuineness based on their past compliance and notices to be issued to suppliers rather than recipients. These policy reforms would not only safeguard legitimate businesses from the consequences

of suppliers' non-compliance but also support the government's broader objective of promoting "Ease of Doing Business".

The GST framework in India aims to streamline the taxation system while ensuring a seamless flow of ITC for registered taxpayers. Section 16 of the CGST Act, 2017, prescribes conditions for availing ITC. At the same time, Section 74 of the Act empowers tax authorities to issue SCN (*pertaining to the period up to Financial Year 2023-24*) in cases where ITC is alleged to be wrongly availed due to fraud, willful misstatement, or suppression of facts and the newly inserted Section 74A empowers tax authorities to issue SCNs (for the period from Financial Year 2024 -25 onwards) irrespective of the fact whether the case involves fraud, willful misstatement, or suppression of facts.

However, notices have been received by registered persons u/s 74 of the CGST Act (*pertaining to the period up to Financial Year 2023-24*) even after fully complying with all statutory requirements. A major concern arises when ITC is denied solely on the grounds of the supplier's non-compliance, such as failure to pay tax or retrospective cancellation of their GST registration.

Recently, there has been a significant increase in the issuance of notices under Section 74 of the CGST Act,

2017, (*pertaining to the period up to Financial Year 2023-24*) targeting registered persons alleged to have wrongly availed ITC. These notices are frequently issued based on the grounds that ITC claims contravened the conditions prescribed under Section 16 of the CGST Act, 2017, particularly in cases involving the absence of actual receipt of goods.

Section 74 of the GST Act, 2017, addresses the determination of tax not paid, short-paid, erroneously refunded, or input tax credit wrongly availed due to fraud, willful misstatement, or suppression of facts. It mandates that the proper officer issues a notice to the taxpayer, requiring them to explain why they should not pay the specified tax, interest, and penalties. Consequently, even bona fide recipients who have fulfilled their obligations, such as possessing valid tax invoices and making payments through proper banking channels, are being held accountable for defaults committed by their suppliers. This has led to growing legal and procedural challenges for businesses defending their legitimate ITC claims.

Section 74A of the CGST Act, 2017, introduced for issuance of SCN for the period from Financial Year 2024-25

onwards, empowers the proper officer to initiate proceedings in cases where any tax has not been paid, has been short paid, has been erroneously refunded, or where Input Tax Credit (ITC) has been wrongly availed or utilized, for any reason, irrespective of whether such non-compliance is due to fraud, willful misstatement, or suppression of facts. Under this provision, if such a discrepancy is noticed, the officer is authorized to issue a Show Cause Notice (SCN) to the concerned person, requiring them to explain why the specified amount of tax, along with interest under Section 50 and applicable penalty, should not be recovered. This provision significantly broadens the scope of tax recovery, allowing action in cases other than fraudulent intent, thereby placing a greater compliance responsibility on taxpayers including genuine recipients of supplies who may be impacted by supplier's defaults.

Key Conditions for Availing ITC under Section 16 of the CGST Act, 2017

To understand these challenges, it is essential to analyse the key conditions under Section 16 of the CGST Act, 2017, which govern the entitlement of ITC to registered persons for goods or services used in the course or furtherance of business.

These conditions form the basis for scrutinizing ITC claims:

■ **Possession of a Valid Tax Invoice or Prescribed Document**

The recipient of goods or services must be in possession of a valid tax invoice, debit note, or any other prescribed document issued by a registered supplier in accordance with Section 31 of the CGST Act and Rule 36 of the Central Goods and Services Tax Rules, 2017 (CGST Rules). The document must clearly reflect all requisite particulars such as the GSTIN of the supplier and recipient, description of goods/services, value, tax rate, and amount of tax charged.

■ **Actual Receipt of Goods or Services**

ITC can only be claimed when the recipient has received the goods or services.

■ **GST has been paid to the Government by the Supplier**

One of the key conditions under Section 16(2)(c) of the CGST Act mandates that the tax charged on the supply must have been actually paid to the government, either in cash or through the utilization of input tax credit by the supplier, thereby ensuring that input tax credit is availed only against tax-compliant transactions and contributing to the prevention of revenue leakage and the promotion of compliance within the GST framework.

■ **Filing of Return Under Section 39**

The recipient must furnish a return under Section 39 of the CGST Act. ITC cannot be claimed unless it is properly declared in the monthly or quarterly return filed by the registered person.

■ **Input Tax Credit allowed only if reflected in GSTR-2B**

As per Rule 36(4) of the CGST Rules, input tax credit can be availed only in respect of those invoices or debit notes that are reported by

“The recipient must furnish a return under Section 39 of the CGST Act. ITC cannot be claimed unless it is properly declared in the monthly or quarterly return filed by the registered person.”

the supplier in their GSTR-1 (or in IFF) and are duly reflected in the recipient's GSTR-2B.

■ **ITC to be Claimed Within the Prescribed Time Limit**

As per Section 16(4) of the CGST Act, input tax credit is to be claimed earlier of the following:

- **30th November** of the following financial year, or
- The date of filing the **annual return** (Form GSTR-9) for the relevant financial year.

A registered person shall not be entitled to avail ITC if any of the prescribed conditions under the CGST Act and Rules are not fulfilled. In such cases, the authorities have initiated proceedings under Section 74 of the CGST Act, (*pertaining to the period up to Financial Year 2023-24*) which provides for the recovery of tax along with applicable interest and penalty in cases involving fraud, wilful misstatement, or suppression of facts and under Section 74A (for the period from Financial Year 2024–25 onwards) irrespective of the fact whether the case involves fraud, wilful misstatement, or suppression of facts.

In cases where input tax credit is denied due to alleged non-compliance, it is crucial for the taxpayer to furnish sufficient documentary evidence to validate the genuineness of the transaction and the eligibility of the ITC claimed. Submitting proper records can help establish that all prescribed conditions were duly satisfied and that there was no

element of fraud, wilful misstatement, or suppression of facts.

Documents to be submitted in response to notice under Section 74 and 74A of CGST Act, 2017

When responding to notices under Section 74 and 74A of CGST Act, 2017, the following documents (non-exhaustive list) are crucial to substantiate the ITC claim:

1. Purchase Order

A purchase order initiates the commercial transaction between the supplier and the recipient. It establishes the buyer's intention to procure goods or services. It serves as a formal and documented agreement between the buyer and the supplier, which contains the quantity, value, delivery terms, and applicability of the Goods and Services Tax (GST). This document evidences the genuine nature of the procurement.

2. E-mail Communication

E-mail communication related to procurement serves as a record of active and ongoing correspondence between the persons. It may cover essential aspects such as price negotiations, delivery schedules and follow-up discussions. This documented interaction supports the authenticity of the transaction by demonstrating a bona fide business relationship.

3. Invoice Copy

An invoice copy is a prime tax document, evidencing the actual supply of goods or services. It contains all requisite particulars, including details of the supplier, recipient, taxable value, GSTIN, tax charged, place of supply and the nature of the supply. A valid tax invoice is a mandatory precondition for availing input tax credit.

4. Lorry Receipt / Consignment Note

The Lorry Receipt (LR) or Consignment Note serves as a

conclusive evidence of the physical movement of goods from the supplier's premises to the recipient's location. Issued by the transporter, it contains details such as the name of the consignor and consignee, description and quantity of goods, vehicle number, and date of dispatch. It reinforces that the supply was not merely on paper but was executed in substance.

5. Goods Receipt Note

The Goods Receipt Note (GRN) is an internal document generated by the recipient upon receipt of goods, confirming that the items dispatched by the supplier have been physically received at the recipient's premises. It typically includes details such as quantity received, condition of goods, date of receipt, and reference to the corresponding purchase order and invoice. The GRN serves as a crucial link in the purchase cycle, affirming that the goods mentioned in the invoice were not only delivered but also verified and accepted by the recipient.

6. E-Way Bill

The E-Way Bill is a mandatory compliance document under GST for the movement of goods exceeding a value of 50,000. It is electronically generated and contains details such as the invoice number, date, transporter information, vehicle number, consignor and consignee GSTINs, and value of goods. The presence of a valid E-Way Bill linked with the transaction provides evidence of the lawful and physical movement of goods. It supports both system-based validation and helps prevent fake invoicing practices.

7. Stock Register Showing Movement of Goods

The Stock Register maintained by the recipient reflects inward and outward movement of goods and serves as an internal record of inventory levels. It includes item-wise opening balance, purchases (inward entries), consumption

(internal transfer), sales (outward entries), and closing stock for a given period. This document becomes an important part of the evidence demonstrating that the transaction was not merely on paper but had a material impact on the business.

8. Bank Statement Showing Payment to Defaulting Supplier

A Bank Statement evidencing payment made to the supplier demonstrates the genuineness of the transaction. It proves that the consideration for the supply, including the tax component, was actually paid by the recipient through banking channels. While the supplier's failure to remit the tax to the government may trigger departmental scrutiny, the recipient has nevertheless fulfilled the statutory condition of making payment against a valid tax invoice.

9. Return Filing Status of Supplier from GST Portal

The Return Filing Status of the Supplier, as downloaded from the GST portal, serves as evidence of the supplier's compliance at the time of entering the transaction. This includes records of GSTR-1 and GSTR-3B filings, which indicate whether the supplier was actively filing returns under the GST law.

10. Extract from GSTR-2B

An Extract from GSTR-2B acts as a system-generated proof of ITC eligibility. GSTR-2B is an auto-drafted ITC statement that reflects invoices uploaded by the supplier in their GSTR-1 or IFF (Invoice Furnishing Facility) for a specific tax period. The presence of the relevant invoice in the recipient's GSTR-2B confirms that the supplier has disclosed the transaction to the GST system, which forms the basis for availing credit.

11. Ledger of Supplier from Books of Accounts

The Supplier's Ledger, as maintained in the recipient's books of accounts, serves as an internal accounting evidence of the transaction. It

“ In cases where the recipient possesses all valid documentation, has actually received the goods, and has fulfilled all conditions prescribed under Section 16 of the CGST Act, the recipient should not be penalized for any default or non-compliance on the part of the supplier. ”

captures all financial entries related to the supplier, including purchases, tax components, payments made, debit/credit notes issued, and closing balances. When the ledger aligns with the tax invoice, bank statement, GRN, and other related documents, it further reinforces the authenticity and completeness of the transaction.

12. Toll Tax Payment Proof (if available)

Toll tax payment proof is an important supporting document that demonstrates the physical movement of goods via road transport during a commercial transaction. Such receipts or payment records can significantly strengthen the authenticity and genuineness of the supply.

In cases where the recipient possesses all valid documentation, has actually received the goods, and has fulfilled all conditions prescribed under Section 16 of the CGST Act, the recipient should not be penalized for any default or non-compliance on the part of the supplier.

Consequences of ITC Denial without considering Genuineness of Transaction

■ Genuineness of the Transaction

The recipient should not be penalized for a genuine business

transaction that is supported by proper documentation as mentioned above. Imposing penalties on recipients in such situations would unfairly burden businesses that have complied with the law in good faith and have engaged in legitimate transactions.

The legal maxim “**Lex Non Cogit ad Impossibilia**” asserts that the law cannot force someone to perform an act that is beyond their ability to do. This principle was highlighted by Justice Owens in *Hughey v. JMS Development*, where he stated: “The law does not compel one to do the impossible. If a law imposes a tax that the person cannot fulfill due to circumstances beyond their control, and without fault on their part, the law will typically excuse them.”

■ Principle of Substance Over Form

The proper officer must focus on the substance of the transaction rather than the mere technicalities. If the recipient has received goods or services and paid for them, the transaction is legitimate, regardless of the supplier's compliance.

■ Significant Impact on Business Operations

Blocking or reversal of ITC leads to significant cash flow disruption, as it directly increases the working capital requirement of the business.

Denial or reversal of ITC due to the default of supplier results in an increased compliance burden for the recipient, requiring extensive documentation, reconciliations, and prolonged engagement with tax authorities to justify legitimate claims.

Due to a supplier's non-compliance, the supply chain can face significant disruption. Trust between recipients and suppliers is undermined, causing recipients to become hesitant in dealing with

small, new, or less-established vendors due to concerns over ITC-related consequences. This approach often leads to sourcing delays, dealings with a limited pool of suppliers, reduced bargaining power, and increased procurement costs, ultimately affecting operational efficiency and overall competitiveness.

Fraudulent ITC claims can negatively affect a registered person's reputation. Even if the registered person has complied with all legal requirements, they are still connected to transactions flagged as fraudulent, mainly due to issues with the supplier. It can raise concerns among customers, investors, and other stakeholders and harm the company's overall image.

Relevant Case Law

In Himalaya Communication Pvt. Ltd. v. Union of India & Ors. [CWP No. 8809 of 2025 decided on June 06, 2025], the Hon'ble Himachal Pradesh High Court held that ITC cannot be denied exclusively on the ground of retrospective cancellation of the supplier's GST registration.

Himalaya Communication Pvt. Ltd., the recipient of goods, had claimed ITC based on the tax paid to its supplier. However, the supplier's GST registration was cancelled retroactively by the authorities. The Department had denied ITC to the recipient, arguing that since the supplier's registration was cancelled, the transaction was considered invalid for ITC claims.

The Court emphasized that, as per Section 16(2) of the CGST Act, 2017, the authorities should consider the fact and genuineness of the transaction before proceeding to deny Input Tax Credit as the recipient has already paid tax to the supplier, and they have all relevant documents which are required for claiming the ITC and that the supplier has already discharged tax liability by filing of GSTR-3B. Accordingly, the High Court set aside the impugned order and remanded the matter to the Adjudicating Authority



for fresh consideration in accordance with the law.

A similar view was taken by the **Hon'ble Madras High Court in M/s. Engineering Tools Corporation v. The Assistant Commissioner [decided on February 15, 2024]**, wherein it was held that ITC cannot be denied merely due to retrospective cancellation of the supplier's registration without examining the genuineness of the transaction and supporting evidence.

Conclusion

In response, registered persons are required to submit documentary evidence, including tax invoices, goods receipt notes, lorry receipts, e-way bills, bank statements, GSTR-2B extracts, and supplier ledger accounts, to substantiate the authenticity of the transaction. Encouragingly, courts have taken a supportive stance in many such cases, holding that ITC should not be denied merely due to retrospective cancellation of the supplier's registration or procedural defaults beyond the recipient's control, especially where the transaction is genuine and supported by appropriate documentation. Strong evidence and consistent court rulings uphold fair adjudication, affirming that the law does not expect the impossible.

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Understanding the Nature of Late Fees and Penalties Under GST

This article examines whether GST law permits simultaneous imposition of late fees (Section 47) and penalties (Section 125) for delayed return filing. It analyses the Madras High Court's judgment in *Tvl. Jainsons Castors & Industrial Products v. Assistant Commissioner (ST)*, which held that late fees constitute a form of penalty, thereby preventing additional penalties under Section 125. The article evaluates this reasoning through legislative

intent behind GST provisions and judicial precedents like *Sona Chandi Oal Committee*, highlighting the quid pro quo nature of late fees, and provides practical guidance for legal professionals handling disputes involving late fees and penalties.

A common issue faced by GST taxpayers is whether they can be subjected to both late fees and penalties for delayed filing of returns. While late fees under Section 47 are levied for filing returns after the due date, tax authorities have also been imposing general penalties under Section 125, arguing that late filing constitutes a statutory contravention. However, this raises a fundamental legal question: Are late fees and penalties the same, or do they serve different purposes?

A recent ruling by the Madras High Court in *Tvl. Jainsons Castors & Industrial Products v. Assistant Commissioner (ST)* (2025) held that once a late fee is imposed, no separate penalty under Section 125 can be levied, as the late fee itself is a form of penalty.

Through an analysis of key judicial precedents, and a detailed examination of GST provisions, this article explores why late fees should not be treated as penalties. The distinction between these two is crucial. This analysis examines whether GST late fees are *charges for any services* or *penal* in nature.

Statutory Framework

The GST Law (Central GST Act, 2017 and corresponding State GST Acts) explicitly provides for late fees in Section 47 and for a general penalty in Section 125. Section 47 mandates that any registered person who fails to furnish required GST returns by the due date "shall pay a late fee of one hundred rupees for every day during which such failure continues," subject to prescribed caps.

In contrast, Section 125 is a residual penalty provision which states that any person who contravenes any provision of the Act or rules "for which no penalty is separately provided" shall be liable to a penalty of up to ₹25,000. By using the term "late fee" in Section 47 instead of "penalty," the legislature signalled a different intent for late filing charges.

To illustrate, Section 47(1) of the CGST Act prescribes late fees for delays in furnishing various periodic returns (such as GSTR-1 for outward supplies or GSTR-3B summary returns). Section 47(2) deals with late fees for delayed annual returns, stating that a person who fails to furnish the annual return by the due date "shall be liable to pay a late fee of one hundred rupees for every day during which such failure continues," capped at 0.25% of the turnover.

These fees are statutorily fixed (or computable) amounts, not requiring any discretionary assessment of gravity by an officer. In contrast, a penalty under Section 125 can extend up to ₹25,000 and would typically involve a discretionary adjudication (often following a show-cause notice) to determine if the contravention (for which no specific penalty exists elsewhere) merits a penalty. By creating an automatic late fee for late returns, the law intended to *simplify enforcement* – the fee accrues by operation of law for the period of default, rather than treating every late filing as an offence requiring separate penalty proceedings.

Judicial Analysis of Late Fees

Courts in India have examined the nature of "late fee" provisions in tax laws on multiple occasions. The consensus in jurisprudence is that late fees are fundamentally fees for extra services rendered, rather than penalties. Key cases have elaborated on the distinction:

- **Rashmikant Kundalia v. Union of India (2015)** – In this case, the Bombay High Court upheld the constitutional validity of

Section 234E of the Income Tax Act, 1961, which levies a daily late fee for delayed filing of TDS (Tax Deducted at Source) statements. The petitioners argued that this fee was really a penalty. The High Court, however, explicitly held that Section 234E “is not punitive in nature but a fee which is a fixed charge for the extra service which the Department has to provide due to the late filing of the TDS statements”. The Court noted that a large number of deductors were filing TDS returns late, creating additional work for the tax department and that the ₹200-per-day charge was meant to compensate the administrative burden rather than punish the deductor. By characterizing the late filing fee as a quid pro quo for the privilege of being allowed to file after the deadline, the Court distinguished it from a penalty. It emphasized that the fee’s amount was fixed and reasonable, and that paying the fee *regularizes the delay*. This decision makes it clear that a late fee, even though it has a deterrent effect, is collected “for the service of accepting a delayed statement” – a compensatory approach – and not as retribution.

- **Howrah Tax Payers’ Association v. Government of West Bengal (2011)** – The Calcutta High Court dealt with an analogous provision under the West Bengal Value Added Tax (VAT) Act, where an amendment had introduced a “late fee”. Taxpayers challenged this as being unconstitutional and essentially a double jeopardy or an unreasonable levy. The High Court, affirming the Taxation Tribunal’s reasoning, upheld the late fee and underscored the *fee versus penalty* distinction. It was observed that by switching from “penalty” to “late fee,” the legislature intended to provide a special service to dealers – acceptance of delayed returns – for a price. The Tribunal had found “an element of quid pro

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quo in levying ‘late fee,’” meaning the fee correlates to the additional efforts by the tax authorities to process a late return. The Court noted that dealers were under no obligation to file late – they could avoid the fee by filing on time – but if they chose to file after the deadline, the law allowed it upon payment of the prescribed fee. This element of choice and exchange (something for something) is characteristic of a fee. The court rejected contentions that the late fee was arbitrary or amounted to a second penalty; since the late fee was a *compensatory fee*, the notion of double jeopardy did not arise. In essence, *Howrah Tax Payers’ Association* affirmed that a late fee is a distinct fiscal instrument, constitutionally permissible as a fee for services, and not a penalty for wrongdoing.

- **Sona Chandi Oal Committee v. State of Maharashtra (2005)** – In this Supreme Court decision (though not about GST, it elucidates the fee-penalty distinction), the Court discussed the nature of fees in contrast to taxes. The Supreme Court clarified that while a fee generally requires a relationship between the levy and some service rendered (the quid pro quo), this relationship need not be exact or individually traced for each fee-payer. It held that the traditional concept of a strict quid pro quo for fees has

evolved – a fee should have a reasonable relationship with the overall services provided, even if not mathematically precise. This ruling is often cited to uphold regulatory or service fees (like late fees) as valid exactions so long as they are not excessive and are used to defray the costs of administering the related scheme. In the context of late fees, *Sona Chandi Oal Committee* supports the idea that charging taxpayers a fixed fee for late filing is legitimate, as the fee broadly corresponds to the costs of extending the facility of late filing and maintaining the system for processing delayed returns. The case draws a line between penalties (which are imposed for transgressions and do not require any quid pro quo) and fees (which are based on the principle of recovery of costs or provision of services). It reinforces that calling something a “fee” is not a label of convenience; rather, if in substance the levy confers a special benefit or service (like acceptance of a delayed compliance), it can be justified as a fee.

Collectively, these judicial precedents establish that late fees are conceived as a fee for extra services and not as a punishment. Courts have repeatedly highlighted the *administrative quid pro quo*: the tax department expends additional resources to accommodate late filings, and the defaulter must compensate that by way of a fee. They



have also pointed out that unlike penalties, fees like these do not carry the stigma of wrongdoing; instead, they operate as a civil liability that the taxpayer incurs by choosing the convenience of filing late. This body of case law is directly relevant when interpreting GST late fees under Section 47.

Critical Review of the Madras High Court Judgment in *Jainsons Castors* (2025)

The Madras High Court's decision in *Tvl. Jainsons Castors & Industrial Products v. Assistant Commissioner (ST)* addressed whether a general penalty under Section 125 of the CGST Act could be imposed on a taxpayer who had filed returns late and already paid the statutory late fees under Section 47. In that case, the GST authorities had levied a late fee (for late annual return filing) and additionally imposed a penalty of ₹50,000 (₹25,000 each under CGST and SGST) using the residual penalty power in Section 125.

The Court set aside the general penalty, effectively ruling that the late fee sufficed as the sanction for the default. However, the court's reasoning included a specific point of contention: it treated the late fee under Section 47 as a form of "penalty," thereby triggering the bar in Section 125 (since Section 125 applies only where "no penalty is separately provided" in the Act).

The Court's Conclusion: The Madras High Court extracted Section 125 and observed that a general penalty can apply only if the Act doesn't already provide a penalty for the contravention in question. It then noted that in the case of late return filing, a "penalty" was indeed imposed "in the form of late fee in terms of Section 47". Therefore – in the court's view – because late filing attracted a penalty (late fee) under Section 47, the residual penalty of ₹50,000 under Section 125 was "not correct and the same is set aside". The late fee itself was upheld and had been paid by the petitioner, but no further

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penalty could be imposed. In effect, the court equated the late fee with a penalty for the purpose of saying “one default, one penalty.”

Respectful Disagreement – Late Fee is Not a “Penalty”: While the outcome (quashing the additional penalty) may be welcome from the taxpayer's perspective, the characterization of the late fee as a *penalty* merits a closer look. With due respect to the Hon'ble Court, we opine that treating late fees and penalties as the same category conflates two conceptually distinct charges. As discussed above, late fees in GST are inherently fees for a service, not penalties. The more appropriate reasoning would be that late filing of a return is not intended to be punished by a penalty at all – the legislature chose to address it via a fixed fee. In other words, the existence of a late fee in Section 47 means *no penal provision is needed or applicable for late filing*. It's not that late fee is itself a penalty, but that late filing is simply not treated as a penal offence under the GST scheme. Several courts and tribunals (as seen in the cases above) have explicitly held that late fees are *compensatory* and “not punitive in nature”. By labelling the late fee a “penalty in the form of a late fee,” the Madras High Court's analysis diverges from this established jurisprudence.

Different Purpose, Different Effect: The distinction is more than semantic. If a late fee is misconstrued as a penalty, it could lead to unintended

consequences in interpretation. For instance, penalties in tax laws often imply culpability (and sometimes require mens rea or allow defenses like reasonable cause), whereas fees do not carry such implications. A late fee is automatically levied for delay regardless of cause, but a penalty might not be impossible if the delay was beyond the taxpayer's control (since penal provisions are typically subject to a stricter interpretation). By maintaining the view that late fees are fees, one upholds the idea that they are strictly enforceable dues for late compliance (even if unintentional), while penalties under Section 125 would be reserved for other contraventions (like failure to obey rules where no specific fine is given, potentially requiring a notice and adjudication). The Madras High Court's approach arguably short-circuits this nuance by simply subsuming the fee into the concept of “penalty.”

It is worth noting that, had the court not equated the late fee to a penalty, it might still have arrived at the same practical result (no double levy) but on the sound footing that late filing is a special case handled by a fee, hence invoking a general penalty would contradict the legislative scheme. Indeed, one could argue that Section 125's phrase “for which no penalty is separately provided” should be read in context to mean “no other punitive or financial sanction is provided.” Since a late fee is a financial sanction (albeit a fee), one could interpret that the legislature did provide a specific consequence for late filing, thus ousting Section 125. This interpretation achieves the purpose of preventing dual liabilities without redefining the late fee as a penalty. The Madras High Court effectively reached that outcome, but its wording could be read to imply that late fees are penalties. Given the weight of authority to the contrary, future courts might distinguish *Jainsons Castors* on this point, clarifying that late fees are sui generis (of their own kind) and not “penalties” even if they have a deterrent effect.

In summary, the critique is that the *Jainsons Castors* judgment correctly prevented an unwarranted cumulative sanction, but for the wrong reason. Late fees do not “constitute a penalty” in the eyes of law; they constitute a fee for a conditional service (acceptance of a late return). A general penalty under Section 125 is inapplicable not because it would be a second penalty, but because the scenario is already addressed by a different type of levy. Respectfully, acknowledging this distinction is important to maintain conceptual clarity between punitive measures and compensatory fees in GST.

Practical Implications for Taxpayers and Legal Professionals

The distinction between late fees and penalties is not just academic – it has real consequences for how businesses handle compliance lapses and how legal advisors frame their arguments. Here are some practical guidelines and implications in light of the above analysis:

- **Avoiding Dual Charges:** Taxpayers should be aware that if they file a GST return late, the law mandates late fees under Section 47, and these should be paid to regularize the return. If a tax officer, in addition, attempts to impose a general penalty under Section 125 for the same late filing, the taxpayer has strong grounds to challenge it. Businesses can cite the



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GST Law’s structure and cases like *Jainsons Castors* to argue that once late fees are levied for a delayed return, no further penalty should be imposed for that contravention. The practical step would be to file an objection or appeal against the penalty portion of any order, pointing out that the late fee is the exclusive consequence intended by law for late filing.

- **Grounds for Contesting Penalties:** When contesting a Section 125 penalty on top of late fees, it is effective to rely on the compensatory nature of late fees. For example, one can argue: “My late filing has already been addressed by payment of the statutory late fee, which the law considers as a fee for the delayed compliance. There is no legislative intent to punish the delay twice or treat it as an additional offense.” It may help to quote the Bombay High Court’s words that late fees are “not punitive in nature but a fee...for the extra service” of processing a late return. This reinforces that the late fee was the proper remedy, not a trigger for further penalty. Also, reference to *Howrah Tax Payers’ Association* can underline that accepting a late return for a fee is a conscious policy choice, inconsistent with penalizing the same act. These arguments frame the issue as one of statutory interpretation – that Section 125 simply does not envisage penalizing a default that is already dealt with via fee.

- **Future Disputes and Legislative Clarification:** Until there is authoritative Supreme Court guidance or legislative amendment, taxpayers may face inconsistent approaches from different state GST authorities or benches. Legal professionals should stay abreast of the latest case law in their jurisdiction. If a High Court (like Madras HC in *Jainsons Castors*) has already given relief by quashing a dual penalty, that can be cited as precedent (while clarifying the reasoning if necessary). The safest course for taxpayers is to treat late fee and penalties as distinct and ensure that once late fees are paid, any further penalty is contested through proper legal channels.

Conclusion

In conclusion, GST late fees should be understood as charges for a service rather than penal fines. The statutory language of the GST Law and the weight of judicial authority support the view that late fees serve to offset the administrative costs of handling delayed filings – they are a “*quid pro quo*” for a service, not an indictment of an offence. Penalties and late fees, therefore, operate in different spheres: penalties (like the general penalty under Section 125) punish breaches where no specific provision exists, whereas late fees under Section 47 specifically address the breach of late filing in a non-punitive manner. The Madras High Court’s decision in *Tvl. Jainsons Castors* rightly prevented an overlapping penalty, but its description of late fees as a form of penalty is debatable in light of the legislative intent and prior jurisprudence. A more precise interpretation is that late fees and penalties coexist as separate tools – one to compensate and regularize, the other to sanction non-compliance.

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Principle behind the Principal Purpose Test

Principal Purpose Test ('PPT') is a burgeoning mechanism that is conducive in preventing tax treaty abuse, through identification of the actual *situs* of income and curtailment of revenue leakage. The Central Board of Direct Taxes ('CBDT'), vide a recent circular¹ provided much-needed guidance and clarity regarding the application of PPT provisions and their interplay with the grandfathering provisions prevailing in certain tax treaties. This article discusses the background of these PPT provisions and the implications of the said Circular.

Introduction

Benjamin Franklin's timeless observation, "*In this world nothing can be said to be certain, except death and taxes*" underscores the universal presence of taxation. However, with the advent of globalisation and an increase in international transactions, multinational enterprises are developing sophisticated ways to exploit the inconsistencies in taxation rules. Therefore, to curb tax leakage, the Base Erosion and Profit Shifting ('BEPS') Action Plan was formulated. The International Monetary Fund, in its policy report, "Spillovers in International Corporate Taxation"², emphasised that the BEPS Action Plan is "an unprecedented effort to address major avoidance opportunities that arise under current international tax arrangements".

These Action Plans were initiated by the Organisation for Economic Co-operation and Development ('OECD') and were first published in 2013. The OECD and G20 jurisdictions jointly developed and finalised these Action Plans in 2015. There are 15 distinct Action Plans, each targeting a specific aspect of tax avoidance.

The 15th BEPS Action Plan introduced the use of Multilateral Instruments ('MLI') to curb the instances of tax evasion swiftly. These MLIs allow governments of different countries³ to plug the loopholes in the international tax treaties and modify the existing bilateral tax treaties in a synchronised and efficient manner, without the need to renegotiate each treaty bilaterally. Furthermore, the MLIs enable governments to implement agreed minimum standards to counter treaty abuse and thereby strengthen the bilateral treaties. Additionally, the MLIs aim to improve dispute resolution mechanisms while providing flexibility to accommodate specific tax treaty policies.

In addition, and in furtherance of the above, the BEPS Action Plan, inter alia, vide Action Plan 6, deals with the prevention of the grant of benefits of bilateral agreements, in scenarios where it leads to double non-taxation. The BEPS Action Plan 6 recommends a three-fold approach to deal with the situation of treaty abuse, which is discussed in the ensuing pointers:

(i) **Introduction of Preamble** - The purpose of a tax treaty is to avoid

double taxation in a legitimate manner, and it should not create opportunities for double non-taxation of income. This common understanding is incorporated as a preamble to the treaty and is considered as a minimum level of protection against treaty abuse.

(ii) **Insertion of purpose-based anti-abuse provision, PPT** –

The PPT essentially serves as the Treaty-level General Anti-Avoidance Rule ('GAAR'), under which the treaty benefits may be negated in case it is established that the purpose of the transaction or arrangement is to only avoid taxes.

(iii) **Insertion of an objective anti-abuse rule named as "Simplified Limitation of Benefits ('simplified LOB')"** - It defines a normative criteria and attributes to analyse whether the income recipient shall be eligible for treaty benefit.

Given the fact that prevention of treaty abuse is a critical agenda and is of utmost importance, it must be dealt with sternly. Therefore, for this purpose, MLI provides the insertion

¹ Circular No. 1/2025, Dated 21st January 2025 [F.no. 500/05/2020/FT&TR – II]

² "Spillovers in international corporate taxation", 9 May 2014, International Monetary Fund, Washington, D.C., <https://www.imf.org/external/np/pp/eng/2014/050914.pdf>

³ The Indian Government had deposited the ratified copy of MLI on 25 June 2019 with OECD, along with its list of tax treaties that India was willing to modify through MLI and its final position and reservation on various articles of the MLI.

of PPT and Preamble as the minimum standard measures. However, in certain cases, countries may adopt PPT supplemented with either a simplified LOB or detailed LOB clause or detailed LOB provision, supplemented by a mutually negotiated mechanism to deal with conduit arrangements.

India's Position

Amongst other countries, India has also modified⁴ the Treaties through MLIs. In this regard, India adopted PPT supplemented with a simplified LOB clause (i.e., PPT, being a minimum standard, shall apply to all covered tax agreements, and simplified LOB shall apply depending upon the matching position adopted by the other country).

Article 7 of the MLI provides for the PPT provision. The said Article 7 is similar to Article 29(9) of the OECD Model Tax Convention. The excerpt of Article 7 is reproduced hereunder:

“Notwithstanding any provisions of a Covered Tax Agreement, a benefit under the Covered Tax Agreement shall not be granted in respect of an item of income or capital if it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it is established that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provisions of the Covered Tax Agreement.”

(Emphasis Supplied)

Evaluation of PPT Provisions

PPT to be evaluated qua the source of income and not qua the entity seeking treaty benefit.

At the outset, it may be noted that PPT is required to be evaluated qua

transaction and stream of income and not qua the entity seeking tax benefit. Further, a single arrangement may lead to the generation of more than one stream of income, and each such stream will have to be evaluated for the application of PPT. For instance, a Luxembourg Entity holds debentures in India and earns interest on such debentures. Further, the interest on such debentures qualifies for the concessional tax rate of five percent, prescribed vide Section 194LC of the Income-tax Act, 1961 ('the Act'). As per the provisions of Section 90(2) of the Act, the provisions of the Act shall apply to the extent they are more beneficial to the assessee, in comparison to the tax avoidance agreements. Given that the said interest income is taxable at the rate of ten percent as per Article 11 of the India-Luxembourg Treaty, therefore, in terms of Section 90(2) of the Act, the taxpayer may opt for taxation of such interest in accordance with the provisions of the Act. However, in case such debentures are being transferred, then in such a scenario, the taxpayer may opt for taxation in accordance with the Treaty provisions, whereby the capital gains, if any, on such transfer, may be liable to be taxed in Luxembourg.

In the above example, the PPT will not be required to be evaluated in relation to taxation of interest income earned on the debentures held (although the same may be subject to GAAR provisions); however, the capital gains arising in relation to the same source, i.e. debentures, may fall within the ambit of evaluation of PPT provisions.

Further, for the purpose of interpreting the term “arrangement or transaction”, analogy may be drawn from the OECD Commentary⁵ in relation to Article 29(9). As per the OECD Commentary, “arrangement or transaction” should be interpreted broadly and include any agreement, understanding, scheme, transaction

or series of transactions, whether they are legally enforceable.

Two-fold Operation of the PPT Provision

Further, it may be appreciated that PPT primarily consists of two limbs, which are as under:

- (i) Reasonable Purpose Test
- (ii) Object and Purpose Test

(i) Reasonable Purpose Test

On perusal of the provisions of Article 7, it may be appreciated that the PPT provisions can be triggered at a significantly lower threshold, i.e., PPT limitation arises even in cases where it is “reasonable to conclude” that obtaining a treaty benefit was “one of the principal purposes”. Therefore, even in cases where there is no conclusive proof that obtaining a treaty benefit was one of the purposes of entering into a particular transaction, the said transaction may still fall within the ambit of application of the PPT. However, as per the OECD Commentary, such analysis may require sound judgement. Further, it is also clarified vide OECD Commentary that the tax authorities should not assume the presence of a tax benefit; there should be a reasonable basis to arrive at such a conclusion.

Additionally, the phrase “one of the principal purposes” underscores the fact that a transaction will be considered as tainted, even in cases where the sole or dominant purpose of the transaction was not to obtain treaty benefits and only one of the purposes was to obtain treaty benefits. However, it may be noted that where an arrangement is inextricably linked to a core commercial activity, and its form has not been driven by considerations of obtaining a benefit, it is unlikely that its principal purpose will be to obtain that benefit.

⁴ For instance, India's treaty with Australia/ France/Netherlands/Japan/Singapore etc., have been modified through MLI

⁵ Model Tax Convention on Income and on Capital, OECD,2017

(ii) Object and Purpose Test

The scope of PPT should be determined based on the overall objective and context of the provisions of the covered tax agreement, which inter alia includes cross-border economic development and prevention of tax avoidance and evasion.

Recent Developments with respect to the application of PPT provisions in the Indian Diaspora

PPT is generally incorporated as part of

- MLI; or
- through bilateral negotiations in the DTAA

CBDT vide Circular 01 of 2025, dated 21st January 2025, has provided certain clarification regarding the applicability of PPT provisions. The said clarifications revolve around:

- Scope of PPT provisions
- Date of applicability of PPT provisions
- Impact of PPT in case of grandfathering provisions

Scope of PPT Provisions

The CBDT has clarified that PPT is intended to ensure that DTAA's apply in accordance with the object and purposes for which they were entered into, i.e., to provide the benefits in respect of bona-fide exchange of goods and services and movement of capital and people. Further, the Circular emphatically provided that determination of whether one of the principal purposes of entering into transaction or arrangement is to obtain tax advantage should be based on objective assessment of the facts and circumstances of the case. The application of PPT provision should be context-specific fact-based exercise.

In this regard, reference may be made to a recent decision of Honourable ('Hon'ble') Delhi Income-tax Appellate Tribunal ('ITAT') in the

case of *SC Lowy P.I. (LUX) S.A.R.L., Luxembourg v. ACIT (ITA No.3568/DEL/2023)* (30 December 2024), wherein the Hon'ble ITAT, while dealing with the applicability of PPT provisions held that the Tax Authorities should establish that obtaining treaty benefit was one of the principle purposes of the transaction or arrangement and the relevant facts and circumstances should be brought on record to prove that the purpose of arrangements and transactions was only for the purpose of taking treaty benefit.

Given that the PPT provisions are at a nascent stage and have been untried in the legal courts until now, therefore, the aforementioned decision, being one of the first decisions dealing with the evaluation of applicability of PPT provisions, may act as a guiding-light. However, it may be pertinent to note that while ruling in the favour of the taxpayer, the Hon'ble ITAT emphasized on the aspect that the Tax Authorities must bring on record relevant facts to establish that availing treaty benefit was the *only* purpose of the arrangement. In this regard, it may be interesting to decipher, with the course of time, as to whether the threshold to apply PPT provisions will be graciously extended and only those cases where obtaining treaty benefit was the *only purpose* shall fall within the purview of PPT provisions or cases where even *one of the principal purpose* was obtaining treaty benefit shall fall within the ambit of PPT applicability.

Date of Applicability of PPT Provisions

It has been clarified that in cases where PPT has been incorporated through bilateral negotiations in the DTAA, i.e.,

- (i) In cases where India has entered into DTAA's recently such as India-Hong Kong DTAA, India-Chile DTAA; or
- (ii) In cases where the PPT has been incorporated through the amendment of the Protocol, such as India-China DTAA

the PPT shall apply prospectively from the date of entry into force of the respective DTAA or the amending Protocol, as the case may be.

In cases, where the PPT has been implemented through MLI, the effective date is determined based on the later of the dates of coming into force, of treaty under consideration ('Relevant Date'). The same may be ascertained through OECD matching database.

For instance, in case of India and Malaysia, the date of entry force is as under:

Country	Date of entry into force
India	01 st October 2019
Malaysia	01 st June 2021

In the above case, the Relevant Date shall be 01st June 2021, being the later of the two dates of entry into force. Once the Relevant Date is determined, reference is required to be made to Article 35 which deals with the determination of date of entry into effect, i.e.

Particulars	Date of entry into effect
For withholding taxes (WHT)	First day of next taxable period (i.e. previous year) that begins on or after the Relevant Date
For other taxes	Taxable period (i.e. previous year) that begins on or after expiry of six calendar months from the Relevant Date

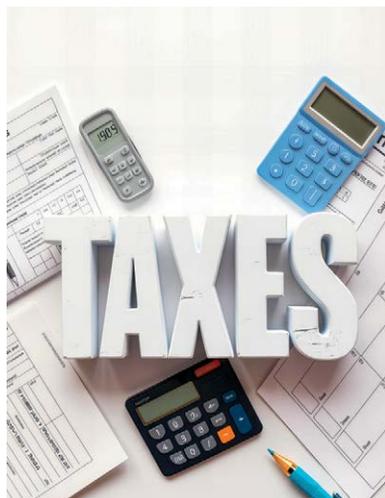
Therefore, in the above example of India-Malaysia, with respect to withholding taxes, the MLI will enter into effect for the India-Malaysia DTAA, from India's perspective from the first taxable period after 01st June 2021, i.e. from 01st April 2022. In case of other taxes, the MLI will come into effect from taxable periods beginning on or after the expiration of a period of six calendar months (01st December 2021), i.e. from 01st April 2022.

Impact of PPT in case of Grandfathering Provisions

With effect from 01st April 2017, in order to curb instances of double non-taxation of capital gains income, arising from transfer of shares, India had bilaterally negotiated tax Treaties with Mauritius, Singapore and Cyprus, whereby, the source country was conferred the right to tax the capital gains in relation to shares acquired on or after 01st April 2017. Further, the securities acquired prior to 01st April 2017 were grandfathered and the right to tax the capital gains vested with the resident country.

However, given that India-Singapore and India-Cyprus had implemented PPT through the MLIs (India and Mauritius had signed a protocol in March 2024, to amend the India-Mauritius treaty and thereby insert PPT provisions and the said protocol is yet to be entered into force), there always existed ambiguity regarding the applicability of PPT provisions in respect of the grandfathered securities, i.e. whether the test of principal purpose shall apply to such grandfathered securities also. In this regard, the CBDT vide Circular 01 of 2025 has clarified and made it amply clear that the grandfathering provisions prescribed vide the aforementioned Treaties of Mauritius, Singapore and Cyprus, shall remain outside the purview of PPT provisions and would be governed by the specific provisions of the respective DTAA itself.

Further, the Circular categorically provides that such grandfathering provisions shall instead be governed by the specific anti-avoidance provisions prevailing in the DTAA itself. Therefore, in the context of India-Singapore tax treaty, the test prescribed vide Article 24A shall prevail, whereby the capital gains tax exemption in the source country shall be denied in case the entity's affairs were arranged with the primary purpose to avail treaty benefit, whereas in case of Cyprus and in case of Mauritius, the capital



gains tax exemption shall be available in relation to the shares acquired prior to 01st April 2017, once it is substantiated that the shares were owned by the entity and the said entity held valid Tax Residency Certificate issued by the resident country, in accordance with the legal proposition enunciated in various judicial precedents, in this regard.

Further, in case of the India-Mauritius Treaty, given that the PPT provisions are yet to be entered into force, the transitional relief of 50 percent of the applicable tax, prescribed vide Article 24 of the India-Mauritius Treaty, in relation to the shares acquired after 01st April 2017 and transferred on or before 31st March 2019, shall not be impacted by the PPT provisions.

Press Release dated 15th March 2025

In order to provide further clarity in relation to the aforementioned Circular, a press release dated 15th March 2025 was also issued whereby the CBDT clarified that the Circular shall be applicable only in relation to the PPT provision of the tax treaties and it does not intend to interact or interfere with:

- Any other treaty provision, including those related to treaty entitlement or denial of treaty benefit, other than PPT (For instance, LOB clause which is part

of DTAA's like Singapore, UK etc still remain applicable)

- Anti-abuse provisions under the Act, such as GAAR and Specific Anti-Abuse Rules ('SAAR') and provisions emerging from the judicial interpretation i.e. Judicial Anti-Abuse Rules ('JAAR')

Further, the Press Release unequivocally clarified that the Circular shall apply only in relation to those tax treaties where the PPT provisions exists.

Conclusion

With the recent Circular issued by the CBDT in relation to application of PPT provisions, it may be appreciated that Income-tax Department has provided much needed guidance in relation to the applicability of PPT provisions and certainty in relation to taxation mechanism.

The Circular has carved out the way forward for the tax-authorities to apply PPT provisions which shall *inter-alia* foster an effective approach to plug the cases involving revenue leakage and reduce the cases of double non-taxation of transactions.

Additionally, the Indian payer entities shall also be mindful of applicability of the PPT provisions and should ensure that a particular transaction or arrangement is well tested for the applicability of PPT provisions and as an additional documentary compliance, the Indian payer entities should obtain confirmation from the non-resident payee entities regarding fulfilment of PPT provisions, amongst other modifications prescribed vide MLIs.



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Non-compliances observed in the Ind AS Financial Statements pertaining to Assets in Balance Sheet

Financial statements remain a vital tool in the hands of stakeholders, enabling a comprehensive assessment of an enterprise's financial health. The adoption of Indian Accounting Standards (Ind AS) has marked a significant stride toward aligning Indian financial reporting practices with global benchmarks. As more enterprises embrace this framework, ensuring high-quality and compliant financial disclosures becomes imperative to foster trust, transparency, and comparability in financial statements.

The preparers and auditors carry a critical responsibility to ensure that these financial statements are complete, accurate, and aligned with all applicable statutory and regulatory frameworks.

The Financial Reporting Review Board (FRRB) of the Institute of Chartered Accountants of India (ICAI) conducts reviews of General-Purpose Financial Statements to identify non-compliances with Ind ASs, Standards on Auditing (SAs), The Companies Act, 2013, and other relevant statutes.

The FRRB has published its findings through several volumes of the “Study on Compliance of Financial Reporting Requirements” with latest publications focusing specifically on the Ind AS framework providing guidance to the preparers and auditors of Ind AS financial statements. These findings are also disseminated through ICAI’s Journal to enhance professional awareness.

This article is in furtherance of the FRRB’s endeavour to update the members and other stakeholders in the field of financial reporting. It may be noted that this article focuses on non-compliances observed by the FRRB in the presentation and disclosure of Assets in the Balance Sheet under the Ind AS framework. The aim is to inform and guide members and stakeholders on critical areas of concern and promote adherence to robust reporting practices.

Observations related to Assets

Property, Plant and Equipment – Omission of Disclosure of Depreciation Method

Case:

The relevant abstract of accounting policy on Property, Plant and Equipment given in the Annual Report of a company, reads as follows:

“Significant Accounting Policies

Property, plant and equipment

Depreciation

The estimated useful lives of items of property, plant and equipment for the current and comparative periods are as follows:

Asset	Management estimate of useful life	Useful life as per Schedule II
Office equipment	5 years	5 years
Furniture and fixtures	10 years	10 years
Computer equipment	3 years	3 years

Depreciation method, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Based on technical evaluation and consequent advice, the management believes that its estimates of useful lives as given above best represent the period over which management expects to use these assets.

Contributed by the Financial Reporting Review Board of the ICAI.

Depreciation on additions (disposals) is provided on a pro-rata basis i.e., from (up to) the date on which asset is ready for use (disposed of).”

Principle: Ind AS 16 - Property, Plant and Equipment & Schedule II to the Companies Act, 2013

Paragraph 73 of Ind AS 16

“The financial statements shall disclose, for each class of property, plant and equipment:

- (b) the depreciation methods used”

Part C of Schedule II to the Companies Act, 2013

“...

3. The following information shall also be disclosed in the accounts, namely:

- (i) depreciation methods used; and

...”

Observation

It was noted from the accounting policy on depreciation that the company has not disclosed the method of depreciation as required by Indian Accounting Standard 16 as well as Schedule II of the Companies Act, 2013.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 16 and Schedule II of the Companies Act, 2013 have not been complied with in preparation and presentation of the financial statements.



Investment Property: Incorrect Classification and Disclosure

Case:

The accounting policy of Investment Property and related Notes to Accounts, reads as below:

“Significant Accounting Policies

Investment Property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses, if any in accordance with Ind AS 16 Property, Plant and Equipment. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.”

“Useful life of Investment properties:

Particulars	Life
...	...
Plant & Equipment	3 to 5 years
Furniture and fixtures	5 years
Office Equipment	5 years”

“Details of Investment Property and its Fair value

Particulars	31.03.20XX	31.03.20YY
...
Plant & Machinery	--	--
Furniture and fixtures	--	--
Office Equipment	--	--”

....

Principle: Ind AS 40: Investment Property

Paragraph 5

“Investment property is the property (land or a building, part of a building or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than

- (a) use in production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of Business.

Paragraph 75

“An entity shall disclose:

...

- (f) the amounts recognized in profit or loss for:
 - i. rental income from investment property;
 - ii. direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period; and
 - iii. direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period.”

Paragraph 79

“In addition to the disclosures required by paragraph 75, an entity shall disclose:

- (a) the depreciation methods used;
- (b) the useful lives or the depreciation rates used;---”

Observation

It was observed from the accounting policy for Investment Property that furniture & fixtures, plant & equipment and office equipment have been included in it. Additionally, it was noted that,

“As per Ind AS 38, the expenditure on research and development should be classified into the expenditure incurred in research phase and development phase instead of classifying them into revenue and capital expenditure.”

while disclosing the fair value of Investment Properties, the company also included the fair value of plant & machinery, furniture & fixtures and office equipment. However, these items do not qualify as investment properties under Indian Accounting Standard (Ind AS) 40. According to Ind AS 40, only land, buildings, or part of building or both that are held to earn rentals, capital appreciation or both, are qualified as Investment Property.

It was further observed that other disclosures have also not been provided in the notes to financial statements, like amounts recognized in the Statement of Profit or Loss for rental income from investment property and depreciation method used for it, as required by paragraphs 75 and 79 of Ind AS 40.

Accordingly, it was viewed that requirements of Indian Accounting Standard 40 have not been complied with in preparation and presentation of financial statements.

Intangible Assets: Improper Classification of Research & Development Costs

Case:

The accounting policy on Research and Development Costs given in the Annual Report of the company, reads as below:

“Research and Development Costs

Revenue expenditure incurred on research and development has been

charged to the statement of profit and loss for the year in which it is incurred. Capital expenditure is included in respective heads under Property, plant and equipment”.

Principle: Ind AS 38: Intangible asset

Paragraph 54

“No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred”.

Paragraph 57

“An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used

internally, the usefulness of the intangible asset.

- the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.”

Observation:

It was noted from the given accounting policy that the expenditure on research and developments has not been classified between research phase and development phase.

It was viewed that as per Ind AS 38, the expenditure on research and development should be classified into the expenditure incurred in research phase and development phase instead of classifying them into revenue and capital expenditure. The research expenses (revenue or capital expenses) should be recognised as expenses in line with paragraph 54 of Indian Accounting Standard 38 and development costs (in the nature of revenue or capital expense) may be capitalised as intangible assets subject to fulfilment of recognition criteria given under paragraph 57 of Ind AS 38 rather than recognising as property, plant and equipment.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 38 have not been complied with in preparation and presentation of financial statements.

Investments: Inconsistent Measurement Basis

Case:

The relevant abstract of Note on Investments and Fair Value Measurement Hierarchy given in the Annual Report, reads as below:

“Note XX: Investments

Particulars	As on March 31, 20XX	As on March 31, 20YY
Others (Measured at Cost, Refer Note No. XXX)		
(a) The ABC Commercial Co-Operative Bank Limited XXX (Previous Year: XXX) Equity Shares of Face Value Rs. XX Each	---	---

“Note XXX: Fair value measurement hierarchy:

Particulars	As on March 31, 20XX						
	Carrying amount	Amortised Cost	FVTOCI	FVTPL	Level of input used in		
					1	2	3
Financial assets							
Investments*	---	---	-	-	-	-	-

*Excluding investment in subsidiaries and joint venture amounting to Rs. --- lakhs as it is carried at cost.

Principle: Ind AS 109: Financial Instruments

Paragraph 5.2.1

“After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.”

Paragraph 5.7.5

At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which Ind AS 103 applies. (See paragraph B5.7.3 for guidance on foreign exchange gains or losses.)

Paragraph B5.2.3

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Observation

It was noted from Note on Investments that the company has invested in equity shares of ABC Commercial Co-operative Bank and stated that it is measured ‘at cost’. However, under Note on Fair Value measurement Hierarchy, it has been stated to be valued at ‘amortized cost’. Hence, there is inconsistency with regard to valuation of equity investments. Further, it was viewed that investment in equity instruments (other than investment in group companies covered under Ind AS 27) should be measured at fair value through profit and loss or fair value through other comprehensive income (irrevocable option) in accordance with Ind AS 109.

Accordingly, it was viewed that the requirements of Indian Accounting Standard 109 have not been complied with in preparation and presentation of the financial statements.

Financial Assets: Incomplete/Incorrect Accounting Policy on Measurement

Case:

The accounting policy on financial assets, valued at Fair Value through Other Comprehensive Income (FVOCI), reads as follows:

“Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

A financial asset is subsequently measured at fair value through other

“As per Ind AS 109 – a financial asset should be classified as FVTOCI when the financial assets are held within business model whose objective is both to ‘collect contractual cash flows’ and ‘selling of the financial assets’.”

comprehensive income if it is held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows. Investments which are classified as financial asset, the subsequent changes in fair value are recognized through other comprehensive income (OCI).”

Principle: Ind AS 109: Financial Instruments

Paragraph 4.1.2A

“A financial asset shall be measured at fair value through other comprehensive income if both the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.”

Observation

It was noted from the given accounting policy that the financial assets are subsequently measured at fair value through other comprehensive income (FVTOCI), ‘if it is held within a business model whose objective is achieved by collecting contractual cash flows and the contractual terms of the

financial asset give rise on specified dates to cash flows’.

It was viewed that, as per Ind AS 109 – a financial asset should be classified as FVTOCI when the financial assets are held within business model whose objective is both to ‘collect contractual cash flows’ and ‘selling of the financial assets’. It was viewed that another objective, i.e. selling of financial assets has not been considered while classifying financial assets as FVTOCI.

Accordingly, it was viewed that either policy on financial assets at FVTOCI or classification of financial assets at FVTOCI is not in line with Ind AS 109.

Inventory: Omission of Disclosure of Cost Formula

Case:

The relevant abstract of accounting policy on Inventories given in the Annual Report of a company, reads as below:

“Accounting Policy on Inventories

Inventories including goods-in-transit are valued at lower of cost and estimated net realisable value. However, Raw materials and other items held for use in the production of inventories are not written down below cost, if the finished products in which it will be incorporated are expected to be sold at or above cost. “

Principle: Ind AS 2: Inventories

Paragraph 36

“The financial statements shall disclose:

- (a) the accounting policies adopted in measuring inventories, including the cost formula used;”

Observation

It was noted that although the accounting policy adopted for valuation of inventories have been



disclosed, the cost formula used to determine the cost of inventories was not disclosed as required by paragraph 36 of Ind AS 2.

Hence, it was viewed that the disclosure requirements of Ind AS 2 relating to cost formula has not been complied with in preparation and presentation of the financial statements.

Comments may be sent to
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1 Which platform validates every B2B invoice under the e-invoicing system of GST 2.0 and generates a unique Invoice Reference Number (IRN)?

2 Which system ensures the authenticity of interstate movement of goods through a QR code and integrates with e-invoicing for real-time tracking under GST 2.0?

3 Which statement, introduced under GST 2.0, automatically reflects suppliers' filings to help taxpayers identify eligible Input Tax Credit?

4 Which AI-powered system under GST 2.0 analyzes data to detect risk patterns, potential fraud, and non-compliance without conducting audits?

5 Which digital infrastructure serves as India's GST backbone, enabling real-time compliance and evolving toward global interoperability for transparent trade and taxation?

Answer
SEPTEMBER
2025

1. Green Washing
2. Green Taxonomy
3. Carbon Credits
4. Internal Carbon Pricing (ICP)
5. Green Bond

RACK
the Brain



CA. Jinal Arpit Patel

Member of the Institute

Ind AS 118: Presentation and Disclosure in Financial Statements

The International Accounting Standards Board (IASB) introduced IFRS 18 in April 2024. Consequently, the Accounting Standards Board (ASB) of The Institute of Chartered Accountants of India (ICAI) had issued an exposure draft on Ind AS 118 on January 06, 2025. The said standard is set to replace Ind AS 1 and will apply to reporting periods beginning on or after 1 April 2027, focused on improving the presentation and disclosure of financial statements and better communication of financial performance. Key changes include principles for

aggregation and disaggregation, new subtotals in the statement of profit or loss, and management-defined performance measures (MPMs). While existing frameworks align with several provisions, adopting proposed Ind AS 118 will elevate the comparability and transparency of Indian financial statements on the global stage.

Background

The International Accounting Standards Board (IASB) issued IFRS 18 Presentation and Disclosure in Financial Statements in April 2024. As part of IFRS convergence, ASB issued an exposure draft of Ind AS 118 in January 2025 for public comments.

The proposed Ind AS 118 aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss.

While proposed Ind AS 118 will not alter how companies measure financial performance, it will standardise the presentation and disclosure requirements, aiming to achieve better communication with users of financial statements. The proposed Ind AS 118 aims to improve financial reporting by requiring:

- Introduction of new defined subtotals in profit or loss.
- Enhanced disclosures on management-defined performance measures.
- Stronger requirements for aggregation and disaggregation.

Considering the above background, we shall now attempt to dissect the changes brought in by proposed Ind AS 118 and evaluate the impact that it is likely to have.

Components of Financial Statements

Proposed Ind AS 118 provides: Complete set of Financial Statements = Primary Financial Statements + Notes + Comparative Information + Balance sheet for the beginning of the earliest period if required. A summarisation of the role and purpose of the two is highlighted below:

Point of Reference	Primary Financial Statements	Notes
Primary Purpose	Presentation	Disclosure
Contents	Summary and Aggregated	Detailed and Disaggregated
Role	Provide structured summaries of a reporting entity's recognised assets, liabilities, equity, income, expenses, and cash flows	Provide material information necessary for the readers of the financial statements
Added Role	Obtaining an understandable overview of the reporting entity's recognised assets, liabilities, equity, income, expenses, and cash flows	Obtaining an understanding of the line-items presented in the primary financial statements
	Comparability between entities and between reporting periods for the reporting entity	Supplementing the primary financial statements with additional material information
	Identifying items or areas where additional information is sought to be disclosed in the Notes	

Proposed Ind AS 118 is not applicable to condensed Interim Financial Statements, except for the following:

- a. Principles of aggregation and disaggregation (Para 41 to 43 of Ind AS 118)
- b. Requirements relating to MPMs (Para 117 to 125 of Ind AS 118)

Aggregation And Disaggregation

- a. Paragraph 41 of Ind AS 118 lays down the principles of aggregation and disaggregation.
- b. Aggregation, Classification, and Disaggregation are defined in Ind AS 118 as under:
 - i. Aggregation: The adding together of assets, liabilities, equity, income, expenses, or cash flows that share characteristics and are included in the same classification.
 - ii. Classification: The sorting of assets, liabilities, equity, income, expenses, and cash flows based on shared characteristics.
 - iii. Disaggregation: The separation of an item into component parts that have characteristics that are not shared.
- c. Item vs. Line item
 - i. Item: an item is an asset, liability, equity instrument, or reserve, income, expense, or cash flow, or any aggregation or disaggregation of such assets, liabilities, equity, income, expenses, or cash flows.
 - ii. Line item: A line item is an item that is presented separately in the primary financial statements.
 - iii. Presenting additional line items vs. disaggregating items: An entity uses its judgment to make this determination to present additional line items or to disaggregate items to disclose material information in the notes.

d. General guidance on aggregation and disaggregation:

- i. Aggregation: aggregate assets, liabilities, equity, income, expenses, or cash flows into items based on shared characteristics
- ii. Disaggregation: disaggregate items based on characteristics that are not shared
- iii. Common for aggregation and disaggregation:
 1. Fulfils the role of the primary financial statements in providing useful, structured summaries
 2. Fulfils the role of the notes in providing material information
 3. Does not obscure material information
- e. Examples for shared characteristics:
 - i. Nature
 - ii. Function (role) within the entity's business activities
 - iii. Persistence (including the frequency of the item of income or expense, or whether it is recurring or non-recurring)
 - iv. Size
 - v. Geographical location or regulatory environment
- f. Examples of providing useful structured summary or disclosure in the notes are necessary to provide material information:

For Statement of profit and loss:

 - i. Write-downs of inventories, as well as reversals of such write-downs
 - ii. Impairment losses for property, plant and equipment, as well as reversals of such impairment losses
 - iii. Income and expenses from restructurings of an entity's activities and reversals of any provisions for restructuring

- iv. Income and expenses from litigation settlements
- v. Reversals of provisions

For the balance sheet:

- i. Property, plant and equipment disaggregated into classes in accordance with Ind AS 16
 - ii. Receivables disaggregated into amounts receivable from trade customers, amounts receivable from related parties, prepayments, and other amounts
 - iii. Inventories disaggregated, applying Ind AS 2, into items such as merchandise, production supplies, materials, work in progress, and finished goods
 - iv. Equity capital and reserves disaggregated into various classes, such as paid-in capital, share premium, and reserves.
- g. Examples of circumstances that may result in material information being obscured:
- i. Material information about an item, transaction, or other event is disclosed in the financial statements, but the language used is vague or unclear
 - ii. Material information about an item, transaction, or other event is scattered throughout the financial statements
 - iii. Dissimilar items, transactions, or other events are inappropriately aggregated
 - iv. Similar items, transactions, or other events are inappropriately disaggregated
 - v. The financial statements become less understandable when immaterial information obscures material information, preventing primary users from determining what is material
- h. Aggregation and Disaggregation to follow faithful representation of an item.

ACCOUNTING STANDARDS ● THE CHARTERED ACCOUNTANT

i. Guidance on circumstances around material items:

1. When an entity chooses to aggregate two material items for summarising material information, an entity would also be required to disclose information about each item.
2. When an entity chooses to aggregate a material item with an immaterial item, an entity would provide information about disaggregated items only if immaterial information

obscured the material information.

3. When an entity chooses to aggregate immaterial items, unless the aggregated amount is sufficiently large that users of financial statements might reasonably question whether it includes items for which information could be material, no additional disclosure about such aggregated item shall be required.

Statement of Profit or Loss

An illustrative presentation of the statement of profit or loss, as modified by proposed Ind AS 118, is provided below for companies other than Insurance Company and Banking Company:

Subtotals in Bold reflect the new subtotals as per the requirements of proposed Ind AS 118. The subtotals in italics are the additional subtotals. An entity presents additional subtotals if necessary to provide a useful structured summary of the income and expenses.

Statement of Profit or Loss	20X8	20X7	Categories
Revenue	3,67,000	3,53,100	Operating
Cost of Sales	-2,41,600	-2,24,100	
<i>Gross Profit</i>	1,25,400	1,29,000	
Other Operating Income	12,200	4,100	
Selling Expenses	-28,900	-27,400	
Research & Development Expenses	-25,100	-25,900	
General & Administrative Expenses	-20,900	-22,400	
Goodwill Impairment Loss	-4,500	-	
Other Operating Expenses	-1,200	-5,600	
Operating Profit	57,000	51,800	
Share of Profit & Gains on Disposal of Associates & Joint Ventures	5,300	7,300	Investing
Profit Before Financing and Income Taxes	62,300	59,100	
Interest Expenses on Borrowings and Lease Liabilities	-13,000	-13,200	Financing
Interest Expenses on Pension Liabilities & Provisions	-6,500	-6,000	
<i>Profit Before Income Taxes</i>	42,800	39,900	
Income Tax Expense	-10,700	-9,975	Income Taxes
<i>Profit from Continuing Operations</i>	32,100	29,925	
Loss from Discontinued Operations	-	-5,500	Discontinued Operations
Profit	32,100	24,425	

a. Categories in the statement of profit or loss

Category	What does it include?	Guidance
Operating	<p>Everything in the P&L that is not classified into the other four categories includes:</p> <ol style="list-style-type: none"> 1. All income and expenses arising from the company's operations, regardless of whether they are volatile or unusual. 2. Includes, but is not limited to, income and expenses from a company's main business activities except for any such income and expenses from investments accounted for using the equity method. 	Specific guidance given for identifying main business activity.

Category	What does it include?	Guidance
Investing	Income and expenses relating to: <ol style="list-style-type: none"> Investments in associates, joint ventures and unconsolidated subsidiaries; cash and cash equivalents; and other assets if they generate a return individually and largely independently of the entity's other resources (example: debt or equity investments, investment properties, etc.) 	Specific guidance given for entities with specified main business activities (like investing in assets, providing financing to customers as a main business activity. For entities that are assessed as having a specified main business activity of investing in associates, joint ventures, and unconsolidated subsidiaries that are not accounted for using the equity method, they are required to classify specified income and expenses in the operating category.
Financing	Income and expenses relating to: <ol style="list-style-type: none"> income and expenses that arise from the initial and subsequent measurement of the liabilities that arise from transactions that involve only the raising of finance and incremental expense upon issue and extinguishment. interest income and expenses, and the effects of changes in interest rates from liabilities arising from transactions that do not involve only the raising of finance. 	Detailed guidance given for both types of liabilities and what would form a part of the financing category.
Income taxes	The income taxes category comprises: <ol style="list-style-type: none"> tax expense or tax income included in the statement of profit or loss applying Ind AS 12 Income Taxes; and any related foreign exchange differences. 	
Discontinued operations	The discontinued operations category comprises income and expenses from discontinued operations required by Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations.	

b. Totals and subtotals to be presented in the statement of profit or loss:

Proposed Ind AS 118 now mandates the following totals/subtotals to be presented in the statement of profit or loss:

- operating profit or loss;
- profit or loss before financing and income taxes; and
- profit or loss.

Management-defined Performance Measure

A management-defined performance measure ("MPM") is a subtotal of income and expenses that:

a. an entity uses in public communications outside financial statements;

b. an entity uses to communicate to users of financial statements, management's view of an aspect of the financial performance of the entity as a whole; and

c. Except the following:

- gross profit or loss (revenue minus cost of sales) and similar subtotals;
- operating profit or loss before depreciation, amortisation, and impairments within the scope of Ind AS 36;
- operating profit or loss and income and expenses from all investments accounted for using the equity method;

iv. profit or loss before income taxes;

v. profit or loss from continuing operations.

A. Subtotal vs. management-defined performance measure:

Subtotal	MPM
Broader. All MPMs are subtotals.	Narrower. Not all subtotals are MPMs.
Used within the financial statements.	Used outside the financial statements.
Needs to be in sequential order of the specified structure of any particular primary financial statement.	

B. Disclosure of MPM: An entity shall disclose information about all measures that meet the definition of management-defined performance measures in a single note. The disclosures shall include, at a minimum, the following:

- i. A description of the aspect of financial performance that, in management’s view, is communicated by the MPM.
- ii. How the MPM is calculated.
- iii. A reconciliation between the MPM and the most directly comparable subtotal in financial statements.
- iv. Income Tax effect and effect on non-controlling interest for each item of reconciliation.
- v. Description of how the entity determines the Income Tax effect.

C. What does not constitute MPM?

- i. Subtotals of only income or only expenses (for example, a stand-alone measure of adjusted revenue that is not part of a subtotal that also includes expenses);
- ii. Assets, liabilities, equity, or combinations of these elements;
- iii. Financial ratios (for example, return on assets) (see paragraph B117);



Old vs. New (Ind AS 1 vs. proposed Ind AS 118) – Some other changes

Area	Ind AS 1 (as on April 01, 2025)	Proposed Ind AS 118
Title	Presentation of Financial Statements	Presentation and Disclosure in Financial Statements
Balance sheet	Exceptions to standard practice when that is reliable and more relevant	Exceptions to standard practice when that provides a more useful structured summary
Line item disclosure in the Balance Sheet	List of line items as per Ind AS 1 retained in Ind AS 118 with one addition	Goodwill was added to the list of line items to be disclosed in the Balance sheet
Cross-referencing of Notes	IAS Ind AS 1 contained a requirement for cross-referencing a line item to disclosure in notes	-do- Additionally, IFRS Ind AS 118 requires reverse cross-referencing (from notes to the line item) when amounts disclosed in the notes are included in one or more-line items in the primary financial statements
Classification of Expense	As per Ind AS 1, it requires the classification of expenses only by nature	Ind AS 118 allows flexibility to present the most useful structured summary Entities can classify the expenses by nature, function, or both If classified by function, entities must disclose nature-based details

Classification of liability where there is a breach of a material provision/ covenant of long-term loan

- iv. Measures of liquidity or cash flows (for example, free cash flow); or
- v. Non-financial performance measures.

their reporting structure, update financial systems, and ensure compliance with additional disclosure requirements.

The Road ahead for Ind AS 118

a. These new subtotals in the statement of profit and loss will require companies to reassess

b. Ind AS 1 currently mandates the classification of expenses solely by nature, removing the option available in IAS 1 to classify expenses by function. However, under proposed Ind AS 118, companies opting for function-

based classification will now be required to provide additional disclosures in the notes detailing expenses by nature, increasing compliance and reconciliation efforts. ERP systems and internal reporting processes must adapt to new requirements, ensuring consistent reporting without adding excessive manual adjustments. In the author's view, if classification by function is permitted, ICAI and SEBI may need to standardise functional categories to maintain consistency across industries. The onus also lies on companies to assess their classification methodology early and ensure alignment with industry practices.

- c. Furthermore, Indian financial statements, governed by Schedule III may need to be revisited.
- d. The introduction of Management-Defined Performance Measures

(MPMs) under Ind AS 118 is a step towards enhancing investor communications through financial statements. From an investor's perspective, MPMs are beneficial as they provide insight into how management evaluates financial performance beyond statutory metrics. It presents a significant change for both management and auditors, primarily due to the separation of responsibilities within organizations. In most listed companies, the Investor Relations (IR) team communicates various performance measures to investors throughout the year, while the Financial Reporting team prepares financial statements. This makes it challenging to identify which MPMs should be included in financial statements, especially given that companies release numerous performance indicators across different reporting periods. To ensure consistency



and comparability, clear guidance is needed on determining which MPMs to disclose in the financial statements and for what period. This requirement also aligns with the broader objective of ensuring that performance parameters communicated to investors are comparable, standardized, and reconciled with statutory requirements of financial reporting.

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Standardizing Logistics Cost Accounting in India: A Strategic Imperative for Economic Growth

Logistics costs represent a significant portion of business expenditures in India, yet a standardized framework for reporting and analysing these costs remains absent. This lack of transparency results in inefficiencies, resource misallocation, and higher overall logistics expenditures. This article explores the necessity of integrating standardized logistics cost accounting within the framework of Indian Accounting Standards (Ind AS) while incorporating global best practices, technological advancements, and policy interventions. A structured logistics cost accounting approach will enhance financial transparency, support cost efficiency, improve supply chain resilience, and align

with India's broader economic strategies, such as PM GatiShakti, Make in India, and the National Logistics Policy (NLP).

Logistics costs are a critical component of operational expenses across industries, impacting profitability, supply chain efficiency, and strategic decision-making. While traditionally categorized under Cost of Goods Sold (COGS) or Selling, General & Administrative (SG&A) Expenses, there is a growing need to classify logistics expenses separately in financial statements for better cost visibility and control.

Importance of Logistics Cost Standardization

- Recent empirical evidence from the DPIIT–NCAER Logistics Cost Study (2025) estimates India's logistics cost at around 7.97 percent of GDP, a significant refinement from earlier assessments of 13–14 percent. This brings India's logistics cost broadly in line with advanced economies such as the United States (about 8 percent) and Germany (around 7 percent). However, the composition of India's logistics expenditure continues to reflect a higher reliance on road transport, fragmented warehousing, and operational inefficiencies—factors

that elevate the effective logistics burden on businesses.

- These costs continue to influence trade competitiveness, manufacturing growth, and overall economic efficiency, underscoring the need for greater precision in cost measurement and management.
- The absence of a standardized logistics cost accounting framework within current financial reporting practices limits visibility into true logistics expenditures, making it challenging for enterprises to optimize supply chain performance and for policymakers to design targeted efficiency interventions.

Recent empirical efforts by the Government of India have begun to quantify logistics costs at the national level, providing a strong evidence base for developing a more granular accounting framework within Ind AS.

Empirical Perspective: Insights from the DPIIT–NCAER Logistics Cost Study (2025)

The DPIIT–NCAER Logistics Cost Study (September 2025) marks

a pivotal advancement in India's endeavour to establish a credible, evidence-based understanding of logistics efficiency. The study estimates the nation's total logistics cost at ₹24.01 lakh crore, equivalent to 7.97 percent of GDP and 9.09 percent of non-service sector output. Employing a hybrid methodology that combines macroeconomic datasets, including the Supply and Use Tables (SUTs), National Accounts Statistics (NAS), and Balance of Payments (BoP), with large-scale primary surveys, the report provides a scientifically grounded baseline for both policy formulation and industry analysis. The results reflect a moderation from earlier informal estimates of 13–14 percent, indicating incremental efficiency gains driven by reforms under PM GatiShakti, the National Logistics Policy (NLP), and related infrastructure initiatives.

While the study offers an authoritative national benchmark, it also opens new avenues for refinement and deeper insight. Its macro-level orientation, though statistically rigorous, provides a strong foundation that can now be complemented by granular, enterprise-level analyses to better capture variations across sectors, regions, and

operational models. Strengthening the interface between national datasets and corporate accounting practices would enable a more comprehensive understanding of logistics dynamics, bridging the space between aggregated measurement and operational realities. In this light, developing a standardized accounting framework represents an important opportunity to transform the national benchmark into a dynamic system of continuous cost intelligence and performance monitoring across the logistics ecosystem.

Adopting an Ind AS-aligned logistics cost accounting framework can bridge this gap effectively. By explicitly integrating logistics costs within Indian Accounting Standards, enterprises can systematically record, classify, and disclose transportation, warehousing, inventory, and compliance-related expenditures with higher precision and consistency. Such standardization would enhance financial transparency, facilitate cost rationalization, and generate real-time logistics cost intelligence through periodic accounting statements, providing policymakers with a dynamic, data-driven feedback mechanism to complement national assessments. For businesses, this approach would strengthen benchmarking, improve risk management, and support informed negotiations with logistics service providers. Over time, the alignment of macro-level measurement with micro-level accounting discipline would deepen India's logistics cost analytics, improve cross-sector comparability, and reinforce the nation's position as a resilient, agile, and globally competitive logistics and manufacturing hub.

Building on these empirical insights, the next section outlines the structural and accounting reforms necessary to institutionalize standardized logistics cost reporting across industries.

Role of Indian Accounting Standards (Ind AS)

Indian Accounting Standards (Ind AS), aligned with International Financial

Reporting Standards (IFRS), have enhanced financial transparency in India. However, logistics costs are currently reported under broad financial categories, making it difficult to assess the true financial burden of logistics. This article highlights the necessity of incorporating logistics cost accounting within Ind AS to enable cost optimization and support national economic policies.

The Need for Standardized Logistics Cost Accounting

Logistics costs represent a significant portion of business expenditures, yet a standardized reporting framework remains absent. A structured cost accounting approach would improve cost efficiency, supply chain resilience, and economic competitiveness while aligning with global best practices.

i. Current Accounting Practices for Logistics Costs

Logistics costs are accounted for differently depending on the industry and function:

Profit & Loss Statement (P&L)

1. Cost of Goods Sold (COGS) / Cost of Sales

- Includes inbound freight costs for procurement of raw materials. As per Ind AS 2, such costs must be capitalized into inventory and recognized under COGS only upon sale. The reference in this article reflects their eventual financial impact rather than immediate expense.
- Example: Transportation costs of steel and electronic components in the automobile industry.

2. Selling, General, and Administrative (SG&A) Expenses

- Covers distribution costs, warehousing, order fulfillment, and last-mile delivery. While some retail chains classify transportation from central warehouses to stores under SG&A, Ind AS 2 requires such costs to be capitalized if the goods remain unsold.

- Example: Warehousing and packaging costs for an e-commerce company.

3. Freight and Transportation Costs

- Includes inbound (procurement-related) and outbound (customer delivery-related) freight expenses.
- Freight-in costs are included in inventory; freight-out costs are recorded under SG&A.

4. Warehousing Costs

- Rent, utilities, security, handling, and maintenance of warehouses.
- If warehouses are owned, depreciation is applied and recorded under Depreciation & Amortization.

5. Customs Duties & Import-Export Charges

- International trade-related levies recorded under direct costs or as part of the landed cost of goods.

ii. Challenges in Cost Allocation

Logistics costs comprise multiple components, including transportation, warehousing, inventory holding, packaging, handling, and regulatory compliance. Businesses often face difficulties in properly segmenting these costs, which may result in misclassification and reduce financial transparency. For example, incorrect treatment of warehouse leases under Ind AS 116 or misallocation of inbound freight under Ind AS 2 can distort inventory valuation, lease obligations, or profitability metrics.

A standardized approach would enable companies to:

- Differentiate transportation costs by mode (road, rail, air, coastal shipping).
- Allocate inbound and outbound freight costs accurately.
- Assess inventory holding costs, including depreciation and obsolescence.

- Evaluate warehouse lease liabilities, storage expenses, and distribution strategies.

iii. Supporting Business and Policy Decision-Making

A standardized cost reporting system will also provide valuable data for policymakers and industry stakeholders, ensuring effective interventions for logistics infrastructure development.

Without detailed logistics cost breakdowns, companies struggle to make informed decisions about:

- **Optimizing transportation modes:** Determining whether road, rail, or multimodal transport is most cost-effective.
- **Warehousing strategies:** Weighing the benefits of owning vs leasing storage facilities.
- **Procurement and supply chain network design:** Deciding between regional warehousing vs centralized distribution models.

Companies can internally classify logistics costs under a dedicated “Logistics Expenditure” head, provided that:

- 1. Internal Accounting Policy Permits It:** Companies can customize their Chart of Accounts (CoA) to create a specific logistics cost head.
- 2. Financial Reporting Compliance is Maintained:** While internal reports can consolidate logistics expenses under a single head, external financial statements (as per Ind AS and Schedule III of Companies Act, 2013) must follow prescribed formats.
- 3. ERP & Accounting Software Configuration:** Enterprise Resource Planning (ERP) software such as SAP, Oracle, or Tally can be configured to track logistics costs under a single expenditure category.
- 4. Industry-Specific Needs:** Large logistics-heavy

industries (e.g., e-commerce, FMCG, pharmaceuticals, and manufacturing) may benefit from this classification for better cost visibility and control.

Economic and Business Significance of Logistics Cost Standardization

i. Economic Significance

From an economic perspective, reducing logistics costs can:

- **Enhance Trade Competitiveness:** A reduction of 1% of GDP in logistics costs could lead to annual savings of ₹2 lakh crore, making India more competitive in global trade.
- **Improve Infrastructure Investment Decisions:** Standardized logistics cost data allows the government to make better investment decisions for infrastructure projects such as highways, rail networks, and logistics parks.
- **Increase Foreign Direct Investment (FDI):** A transparent logistics cost accounting framework increases investor confidence, attracting global funds into India’s logistics and supply chain sector.
- **Support MSME Growth:** Small and medium enterprises (SMEs)

often lack access to cost-efficient logistics. Standardized cost data can enable policy interventions to support MSMEs with cost-effective supply chain solutions.

ii. Business and Commercial Significance

For businesses, logistics cost standardization is transformative because it:

- **Enhances Cost Efficiency:** Companies can accurately analyse freight, warehousing, and regulatory expenses, enabling them to negotiate better contracts with suppliers and logistics providers.
- **Improves Profitability:** Reducing hidden logistics costs through Ind AS-compliant accounting will improve overall profit margins.
- **Facilitates Benchmarking:** Companies can compare their logistics costs with industry standards, identifying areas for cost reduction and process optimization.
- **Strengthens Risk Management:** A detailed cost breakdown helps in identifying supply chain vulnerabilities and mitigating risks associated with cost overruns, inventory inefficiencies, and unexpected disruptions.

Integrating Logistics Costs into Financial Statements

i. Ind AS-Based Cost Segmentation

Logistics Cost Component	Ind AS Accounting Category	Examples
Inbound Freight Cost	Ind AS 2 (COGS)	Raw material transport, import duties
Outbound Freight Cost	Ind AS 115 (SG&A)	Distribution and last-mile delivery
Warehousing & Storage	Ind AS 116 (Operating Expense)	Lease, maintenance, security
Inventory Holding Costs	Ind AS 2 (Current Assets)	Depreciation, insurance
Regulatory & Compliance	Ind AS 37 (SG&A/ Other Expenses)	Customs duties, penalties, demurrage

ii. Global Best Practices

United States (GAAP)

- Freight-in costs are added to inventory costs and impact COGS.
- Freight-out costs (delivery to customers) are recorded as selling expenses.

Ukraine

- Developing specific standards for logistics cost accounting.
- Introducing dedicated accounts for logistics expenses.

International Financial Reporting Standards (IFRS)

- Allows classification by function (e.g., COGS) or nature (e.g., transportation costs).
- Encourages detailed disclosures for significant expenses.

iii. Proposed Methodologies for Logistics Cost Accounting

- 1. Activity-Based Costing (ABC):** Allocates logistics costs based on specific activities (e.g., transportation, warehousing).
- 2. Material Flow Cost Accounting (MFCA):** Tracks material flows and associated logistics expenses.
- 3. Enhanced Chart of Accounts (CoA):** Introduces dedicated logistics expense categories.

iv. Implementation Challenges

- **SMEs** may lack capacity to track logistics cost in detail.
- **ERP customization** may involve transitional costs.
- **Ind AS modifications** must avoid divergence from global GAAPs to prevent dual reporting by MNC subsidiaries.

Policy Implications and Business Recommendations

i. Economic Benefits

- Reducing logistics costs by 1% of GDP could save ₹2 lakh crore annually.

- Boosting infrastructure investments via data-driven policy decisions.

- Enhancing FDI by providing standardized financial disclosures.

ii. Business Benefits

- **Cost Optimization:** Accurate freight, warehousing, and regulatory expense tracking.

- **Profitability Improvement:** Reducing hidden logistics costs improves margins.

- **Benchmarking:** Companies can compare logistics costs against industry standards.

- **Risk Management:** Identifying vulnerabilities in supply chains and mitigating cost overruns.

iii. Government and Policy Recommendations

- Recommend amending Ind AS 1 to include logistics costs as a separate expense head.

- Recommend enabling separate disclosure of logistics costs under proposed Ind AS 118 to enhance transparency and financial reporting clarity.

- Recommend leveraging proposed Ind AS 118 to facilitate disaggregated disclosure of logistics costs under relevant expense heads, enhancing transparency and aligning with global reporting standards.

- Update Ind AS 2 to improve logistics-related inventory valuation.

- Encourage voluntary disclosures of logistics costs in financial statements.

iv. Industry-Level Actions

- Industry associations (CII, FICCI, ICAI) should advocate for logistics cost reporting reforms.

- Companies should adopt internal “Logistics Expenditure” accounts for better tracking and decision-making.

- ERP & accounting systems (SAP, Oracle, Tally) should support detailed logistics cost tracking.

Conclusion

A structured logistics cost accounting framework within Ind AS will improve financial transparency, reduce inefficiencies, and strengthen India's position as a global logistics hub. Aligning corporate financial reporting with National Logistics Policy and PM GatiShakti will drive long-term economic growth and competitiveness.

Policymakers, industry leaders, and accounting regulators must collaborate to establish logistics cost reporting standards, ensuring greater cost visibility, enhanced investment confidence, and sustainable growth in India's logistics sector.

Implementing these methodologies requires careful consideration of the organization's operational structure and compliance with relevant accounting standards. A structured logistics cost accounting framework, integrated within Indian Accounting Standards (Ind AS), is essential for improving financial transparency, reducing inefficiencies, and strengthening India's position as a global logistics hub. Policymakers, industry stakeholders, and financial regulators must collaborate to institutionalize logistics cost reporting, ensuring businesses, investors, and policymakers benefit from greater cost visibility, informed decision-making, and long-term economic growth.

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Artificial Intelligence (AI) Washing in Taxation: Ethics and Transparency

Artificial Intelligence (AI) washing in taxation refers to the overestimation of AI capabilities in tax solutions, leading to misinformation and potential misuse. This article aims to investigate the impact of AI washing on taxation, focusing on how it diminishes public trust, disrupts tax authorities' efforts, and leads to unethical practices. Some companies in the market exaggerate about the usage of AI and claim that they are implementing it in the real

world. This article examines the consequences of AI washing, including ethical concerns. It also describes the regulations for the ethical implications of AI taxation in India. The article also addresses the broader impacts of AI on employment and the ethical use of AI for tax compliance. In doing so, it provides a roadmap for fostering responsible AI adoption in the taxation sector.

Artificial intelligence (AI) is a broad term that refers to techniques making machines "Intelligent".

Pascal A. Bizarro and Margaret Dorian (2017) pointed out that AI was introduced in 1948 when William Gray Walter created two small robots, named "Elmer" and "Elsie", that were able to recognize and respond to stimuli, encountering obstacles¹. Two years later, Alan Turing (1950) proposed that a machine could transmit information, communicate, and possess thinking capabilities indistinguishable from those of humans². In 1956, the Dartmouth workshop proposed the term "artificial intelligence", marking the birth of AI as a discipline. Since then, the AI phenomenon has received considerable attention in various fields. Over recent years, there has been a dramatic increase in the adoption of AI within the tax sector. This surge is attributed to improvements in algorithmic capabilities, greater computer power, and access to richer datasets. These advancements have enabled tax professionals to leverage AI for more sophisticated tax analytics and decision-making.

The field of deep learning gained popularity in the 2000s under the direction of researchers like Geoffrey Hinton, Yann LeCun, and Yoshua Bengio, which led to important advances in areas like image identification and natural language processing. These days, artificial intelligence is included in commonplace devices like GPT (Generative Pre-trained Transformer), autonomous automobiles, and virtual personal assistants for customer support³.

The term "AI washing" is the practice of exaggerating or falsifying the application of artificial intelligence (AI) in goods, services, or solutions to make it seem more sophisticated. This phrase, which comes from the word "greenwashing," is widely used in several areas, including taxes¹. The first use of AI in taxation was in Australia, where the Australian Taxation Office (ATO) started experimenting with AI technologies in the early 1990s. The ATO used AI to automate and streamline tax processes, particularly focusing on identifying fraud, tax evasion, and errors in tax returns. These early systems employed rule-based AI and later evolved to use machine

learning techniques. Other countries like the United States and the United Kingdom followed suit, with agencies like the Internal Revenue Service (IRS) and HM Revenue & Customs (HMRC) integrating AI for fraud detection, auditing, and predictive analytics in tax compliance. As per the latest report of Thomson Reuters Institute, in 2025, around 21% of tax and accounting firms are either using or planning to adopt AI solutions, particularly for automating routine tasks like data gathering, compliance, and document processing.

Tax avoidance, the complex nature of tax regulations, and the high expenses related to their management and compliance make it difficult for fair taxation of different firms and lower-income groups. Automation and AI are being utilized more and more to address these problems. Tax-related software or services make claims about using advanced AI in the process of tax preparation, escalation, and fraud detection, but depend on simple algorithms and analytical methods.

This fraud may have serious consequences. Businesses and

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taxpayers may place a lot of confidence in the effectiveness of AI-driven tax solutions, which might lead to poor decision-making and excessive dependence on faulty systems, increasing exposure to risks³. Moreover, companies that make false promises about AI may face scrutiny from regulators and legal penalties if they are found guilty of misleading customers and tax authorities. Companies and the Board of Directors need to be transparent about the true abilities of their AI systems for establishing and retaining trust. Regulatory frameworks must be established to assess and check AI claims as AI becomes more integrated into tax systems.

Problem Statement: AI washing in taxation diminishes shareholders' trust, leads to potential regulatory breaches, and raises major ethical concerns.

Objectives

- To comprehend the concept of AI washing and its effect on taxation.
- To explore the ethical uses of AI in taxation.
- To review case studies of AI washing in taxation.

Literature Review

In the more recent decade of the 2010s, the practice referred to as “AI washing” became a major problem. The term was addressed in Forrester Research's report by Elizabeth Cullen in 2017. It refers to companies

mislabelling or overstating their use of AI to capitalize and grow their companies. This term was introduced in a report to highlight the issue where businesses use AI labels to get market attention even when they don't involve AI technologies in their products or services. Several industries are using basic algorithms or basic automation, including technology, banking, and healthcare, and have begun advertising their goods as AI-driven. This resulted in the rise of AI washing. Some support platforms marketed their chatbots as highly advanced artificial intelligence (AI) systems, despite the fact that they relied mostly on pre-designed responses and rule-driven interactions.

Paschen et al. (2020) point out that AI washing in taxes can result in a dependency on inefficient systems, which may hinder decision-making and expose taxpayers and companies to more risk. False claims about AI can potentially damage public conviction in tax systems and AI technology, which can impact regulatory positions and reduce faith in AI-driven solutions⁴.

AI has black-box technology that makes it simpler for businesses to get involved in AI washing in taxes by hiding the real functioning of their systems. They can exaggerate AI capabilities without providing transparency, which makes it challenging for consumers or authorities to confirm whether AI is being applied to their services⁵. Strict rules and regulations are required for verifying AI claims and opposing AI washing. According to Binns, R. (2018), standards or

certifications should be established to confirm AI technology and ensure that AI marketing is transparent. Some methods are critical in combating AI washing. Hassija explained explainable AI (XAI) in his paper, which helps in the decision-making process and provides an insight into how decisions related to certain tax filings were made by the system. By enhancing transparency, the key variables or data points in the model are revealed⁶.

Auditable logs can track every decision made by the AI system, which helps taxpayers or tax authorities to review the process and understand the reason why AI drew the specific conclusion. Akpan stated in his paper that Human-in-the-loop (HITL) is another strategy that is useful for involving human auditors. When black-box AI performs the bulk of the work, it can review and validate decisions for auditors to ensure fairness and transparency that impact taxpayers⁷. For building trust, open-source algorithms are used in which the functionality of the complex AI model is explained to make the system transparent.

Methodology

This study examines how AI washing is used in tax systems and the factors that impact online tax systems by analysing secondary data sourced from Scopus, Elsevier, Emerald papers, and peer-reviewed journals. The data collection process specifically targets recent articles published within the past decade, selected based on criteria such as relevance, peer-review evaluation, and the journal's impact factor.



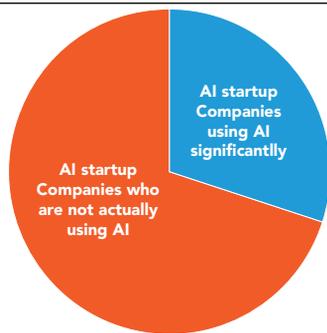


Figure 1: AI Washing among Startup Companies

Findings

■ The range of AI Washing in Taxation

Exaggerating the complex nature of AI solutions to draw in investment, boost one's reputation, or defend policy choices is a common phenomenon. Surveys and studies on AI adoption often reveal discrepancies between reported AI capabilities and actual implementations. For example, The Financial Express claims that Venture capitalists are increasingly concerned about AI washing, where up to 70% Startup companies falsely claim AI capabilities to secure funding, as depicted in Figure 1. This problem is also evident in the taxable domain, where private companies and government tax authorities exploit the excitement around artificial intelligence to promote efficiency and innovation.

■ Prevalence of AI Washing Practices

The ability to detect tax fraud and improve cooperation has been a major advantage for tax authorities worldwide, who have embraced AI technology quickly. However, these claims are frequently not realised in practice in the real world. While AI techniques have been integrated into tax systems, research by the International Monetary Fund (IMF) suggests that their influence has been somewhat limited in comparison to the expectations set by public statements. Similarly, companies have been found to overstate the contribution of AI in their tax management procedures, captivating investors with creative concepts that are not adequately supported in their daily activities⁸.

■ Common Methods and Mechanisms Used in AI Washing

In the context of taxation, the use of vague language and exaggerated

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success claims are two key indicators of AI washing. Often, companies refer to their systems as “AI-powered” without clarifying what proportion of the procedure has been automated or how much still relies on human monitoring. Even though the actual system primarily depends on traditional rule-based techniques improved with some machine learning algorithms, term such as “AI-driven fraud detection” is used. Highlighting specific success stories while minimizing deeper systemic flaws is another popular strategy. The true potential and readiness of AI systems for taxes are misrepresented to participants through these operations.

Impacts on Tax Authorities and Public Trust

The complexity of AI technology makes it challenging for tax authorities to identify and control AI washing. As AI is developing so quickly, it is challenging for regulators and policymakers to keep up with the latest technologies and correctly determine the genuine capabilities of AI systems. There are further complications that arise due to the absence of universal norms and accurate definitions of what AI is doing, which may result from regulatory agencies' frequent lack of the expertise needed to examine AI claims carefully.

Companies that employ AI washing risk serious legal problems and harm to their reputation. Public trust, including





shareholders in the organization, may decline if they discover that the AI capabilities have been overstated, affecting both investors and consumers. This breakdown of confidence can lead to loss of economic potential, market value, and possible legal implications, ultimately decreasing public trust in AI technology and impeding innovation and wider adoption. Overstated AI claims generate mistrust and inflated expectations, which hinder the development of innovative AI applications.

Case Studies

Unethical Implications of AI in Taxation

1. Misinterpretation of Data in Tax Filing Services

A business offering tax filing services faced allegations of misleading its clients and taking advantage of them by charging for services even when they were eligible to get them for free using the IRS (Internal Revenue Service) Free File program. The allegations have been made against the company, claiming that they purposefully diverted users from the free alternatives to the premium products to gain from AI-enhanced marketing strategies rather than AI-driven tax preparation advantages.

The IRS Free File program makes partnerships with entirely-profit

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tax software providers like Intuit, allowing qualified taxpayers to electronically prepare and file their taxes for free⁹.

2. Misleading Information by AI

Some of the tax preparation firms lied about their capabilities of AI-powered tax preparation software. There have been accusations of “AI washing” as a result of customers’ and analysts’ anticipations that the real benefits of AI could not match the marketing claims. Due to these claims, consumer advocacy groups have launched legal challenges to ensure accuracy and transparency in the marketing of AI technology used in tax preparation services¹⁰.

3. Exaggeration of AI capabilities in financial services

Some of the renowned credit score monitoring and financial services have been accused of AI washing about its tax preparation services. The company has expanded its

services by including AI-driven tax preparation tools, which have been promoted as convenient and reliable options for users by making the tax filing process easier. It has been accused that it is a part of a marketing strategy to attract users and gather data. Its use of fraudulent and unethical marketing strategies has led to lawsuits against it, as well as demands for an investigation and legal action against the company’s activities⁷.

Ethical Implications of AI Washing in Taxation

1. Privacy and Data Security

AI tax systems follow strict data protection guidelines to prevent breaches and unauthorized access, as they require financial and personal data of the users to function, but this data should be recorded ethically. To preserve taxpayer privacy, it is essential to make sure about data privacy.

2. Bias and impartiality

An AI system may make judgments that unfairly affect particular taxpayer groups if it is educated on past data that contains biases. Maintaining justice in tax administration requires making sure AI technologies are developed and evaluated to reduce bias. In 2017, the Income Tax Department of India used AI and data analytics in its online taxation system for tax investigation, reducing human intervention and subjective bias. AI chatbots used by income tax departments for solving taxation queries, called tax bots, highly influence taxpayers to make unbiased and impartial decisions while paying taxes.

3. Transparency and Accountability

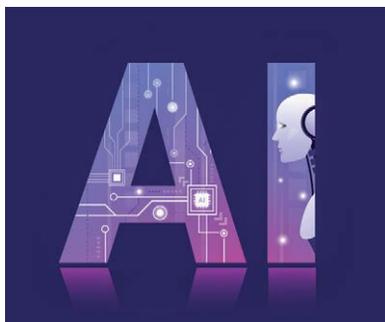
The “black-box” nature of AI systems show challenges to transparency and accountability. It is often difficult to understand how AI makes decisions or recommendations. To address this,

“AI tax systems follow strict data protection guidelines to prevent breaches and unauthorized access, as they require financial and personal data of the users to function, but this data should be recorded ethically.”

tax authorities need to provide clear interpretations of how AI systems function and the criteria used in decision-making processes. Explainable AI, auditable logs, Human-in-the-loop (HITL), and Open-Source Algorithms are some strategies that can be used to maintain transparency. Transparency helps build trust and allows stakeholders to hold institutions accountable for errors or unfair practices.

4. Ethical Use of AI for Compliance and Enforcement

As AI can improve revenue collection and regulation, there are moral concerns around the application of these technologies. For example, employing AI to actively investigate tax evasion may result in taxpayers being treated unfairly or under excessive scrutiny. It's critical to strike a balance between the advantages of AI in enhancing compliance and the need to protect taxpayer rights and avoid excessive enforcement.



5. Impact on Employment

AI adoption in tax administration has the potential to significantly alter employment patterns. Although AI can save administrative costs and simplify processes, it can also result in the loss of tax professionals' jobs. Providing support and opportunities for skill upgrading to impacted employees is an ethical consideration that should be prioritized to ensure a fair transition and minimize adverse effects on the workforce.

Regulatory Measures in India

In India, the Digital Personal Data Protection Act (DPDPA) is an act passed in August 2023 that regulates how personal data is collected, processed, and used in a fair, transparent, and accountable manner. It sets guidelines for AI systems handling personal and financial data, including that data which is used in taxation¹⁰. India's National Strategy for Artificial Intelligence, released by NITI Aayog, outlines the government's approach to AI, including the promotion of responsible and ethical AI practices by large language models (LLMs). While it is not specific to taxation, it sets a framework for AI development and implementation. In India, the CBDT is in charge of tax administration and regulation. While there are currently no formal standards and regulations on AI washing, AI systems, and tools used in tax operations would be bound to the CBDT's standards on tax preparation and reporting.

Conclusion

AI washing in taxation undermines trust and efficacy in tax systems, leading to poor decision-making and potential legal issues. To combat this, clear regulations, transparency, and ethical AI practices are essential. Ensuring accurate representation of AI capabilities and educating consumers can help maintain trust and effectiveness in AI-driven tax solutions.

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AI-Driven Finance: Redefining the Role of Chartered Accountants in the Age of Intelligent Automation

Finance has continuously evolved with technology, and AI is the next big leap. It now handles fraud checks, reconciliations, and compliance, freeing Chartered Accountants (CAs) from routine tasks. For CAs, this shift isn't about replacement but reinvention — moving into roles of judgment, ethics, trust, and advisory. Global firms, and even India's ICAI, are already embedding AI in audits and tax systems. The challenge is skills, cost,

and governance. The future calls for upskilling, AI education, and stronger standards. AI won't replace CAs — it will redefine them as leaders in an AI-driven financial world. Those who embrace it will stay ahead, while those who resist risk will remain left behind.

The Changing World of Finance

Long ago, accountants used to write balance sheets by hand in big ledger books. If someone wanted to check records, they had to go through piles of paper. Then came spreadsheets, ERP systems, and cloud platforms, which made the work faster. Now, we are witnessing an even bigger change. Artificial Intelligence (AI) is not something far away—it is here today, changing how finance is managed.

AI is not only saving time by doing routine work, but also helping to find hidden risks and insights. This doesn't mean Chartered Accountants (CAs) will disappear. Instead, their role is being reshaped for a new world where work is real-time, data-driven, and technology-led.

CAs are well-positioned to take this on. Their knowledge of finance, law, audit, and compliance—along with their logical thinking and professional judgment—makes them the right people to guide how AI is used in financial oversight.

This article looks at how AI is changing the fields of finance and audit, and more importantly, how CAs can not only remain relevant but also lead the way, using ethics, governance, and innovation as their guide.

Understanding AI in the Financial Context

Many people think that AI is futuristic, but it is already a part of our daily financial activities. In simple terms, AI refers to systems that can act like human intelligence—they learn from data, find patterns, and make decisions with very little human help.

In finance and accounting, there are three important terms to understand as parts of AI:

- **Machine Learning (ML):** This allows systems to find trends, detect unusual activities, and make predictions. For example, ML can warn about suspicious transactions or forecast future cash flows.
- **Natural Language Processing (NLP):** This helps computers understand human language. It

is useful for reading contracts, compliance reports, or even large sets of emails.

- **Robotic Process Automation (RPA):** This takes care of repetitive, rule-based work such as reconciliations or filling tax forms. It saves time and lets professionals focus on more important tasks.

These technologies are no longer new. Today, AI is used in full-scale audits, smart invoice processing, and real-time detection of irregularities. But just using these tools is not enough. CAs must also understand how they work.

AI is not something you can just “switch on and forget.” To trust the results, professionals must know the basics—how the models are trained, what kind of data they use, how errors or biases can creep in, and whether the logic behind them can be explained.

One easy entry point is prompt engineering, i.e., learning how to ask the right questions to AI systems. For example, by using tools like CA-GPT,

CAs can get comfortable with AI and slowly build deeper knowledge.

In a world where AI not only supports decisions but also makes them, Chartered Accountants must act as interpreters and supervisors. They don't need to become coders, but they must be wise guides who protect financial integrity in a smart, AI-driven system.

Real-World Applications – Global and Indian Examples

AI is no longer a lab experiment in accounting. It is already changing the way audits, taxes, compliance, and advisory services are delivered.

Global Examples

Multinational firms around the world are already using AI in their practices:

- AI-powered audit platforms are conducting real-time checks, moving beyond sampling to review entire ledgers to spot unusual transactions.
- Advanced analytics engines are running deep, data-based audits across large and complex financial records.
- AI-based tax tools are continuously monitoring changes in tax laws and regulations, providing early warnings about potential risks across jurisdictions.
- Machine learning models are being applied in forensic audits to analyze behavior patterns and detect fraud with greater accuracy.

These tools don't just save time. They raise the quality of audits, reduce risks, and widen the scope of checks.

Indian Initiatives

India is also moving quickly in this area.

- Private banks like HDFC Bank and ICICI Bank are using AI to improve credit scoring models, taking into account not just financial data but also behavior and alternative data.

- Startups like RazorpayX and ClearTax use AI for GST reconciliation, invoice checking, and anomaly detection—tools that many CA firms already rely on.

- Many Indian CA firms are also embracing AI for diverse applications such as GST reconciliation, forensic audits, and transaction reviews during concurrent audits, significantly reducing manual effort and enhancing accuracy.

At a larger scale, ICAI has also taken steps:

- CA-GPT was launched, trained on 75 years of ICAI guidance.
- ICAI-GPT was introduced to help with financial reporting.
- These tools have already processed over 2.5 lakh prompts, with 70+ specialized GPTs created to support different fields.

The clear message is this: AI is not something to wait for, it is already being used widely. Chartered Accountants who learn its capabilities can move beyond being just tool-users. They can become advisors who explain how intelligent systems make decisions.

The Role of Chartered Accountants – Risks or Rewards?

As AI takes over repetitive, rules-based tasks, the natural question is: *What happens to the Chartered Accountant?*

The answer is clear. CAs will not lose importance. In fact, their role becomes stronger and more strategic, provided the profession adapts in time.

Yes, many routine jobs like reconciliations, invoice checks, and basic audit tests will now be automated. But these were never the true value of a CA. The real value lies in judgment, interpretation, and ethical oversight, areas where AI cannot work alone.

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Moving from Operator to Analyst

The role of CAs is shifting. They are now becoming:

- AI-assisted auditors, checking and confirming exceptions that algorithms identify.
- Data interpreters, turning complex data outputs into meaningful insights for business leaders.
- Ethical watchdogs, ensuring that AI systems remain fair, unbiased, and compliant with laws.
- Advisors, guiding clients through digital change, smarter tax strategies, or even helping with AI adoption.

But There's a Catch: Skills and Mindset

Titles and experience alone will not keep a CA relevant. To stay important in this new era, professionals must:

- Build digital literacy, even if they are not writing code.
- Ask new types of questions, like:
 - Is this algorithm explainable?
 - Does it comply with the DPDP Act?
 - Was the data free of bias?
- Combine skepticism with data fluency, so that they can challenge AI results when needed.

ICAI has started offering certification programs and training in prompt engineering. These are useful first steps. But for many professionals, especially in smaller firms, digital skills are still a work in progress.

The Profession's Big Opportunity

CAs are trusted because they stand for fairness and transparency. As AI becomes more complex, that trust will be needed even more—not less.

The real risk is not that AI will replace accountants. The real risk is that accountants who do not understand AI will be replaced by those who do.

Ethical Considerations and Governance

AI is not just a technology tool, rather it is a system that makes decisions. And in finance, every decision must follow strong ethical and professional standards.

The Ethical Risks

AI can sometimes learn from incomplete or biased data. For example:

- A loan approval model might unknowingly favor some groups over others.
- A fraud detection system might wrongly mark innocent behavior as suspicious.
- Many AI tools act like “black boxes,” where the logic is hidden and too complex to trace.

For Chartered Accountants, this is unacceptable. Their profession is built on transparency, accountability, and clear audit trails. If AI enters financial workflows, it must respect the same principles.

Who Should Govern AI?

The right people to govern AI in finance are Chartered Accountants. They already understand controls, governance, and laws. With proper training, they can:

- Test AI outputs against legal and professional standards.

“The real risk is not that AI will replace accountants. The real risk is that accountants who do not understand AI will be replaced by those who do.”

- Make sure automated decisions have proper audit trails.
- Detect misuse or risks early in the process.

The ICAI has also taken steps in this direction. Its AI Committee has organized webinars on AI ethics, promoted the use of CA-GPT, and stressed the need to include ethical AI practices in assurance standards.

AI and Regulation

Governments across the world are creating laws to control AI.

- India's DPDP Act focuses on consent, privacy, and responsible use of data.
- The EU AI Act and OECD principles emphasize fairness and transparency.

But writing laws is not enough. We need professionals who can apply them in real financial situations. CAs are in the best position to bridge finance and technology, ensuring that AI follows both legal and ethical standards.

The future is not only about AI being accurate. It is about AI being accountable. Chartered Accountants are the right professionals to make sure that happens.

India's Preparedness – ICAI and Government Initiatives

India is moving fast in digital transformation, and AI is at the center of this change. Both the Government of India and ICAI have taken strong steps. But to be fully prepared, these efforts must be scaled and made available to all professionals.

Government Momentum

- The Digital Personal Data Protection (DPDP) Act, 2023, gives a legal base for AI systems. It focuses on consent, privacy, and responsible use of data.
- The MCA21 V3 platform now uses AI for checking company filings, answering queries through chatbots, and sending predictive compliance alerts.
- Tax authorities like GSTN and CBDT use AI to find fraud and irregularities. Through this, over ₹14,000 crore in false claims have already been flagged.
- The national program #AIForAll, led by NITI Aayog, promotes inclusive and ethical use of AI across all sectors, including finance.

ICAI: Turning Vision into Action

In the past two years, ICAI has launched several important AI-based initiatives:

- **AI Innovation Summit 2025 (AIS 2025):** Gathered 1000+ CAs, students, and tech leaders. ICAI also signed an MoU with Google India to create AI labs and new course content.
- **CA-GPT:** A tool trained on ICAI's archives, supporting 70+ specialized GPTs in areas like audit, tax, and industry queries. Already processed over 2.5 lakh prompts.
- **ICAI-GPT for Financial Reporting:** Helps prepare financials for non-corporate entities, reducing complexity for smaller firms.
- **AI Certification Courses:** A three-stage program covering prompt engineering, Python/R, and applied AI in tax and audit. Many professionals have already completed the early batches.
- **Regional Hackathons, Ethics Webinars, and AI Labs:** Across the country, ICAI has organized hands-on sessions, hackathons

(like the Nagpur event with 500+ participants), and webinars on AI ethics.

- **Early-Warning System Pilot:** ICAI is working with regulators to build AI-based fraud detection systems for listed companies, so that red flags can be part of regular audit work.

The Next Phase

While ICAI has built strong momentum, more steps are needed to fully prepare members:

- Integrate AI in the CA curriculum by 2027.
- Expand access to CA-GPT to all regional branches.
- Publish guidelines for auditing AI systems.
- Ensure wider reach, not just in big cities, but also in smaller towns.

With its reach, credibility, and focus on ethics, ICAI is in the best position to lead AI governance in India's financial world.

Challenges and Roadblocks

Although AI adoption in accounting is growing, several challenges continue to hinder its progress.

1. Digital Literacy Gap

Many Chartered Accountants, especially those trained before the digital era, are not fully comfortable with AI basics. Even younger professionals may know how to use digital tools but may not understand how AI systems actually work. This makes it hard for them to properly question or review AI outputs.

2. Resistance at the Firm Level

Mid-sized and smaller firms often hesitate to use AI because of:

- Worries about cost
- Fear that staff may lose jobs
- Lack of in-house technical knowledge

This creates a digital divide—some firms move ahead quickly while others fall behind.

3. Lack of Regulatory Clarity

Important questions still don't have clear answers, such as:

- Can AI-generated audit workpapers be trusted?
- Who is responsible if an AI system makes a mistake?
- How do we define the scope of an "AI audit"?

Without clarity, many firms remain cautious.

4. Black-Box Problem and Ethical Concerns

Most AI tools work like a "black box," the decision-making logic is hidden and hard to explain. But CAs must ensure transparency and auditability. If they cannot fully validate the system, many are understandably reluctant to rely on it.

5. No Standard Framework for AI Assurance

Until a structured framework/guidelines on AI models are published, ICAI should take the lead in developing one, as many professionals may lack the necessary confidence or tools to effectively and responsibly integrate AI into their work.

Solving for the Future

These challenges should not stop the adoption of AI. Instead, they call for action:

- Make AI literacy mandatory as part of continuous professional development (CPD).
- Create starter toolkits for small and mid-sized firms to help them begin using AI.
- Work with tech firms to set up sandbox environments where CAs can test AI tools safely.
- Lead the development of AI audit standards, just as ICAI did earlier with Ind AS and GST.

AI is not pushing CAs out of the profession. But CAs must step forward and embrace it if they want to stay central to the financial system.

The Path Ahead – Roadmap for the Future Chartered Accountant

Artificial Intelligence is not replacing Chartered Accountants. Instead, it is changing the kind of work they do. This shift calls for structured growth, not just awareness. ICAI has already laid the foundation, but now it must be expanded to every stage of the profession.

i. Curriculum Overhaul

AI, prompt engineering, and data literacy need to become part of:

- Foundation and Intermediate courses.
- Final-level case studies.
- Articleship training with exposure to real-world AI tools.

Just like today's CAs master GST and Ind AS, tomorrow's CAs must also learn how to question and validate AI systems.

ii. Continuous AI Literacy for Members

ICAI's AI Certification Program is a strong beginning. The next steps should include:



- Counting the program towards mandatory CPE hours.
- Offering the courses in hybrid formats across all regions.
- Encouraging members to use CA-GPT through branch-level rollouts.
- Introducing an AI Readiness Scorecard for firms, to measure preparedness and highlight gaps.

iii. Tools as Everyday Utilities

AI tools should no longer be seen as “pilot projects.” They must become everyday essentials. For example:

- ICAI-GPT for preparing and reviewing financial statements.
- CA-GPT for cross-checking accounting and audit standards.
- NLP-based AI for audit trail generation, risk mapping, and predictive compliance.

ICAI could even subsidize access to AI tools for smaller firms to ensure wide adoption.

iv. AI Governance Standards

The next big step is AI assurance. ICAI, along with regulators, should:

- Publish official guidelines for AI assurance, similar to audit standards.
- Define what makes AI models “audit-ready.”
- Create an “AI Audit Certification” for professionals who can validate AI systems used in compliance and filings.

This could even open a new service area for CAs—AI governance as a paid advisory offering.

v. Collaborative Learning

CAs must also learn by working with experts from other fields. ICAI can promote this by:

- Creating mentorship programs between accountants and technologists.
- Hosting hackathons and simulation labs across regions.

“AI can automate many tasks. But it cannot replace judgment, ethics, or trust—these are the very foundation of the CA profession.”

- Running branch-level workshops where real client problems are solved using AI.

The profession will evolve only when learning moves from theory to real practice.

Conclusion : The Chartered Accountant in the Age of AI

Artificial Intelligence is not something of the future, it is already here. And in this new reality, Chartered Accountants face an important turning point.

AI can automate many tasks. But it cannot replace judgment, ethics, or trust—these are the very foundation of the CA profession. In fact, the more AI grows, the more we need professionals who can question its logic, test its fairness, and ensure accountability.

CAs have always been at the forefront of big changes. They adapted to digitization, GST, and IFRS. But this change is different. It requires a mix of strong finance knowledge, comfort with technology, and a new way of thinking about the CA’s role as a trusted advisor.

ICAI is already building the bridge with innovations like CA-GPT, AI certifications, and AI governance tools. The profession now needs to walk confidently across that bridge.

In a world where algorithms provide answers, the Chartered Accountant will remain the one who asks the right questions.

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AI in Agriculture: Transforming Crop Insurance for Indian Farmers through Securitization

India's agriculture, which sustains over half of the Indian population, is increasingly vulnerable to climate change and extreme weather events. Conventional crop insurance systems in places, hindered by slow claims processing, capital shortfalls, and outdated risk models, fail to meet the rising demands for financial protection from insurers and solvency issues for insurance companies in catastrophe. This article presents a transformative approach by integrating Artificial Intelligence (AI) with Insurance-linked securities such as catastrophe bonds (CAT) and other new innovative products to revamp crop insurance. AI enhances risk assessment precision, tailors premiums, and enables dynamic, real-time adjustments. CAT bonds provide crucial risk diversification and rapid liquidity, reducing insurance costs and expanding coverage. Blockchain technology further amplifies these benefits by securitizing insurance pools, boosting capital efficiency, and streamlining operations. By adopting these advanced tools, India can build a more resilient agricultural sector, safeguarding its farmers against increasing climate-related risks and reinforcing economic stability.

Due to climate change and extreme weather events, the agriculture sector of the nation is facing unprecedented challenges. The recent devastating floods in Kerala and Uttarakhand highlight the vulnerability of Indian farmers to unpredictable natural disasters. Out of 36 states and Union territories, 27 are classified as disaster-prone by the National Disaster Management Authority (NDMA). Indian agriculture has a pressing need for more resilient and innovative financial tools to safeguard this critical sector.

Traditional crop insurance mechanisms in India are proving

inadequate in addressing the scale and frequency of these natural calamities. As farmers face increased risks of crop failure due to unpredictable weather patterns, the need for a more robust and innovative solution has emerged. AI-driven crop insurance combined with securitization through catastrophe bonds (CAT) comes into play. By leveraging AI technologies and financial innovations, India can not only protect its farmers but also build a resilient agriculture sector for the future.

Current Challenges in Crop Insurance

Crop insurance is designed to indemnify the financial loss to farmers against crop losses from

natural disasters, pest attacks, and other uncontrollable factors. However, several limitations hinder its effectiveness:

- **Slow Claim Settlement:** Manual processes and outdated data collection methods lead to delays in claim settlements, creating financial strain on farmers. The delay is further aggravated by claim-cutting experiments and the collation of data across different geographical regions.
- **Capital Inadequacy:** The insurance companies are also facing capital inadequacy for introducing new-age products and services.
- **High Exposure to Risk:** Insurance companies often struggle to manage risk efficiently, especially when faced with large-scale disasters affecting multiple regions simultaneously.
- **Inaccurate Risk Assessment:** Traditional risk models may not account for local variations or new types of risks, leading to inaccurate pricing and coverage gaps. The asymmetrical weather and cultivation practices are another challenge in risk assessment.
- **Insufficient Data Integration:** The lack of integration between various data sources (e.g., weather, soil conditions, land holding, cultivable area, and weather historical data) hinders the ability to make informed risk assessments and policy adjustments.
- **Limited Access to Insurance:** Small-scale and marginal farmers often face barriers in accessing crop insurance due to high costs, lack of awareness, or insufficient availability of products tailored to their needs. Presently, the products are available through Banks, linked to the loan amount, and very few farmers know the process of taking a weather-based insurance or Prime Minister Fasal Bima Yojana (PMFBY) directly from the insurance company.

- **Fraud and Mismanagement:** The risk of fraudulent claims and mismanagement of funds can undermine the effectiveness of insurance programs and erode trust among farmers.
- **Lack of Customization:** Standardized insurance products may not address the specific risks faced by different regions or crops, resulting in inadequate protection for some farmers.
- **Delayed Updates to Coverage Models:** The slow pace of incorporating new data and advances in technology in insurance models can lead to outdated coverage options and less effective risk management, as well as disgruntled farmers who are taking insurance.
- **Administrative Inefficiencies:** Inefficient administrative processes and a lack of automation contribute to delays and errors in policy issuance, claim processing, and customer service.

These challenges necessitate a transformation in crop insurance practices, and AI-driven solutions combined with securitization can offer substantial improvements.

AI Addressing the Challenges of the Insurance Industry

The insurance industry is rapidly evolving with the adoption of artificial intelligence (AI), fundamentally reshaping how risks are assessed, premiums are calculated, and policies are adjusted in real time. AI's capacity to analyze vast amounts of data with precision enables insurers to offer more personalized and flexible risk solutions. This, in turn, leads to optimized risk pools, reduced premiums, and dynamic repricing that benefits both insurers and policyholders.

1. Risk Segmentation Using AI

Artificial intelligence (AI) can enhance risk assessment through segmentation of risk. Globally, AI allows insurers to

“Managers are motivated to commit FSF to make a new strategy succeed to showcase their leadership qualities and to avoid adverse consequences (layoffs, retrenchment, demotions) resulting from poor financial reporting.”

refine risk models, reduce premiums, increase margins, and adjust pricing in real-time, creating more efficient and responsive systems. These include:

- Identifying high-risk areas for natural disasters, such as floods, storms, hailstorms, tempests, or earthquake-prone regions.
- State Governments should ensure the use of GPRS-enabled and camera-fitted mobile phones, etc., while conducting crop cutting experiments.
- An Atlas of critical weather elements for different agro-climatic regions on a real-time basis should be available and accessible to all stakeholders.
- A web portal of land holding and crop pattern should be made available to all financial institutions at each state level for better monitoring and control of agricultural financing and insurance.

AI can analyze vast datasets like geospatial, weather, and market trends to identify region-specific risks. For instance, in 2020, a leading global reinsurer named Swiss Re, used AI to refine its catastrophe risk models, thereby reducing uncertainty by 20%.

2. Premium Reduction Through Enhanced Accuracy

With AI refining risk profiles, insurers can avoid the blanket approach

“ While the internal users are more interested in knowing about the motivations to falsify financial statements in order to maintain control or reduce motivations, the external users are more inclined towards gaining knowledge of red flags to protect their self-interests. ”

traditionally used in insurance pricing. AI uses predictive models and machine learning algorithms to:

- **Accurately assess the probability of an event occurring** (e.g., natural disasters, market crashes, or health incidents).
- **Measure the potential financial impact** of these events based on past data and current trends.

Another leading global provider of reinsurance, named, Munich Re uses AI to analyze satellite data for agricultural insurance in Africa, offering drought-specific insurance to farmers and reducing their premiums by 30%. This individualized pricing ensures that policyholders pay fairer rates aligned with their actual risk. In India, IRDAI also introduced Pay-as-you-go car insurance based on the mileage driven, which is proposed to refine pricing based on driving patterns. Such innovations need to be replicated in Agricultural Insurance in India for greater penetration and spread of risk.

3. Real-Time Risk Monitoring and Repricing

Real-time monitoring through AI allows insurers to adjust premiums dynamically as conditions evolve. For example, Sampo International, a global reinsurer company based out of Japan introduced a real-time weather-based insurance policy for businesses, where premiums are

adjusted based on ongoing weather conditions like typhoons or floods. Health insurance companies, like Oscar Health, use wearable devices to monitor customers' activity, adjusting premiums based on lifestyle and health improvements, promoting real-time premium changes. This dynamic risk assessment can be driven by inputs from multiple sources, including:

- **IoT Devices:** Sensors monitoring weather, Agricultural Drones for spray and studies, building conditions, vehicle health, smart wearables, etc.
- **Social Media and News Data:** Real-time insights into economic shifts, community radios, weather changes, global health concerns, or market disruptions.
- **Geospatial Data:** Satellite imagery and geographic information systems (GIS) tracking changes in environmental conditions and timely communications to farmers.

As risks evolve, AI can dynamically reprice insurance premiums in response to changing conditions. For instance:

- **Emerging Weather Events:** AI could detect the early signs of a hurricane or drought and adjust the relevant insurance premiums immediately for individuals in the affected area.
- **Supply Chain Disruptions:** In business insurance, AI could identify risks to operations due to market fluctuations or logistical issues, leading to a recalibration

of coverage based on current conditions. Similarly, advanced information captured through Skymet and other gadgets on hurricanes/droughts, and rains can help in assessing the risk to crops and pricing the agricultural insurance.

- **Health and Lifestyle Changes:** Wearable devices or health apps can feed real-time data on an individual's health, allowing life or health insurance premiums to be adjusted if risk levels increase or decrease. This needs to be adopted in agricultural insurance by frequently capturing the data and interpolating, and using it for pricing and risk assessment.
- #### 4. Improving the Overall Safety of the Risk Pool

AI enhances the safety of the risk pool by optimizing diversification. One of the global healthcare companies, AXA Global, used AI to reduce fraud detection time by 70%, improving the accuracy of claims. Real-time data integration from IoT and other sources ensures that insurers balance portfolios effectively in the following way.

- **Monitoring and detecting anomalies in claims and risk patterns:** AI algorithms can flag potential fraudulent claims or assess whether a particular risk pattern (e.g., sudden increases in accidents) needs further investigation.
- **Optimizing risk diversification:** By better understanding the correlation between different types of risks, AI can help insurers



create a more balanced portfolio, preventing over-exposure to specific risk categories.

- **Real-time adjustment of reinsurance premiums:** Insurers can use AI to optimize their reinsurance contracts and premiums, ensuring adequate protection against multiple or simultaneous risks.

Example: A major insurer named Allianz piloted a blockchain-based insurance solution in operation by creating a single source record of the decision about each claim. This saves time spent on administration, hence saves cost also means that claims are settled fast and accurately for the customer.

Intermediate and Long-Term Solutions: Catastrophe Bonds and Securitization of Insurance Pools

1. Catastrophe Bonds: CAT bonds were introduced in the mid-1990s and have become a crucial tool for transferring disaster risk from insurers to global financial markets. Industry players, such as insurance company, reinsurers or even governments can raise funds by selling bonds in capital market. Investors receive attractive interest rates in return, but if a catastrophic event occurs, they forfeit their principal, which is then used to compensate policyholders.

Advantages of CAT Bonds:

- **Risk Diversification:** CAT bonds spread the risk across a global pool of investors, which helps insurers maintain stability during large-scale disasters. This diversification is crucial in managing the financial impact of catastrophic events, as it prevents the burden from falling solely on a single entity.
- **Lower Premiums:** By transferring some of the financial risks to investors, CAT bonds reduce the financial pressure on insurers. This

“ AI’s capacity to analyze vast amounts of data with precision enables insurers to offer more personalized and flexible risk solutions. This, in turn, leads to optimized risk pools, reduced premiums, and dynamic repricing that benefits both insurers and policyholders. ”

can lead to lower premiums for policyholders, including farmers, making insurance more affordable and accessible.

- **Quick Access to Funds:** CAT bonds provide immediate funds for claim settlements. This ensures timely compensation for policyholders, which is especially important in the aftermath of a disaster when quick financial relief is necessary.

For Indian agriculture, CAT bonds represent an opportunity to reduce premiums, expand coverage, and enhance financial resilience in the face of increasing natural disasters. This financial innovation can significantly bolster the sector’s ability to withstand the economic impacts of adverse events.

Understanding Pricing Framework for CAT Bonds

To understand CAT bond pricing, we use two models, namely, the Single-Event Catastrophe Bond and the Multi-Event Catastrophe Bond (MECB) model. These models account for both single-event risks (like one drought) and multiple-event risks (e.g., simultaneous drought and pest outbreaks).

Single-Event Catastrophe Bond Pricing Model

In a single-event model, the bond is priced based on the probability

of one catastrophic event (e.g., drought) occurring within the bond’s term. The Zero-Coupon CAT Bond price is derived using a stochastic process that models event risk and loss severity.

Key factors:

- **Principal (P):** The amount paid at maturity if no event occurs.
- **Coupon (C_k):** Annual interest payments (if applicable).
- **Loss (L_t):** Aggregate loss due to the event until time t.
- **Attachment Point (μL):** The loss threshold that triggers the bond’s payout.

Loss Modelling (Poisson Process)

The probability of a catastrophic event (e.g., crop failure) is modelled using a Poisson process, where N_t is the number of loss events up to time t , and each loss X_i is a random variable representing the magnitude of each event.

The total loss up to time “t” would be:

$$L_t = \sum_{i=1}^{N_t} X_i$$

The trigger event occurs when cumulative losses exceed the attachment point:

$$\tau_L = \inf\{t : L_t > \mu_L\}$$

The bond payout is reduced if the loss exceeds the attachment point, and the price is calculated as the expected value of the bond’s payout at maturity, discounted by the real interest rate.

Pricing Formula: $PT = \begin{cases} P & \text{if } \tau_L > T \\ \zeta P & \text{if } \tau_L \leq T \end{cases}$

where P_T will be the principal payout, and ζ is the proportion of principal that is retained after an event. The price of a zero-coupon bond will be:

$$V_T = E(P_T) \cdot B(0, T)$$

Where the value of $B(0, T)$ in PFIW (present value factor) is for real interest rates.

Multi-Event Catastrophe Bond (MECB) Pricing Model

In a Multi-Event framework, multiple risks can trigger pay-outs. For example, a drought, pest outbreak, and flood might all occur within the bond's term. This increases complexity as the correlation between events must be accounted for.

Key factors:

- **Multiple Loss Processes:** Each event type (e.g., drought, flood) has its own Poisson process for loss modelling.
- **Joint-Distribution of Loss:** Copulas can be used to model the joint distribution of multiple risks/variables.

Aggregate Loss Function

For multiple events, the aggregate loss becomes:

$$L_i^{(1)} + L_i^{(2)} + \dots + L_i^{(n)}$$

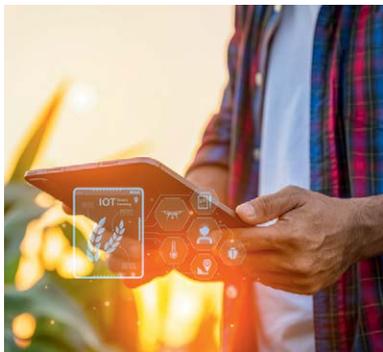
where each $L_i^{(i)}$ represents losses from event i . The bond triggers when the combined loss exceeds a pre-defined threshold:

$$\tau_L^{(multi)} = \inf\{t : L_t^{(1)} + L_t^{(2)} + L_t^{(n)} > \mu_L\}$$

The probability of simultaneous events (e.g., drought and pest outbreak) is modelled using copulas, which link the individual risk distributions.

Pricing Formula for MECB:

The price of the bond is adjusted for the increased likelihood of multiple events triggering a payout:



$$PT(\text{multi}) = P(\zeta_1 F_{L_T^{(1)}}(\mu_L) + \zeta_2 F_{L_T^{(2)}}(\mu_L) + \dots + \zeta_n F_{L_T^{(n)}}(\mu_L)) \cdot B(0, T)$$

where ζ represents the proportion of the payout retained after event i .

2. Securitizing Insurance Pools on Blockchain for Capital Efficiency and large-scale insurance coverage

Blockchain technology offers transformative potential for the insurance industry by enabling the securitization of Insurance pools, which consist of premiums collected from policyholders, that can be bundled and securitized into tradeable financial assets on blockchain platforms. This process is similar to how mortgages or loans are bundled into securities in traditional finance. Insurers convert portions of their risk exposure into securities, known as Insurance-Linked Securities (ILS), which can then be sold to investors.

How Securitizing of Insurance Pools with Blockchain can work

- 1. Bundling and Tokenizing Insurance Pools:** For example, XYZ Insurance collects premiums from policyholders, creating a substantial insurance pool. Traditionally, this pool would be held in reserve to cover potential claims. However, with blockchain technology, XYZ Insurance can tokenize these insurance pools into tradable financial assets called Insurance-Linked Securities (ILS).
- 2. Creating Insurance-Linked Securities (ILS):** XYZ Insurance uses blockchain to create digital tokens representing portions of its insurance pool. Each token represents a share of the risk associated with the pool. For instance, if XYZ Insurance has a \$100 million insurance pool, it can tokenize this into 10 million tokens valued at \$10 each.
- 3. Trading on Secondary Markets:** These tokens are then listed

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on blockchain-based trading platforms, where investors such as pension funds or hedge funds can buy and sell them. Investors are attracted by the potential for high returns, which come from receiving premiums or interest payments from the insurance pool. This trading provides immediate liquidity to XYZ Insurance.

- 4. Capital Efficiency:** By selling these tokens, XYZ Insurance offloads part of its risk to the capital markets. Hence, tokenization frees up capital for the insurance company that would otherwise be tied up as reserves in the balance sheet. For example, if XYZ Insurance sells 50% of its tokens, it effectively releases \$50 million in capital.
- 5. Expanding Coverage:** With the freed-up capital, XYZ Insurance can now expand its coverage, underwrite more policies, or invest in new areas. This increased efficiency helps improve overall operational capacity and financial stability.

Presently, India's insurance penetration remains low, at 4.2% of GDP in 2022. Using blockchain securitization can help insurers manage large-scale risks more efficiently while improving solvency ratios.

Case for AI and CAT Bonds in Indian Agriculture based on global best practice

India can draw valuable lessons from countries that have successfully implemented CAT bonds. Nations like Jamaica and Mexico have used CAT bonds to manage risks associated with hurricanes and earthquakes. The World Bank's involvement in the CAT bond market further underscores its importance in managing catastrophe risks. India's financial innovation capabilities, like UPI, position it well to adopt these practices and enhance its agricultural sector's resilience.

India's existing crop insurance schemes, such as the Pradhan Mantri Fasal Bima Yojana (PMFBY), could greatly benefit from the integration of AI and securitization. AI-driven technologies can be used for real-time assessment and disaster prediction, while CAT bonds can provide additional financial stability and coverage. By leveraging these advanced tools, India can build a more resilient agricultural sector, safeguarding its farmers and contributing to overall economic growth.

Limitations of AI and Securitization

While AI holds promise in revolutionizing the agriculture insurance sector, there are certain barriers that need to be addressed:

- 1. Data Access and Quality:** AI-driven systems rely on big datasets, but many regions in India may lack accurate or updated data on weather patterns, soil conditions, or earlier insurance claims sanctioned/scrutinized/rejected, due to which the AI model may not have sufficient data and can produce inaccurate results.
- 2. Technological barriers for farmers:** Implementing AI and securitization systems may involve high setup costs, which may discourage small insurers from adopting these technologies.

3. Regulatory challenges: The securitization of insurance pools, while efficient, requires robust regulatory frameworks that can handle complex financial instruments like CAT bonds. Without proper oversight, these systems could pose risks to both investors and farmers. Further, the regulatory challenges with respect to approval/assessment for the use of AI in various sectors are still in a nascent stage in India. IRDAI is open to experimentation through the Sand Box Model on a pilot basis without approval. The focus on FDI in insurance is also gaining momentum for the ultimate good of the insurance sector in view of the commitment of the Government of India for Insurance for All by 2047.

4. Over-Reliance on Predictive Models: AI models, while powerful, can only predict future events based on past data. This may fail in scenarios where climate patterns shift unpredictably or where novel risks (e.g., new pests, drastic climate change) emerge.

While these limitations pose some challenges, they are not insurmountable. With proper strategic investments in data infrastructure, enhanced technological access for farmers, and a robust regulatory framework, India can overcome these challenges. By addressing these obstacles, AI-driven crop insurance models and securitization can fully realize their potential. This dual approach will not only revolutionize agricultural insurance but also provide

“India can draw valuable lessons from countries that have successfully implemented CAT bonds. Nations like Jamaica and Mexico have used CAT bonds to manage risks associated with hurricanes and earthquakes.”

farmers with stronger financial resilience in the face of growing climate risks.

Conclusion

The integration of AI and ILS (Insurance-Linked Securities) will represent a significant advancement in crop insurance for Indian farmers, providing both immediate and long-term benefits. As climate change intensifies and natural disasters become more frequent, these innovations offer crucial enhancements to the agricultural insurance landscape.

Catastrophe Bonds: An Intermediate Solution

CAT bonds serve as an effective intermediate solution, addressing the urgent need for immediate financial protection against catastrophic events. These bonds allow insurers to transfer risk to global capital markets, providing them with liquidity to cover claims promptly. By leveraging AI to refine risk models and tailor policies, CAT



bonds can be priced more accurately and dynamically. For instance, Swiss Re's use of AI has enabled more precise catastrophe risk models, reducing uncertainty and enhancing pricing accuracy.

Securitization of Insurance Pools: A Long-Term Solution

For a more sustainable and long-term solution, the securitization of insurance pools on blockchain technology emerges as a transformative approach. By bundling insurance premiums into tradeable assets on blockchain platforms, insurers can access new capital sources and improve financial efficiency. Blockchain's immutable ledger and smart contracts facilitate transparent and automated management of these assets, reducing administrative costs and improving the speed of transactions. This approach not only enhances capital efficiency but also allows insurers to better manage large-scale risks without holding significant reserves.

Integrating AI with ILS (Insurance-Linked Securities)

The possibilities in India are endless, as well as the opportunities, considering we have the world's largest population to feed and are the



world's most geographically diverse country. If we embrace both CAT bonds as an intermediate solution and the securitization of insurance pools as a long-term strategy, along with the power of AI, it can empower India's agricultural sector immensely, making it more resilient against climate-induced challenges. This dual approach not only safeguards farmers but also strengthens the financial stability of insurers, paving the way for a more secure Indian agricultural future.

India's insurance market has immense potential, with current penetration at just 4%. There is a long way to go in achieving the goal of 'Insurance for All' by 2047. The solutions outlined above, by leveraging AI (Artificial Intelligence) and ILS (Insurance-Linked Securities), can significantly contribute to bridging this gap. By enabling more personalized, efficient, and accessible insurance products, AI can play a crucial role in expanding coverage and ensuring that insurance becomes a key pillar of India's financial ecosystem in agriculture.

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Bridging the MSME Credit Gap: TReDS as a Strategic Liquidity Solution

The article examines the persistent credit challenges faced by MSMEs in India and highlights the Trade Receivables Discounting System (TReDS) as a practical solution to address liquidity gaps. Despite contributing significantly to GDP and employment, MSMEs continue to rely on informal credit due to limited access to formal financing. TReDS, a digital platform regulated by the RBI, enables MSMEs to receive early payments against invoices without collateral, offering a more structured and transparent alternative. The article also outlines the role of ICAI and Chartered Accountants in promoting TReDS adoption through advisory, compliance, and integration support. It stresses the need for broader awareness, policy push, and ecosystem participation to mainstream TReDS in the MSME financing landscape.

India's Micro, Small, and Medium Enterprises (MSMEs) are the driving force behind the nation's economic engine. They're the neighbourhood manufacturers, the small-town service providers, the family-run units that quietly power everything from local jobs to global exports. The United Nations estimates that MSMEs contribute nearly 50% to the global economy and are responsible for generating 60–70% of employment worldwide. As of FY25, MSMEs contribute over 30.1% to India's GDP, drive more than 45.73% of exports, provide employment to over 28 crore people, and over 51% of them are based in rural India. Whether its keeping supply chains moving or creating livelihoods in the country's remotest corners, these businesses are doing the heavy lifting. And yet, despite playing such a critical role, they often operate under the radar without the kind of support or resources they truly need. Strengthening them is the only way to ensure that our growth story reaches every street, every town, and every aspiring entrepreneur. 40% of the formal MSMEs globally, especially from the developing economies face a combined credit shortfall of \$5.7 trillion annually.

MSME Credit Scenario: Gaps and Structural Constraints

In India too, the MSME sector is vast and incredibly diverse. While there has been a progress in improving formal credit access, which accounted for ₹40 trillion by FY25, this barely touches the surface of the credit demand. A startling ₹30 lakh crore credit gap is hidden beneath the surface and access has reached only 19% of the registered MSMEs in the country. A sizable portion of these small businesses still have difficulty obtaining official financing and must instead rely on trade credit, local moneylenders, or personal savings. These unofficial sources frequently have strict repayment terms and high interest rates, which hinder the ability of these companies to grow, remain competitive, or even weather lean business cycles.

Disruptions to cash flow are yet another significant obstacle. Large corporations and government agencies frequently have delayed payments, which causes MSMEs to wait months to receive payment for finished work. Although the *MSME Development Act*

expressly states that payments must be made within 45 days, enforcement of this law is often lax. For fear of losing future business, the majority of small businesses are reluctant to demand on-time payments. However, banks and NBFCs frequently require high creditworthiness, thorough documentation, and collateral security. Missed opportunities and operational stress result from loans that, even when approved, arrive too late to fill urgent gaps. To better support MSMEs and the growth of the economy, there is a need of alternative financing options which will allow MSMEs the access to capital which will fuel a continued progress.

Digital innovation is beginning to make a significant impact here. New and technology driven model that closes the timing and trust gap between small firms and financiers is provided by platforms such as the 'Trade Receivables Discounting System' (TReDS). MSMEs can digitally discount their invoices and obtain funds in a matter of hours, eliminating the need to chase payments or deal with paperwork-heavy loans and higher interests. It is quicker, requires no collateral, and promotes an open market

where different Banks/Financiers can compete for lower interest rates. TReDS, which is inclusive, tech-driven, and designed for India's changing business environment, is essentially the future of MSME financing. A key feature of TReDS financing is that it operates on a non-recourse basis — meaning, in case the buyer defaults on payment, the MSME supplier is not held liable to repay the financier.

Role of ICAI in Strengthening MSME Financial Ecosystems

The Institute of Chartered Accountants of India (ICAI) plays a catalytic role in supporting India's financial infrastructure, especially for MSMEs. Recognising the credit challenges faced by small businesses, ICAI has actively promoted financial literacy, digital adoption, and transparent working capital management. It has also been instrumental in educating Chartered Accountants on alternative financing models like TReDS through training modules, audit checklists, accounting treatment, and technical guidance. By equipping its members with the tools to serve as strategic advisors and compliance enablers, ICAI is driving meaningful financial inclusion and empowering the MSME sector.

Alternative Financing Options for MSMEs

To manage their working capital needs, MSMEs usually look at a variety of financing options, each with a unique set of trade-offs. The most conventional options are still bank overdrafts and working capital loans, but many small businesses cannot afford them due to their lengthy processing times, CIBIL errors ratings and score, high documentation requirements, and collateral requirements. Despite their benefits, factoring and invoice discounting are small-scale operations that rely significantly on the quality of bilateral ties with financial institutions. Though it is typically created for larger vendors, supply chain finance is another successful model that doesn't always trickle down to smaller players.

Fintech-based cash flow lending has become a popular choice for modern businesses because it is quick and entirely digital. However, not all small firms may be able to afford the high interest rates and risk-based pricing associated with these loans. TReDS offers a substantial improvement in this regard. As an RBI regulated program, TReDS ensures a transparent mechanism where MSME suppliers can upload their invoices and receive real-time bids from multiple financiers, empowering them to choose the most competitive offer available. What sets TReDS apart is its neutrality and platform-based design. It facilitates early payments to MSMEs without altering the buyer's cash flow cycle or impacting their balance sheet, making it strategically advantageous for CFOs. An added advantage for buyers using the TReDS platform is that it helps them stay compliant with MSME payment timelines, thereby avoiding disallowance of expenses under Section 43B(h) of the Income-tax Act and the associated cost of non-compliance. Beyond just improving liquidity, it also improves supply chain durability, supports inclusion, improves ESG performance, and complies with legal requirements. Without having to renegotiate terms or provide upfront advances, CFOs can guarantee vendor satisfaction and financial efficiency.

TReDS Explained: Legal and Operational Framework

The RBI oversees the first-of-its-kind digital initiative, the Trade Receivables Discounting System (TReDS). It is intended to address a major issue for MSMEs: buyers' late payments. A network of registered financiers, including banks, NBFCs, and insurers, can bid to buy the approved invoices that small businesses upload to a secure TReDS platform. As a result, MSMEs can obtain funds in as little as 24 hours without having to provide collateral or endure onerous loan procedures.

The process is easy to use and effective. An invoice uploaded by a MSME is digitally verified by the buyer,

“The TReDS ecosystem has experienced substantial operational and regulatory improvements over time, making it a more reliable and inclusive financing option for MSMEs.”

usually a large corporate or public sector organization. After approval, financiers compete for the best price on the invoice discount. The MSME receives the discounted payment almost instantly and the buyer pays the financier on the due date of the invoice. All parties benefit from increased trust and operational clarity enabled through digital transparent steps.

TReDS provides strategic benefits in addition to liquidity. Better cash flow and cheaper borrowing costs are what it means for MSMEs. Because the financing is handled off the buyer's balance sheet, it guarantees that vendor payments are made without putting a strain on internal cash cycles, which is important for CFOs of large organizations. Additionally, it supports ESG objectives by encouraging small business financial inclusion and assists companies in meeting regulatory standards. Full audit trails and smooth ERP integration make TReDS an essential tool for improved supply chain finance and governance.

Key Regulatory Developments CAs should track

The TReDS ecosystem has experienced substantial operational and regulatory improvements over time, making it a more reliable and inclusive financing option for MSMEs. The RBI's decision to permit insurers and non-banking financial companies (NBFCs) to act as financiers on the platform was a significant advancement. As a result, the pool of capital providers has significantly expanded, giving small

firms better access to funding and more competitive bidding. In a move to enhance buyer-side participation, the RBI in FY 2024–25 reduced the mandatory TReDS registration threshold for companies from ₹500 crore to ₹250 crore in annual turnover. Now, all companies with turnover exceeding ₹250 crore are required to register on the TReDS platform. By ensuring that invoices are approved and paid on time, this regulatory push guarantees that big corporate buyers are using the platform, which directly improves MSME cash flows.

Along with the mandatory registration, it also made it compulsory for all the entities that purchase from MSMEs to clear their invoices within 45 days once the invoice is raised and non-compliance can result in disallowance of the expense for income tax purposes, meaning the amount cannot be deducted from taxable income until it is actually paid. The rule is designed to improve the cash flow of MSMEs and prevent them from facing financial strain due to delayed payments. Due to lack of awareness, many entities cancelled their order with MSMEs and many MSMEs also deregistered themselves to accommodate their buyers' terms to have a continued business engagement. However, the entities which were already using the TReDS platform benefitted with the invoice financing which did not put a pressure on their cash flows but were also able to meet the regulatory requirement of the payments being made within the said time frame of 45 days.

The integration of TReDS with government platforms like GeM SAHAY and e-invoicing portals has further streamlined the invoice validation process. This tight coupling ensures data accuracy, prevents duplication, and enhances fraud prevention. Importantly for financial reporting, TReDS transactions qualify for off-balance-sheet treatment under Indian Accounting Standards (Ind AS), preserving key debt metrics for buyers.

From a compliance perspective, the platform's digital architecture ensures that every transaction is time-

“TReDS represents more than a digital solution to delayed payments; it is a structural shift in the way MSMEs access working capital in India. By offering transparent, collateral-free, and real-time financing, it bridges critical liquidity gaps while improving compliance, governance, and supply chain resilience.”

stamped and traceable, making GST reconciliations and tax audits more seamless. For Chartered Accountants and CFOs, these advancements make TReDS a more attractive and viable option to embed within the financial operations of businesses, enhancing liquidity, strengthening compliance, and supporting better vendor relations.

Role of Chartered Accountants: Advisor, Auditor, Enabler

For Practicing CAs and CA Firms, TReDS presents a valuable opportunity to offer strategic liquidity advisory to MSME clients. Chartered Accountants can help businesses map out their working capital requirements and demonstrate how TReDS can effectively bridge cash flow shortfalls. From facilitating initial onboarding to assisting with documentation and invoice upload procedures, they can simplify what may otherwise be a technical and regulatory-heavy process for clients. More importantly, they can help integrate TReDS inflows into management information systems (MIS) and financial forecasting tools, enabling small companies to

make more informed decisions based on predictable cash flows.

Internal and Statutory Auditors play a critical role in ensuring that TReDS adoption aligns with compliance and audit norms. With TReDS transactions falling under the purview of Ind AS, auditors can assess whether financial disclosures reflect these off-balance-sheet instruments appropriately. They can also monitor buyer-side adherence to MSMED Act norms, especially the mandatory 45-day payment window for MSMEs. The digital nature of TReDS, complete with time-stamped transaction logs, makes it a powerful tool for ensuring audit transparency and resolving payment disputes based on verifiable data.

For CFOs and Management Accountants, the integration of TReDS into enterprise resource planning (ERP) systems is a game-changer. Automation of invoice uploads, approvals, and payment tracking can reduce manual errors and speed up turnaround times. More critically, the data generated through TReDS can be used for real-time forecasting and more agile liquidity planning. CFOs can also drive policy alignment across procurement, accounts payable, and finance departments to ensure internal SOPs reflect the use of digital trade financing tools like TReDS, resulting in stronger internal governance.

■ Strategic Takeaway for CFOs:

TReDS is much more than just a way to finance vendors. In addition to improving supply chain dependability and conforming to legal and ESG standards, it provides cash neutrality, which allows vendors to get early payments without affecting buyer cash flows. Leveraging this can give CFOs a clear competitive edge in corporate governance and stakeholder trust in an environment where financial resilience and transparency are calculated imperatives.

Impact created: Case Studies and Metrics

TReDS platforms till date have discounted invoices worth over ₹600,000 crores since inception, of which the discounting worth over ₹235,000 crores was facilitated in FY 24-25 itself. The TReDS ecosystem is becoming increasingly recognized as a dependable, scalable financing option for MSMEs. This expansion indicates a move toward more open and effective working capital procedures, particularly for businesses that have historically had trouble with late payments and restricted access to official credit.

Consider the case of a mid-sized manufacturing MSME that was consistently grappling with payment delays from large corporate buyers. The delays, often stretching beyond 45 days, led the business to rely heavily on overdraft facilities and high-interest short-term loans from informal sources or friends and family. Recognizing the liquidity strain, the firm's Chartered Accountant stepped in with a strategic intervention. The CA firm not only helped the client register on a TReDS platform but also guided them through the process of uploading approved invoices. Once onboarded, the client began receiving early payments within three days, thanks to the faster digital onboarding, invoice upload and processing, and the competitive bidding by financiers.

The results were transformative. The MSME drastically reduced its dependence on costly credit, and improved vendors satisfaction, leading to better procurement terms. This case demonstrates how digital platforms, when paired with financial advisory, can radically enhance liquidity, reduce financing costs, and empower MSMEs to grow sustainably.

Limitations & Practical Bottlenecks

Despite its promise, TReDS adoption is not without challenges:

- **Slower adoption of PSUs:** Longer invoice approval processes within

the PSUs limits the adoption of TReDS by its suppliers/vendors.

- **Buyer Resistance:** Many large corporates hesitate to onboard, fearing visibility into payment cycles or administrative overhead.
- **Non MSMEs suppliers:** Non-MSME suppliers are currently not allowed on the TReDS platform which limits the application.
- **Awareness Gaps:** Tier-2 and Tier-3 MSMEs are often unaware of TReDS or lack the digital literacy to use it effectively.
- **Integration Issues:** Smaller enterprises struggle to sync TReDS with internal ERP or billing systems.
- **Policy Weaknesses:** While registration is mandatory for larger buyers, enforcement and incentives remain weak.
- **Government Departments not in the Corporate Buyer Category:** Government Departments are currently not classified as 'corporate buyers' under the system. As a result, MSMEs supplying goods or services to government entities are unable to upload such invoices for discounting on the TReDS portal.

What's needed is a broader push, both policy-driven and awareness-focused, to make TReDS the default mechanism for trade finance.

The Road Ahead: Empowering CAs to Mainstream TReDS

Chartered Accountants play a crucial role in TReDS and are in a unique position to facilitate financial transformation. Through focused initiatives, the *Institute of Chartered Accountants of India (ICAI)* has already started to harness this potential. These include the creation of operational templates and audit checklists to direct adoption, partnerships with TReDS platforms to enable more seamless client onboarding, and structured training programs aimed at enhancing technical fluency. The

groundwork for widespread TReDS adoption and literacy is being laid by such initiatives.

For CFOs and Controllers, the way forward is equally clear. TReDS should be embedded within standard audit protocols and vendor financing strategies. Finance teams should be encouraged to participate in ICAI-led workshops to stay ahead of regulatory changes and digital adoption trends. Most importantly, organizations can drive real impact by mandating TReDS participation among their key MSME suppliers ensuring business continuity, supplier satisfaction, and improved working capital management.

Conclusion

TReDS represents more than just a digital solution to delayed payments; it is a structural shift in the way MSMEs access working capital in India. By offering transparent, collateral-free, and real-time financing, it bridges critical liquidity gaps while improving compliance, governance, and supply chain resilience. For CFOs, it is a strategic lever that supports ESG goals and preserves cash cycles. For Chartered Accountants, it opens new opportunities to act not just as auditors, but as enablers of financial innovation for their clients. With continued regulatory support and increased awareness, TReDS can evolve into a default national platform for MSME financing. As ICAI continues to lead from the front, its members have a defining role in mainstreaming this transformation, ensuring that no viable enterprise is left behind due to lack of timely capital.

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The term “Financial Technology,” or “Fintech,” describes how technology is being incorporated into financial services to change how people and organizations handle their finances. Digital banking, mobile payments, blockchain, cryptocurrencies, robo-advisors, and peer-to-peer lending are just a few of the many inventions that fall under this broad category.

Growing internet usage, smartphone adoption, and changing consumer tastes for easy, quick financial transactions have all contributed to the fintech industry’s explosive expansion. Fintech technologies have been incorporated into traditional banking and financial institutions

Fintech and Chartered Accountants: Exploring Opportunities and Overcoming Challenges

Fintech is the integration of finance and technology, transforming traditional financial systems through artificial intelligence, blockchain, big data, and automation. It enhances efficiency, security, and financial inclusion in global financial services. The rise of neo banks, digital payments, AI-powered services, and open banking has transformed the banking industry. Chartered Accountants can find professional opportunities in fintech consultancy, compliance audits, fraud detection, AI-driven accounting, and blockchain advice. However, challenges such as automation reduction, cybersecurity threats, changing legislation, and competition from AI-powered financial products remain. To remain relevant, CAs must become proficient in fintech legislation, digital finance, and emerging technologies, while leveraging automation to enhance advisory roles and ensure compliance.

to increase security, save operating costs, and improve client experience. Meanwhile, innovative approaches like decentralized finance (DeFi), AI-driven wealth management, and buy now - pay later (BNPL) have been developed by fintech businesses.

Fintech has benefits, but it also has drawbacks, such as cybersecurity threats, legal issues, and gaps in financial inclusion. As the number of digital financial transactions rises, data protection and fraud prevention continue to be crucial. Globally, governments and financial authorities are attempting to create regulations that strike a balance between innovation, security, and compliance. Fintech has also had a big influence on a number of industries, such as wealth management (Wealthtech), real estate (Proptech), and insurance (Insurtech). Blockchain, open banking, and artificial intelligence developments will probably influence fintech in the future by

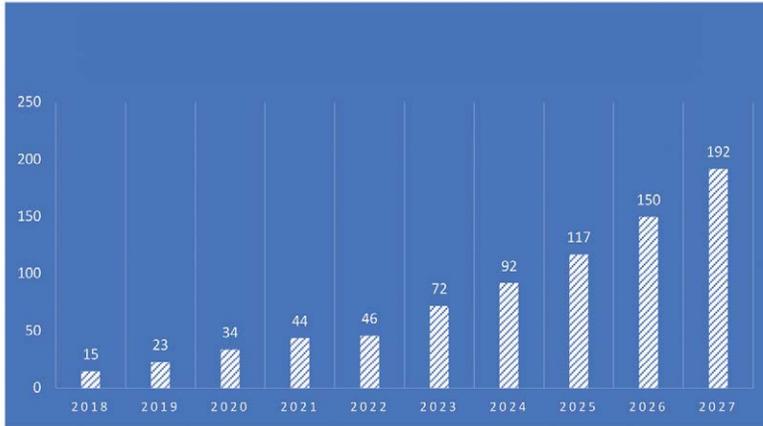
fostering a more integrated and diverse financial system. Businesses, regulators, and consumers must all adjust to the swift advancements of fintech in order to optimize its advantages and minimize any hazards.

Evolution of the Fintech Industry

Over the past several decades, the fintech industry has undergone substantial change, revolutionizing the delivery and consumption of financial services. Credit cards were first introduced in the 1950s, then in the 1960s and 1970s, ATMs and electronic fund transfers were developed. While the SWIFT system in the 1970s simplified international transactions, the emergence of internet banking and electronic trading platforms in the 1980s and 1990s changed the financial services industry. Digital money was made possible by the dot-com boom of the early 2000s, which gave rise to

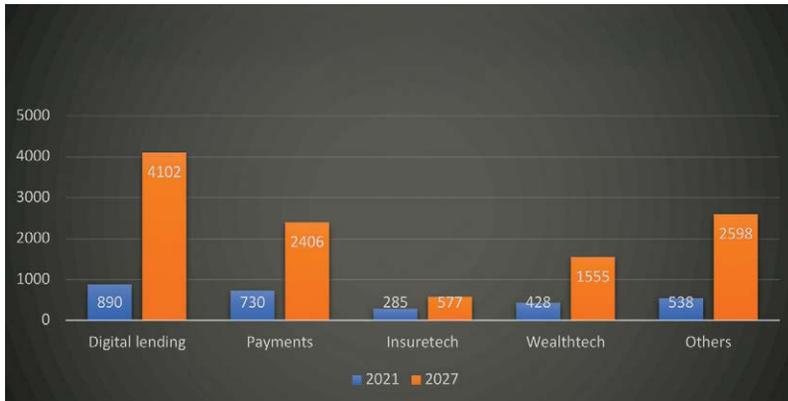
PayPal and mobile banking. Fintech had an unheard-of growth in the 2010s, propelled by changes in regulations, consumer behavior, and technology developments. Fintech startups are flourishing in India, where businesses

Figure 1: India's FinTech Transaction Volume (2018-2027)



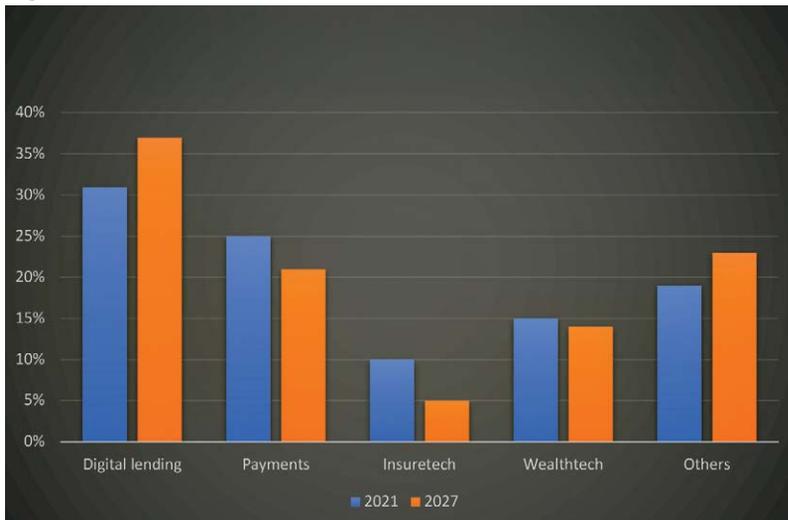
(Source: Secondary data)

Figure 2: FinTech Market Revenue (2021 vs. 2027 forecast)



(Source: Secondary data)

Figure 3: FinTech Market Share (2021 vs. 2027 forecast)



(Source: Secondary data)

“ Fintech has revolutionized financial services by enabling seamless digital payments, neo banking, P2P finance, robo-advisory services, blockchain technology, InsurTech, and regulatory technology (RegTech). ”

are transforming wealth management, banking, payments, and lending. It is anticipated that developments in AI, machine learning, and quantum computing would improve the efficiency, security, and personalization of financial services.

Fintech Sector in India

The Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and National Payments Corporation of India (NPCI) are among the regulatory bodies that oversee the fintech sector in India. The NBFC-P2P Lending Regulations govern peer-to-peer lending platforms, whereas the Payment and Settlement Systems Act (2007) gives the RBI the authority to regulate digital payments. To stop financial fraud, fintech companies must adhere to KYC (Know Your Customer) and AML regulations. Data security and privacy for digital financial services are governed by the IT Act of 2000 and the Personal Data Protection Bill (PDPB). The RBI’s Digital Lending Guidelines must be followed by digital lending platforms to guarantee openness and equitable procedures.

Figure 1 provides an overview of India’s Fintech Transaction Volume (2018-2027). The chart illustrates the increasing trend in transaction volume, starting at 15 billion in 2018 and forecasted to reach 192 billion by 2027. The rapid rise from 46 billion in 2022 to 192 billion in 2027 highlights the sector’s expansion.

“ The use of mobile wallets, blockchain-based transactions, Unified Payments Interface and real-time payment systems has sped up financial transactions and decreased reliance on cash and conventional banking channels. ”

Figure 2 presents a breakdown of different fintech segments and the Fintech Market Revenue (2021 vs. 2027 forecast). The digital lending sector is projected to grow from ₹890 billion in 2021 to ₹4,102 billion by 2027. Payments will increase from ₹730 billion in 2021 to ₹2,406 billion in 2027. Other segments, such as InsureTech (₹285 billion to ₹577 billion) and WealthTech (₹428 billion to ₹1,555 billion), also show strong growth.

Figure 3 compares the market share distribution of 2021 and 2027. Digital lending is expected to dominate, rising from 31% to 37%, while payments will slightly decrease from 25% to 21%. The share of InsureTech will decline from 10% to 5%, indicating a decline in adoption. WealthTech's share will reduce slightly (from 15% to 14%), while the 'Others' category will rise from 19% to 23%. Overall, the infographic highlights India's booming fintech sector, with Digital Lending and 'Others' category emerging as key growth areas.

Scope and Applications of the Fintech Industry

The fintech industry includes digital payments, lending, wealth management, InsureTech, blockchain, neo-banking, and regulatory technology, and it uses advanced technologies like AI, big data, blockchain, and cloud computing to revolutionize financial services. It has transformed banking by enabling seamless mobile payments, P2P lending, robo-advisory services,

and decentralized finance. The industry is expanding rapidly due to digital adoption, evolving consumer expectations, and regulatory support. Future innovations include AI-powered financial services, blockchain-based transactions, and hyper-personalized banking experiences. Fintech is expected to integrate with 5G, IoT, and machine learning, improving efficiency and security. Fintech has revolutionized financial services by enabling seamless digital payments, neo banking, P2P finance, robo-advisory services, blockchain technology, InsureTech, and regulatory technology (RegTech). Digital wallets make payments more convenient. Neo banks operate entirely online, offering AI-driven financial insights and lower operational costs. P2P finance platforms use AI and machine learning to assess creditworthiness and streamline loan approvals. Robo-advisory services use AI-driven algorithms for automated financial planning and portfolio management. Blockchain technology enhances transaction security and transparency, while InsureTech uses AI-based risk assessment and digital claims processing. RegTech uses AI and data analytics for risk management and compliance.

Changes brought by Fintech in the Banking Industry

- **Digital Banking & Neobanks:** Fintech has encouraged the growth of digital-only banks, reducing the need for physical branches. These banks improve user convenience by providing paperless transactions, AI-driven customer support, instant account opening, and smooth online banking.
- **Securer & Quicker Payments:** The use of mobile wallets, blockchain-based transactions, Unified Payments Interface and real-time payment systems has sped up financial transactions and decreased reliance on cash and conventional banking channels. Enhanced encryption and AI-

driven fraud detection have enhanced payment security.

- **AI & Automation in Banking Services:** Fintech has improved customer service, credit evaluation, and investment management efficiency by introducing AI-powered chatbots, automated loan processing, robo-advisors, and AI-driven risk assessment. By streamlining repetitive banking activities, robotic process automation (RPA) has decreased human error.
- **Personalized Financial Services:** Banks now provide individualized financial solutions based on consumer behavior, spending trends, and credit ratings, thanks to big data analytics and artificial intelligence. AI-powered budgeting and financial planning tools have given consumers the ability to efficiently manage their money.
- **API Integration & Open Banking:** Fintech has supported open banking, allowing third-party financial service providers to securely access bank data using APIs (Application Programming Interfaces). This encourages financial management, investment, and lending innovation.
- **Alternative Lending & Credit Scoring:** Peer-to-peer (P2P) lending, digital lending platforms, and AI-based credit scoring have all been made possible by fintech companies, allowing small businesses and individuals to get loans more quickly. As a result, financial inclusion is now more widespread than it was in traditional banking.
- **Blockchain & Decentralized Finance (DeFi):** Blockchain technology has improved transaction efficiency, security, and transparency, and DeFi platforms are transforming financial ecosystems by providing banking services without middlemen. Fintech has made the banking industry more customer-friendly, efficient, and digitized. Despite

“CAs should concentrate on improving their knowledge of blockchain, AI, and fintech legislation in order to remain competitive in the fintech-driven financial industry.”

the enormous advantages of these innovations, banks must constantly adjust to cybersecurity risks, new technology, and changing regulations in order to preserve stability and confidence in the digital age.

Opportunities for CAs in the Fintech Industry

Beyond traditional accounting, auditing, and taxation, the fintech industry's explosive expansion offers CAs new prospects. CAs may use their knowledge of finance, compliance, and advising responsibilities to stay relevant as financial technology transforms sectors. CAs should concentrate on improving their knowledge of blockchain, AI, and fintech legislation in order to remain competitive in the fintech-driven financial industry. They may become more valuable in the field by obtaining credentials in fintech auditing, digital forensics, and cybersecurity. Additionally, mastering international taxation and fintech compliance might lead to international job prospects. In fintech businesses, CAs can also pursue entrepreneurial positions, applying their knowledge of finance to create creative solutions. By embracing fintech advancements, CAs can diversify their roles and become key players in the digital financial ecosystem.

■ **Fintech Consulting & Advisory:** Fintech businesses can receive financial planning, risk management, and investment strategy guidance from CAs. Businesses need professional guidance on integrating fintech technologies like digital payments,



AI-driven analytics, and blockchain-based accounting as the use of digital financial services grows. Because of this, there is a great need for CAs who can guide companies through the latest developments in financial technology.

- **Regulatory Compliance & Fintech Auditing:** Because of the highly regulated environment in which fintech businesses operate, CAs are needed to help with taxes, regulatory compliance, and anti-money laundering (AML) regulations. The need for specialized audits, including blockchain audits and cybersecurity compliance audits, is rising along with the growth of fintech companies, and here is where CAs can be quite helpful.
 - **Fraud Detection and Digital Forensic Accounting:** As cyber dangers and digital fraud increase, CAs with forensic accounting and fraud detection skills may assist fintech companies in bolstering their security protocols. Professionals are needed by many fintech businesses to analyze fraud risk and investigate financial crimes. There are new career options for CAs due to the growing need for risk analysts and AML compliance officers.
 - **AI & Automation Integration in Accounting:** The banking sector is increasingly utilizing AI-powered accounting solutions. By specializing in these automated solutions, CAs can maximize financial reporting
- while maintaining compliance. Companies are also seeking experts that can instruct groups on how to use Robotic Process Automation (RPA) for financial management, auditing, and tax filing.
 - **Blockchain & Cryptocurrency Advisory:** The demand for bitcoin taxation and auditing services is growing as digital assets gain popularity. To guarantee accuracy and transparency in financial transactions, CAs can offer services on smart contracts, blockchain-based accounting, and crypto laws. Businesses that deal in digital currencies must adhere to financial reporting and taxation regulations, creating a new area of expertise for CAs.
 - **Fintech Taxation & Wealth Management:** Wealth management has changed as a result of fintech developments like AI-powered financial planning tools and robo-advisors. A competitive edge in the changing financial landscape may be gained by specializing in international taxes, crypto-taxation, and GST on digital transactions.
 - **Financial Strategy & Startup CFO Positions:** CFOs and financial controllers with expertise in investor relations, financial laws, and corporate growth plans are sought after by several fintech businesses. By using their knowledge, CAs may assist fintech companies with risk assessment, fundraising, and cash flow management.

“As digital banking, online transactions, and cloud accounting have increased the risk of data breaches, hacking, and financial fraud, CAs must develop expertise in data security, digital forensics, and cybersecurity compliance to protect client information.”



- **Insurtech & Regtech Specialization:** The emergence of Regtech (Regulatory Tech) and Insurtech (Insurance Tech) presents chances for CAs to collaborate with businesses on risk assessment, financial modelling, and compliance automation. Financial experts are needed in these specialised domains to evaluate risk, develop financial plans, and make sure companies adhere to evolving regulatory standards.

Challenges for CAs due to Fintech and Banking Transformations

Fintech's rapid rise and digital banking transformations have disrupted traditional financial services, posing new challenges for CAs. These challenges include:

- **Automation of Accounting & Compliance:** Fintech innovations, like AI-driven accounting software, cloud-based bookkeeping, and automated tax filing, are reducing the need for manual accounting work. Tools are automating financial reporting, impacting the traditional role of CAs in bookkeeping and compliance-related services.
- **Cybersecurity & Data Privacy Concerns:** As digital banking, online transactions, and cloud accounting have increased the risk of data breaches, hacking, and financial fraud, CAs must develop expertise in data security, digital forensics, and cybersecurity compliance to protect client information.
- **Regulatory & Compliance Complexity:** The regulatory landscape in which fintech businesses operate is extremely dynamic, with new tax legislation, anti-money laundering (AML) rules, and data protection guidelines. The taxation of cryptocurrencies, rules governing digital payments, and adherence to global financial standards are just a few of the financial laws that CAs need to be conversant with.
- **Fintech and AI-powered Robo-advisors:** Digital tax filing platforms, and financial planning applications compete by providing clients with automated, reasonably priced solutions. This puts CAs in competition, especially in fields like taxation, investment planning, and personal financial advising where customers could choose automated, low-cost services over in-person consultations.
- **Need for Digital & Technological Upskilling:** To be competitive, CAs need to become knowledgeable about blockchain accounting, fintech laws, AI-based audits, and digital finance technologies. Since many conventional accountants find it difficult to adjust to new financial technology, professional growth and ongoing education are crucial.
- **Development of Digital Banking & Payments:** Financial transaction techniques have changed as a result of the transition from traditional banking to digital banking models, such as neobanks, mobile wallets, and blockchain-based transactions.
- **Growing Need for Expert Consultancy Services:** Since fintech is revolutionizing the financial services industry, CAs are required to provide specialized advice services in risk assessment, compliance auditing, and fintech taxes. Those who do not adapt may struggle to find new opportunities in the evolving financial sector.
- **Changes in Client Expectations & Service Delivery:** Customers now anticipate automated reporting, AI-driven tax optimization, and real-time financial analytics. To achieve these expectations, CAs must move from traditional manual financial management to a more digitally-driven, strategic advice position.

How CAs can get past these Obstacles

- **Embracing Automation & AI:** By gaining knowledge of AI-

powered financial systems, CAs may assist companies in integrating and optimizing automation, guaranteeing adherence to changing financial rules while enhancing operational effectiveness.

- **Strengthening Cybersecurity & Data Privacy Knowledge:** CAs need to become more knowledgeable on cybersecurity and data privacy laws, such as India's Information Technology (IT) Act and the General Data Protection Regulation (GDPR). They can maintain their lead in this field by obtaining qualifications such as the Certified Information Systems Auditor (CISA). To protect financial data and uphold customer confidence, CAs should also incorporate cybersecurity procedures into their client engagements, such as data encryption, secure access restrictions, and frequent risk assessments.
- **Keeping Up with Regulatory & Compliance Changes:** The regulatory landscape in which the fintech industry works is continuously changing. To make sure that companies continue to adhere to national and international financial standards, CAs need to be aware of these developments. CAs may keep up to date by participating in compliance certification courses, fintech conferences, and professional training programs.
- **Adapting to Competition from Fintech & Robo-Advisors:** In order to stay competitive, CAs need to set themselves apart by providing individualised financial advising services that go beyond recommendations generated by algorithms. They may assist companies in implementing and integrating financial technology solutions by establishing themselves as fintech consultants. Furthermore, utilising fintech platforms to offer hybrid advisory services, which blend automation

and human knowledge, can improve service effectiveness and meet a wider range of client requirements.

- **Investing in Digital & Technological Upskilling:** CAs must make an investment in ongoing education in order to remain relevant as fintech continues to upend traditional financial services. Furthermore, working with fintech companies may give CAs invaluable practical experience with the newest financial technologies, allowing them to deliver specialized consulting services.
- **Navigating the Digital Banking & Payments Ecosystem:** Businesses engaged in the digital economy can greatly benefit from advice services on financial security, fraud prevention, and digital payment compliance. CAs may assist customers in optimizing their financial operations while reducing risks by being up to date on regulatory regulations and security best practices in digital banking.
- **Offering High-Value Consultancy Services:** CAs can focus on detecting possible financial risks, advising companies on tax structures relating to fintech, and making sure that changing requirements are followed. Along with guaranteeing legal and tax compliance, they may assist customers in putting digital financial solutions, like blockchain-based accounting systems, into practice.
- **Evolving with Changing Client Expectations:** Clients need automated reporting, AI-driven tax optimization, and real-time financial insights in the current digital environment. CAs must move from manual financial management to a more technologically advanced, strategic consulting position in order to achieve these objectives.

Conclusion

With the introduction of automation, AI-driven analytics, blockchain-based transactions, and digital banking solutions, the Fintech revolution has drastically upended traditional financial services. Although this change improves accessibility and financial efficiency, it also changes the job of CAs, who must now adjust to a quickly changing digital environment. In fields including wealth management, blockchain auditing, AI-driven automation, forensic accounting, compliance management, and fintech consultancy, fintech offers a plethora of opportunities for CAs. The necessity for CAs to broaden their knowledge beyond traditional accounting procedures is underscored. The automation of old accounting processes, cybersecurity risks, changing regulatory requirements, and competition from AI-powered financial solutions are some of the difficulties that come with the advent of fintech. CAs must constantly improve their skills by keeping up with blockchain accounting, cybersecurity frameworks, AI-based audits, and fintech legislation in order to be relevant. They will be able to increase productivity, deliver real-time financial data, and provide specialized advisory services by embracing fintech technologies and digital platforms. In summary, financial services will inevitably include fintech, and CAs need to be proactive in keeping up with its developments. CAs may not only survive but also prosper in this dynamic, technologically advanced financial environment by using technology and growing their roles in digital finance.

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Organised by
Committee for Members in Industry & Business (CMIB)
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)



63rd Campus Placement Programme for Newly Qualified Chartered Accountants December 2025 - January 2026 Drive

The Institute of Chartered Accountants of India (ICAI) is pleased to invite leading companies and Chartered Accountancy firms to participate in the upcoming Campus Placement Programme for Newly Qualified Chartered Accountants, organized by the Committee for Members in Industry & Business (CMIB). Since its inception in 1995, this flagship programme has served as a one-stop solution for recruiters, offering access to a vast pool of talented and dynamic Chartered Accountants. Held thrice a year, the programme enables organizations to interact with and recruit candidates who meet their business and professional requirements. The Campus Placement Programme will be conducted in physical mode at 29 centres across India, providing corporates a unique opportunity to browse through the profiles of thousands of newly qualified Chartered Accountants, Conduct interviews and select candidates best suited to their needs.

**For Candidates passed in
September 2025 Exam**

Interview Schedule

Sr No.	Centre	Physical Interview Dates
1	Delhi	02nd, 03rd, 04th, 05th, 06th December 2025
2	Mumbai	03rd, 04th, 05th, 06th, 8th December 2025
3	Bengaluru	04th, 05th, 06th, 8th, 09th December 2025
4	Chennai	05th, 06th, 8th, 09th, 10th December 2025
5	Kolkata	06th, 08th, 09th, 10th, 11th December 2025
6	Hyderabad	08th, 09th, 10th, 11th, 12th December 2025
7	Jaipur	09th, 10th, 11th, 12th, 13th December 2025
8	Pune	12th, 13th, 15th, 16th, 17th December 2025
9	Ahmedabad	15th, 16th, 17th, 18th, 19th December 2025
10	Noida, Thane	19th, 20th January 2026
11	Bhubaneswar, Visakhapatnam, Coimbatore, Ernakulam & Indore	21st, 22nd January 2026
12	Bhopal, Durgapur, Lucknow, Nagpur, Patna, Rajkot, Ranchi, Vadodara, Raipur, Chandigarh, Kanpur, Ratlam & Guwahati	23rd January 2026

Tariff for the Recruiting Entities

(Amount in INR)

No.	Day Premier	Day 1	Day 2	Day 3	Day 4
a. Delhi & Mumbai	750,000	500,000	400,000	300,000	100,000 (50,000 for CA Firms)
b. Bengaluru, Chennai, Hyderabad & Pune	500,000	350,000	250,000	200,000	80,000 (40,000 for CA Firms)
c. Ahmedabad, Kolkata & Jaipur	250,000	175,000	150,000	85,000	60,000 (30,000 for CA Firms)
d. Noida & Thane	N/A	125,000	80,000 (40,000 for CA Firms)	NA	NA
e. Bhubaneswar, Visakhapatnam, Coimbatore, Ernakulam & Indore	N/A	80,000 (40,000 for CA Firms)	40,000 (20,000 for CA Firms)	NA	NA
f. Bhopal, Durgapur, Lucknow, Nagpur, Patna, Rajkot, Ranchi, Vadodara, Raipur, Chandigarh, Kanpur, Ratlam & Guwahati	N/A	30,000 (15,000 for CA Firms)	NA	NA	NA
g. Fee online psychometric test	10000				

Organisations intending to recruit Newly Qualified Chartered Accountants (NQCA) through the Campus Placement Programme are requested to contact:

CMIB Secretariat, ICAI Bhawan, Indraprastha Marg, New Delhi -110002, and Email: campus@icai.in, and to register log on to <https://cmibplacements.icai.org/>. Tel No. (011) 30110450

We look forward to your valuable participation.

**Chairman & Vice Chairman
Committee for Members in Industry & Business
The Institute of Chartered Accountants of India**



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Dipra Bhattacharya

Management & IT Consultant

Smarter Payments and Growing Influence of Artificial Intelligence in Credit Card Industry

Artificial Intelligence (AI) and Machine Learning (ML) are transforming the Credit Card industry, enabling network companies to enhance security, personalize services, and streamline operations. This article explores AI's impact on fraud detection, real-time risk management, and customer engagement using advanced models such as neural networks, random forests, and deep learning algorithms. With AI-powered innovations, these companies

are reducing fraud losses, improving customer retention, and driving global financial strategy. The result is a smarter, more secure, and personalized payment ecosystem that is redefining the future of digital finance. Through case studies, the article aims to provide an outlook that how the convergence of AI & ML is not only safeguarding payments but also crafting dynamic, data-driven financial strategies that are setting new standards in the global payments industry.

Artificial Intelligence (AI) and Machine Learning (ML) have fundamentally changed how businesses operate across industries, and the credit card sector is no exception. With the volume of transactions rising exponentially and fraud becoming more sophisticated, credit card companies are under continuous pressure to ensure security, optimize operations, and personalize customer experiences. AI and ML bring unparalleled capabilities in processing vast amounts of data in real-time, detecting subtle patterns that humans would miss, and learning from new data over time. This article explores the deep integration of AI and ML into the credit card industry, providing technical insights into the models, programs, and tools used, alongside real-world examples to show how these technologies drive innovation.

The Role of AI and ML in Fraud Detection and Prevention

■ The Growing Threat of Credit Card Fraud

Credit card fraud remains one of the most significant challenges for financial institutions. As per the Nilson report, it states that fraud losses incurred by card issuers, merchants, acquirers of card payments from merchants and acquirers of card transactions from ATMs were \$33.83 billion in 2023. The prior year, gross fraud losses were \$33.45 billion worldwide. The ability to process millions of transactions in real-time and identify fraudulent activity is beyond human capacity. This is where AI and ML step in, offering highly sophisticated tools that learn from historical data and adapt to new fraud patterns.

■ Technical Models for Fraud Detection

Anomaly Detection Algorithms

AI models in fraud detection revolve around anomaly detection, where ML algorithms identify unusual patterns in real-time transactions.

- **Isolation Forest:** This unsupervised model identifies anomalies by isolating data

points that differ significantly from the normal cluster. Credit card companies use this algorithm to detect fraud as it isolates suspicious transactions quickly.

- **One-Class SVM:** The One-Class Support Vector Machine is designed for anomaly detection. For example, Mastercard implemented a variation of this algorithm to scan for transactions outside a user's normal spending behavior.
- **Local Outlier Factor (LOF):** LOF measures the local density deviation of a data point compared to its neighbors, flagging anomalies. This method can detect suspicious activity at point-of-sale systems, where deviation in behavior often hints at fraud.

Neural Networks in Fraud Detection

Neural networks, especially deep learning models, offer high accuracy in recognizing fraudulent patterns.

- **Recurrent Neural Networks (RNNs) and Long Short-Term Memory (LSTMs):** These models excel at processing sequential data, which is crucial for identifying fraud patterns in transaction history over time. Companies like Visa and Amex have adopted these models to analyze thousands of transactions per second.
- **Convolutional Neural Networks (CNNs):** Originally built for image recognition, CNNs are now used to recognize fraud by analyzing the spatial relationships between data points, especially for high-risk transactions involving large sums or atypical purchasing behavior.

■ Reinforcement Learning in Adaptive Fraud Prevention

Another model that plays an increasingly significant role in fraud prevention is Reinforcement Learning (RL). RL is especially effective in dynamic environments where fraudsters constantly evolve their strategies. RL models allow credit card systems to learn from new fraud attempts and adjust policies accordingly.

For example, in the context of cross-border transactions, companies such as Visa have implemented RL systems that adjust the decision thresholds based on historical fraud patterns in specific regions. As fraudsters change

“NLP is extensively used in customer support, enabling chatbots and virtual assistants to handle routine inquiries efficiently. The integration of AI-powered chatbots has reduced operational costs for companies by 20-30% while improving customer satisfaction.”

their tactics, the system adapts in real time to prevent losses.

Enhancing Customer Experience with AI and ML

■ Personalization and Predictive Analytics

In the digital age, customers demand personalized experiences, whether it's receiving targeted offers, rewards, or customized card services. AI is pivotal in creating a tailored customer experience by analyzing transaction history, spending habits, and preferences.

Collaborative Filtering

This method identifies user behavior patterns and recommends similar products or offers based on the collective data of all customers. For instance, AI can recommend specific types of credit cards to a customer based on their spending

patterns, such as cashback cards for frequent grocery shoppers.

Predictive Analytics for Targeted Offers

This allows credit card companies to anticipate a customer's needs before they even ask. For example, a cardholder who consistently travels abroad might receive pre-emptive offers for travel insurance, reduced foreign transaction fees, or promotional airline tickets.

■ Natural Language Processing (NLP) in Customer Support

Virtual Assistants and Chatbots

NLP is extensively used in customer support, enabling chatbots and virtual assistants to handle routine inquiries efficiently. The integration of AI-powered chatbots has reduced operational costs for companies by 20-30% while improving customer satisfaction.

• BERT (Bidirectional Encoder Representations from Transformers):

BERT models allow credit card companies to understand the context in customer queries, improving the chatbot's accuracy in responding to complex questions.

• GPT (Generative Pre-trained Transformer):

GPT is used for generating responses in a conversational style, helping create virtual agents that deliver more human-like interaction.

Credit Risk Assessment with AI and ML

■ Predictive Credit Risk Models

Credit risk modeling is crucial for financial institutions. Machine learning algorithms provide a significant boost in predictive power compared to traditional methods.

Logistic Regression and Decision Trees

- **Logistic Regression:** This method helps predict the



“TensorFlow is used for building neural networks and is popular for its deployment capabilities in fraud detection, predictive analytics, and risk modeling.”

probability of default by analyzing historical data on payment behavior, demographics, and spending patterns.

- **Decision Trees and Random Forests:** These models assess the likelihood of default based on multiple decision nodes, helping Visa and Mastercard automate credit score assessments.

Gradient Boosting Machines (GBM) and XGBoost

- **XGBoost:** This gradient boosting algorithm is used widely in credit risk modeling due to its high predictive accuracy. Visa leverages XGBoost to analyze real-time transaction data to predict which customers are likely to default.

AI-Enhanced Credit Scoring

AI has introduced alternative credit scoring models that use non-traditional data sources. For instance, startups like Zest AI have revolutionized the lending space by using AI to generate credit scores from data like mobile phone usage, social media activity, and purchasing patterns. This has expanded credit access to individuals who previously did not have a formal credit score.

Tools, Platforms, and Infrastructure

TensorFlow and PyTorch for Building AI Models

The two most common tools for developing AI and ML applications are TensorFlow and PyTorch.

- **TensorFlow** is used for building neural networks and is popular for its deployment capabilities in fraud detection, predictive analytics, and risk modeling.
- **PyTorch** is used for its dynamic computation graph, making it easier to experiment and build models, especially for deep learning applications like fraud detection using CNNs and RNNs.

Scikit-Learn and XGBoost for Predictive Modeling

- **Scikit-Learn:** A popular tool for classical machine learning algorithms, Scikit-Learn is widely used in customer segmentation and predictive risk assessment.
- **XGBoost:** It is known for its superior performance. XGBoost's efficient use of memory and processing power makes it ideal for analyzing large-scale transaction data.

Cloud Platforms: AWS, Google Cloud, and Azure

Credit card companies often leverage cloud-based infrastructure like Amazon Web Services (AWS), Google Cloud, and Microsoft Azure to scale their AI applications. These platforms provide the necessary computational power and tools like AWS SageMaker or Google AI Platform to train large models and deploy them in production environments.

Real-Time Applications of AI and ML

Fraud Detection Systems

AI-driven fraud detection systems allow credit card companies to monitor millions of transactions in real-time. These systems use a combination of supervised learning (to learn from historical fraud cases) and unsupervised learning (to detect new types of fraud).

Personalized Financial Products

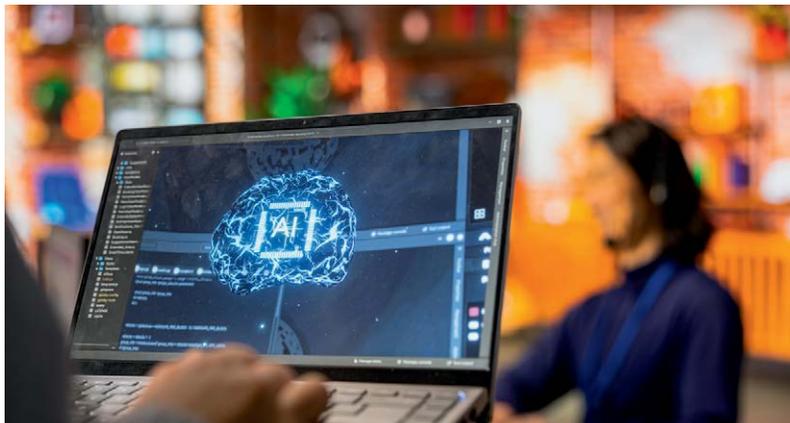
AI helps companies to offer personalized financial products, such as customized credit cards with benefits tailored to individual spending habits.

Case Studies

These case studies demonstrate how various leading credit card networks and issuers are utilizing Artificial Intelligence (AI) and Machine Learning (ML) to enhance fraud detection, customer engagement, credit risk evaluation, and service delivery. These technologies are driving operational efficiency, customer satisfaction, and long-term profitability across the industry.

i. AI-Powered Fraud Detection by a Leading Global Payment Network

- **Background:** A global payment network that processes over 250 billion transactions annually required an advanced system to ensure real-time fraud prevention across its massive operations.



- **Challenge:** With credit card fraud losses surpassing \$30 billion globally, the organization needed an AI-driven, scalable solution to monitor transactions without affecting user experience.
 - **Solution:** Developed an AI-based fraud detection platform using:
 - **Recurrent Neural Networks (RNNs)** to identify anomalies in transaction sequences.
 - **Convolutional Neural Networks (CNNs)** to analyze attributes such as geo-location and spending amounts.
 - **Impact:**
 - Enabled real-time monitoring of over 500 million transactions daily in more than 200 countries.
 - Achieved a 30% reduction in false positives and saved clients more than \$25 billion annually.
 - **Additional Insights:**
 - Applied unsupervised learning techniques, such as autoencoders, to detect novel fraud patterns.
 - Incorporated reinforcement learning to improve adaptability in changing fraud scenarios.
- ii. **AI-Driven Personalization and Engagement by a Global Transaction Processor**
- **Background:** A multinational transaction processor, handling tens of billions of payments yearly, aimed to personalize customer experiences and strengthen loyalty.
 - **Challenge:** Transform vast transaction data into meaningful insights for offer personalization and customer retention, while ensuring data security.
 - **Solution:** Implemented an AI platform leveraging:
 - **Collaborative Filtering** to recommend offers based on behavioral similarities.
 - **Neural Networks** to detect trends for personalized campaigns.
 - **Impact:**
 - Enhanced customer engagement by 30%.
 - Reduced churn rate by 20%.
 - **Additional Insights:**
 - Operates with a global dataset covering more than 2 billion cardholders.
 - Uses an AI subsidiary to provide real-time decision-making support.
- iii. **AI-Based Credit Risk Modeling by a Premium Card Issuer**
- **Background:** A premium-focused credit card issuer, serving over 100 million users, needed modern tools to evaluate creditworthiness amid economic fluctuations.
 - **Challenge:** Traditional credit scoring models underperformed in predicting risk among underserved or emerging market segments.
 - **Solution:** Deployed advanced ML models such as:
 - **XGBoost** for behavioral pattern analysis.
 - **Gradient Boosted Machines (GBM)** to evaluate income, expenditure, and lifestyle factors.
 - **Impact:**
 - Improved credit risk assessment accuracy by 22%.
 - Reduced loan defaults by 15%.
- iv. **AI-Led Personalization and Localization by a Domestic Payment Network**
- **Background:** A national-level card network with over 600 million active cards required AI-driven tools to cater to diverse customer preferences and enhance regional service delivery.
 - **Challenge:** Understand consumer behavior across various cultural and regional contexts to enable effective personalization and fraud mitigation.
 - **Solution:** Implementation of:
 - **Collaborative Filtering** to discern regional and individual spending patterns.
 - **Natural Language Processing (NLP)** for multilingual customer support.
 - **Impact:**
 - Increased customer engagement by 25%.

“AI-driven fraud detection systems allow credit card companies to monitor millions of transactions in real-time. These systems use a combination of supervised learning (to learn from historical fraud cases) and unsupervised learning (to detect new types of fraud).”

- Increased profitability by 5%.

● **Additional Insights:**

- Uses alternative data sources, including digital and social behaviors.
- Provides real-time alerts for high-risk account activity.

“ The credit card industry is experiencing a profound transformation, with AI and ML driving significant advancements in fraud detection, customer experience, credit risk assessment, and personalized services. ”

- Reduced fraud incidents by 35%.
- **Additional Insights:**
 - Processes over 1 billion transactions annually.
 - Uses blockchain integration for secure data management.

v. **AI-Enhanced Virtual Support by a Customer-Centric Card Issuer**

- **Background:** A credit card issuer with a strong emphasis on service quality aimed to reduce operational overhead and improve response times.
- **Challenge:** Address growing volumes of customer inquiries without compromising user experience or escalating costs.
- **Solution:** Introduced AI-powered virtual assistants using:
 - **GPT-based models** to generate natural, context-aware responses.
 - **BERT-based models** to understand complex queries accurately.
- **Impact:**
 - Automated 60% of support inquiries without human intervention.
 - Reduced support costs by 25%, with a noticeable increase in customer satisfaction.

- **Additional Insights:** Embedded voice-enabled AI in mobile applications for intuitive customer interactions.

vi. **AI Optimization for Cross-Border Transactions by a Global Card Network**

- **Background:** A major global card network, facilitating over 200 billion transactions, faced increasing complexity in international transaction processing.
- **Challenge:** Minimize fraud in cross-border operations while maintaining compliance with regulations in over 170 countries.
- **Solution:** Applied machine learning models including:
 - **Random Forest** to analyze factors such as exchange rates and transaction timing.
 - **Support Vector Machines (SVMs)** to classify transactions by fraud risk level.
- **Impact:**
 - Achieved an 18% reduction in international fraud cases.
 - Saw a 40% rise in global transaction volume.
- **Additional Insights:** Integrated blockchain systems with AI for transparency and transaction security.

Analytical Summary

The above case studies collectively highlight a transformative shift in how credit card companies are operationalizing AI and ML across their ecosystems. Key insights include:

- **Fraud Prevention Is Now Predictive:** Traditional reactive fraud detection is giving way to real-time, AI-driven, proactive security systems.
- **Customer-Centricity through Personalization:** Leveraging behavioral analytics to tailor services has become essential to reduce churn and drive engagement.
- **Data-Driven Risk Management:** The shift from historical data to predictive analytics and alternative data sources is refining credit risk evaluations.
- **Service Automation Enhances Human Value:** AI-enabled virtual agents are freeing up human agents to focus on complex, value-added tasks.
- **Localization and Inclusion:** Regional adaptation through NLP and cultural insights is expanding the reach of digital financial services to underrepresented segments.

These developments reflect a broader technological maturity in the financial services sector, where data-driven decision-making is becoming both





a competitive differentiator and a compliance necessity.

Conclusion & Strategic Implications for CAs in the Payment Systems Industry

The integration of AI and ML into the credit card and payment ecosystem is fundamentally reshaping how transactions are processed, risks are managed, and services are delivered. These innovations bring significant implications for CAs, who are the key to financial integrity, compliance, and strategic decision-making in this happening sector.

AI and ML are rapidly transforming the credit card and payment systems industry, impacting fraud detection, credit risk assessment, compliance, and financial decision-making. For CAs, this evolution requires adapting beyond traditional practices. They must now understand and evaluate AI-driven fraud systems, audit credit scoring models using alternative data, ensure compliance with evolving digital regulations, and provide strategic financial insights on AI investments. As governance and risk oversight extend into algorithmic domains, CAs are increasingly positioned as key advisors in ensuring ethical, accurate, and financially sound deployment of AI within the payment ecosystem.

The credit card industry is experiencing a profound transformation, with

AI and ML driving significant advancements in fraud detection, customer experience, credit risk assessment, and personalized services. The use of sophisticated models, from anomaly detection algorithms to deep learning networks, has allowed companies to stay ahead of fraudsters, improve risk management, and deliver superior customer experiences. As AI continues to evolve, its role in shaping the future of the credit card industry will only grow, offering new opportunities for innovation and efficiency. The strategic adoption of AI not only ensures operational efficiency but also builds long-term trust and satisfaction among consumers in a fast-evolving digital payment ecosystem.

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Decentralized Finance (DeFi) is a method of providing financial services without relying on traditional banks or financial organizations. Instead of going via a bank, consumers can utilize technology, primarily blockchain, to conduct financial transactions such as borrowing, lending, trading, and saving. One of the fundamental aspects of DeFi is the elimination of intermediaries. While traditional finance relies on banks or brokers to facilitate transactions, DeFi enables individuals to interact directly with financial services. This is achieved through smart contracts i.e., self-executing agreements on the blockchain that automatically enforce their terms without requiring human oversight.

DeFi indicates a paradigm shift in the way financial services are designed and delivered. DeFi's goal with blockchain technology is to establish an open and unrestricted financial ecosystem that functions independently of existing financial institutions. DeFi is a new financial system built around secure distributed ledgers, like those used in cryptocurrencies (Sharma, 2024). DeFi's fundamental principle is that no centralized authority can dictate or govern operations. It takes a different approach than conventional approaches of finance for fiat currency or centralized financial services (CeFi) in cryptocurrency marketplaces. In centralized models, there is a central

The DeFi Evolution: A New Financial Paradigm

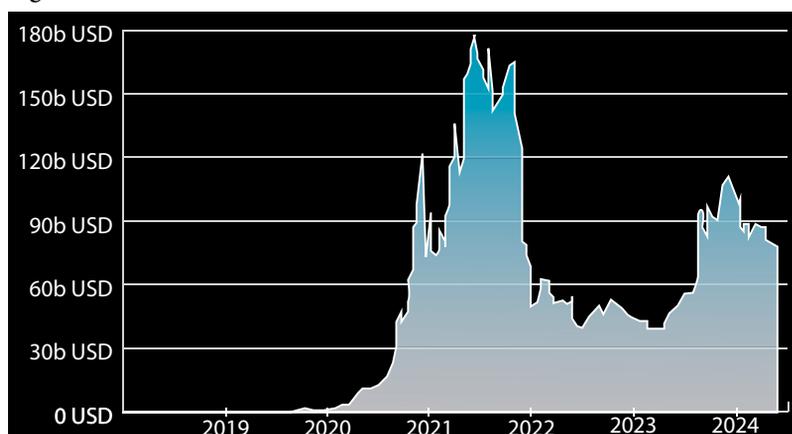
Decentralized Finance (DeFi) is transforming financial services by removing intermediaries and allowing direct user interaction using smart contracts. This article explores DeFi's evolution from Ethereum to its present uses in loan, trading, and asset management. While DeFi enhances accessibility, transparency, and cost efficiency, it still faces security issues and regulatory uncertainty. Key components such as decentralized exchanges and stablecoins are presented, emphasizing DeFi's ability to disrupt traditional banking and build a more inclusive financial ecosystem.

authority who can influence and regulate the flow of transactions. Often, the central authority oversees asset custody (Kerner, 2022). Auer et al. (2023) explains that DeFi is based on Distributed Ledger Technologies (DLT) and provides services such as trading, lending, and investing without the need for a typical centralized intermediary. DeFi applications aim to achieve disintermediation and resistance to censorship, with notable success in certain areas. DeFi also encourages accessibility by allowing anyone with an internet connection to use these services, making it easier for people who do not have access to traditional banking.

DeFi offers a variety of services, including lending and borrowing, where users can lend their bitcoin to others for interest or borrow by pledging collateral, as well as trading on decentralized exchanges and receiving interest on savings. Transparency is another key advantage, as all transactions are recorded on a public blockchain, which anybody can check. In practice, such services are carried out as executable software programs known as smart contracts, whose execution is automated, providing deterministic results and reusability (Auer et al., 2023). Smart contracts are short applications recorded on a blockchain that are performed simultaneously by many validators. Public blockchains allow all participants

to verify the accurate execution of any operation (Schär, 2020).

The decentralized financial market is growing rapidly, showcasing the potential of digital currencies and decentralized platforms to provide an alternative to traditional finance. By eliminating costly intermediaries, it reduces transaction fees and enhances access to financial services for everyone, regardless of their location or economic background (Shah et al., 2023). As interest in bitcoin investments has surged, both individuals and organizations are increasingly turning to DeFi solutions. According to Santos et al. (2022), DeFi refers to a set of non-custodial financial solutions implemented as Smart Contracts on turing-complete blockchains. The DeFi ecosystem is continually evolving, with new projects being launched every month to establish a position in the market (Garg, 2023). Despite its potential, DeFi has several hurdles, including regulatory control, openness, and liquidity. The overall value of DeFi contracts decreased by around 42.61%, from \$161.975 billion as on 03rd April 2022 to around \$92.948 billion as on 01st April 2024, as depicted in Fig No. 1. However, DeFi has the potential to disrupt existing financial systems in a variety of applications, including asset management, tokenized derivatives, asset tokenization, decentralized exchanges (DEX), and lending.

Fig No. 1: Total Value Locked in DeFi

Source: <https://defillama.com/>

“DeFi offers a variety of services, including lending and borrowing, where users can lend their bitcoin to others for interest or borrow by pledging collateral, as well as trading on decentralized exchanges and receiving interest on savings”

Contrast between DeFi and Traditional Finance

DeFi operates independently of established institutions, depending on algorithms and smart contracts instead of human management. DeFi apps operate autonomously once a smart contract is deployed on the blockchain, unlike traditional finance, which relies on banks and other intermediaries to oversee transactions. One key element that distinguishes DeFi is its intrinsic transparency. The code regulating these applications is accessible to everyone, allowing anybody to inspect and verify their activities, hence increasing user trust. In contrast, traditional finance's reliance on intermediaries frequently reduces visibility and raises the danger of

security breaches. Furthermore, DeFi ecosystem is accessible to anybody. Against traditional finance, that requires gatekeepers and the setup of accounts, DeFi enables people to connect directly with smart contracts via crypto wallets, encouraging a more inclusive financial environment. Finally, the traditional financial systems frequently have geographical limits, limiting consumers to banks that operate in specific locations. DeFi, on the contrary, provides global access, allowing users from any location to engage.

Structure of DeFi

DeFi is organized into four primary layers:

Settlement Layer: This basic level, sometimes known as the “zero layer,” includes cryptocurrencies and blockchain. It serves as the foundation for all financial activity, creating a safe and transparent atmosphere for transactions.

Protocols Layer: This layer includes the standards and regulations that govern various operations in the DeFi ecosystem. Its primary job is to ensure liquidity, which means making sure there are enough assets accessible for services and transactions across the network.

Applications Layer: The applications layer contains user-

oriented applications that allow for direct engagement, such as decentralized exchanges (DEX) and lending portals. Users can trade, borrow, and lend without the need for intermediaries.

Aggregation Layer: Aggregators generate this layer, which joins the preceding layer's applications. It improves financial transactions by allowing for efficient money transfers and helps users in optimizing earnings through exchanges and optimal borrowing.

These layers work together to establish a unified DeFi ecosystem that allows users to execute a wide range of financial transactions without the involvement of traditional financial institutions.

Evolution of DeFi

DeFi has rapidly changed how we view financial services over the past few years. Here is a straightforward overview of its evolution:

Beginnings (2015-2017): DeFi began to take shape with the release of Ethereum, which offered smart contracts i.e., self-executing agreements on the blockchain. This breakthrough enabled developers to design decentralized applications (dApps) for a variety of financial services.

Initial Projects (2018): The first DeFi systems emerged, mostly focused on lending and borrowing. MakerDAO, for example, allows users to borrow stablecoins (cryptocurrencies with traditional currency values) by pledging their crypto assets as security.

Rising Popularity (2019-2020): DeFi has acquired great traction, with various new projects starting. Platforms such as Compound and Aave enabled users to lend their cryptocurrency and earn interest. The concept of “yield farming,” in which users are rewarded for generating liquidity, has also gained popularity.

The DeFi Boom (2020): This period witnessed exponential growth in the DeFi sector, with numerous new initiatives and billions of dollars flowing into the ecosystem. Many were drawn to the substantial rewards offered by DeFi platforms.

Broader Recognition (2021): DeFi began to get mainstream attention, with traditional investors and institutions investigating the market. Decentralized Exchanges (DEXs) enabled users to trade directly with one another, eliminating the need for intermediaries. Regulators like the US Securities and Exchange Commission (SEC) see DeFi as a platform with numerous prospects (Chidambaram, 2024).

Challenges and Growth (2022-Present): As DeFi matured, it encountered obstacles such as security concerns and regulatory oversight. Nonetheless, it is always evolving, with breakthroughs in governance, insurance, and cross-chain capabilities.

Decentralized Finance (DeFi) applications are expected to undergo significant transformations, encompassing areas like decentralized insurance, prediction markets, and the fractional ownership of real estate and art. The adoption of Central Bank Digital Currencies (CBDCs), increased acceptance by institutions, and clearer legal frameworks will all play a crucial role in strengthening DeFi's integration with traditional financial systems (Kaur, 2024).

Asset Management through DeFi

DeFi Asset Management is a rapidly growing area that is crucial for optimizing and protecting assets within the decentralized finance landscape. It involves the strategic handling of digital assets in a decentralized environment, allowing users to perform various financial transactions without relying on traditional intermediaries like banks. DeFi asset managers utilize smart contracts and decentralized protocols to automate

“DeFi asset managers utilize smart contracts and decentralized protocols to automate and implement investment strategies, ensuring transparency, security, and efficiency in the process.”



and implement investment strategies, ensuring transparency, security, and efficiency in the process.

Wadhvani (2024) highlighted that decentralized finance platforms often provide users with tools such as yield farming protocols, liquidity pools and decentralized exchanges (DEXs) to help them improve their asset allocation strategy. DeFi allows asset managers to use algorithms and automated procedures to adjust their portfolios in response to changing market circumstances and emerging opportunities. DeFi assets can be monitored and controlled using indicators including market volatility, credit, risks, total value locked (TVL), and asset value. DeFi asset analysis considers prospective growth, staking and partnership risk profile, profit possibilities, security, and community criteria (Klarda, 2023). These variables allow consumers to make more educated investment decisions while also ensuring the safety and effectiveness of DeFi assets. Risk reporting tools may assist with determining the

general level of risk of DeFi protocols. Monitoring market volatility enables users to make better trading decisions.

Key Elements of DeFi

Smart Contracts: Smart contracts, which are self-executing agreements with terms written directly into the code, are essential to DeFi. These contracts automate transactions and ensure that they occur when specified criteria are met, reducing the need for intermediaries. Programming languages like Solidity (for Ethereum) are commonly used to write smart contracts in DeFi. This allows the creation of self-executing contracts with the terms directly integrated in the code. When certain criteria are satisfied, these contracts that have been put on a blockchain start to run automatically. To eliminate the need for a centralized middleman, a smart contract, for example, makes sure that when a user deposits collateral, a loan is immediately given depending on the value of the collateral.

Decentralized Exchanges (DEXs): Unlike traditional exchanges, DEXs allow users to trade cryptocurrencies directly with one another via an automated process that is frequently assisted by liquidity pools. Platforms like Uniswap and Sushi Swap demonstrate this idea.

Borrowing and Lending Protocols: DeFi lending services, such as Aave and Compound, allow users to lend bitcoin for interest or borrow against collateral. This method provides cash without requiring traditional credit checks.

Stablecoins: These are linked to existing assets (such as the US dollar) to provide price stability. Stablecoins such as DAI and USDC are required for trade and lending in the DeFi ecosystem.

Yield Farming and Liquidity Mining: Yield farming is the process by which users supply liquidity to DeFi protocols in exchange for incentives, such as governance tokens. Liquidity

mining promotes users to increase liquidity on exchanges.

Insurance Protocols: DeFi insurance platforms, such as Nexus Mutual, cover risks such as smart contract failures and hacker attacks, allowing customers to protect their funds.

Central Bank Digital Currencies (CBDCs) and DeFi

One possible turning point in the development of DeFi is the emergence of Central Bank Digital Currencies (CBDCs). The stability and regulatory control of traditional banking with the transparency and inclusivity of DeFi might be combined by CBDCs by permitting the usage of government-backed digital currencies on decentralized platforms. Better interaction with current financial systems may be ensured by the wider institutional adoption of DeFi made possible by these digital currencies.

Use Cases in DeFi

With a plethora of creative applications, decentralized finance

(DeFi) and decentralized blockchain platforms are revolutionizing conventional financial services:

- **Decentralized Lending and Borrowing:** Peer-to-peer lending without middlemen is made possible using platforms such as Aave and Compound, which let users borrow money.
- **Decentralized Exchanges (DEXs):** By utilizing automated market maker (AMM) technologies, platforms such as Uniswap, SushiSwap, and PancakeSwap enable users to trade directly without depending on centralized exchanges.
- **Stablecoins:** By tying their value to fiat money, stablecoins like DAI and USDT offer stability in the erratic cryptocurrency market and make loans and transactions safer.
- **Liquidity Mining and Yield Farming:** Yearn.Finance and Curve Finance are two platforms that let users exchange liquidity for incentives like governance tokens.

“The stability and regulatory control of traditional banking with the transparency and inclusivity of DeFi might be combined by CBDCs by permitting the usage of government-backed digital currencies on decentralized platforms.”



Opportunities and Challenges in DeFi

Opportunities in DeFi	Challenges in DeFi
Control for Users: Users have direct access to and control over their funds, unlike traditional banking institutions.	Security Concerns: DeFi platforms may be prone to hacks and exploits due to smart contract weaknesses.
Broad Accessibility: DeFi systems are available to everyone with an internet connection, providing financial services to underserved communities.	Regulatory Challenges: The lack of specified regulatory frameworks creates risks for users and can hinder innovation.
Enhanced Transparency: All transactions are recorded on public blockchains, which fosters trust and enables independent verification.	Complex Technical Landscape: The complexity of DeFi can be intimidating for beginners, restricting adoption.
Cost Savings: By eliminating intermediaries, DeFi reduces transaction fees and provides competitive interest rates.	Market Volatility: The inherent unpredictability of the cryptocurrency market may influence the dependability of DeFi platforms.
Interconnectedness: Many DeFi protocols are based on open standards, allowing for seamless integration and interaction across many platforms.	Scalability Issues: High demand can generate network congestion, slowing transaction times and increasing prices.

- **Decentralized Insurance:** To protect against risks like smart contract malfunctions or hackers, platforms such as Nexus Mutual and Cover Protocol provide decentralized insurance.
- **Decentralized Identity and Reputation Systems:** BrightID and uPort are two platforms that provide users with secure, decentralized control over their credentials and personal information.

Risks associated with DeFi

Users using DeFi are subject to risks associated with the absence of consumer protection in addition to technical and security concerns. People who use DeFi are more susceptible to fraud or loss since it lacks the insurance or regulatory

Source: Compiled by the author

safeguards that traditional banking systems frequently provide. Moreover, the intricacy of DeFi protocols and the requirement for users to possess a high degree of technical knowledge may act as a deterrent to admission and raise the possibility of user error. Even little errors can result in large financial losses because most DeFi platforms make transactions irrevocable. Because many DeFi systems are run by decentralized communities, there is also a chance of governance problems, which could result in difficulties making decisions like disagreements on tokenomics or protocol updates. Finally, if DeFi grows, there is a chance that some protocols or tokens could be overexposed, which might lead to systemic problems in the ecosystem as a whole.

Opportunity for Chartered Accountants in DeFi

The rise of decentralized finance (DeFi) creates considerable prospects for Chartered Accountants. They can help ensure compliance with developing rules and guide DeFi projects through legal frameworks. CAs can also provide significant tax consulting services to individuals and



“The rise of decentralized finance (DeFi) creates considerable prospects for Chartered Accountants. They can help ensure compliance with developing rules and guide DeFi projects through legal frameworks.”

corporations navigating the complex tax implications of DeFi transactions.

CAs are also well-suited to perform financial audits on smart contracts and decentralized apps, ensuring their integrity and security. CAs can help mitigate risks such as smart contract vulnerabilities by doing extensive financial analysis and strategic planning.

As more firms implement DeFi solutions, the demand for accounting services suited to tokenized assets increases. CAs can provide proper bookkeeping frameworks and provide consulting to aid with this integration. Furthermore, as traditional financial professionals become more interested in DeFi, CAs might establish themselves as educators by offering DeFi-related workshops and training. By responding to these opportunities, Chartered Accountants can have a substantial impact on the emerging DeFi landscape.

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The Global Shift Away from Dollar Dominance: A New Path Forward

The global shift away from the U.S. dollar's dominance is known as “de-dollarization.” This movement is driven by nations seeking economic autonomy and resilience against dollar-centric policies. It traces the dollar's rise post-World War II, its strategic use in geopolitics, and the benefits it brought to the U.S. economy. It highlights the emerging economic power of India and the role of local currency trade agreements, particularly within BRICS. It

also explores the potential for a multipolar currency system and the challenges and opportunities it presents for global trade and financial markets.

The world economy has long been shaped by the pervasive influence of the U.S. dollar, the world's foremost reserve currency. Yet, a significant shift is underway, one that has taken root as nations aim to reduce their reliance on the dollar in international trade, financial transactions, and reserves. This movement, known as “de-dollarization,” is steadily gaining momentum, driven by the desire for greater economic autonomy, resilience against dollar-centric policies, and the strategic rebalancing of global power. To fully grasp the implications of this shift, it is essential to understand the journey of how the dollar rose to global dominance and the factors now challenging its supremacy.

How the Dollar became the Center of Global Commerce:

i. The Post-World War II Economic Landscape

The story of dollar dominance begins after the Second World War, in which the United States emerged as a global economic superpower. The Second World War left Europe and Asia in economic ruins, while the U.S. economy thrived, largely untouched by the conflict.

This advantageous position allowed the U.S. to solidify its financial hegemony through the establishment of key international institutions like the International Monetary Fund (IMF) and the World Bank.

The Bretton Woods Agreement in 1944 was a pivotal moment that established the dollar as the anchor of the global monetary system, linking it directly to gold at a fixed rate of \$35 per ounce. This agreement was designed to create a stable and cooperative international economic environment, preventing the competitive devaluations and protectionist policies that had contributed to the Great Depression and the rise of militarism in the interwar period. Although the gold standard ended in 1971 under President Nixon, the dollar retained its position as the preferred currency for international trade and reserves, upheld by the sheer size and influence of the U.S. economy.

ii. Strategic Economic Policies and Alliances

This dominance was further reinforced through strategic alliances and economic policies.

The United States leveraged its monetary influence not only to shape global commerce but also to exercise considerable influence over geopolitics. Western countries, particularly the U.S. and the European Union, often used the dollar to create dependencies and steer global politics to align with their interests. This influence permeated regional politics, laying the groundwork for divides that still impact international relations today.

Consider Asia, where colonial legacies left deep divisions that Western powers often emphasized to retain control. For example, tensions between India and Pakistan, nations with shared histories but politically charged borders, have been sustained, in part, by Western interests. Western countries frequently provided arms and financial aid strategically to both sides. India typically paid for its imports, while Pakistan often received foreign aid or loans, maintaining an imbalance that fostered rivalry. Such divisions prevented the kind of regional cooperation that could have made Asia a more unified economic powerhouse.

These dynamics weren't isolated to South Asia. Western powers also supported movements that

fragmented larger countries internally. The encouragement of separatist sentiments, such as Khalistan in India, Tibet in China, and Baluchistan in Pakistan, further fractured unity in the region. The constant churning of regional unrest maintained dependence on Western military and financial power, perpetuating reliance on the dollar.

iii. The Power of the Dollar in International Relations: Symbolic and Practical Dominance

To understand dollar dominance in practical terms, imagine an international summit where leaders of major powers, the U.S., India, China, and Russia, share a meal. At the end of the meal, the U.S. graciously picks up the bill, opting to settle payment in dollars. This symbolic act of footing the global bill in dollars has become the standard protocol, repeatedly reinforcing the dollar's status in international trade. Even if countries like China or Russia wanted to contribute in their own currencies, the existing system necessitates dollar transactions. Over time, the dollar becomes indispensable in global transactions, sidelining direct trade between nations.

This setup effectively granted the U.S. unparalleled financial freedom. With worldwide demand for dollars, the U.S. could print currency without the need to maintain an equivalent gold reserve or other assets, a luxury no other country could afford. As a result, the dollar's role as the de facto global reserve currency provided the U.S. with an economic cushion that allowed it to expand and exercise influence worldwide, particularly through financial aid, military spending, and global investments.

iv. Financial Leverage and Economic Policies

The dominance of the dollar also allowed the U.S. to implement economic policies with significant global repercussions. For instance,

when the Federal Reserve adjusts interest rates, it has immediate and profound effects on global financial markets. Countries holding large reserves of dollars are directly impacted by these changes, which can influence their own economic policies and stability.

Additionally, the ability to impose economic sanctions using the dollar provides the U.S. with a powerful tool for enforcing its foreign policy objectives. Nations that rely heavily on dollar transactions find themselves vulnerable to these sanctions, further reinforcing the dollar's central role in international relations.

How Dollar Dominance Boosted U.S. Prosperity: Economic Advantages and Domestic Benefits

The benefits of dollar dominance for the U.S. have been immense. This system has not only facilitated a high standard of living domestically but has also enabled shorter work weeks (Five- or Four-Days work week), robust welfare programs, affordable education (with Government Subsidy or Grant) and significant healthcare subsidies for U.S. citizens. The strength of the dollar has allowed the U.S. to import goods inexpensively from around the world, particularly from China, which emerged as the global manufacturing hub.

China, with its large and relatively low-cost labour force, has been instrumental in supporting American

“Indian professionals are in growing demand because of their ability to adapt and their strong commitment, traits that are especially appreciated in today's unpredictable and fast-changing global economy.”

consumption habits. Products such as electronics, clothing, and other consumer goods are manufactured cheaply in China and then rebranded by American companies, often marked up significantly for resale in U.S. markets. This arrangement boosted corporate profits in the U.S. and contributed to national wealth, supporting American lifestyles.

Trade Imbalances and Economic Strains

However, this relationship has begun to show signs of strain. China's population is aging, and the country is re-evaluating its economic priorities. Despite its status as the “world's factory,” China's per capita wealth hasn't grown at the same pace as its production capacity. In response, China has started to reduce its exports to the West, a move that has, in turn, reduced demand for the dollar and triggered shifts in the global economic landscape.





Moreover, the reliance on imported goods has led to significant trade imbalances, with the U.S. experiencing persistent trade deficits. This has raised concerns about the long-term sustainability of the current economic model, as trade deficits can lead to increased national debt and reduced economic sovereignty.

Shift Towards India and Indian Leadership

i. India's Emergence as an Economic Powerhouse

With cracks appearing in the dollar's foundation, attention has turned to India as a rising economic force. Many U.S.-based renowned IT companies have Indian-origin CEOs. India is also establishing itself as a major manufacturing center with several Fortune 500 MNCs setting up plants and offices in India. This pivot to India symbolizes not just the emergence of a new economic leader but also acknowledges the readiness of Indian professionals to take on global roles.

ii. Workforce Dynamics and Cultural Shifts

Indian professionals are in growing demand because of their ability to adapt and their strong commitment, traits that are especially appreciated in today's unpredictable and fast-changing global economy. Furthermore, visa policies in Western countries have

become more accommodating, allowing a larger number of Indian professionals to work abroad. The European Union, recognizing the strategic importance of a skilled and flexible workforce, sees Indians as a critical asset, especially as Western workforces, habituated to extensive benefits and protections, are sometimes viewed as less flexible.

This cultural shift has impacted work dynamics globally, with Indian professionals abroad often working at the same dedication level as their counterparts in India. These changes hint at a broader transformation influenced by shifts in dollar dominance and evolving work cultures, both of which resonate with India's reputation for resilience and a strong work ethic.

iii. Infrastructure and Investment in India

India's rise is supported by substantial investments in infrastructure and technology. The government has launched ambitious projects like "Make in India," aiming to turn the country into a global manufacturing hub. Investments in technology parks, improved transportation networks, and digital infrastructure have made India an attractive destination for multinational corporations. Additionally, initiatives to enhance education and vocational training ensure a steady supply of skilled

labour, further solidifying India's position in the global market.

The Rise of Local Currency Trade Agreements: BRICS and Beyond

Recognizing the shifting tides, our leaders have been proactive in establishing trade frameworks that bypass the dollar by entering into bilateral agreements. Further, through BRICS, a coalition of Brazil, Russia, India, China, and South Africa, nations are laying the groundwork for local currency trade agreements that pose a significant challenge to the dollar's hegemony. This approach reflects a departure from reliance on Western-dominated financial systems, enabling countries to sidestep dollar-based limitations and establish more autonomous economic relationships.

Practical Implementations and Case Studies

Several practical implementations of local currency trade agreements have already begun to take shape. For example, Russia and China have been conducting bilateral trade using their respective currencies, the ruble and the yuan, reducing their dependency on the dollar. Similarly, India has entered into agreements with various countries to facilitate trade in local currencies, fostering stronger economic ties independent of the dollar. These initiatives are not just theoretical; they have tangible impacts on global trade dynamics. By using local currencies, these nations can mitigate exchange rate risks and reduce transaction costs associated with currency conversions.

Expanding BRICS Influence

Beyond BRICS, other regional blocs and bilateral agreements are emerging to support de-dollarization. The African Union, for instance, is exploring the use of African currencies in trade agreements among member states, aiming to enhance economic integration across the continent. Similarly, the Association of Southeast Asian Nations (ASEAN) is considering mechanisms to promote

the use of regional currencies in trade, fostering greater economic cohesion in Asia.

Technological Innovations Facilitating De-Dollarization

Technological advancements are also playing a crucial role in facilitating de-dollarization. Blockchain technology and digital currencies offer new avenues for conducting transactions without relying on traditional banking systems dominated by the dollar. Countries like India and China are pioneering the development of their own digital currencies, such as the Digital Rupee and Yuan, which can be used for both domestic and international transactions, further reducing the need for dollar intermediaries.

Moreover, fintech innovations are enabling smoother and more secure cross-border payments in local currencies, making it easier for businesses and governments to engage in dollar-free transactions. These technological tools are essential for the practical implementation of de-dollarization, providing the infrastructure needed to support a multipolar currency system. (UPI payments in neighbouring countries)

De-Dollarization in Action: India's Initiatives in Regional Currency Trade

India is actively participating in de-dollarization efforts through regional collaborations and initiatives aimed at promoting the Indian Rupee in international trade. India has been negotiating trade agreements with neighbouring countries that prioritize the use of local currencies, enhancing economic cooperation, and reducing dependency on the dollar. Additionally, India is investing in digital payment infrastructure to facilitate smoother and more efficient cross-border transactions in Rupees and other regional currencies.

India's focus on building robust financial systems and fostering

regional partnerships underscores its commitment to becoming a key player in the multipolar economic order. By strengthening its own currency and promoting regional trade agreements, India is positioning itself as a central hub in the global shift away from dollar dominance.

The Path Forward: Strategies for Successful De-Dollarization Strengthening Regional Financial Institutions

To support de-dollarization, it is essential to strengthen regional financial institutions that can facilitate transactions in local currencies. Establishing regional development banks, payment systems, and financial regulatory frameworks can provide the necessary infrastructure for countries to conduct trade and financial transactions without relying on the dollar.

For example, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) under BRICS are examples of regional financial institutions that can support de-dollarization efforts. These institutions can provide funding and financial services tailored to the needs of member countries, promoting the use of local currencies and reducing dependence on Western-dominated financial systems.

Promoting Economic Diversification and Innovation

Economic diversification and innovation are key to reducing dependency on any single currency. By fostering diverse industries and encouraging technological advancements, countries can create more resilient and self-sustaining economies.

Investing in research and development, supporting start-ups and innovation hubs, and promoting education and skills development can drive economic diversification. These efforts can enhance productivity, create high-value industries, and position countries as leaders in emerging sectors, further

reducing the need for dollar-centric economic strategies.

Conclusion: Embracing a Multipolar Economic Future

The global shift away from dollar dominance represents a transformative moment in international finance and geopolitics. Driven by the desire for greater economic autonomy, resilience against dollar-centric policies and the strategic rebalancing of global power, de-dollarization is reshaping the economic landscape. As nations like India and China rise as economic powerhouses, the emergence of multipolar currency systems presents both challenges and opportunities.

Embracing a multipolar economic future requires strategic planning of next 50 or 100 years, robust financial systems and strong international cooperation. By developing regional financial institutions, enhancing currency stability, promoting economic diversification and fostering international alliances, countries can successfully navigate the transition away from dollar dominance. This shift not only promotes greater economic sovereignty but also paves the way for a more balanced and equitable global economic order.

As Asia continues to step into its own, it has the opportunity to set new economic standards that reflect regional values and needs. By championing homegrown solutions and promoting diverse economic practices, Asian nations can demonstrate that multiple paths to economic and social progress can coexist. This is a powerful moment to reassert regional influence, preserve cultural authenticity and showcase that economic strength and cultural integrity can go hand in hand.

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The Chartered Accountants fraternity constitutes a strong and formidable workforce committed to the cause of nation-building and service to society. However, the same minds which are trained to handle complex auditing, taxation, advisory services, compliances, and financial management are nowadays experiencing various aspects of mental anxiety. This opens up the conversation about the issue that mental health is not just important but the need of the hour. The profession of Chartered Accountancy, once viewed as a major domain of intellectual skill and accuracy, is now facing more anxiety-related issues.

According to the World Health Organization (WHO), mental health is a state of mind in which an individual thinks well, learns well, works well and lives well, which allows the person to contribute better towards the community and society. As per WHO, mental health has become a basic human right and plays a vital role in personal, community, and socio-economic development.

Occupational Anxieties in the CA Profession

The profession of Chartered Accountancy usually requires a fast-paced work setting, which places the professionals at a risk of mental

From Awareness to Action: Mental Wellness for Chartered Accountants

anxiety. With various interlinked concerns, the primary issue arises from the pressure of deadlines, which involves psychological strain, particularly during peak periods, leaving little room for flexibility. In addition, the requirement for accuracy and precision in work, negligence of which may lead to penalties, legal consequences, or sometimes damage to the reputation of an individual, results in a rising incidence of anxiety. Last but not the least, client expectations add another dynamic dimension to the professional life of Chartered Accountants, providing opportunities to demonstrate both technical acumen and insightful advisory skills. During periods of seasonal workload, maintaining work-life balance becomes challenging for professionals, limiting opportunities for rest and rejuvenation.

Prevalence and Evidence

The global perspective on mental health in the accounting profession highlights the importance of addressing mental health concerns among professionals. As per survey reports conducted by CABA, the well-being charity of the Institute of Chartered Accountants in England and Wales (ICAEW), every 8 out of 10 Chartered Accountants acknowledge experiencing mental anxiety and high stress in the professional environment. The data states that about 56% of professionals from the field of Chartered Accountancy experience tension or burnout, which is significantly higher than the 41% observed in other sectors (*Chartered Accountants Worldwide, 2023*). Furthermore, the survey indicates that about 48% of the respondents felt fear of potential career ramifications, while 36% cited an unavailability of time for seeking assistance to deal with mental pressure (*Chartered Accountants Worldwide,*

2023). Another research reveals that accounting professionals are 36% more likely to experience mental anxiety and exhaustion than those in other work profiles (*International Accounting Bulletin, 2024*).

Reflections of Mental Anxiety

Mental anxiety can be emotional, cognitive, and physical symptoms among Chartered Accountants. A person may experience tenacity and worry that slacken their efforts in daily performance, followed by difficulty in concentrating, ultimately resulting in a drop in efficiency and productivity. Emotional and behavioral symptoms may include irritability and restlessness. Alongside this, psychological strains include impairment in interpersonal relationships and fear of professional insufficiency. Additionally, corporal symptoms involve muscle tension, pulsation, and insomnia. Ignoring such symptoms in the early stages may lead to severe clinical conditions, including panic attacks and major depressive episodes.

Implications for the Profession

Underscoring the importance of early recognition of anxiety and overlooking



the indications may have significant effects not only at the individual level but also at the organisational as well as societal levels. Extreme anxiety may affect decision making in dark ways, and continuous worry and strain may result in blurry judgment, increasing professional dubiety and disinterest. Elevated levels of anxiety can adversely affect client relationships when accompanied by commitments towards deadlines, which ultimately erode the trust and confidence between parties. For younger professionals, mental pressure may sometimes lead to attrition, placing a menace on effective professional development.

Mechanisms and Management Strategies

Individual-Level Interventions

At a personal level, by adapting several interventions, one can deal with mental anxiety and its impacts and boost overall performance:

- **Time Management:** Effective time management, supported by a prioritization framework, using digital tools for planning and forming delegation strategies, can enhance productivity and improve work-life balance. Proper planning is the cornerstone of effective time management.
- **Mindfulness Practices:** Engaging oneself in meditation, yoga, and breathing exercises can assist in dealing with anxiety efficiently and result in mental clarity.



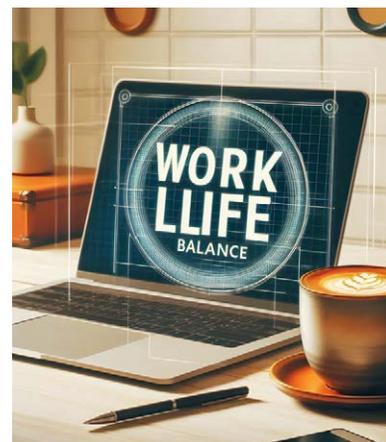
“Organisations can invest in mental and emotional health initiatives with the objective of mentoring employees and leaders about early signs and preventive measures for mental anxieties and other associated issues.”

- **Physical Workouts:** Investing a short span of time in physical activities such as running, jogging or small-scale exercises releases endorphins, which help in improving mood and strengthening the capacity to cope with burnouts.
- **Intellectual Techniques:** Thoughtful reframing and developing a cognitive behavioral technique can help individuals replace negative mindset with a positive perspective.

Organisational and Institutional Interventions

At the institutional or organisational level, creating a supportive environment with an interactive work culture can help in maintaining the sustainable performance of individuals, especially at the organisational level:

- **Workload Policies:** A systematic distribution of work and maintaining a balanced workload policy will prevent cases of anxiety and stress disorders.
- **Health Awareness Programs:** Organisations can invest in mental and emotional health initiatives with the objective of mentoring employees and leaders about early signs and preventive measures for mental anxieties and other associated issues.
- **Integration of Flexible Work Arrangements:** Promoting a flexible routine and hybrid model of work can enhance the balance



between personal and professional life of employees and hence, minimise elements that cause mental strain.

- **Employee Assistance Programs (EAPs):** With the objective to improve work-life balance and employee well-being, and reducing the possibilities of burnout and fatigue, a series of programs including short-term counselling sessions, referrals for employees, and other wellness initiatives can ensure organisational support for professionals.
- Additionally, developing a positive and supportive culture at the workplace, where employees can openly share their thoughts and opinions, and seek peer support without fear of judgment or career backlash, will reduce the stigma around mental health.

Towards a Culture of Receptiveness

Perhaps the most deeply entrenched barrier to addressing mental anxiety within the Chartered Accountancy profession is the persistent perception of vulnerability as weakness. Rooted in traditions of precision, rigor, and reliability, the profession often rewards perfectionism and discourages expressions of personal struggle. This implicit expectation that Chartered Accountants must remain composed and error-free sometimes creates a culture of silence, where professionals hesitate to disclose their challenges

for fear of reputational harm or career repercussions.

With the growing evidence at present, one can observe the silence towards this issue not only affecting personal lifestyle but also costing an individual professionally. Unnoticed and ignored symptoms of anxiety can affect decision-making, client relationships, and reduce productivity. To deal with such concerns, it is important to be open to conversations about mental anxiety and continue to develop programs that ultimately equip CAs to understand and apply practical tools to address such concerns at any stage of their careers.

Leadership also plays an equally important role in establishing a positive atmosphere for fellow employees. When the senior leadership openly shares their challenges and talks about wellness needs, it enhances the growth of interactivity and develops a culture that is both acceptable and encouraged by employees. At the community level, organisations, institutes, and firms should promote wellness in the workplace and explore the dimension of involving mental well-being policies under their code of conduct.

Developing a culture of receptiveness has now become a systemic necessity, rather than a peripheral task. By removing stigma and including empathy in the work culture, Chartered Accountants can move towards a healthier future where well-being is considered as a foundation for professional growth rather than a byproduct.



“The demands of the profession, from strict deadlines to regulatory compliance, alongside high expectations from clients, easily place anxiety and tension at the center of the work. Neglecting such pressure and carrying forward with an angst may lead to negative effects on decision-making, compromise productivity, and increase the chances of eroding the trust between clients and professionals.”

Conclusion

Mental anxiety among Chartered Accountants is not merely an individual concern but a systemic issue with far-reaching professional, organisational, and societal implications. The demands of the profession, from strict deadlines to regulatory compliance, alongside high expectations from clients, easily place anxiety and tension at the center of the work. Neglecting such pressure and carrying forward with an angst may lead to negative effects on decision-making, compromise productivity, and increase the chances of eroding the trust between clients and professionals. Encouragingly, both individual-level interventions such as mindfulness practices, cognitive reframing, and professional counselling and organisational strategies, including realistic workload management, flexible work policies, and open dialogue around mental health, can collectively mitigate these risks. By developing and promoting ease in frequent discussions about mental health, framing a supportive structure at workplace, and providing opportunities to employees to freely



discover and understand the root cause of their concerns can improve productivity, resulting in safeguarding the overall growth of the employee.

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Q Can a Chartered Accountant in practice disclose information acquired in the course of his professional engagement?

No, as per Clause (1) of Part-I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

Q Whether an auditor is required to provide to the client or to main auditor of the Head Office of the same enterprise access to his audit working papers?

No, working papers are the property of an auditor. An auditor is not required to provide the client access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. The auditor may at his discretion, in cases considered appropriate by him, make portions of, or extracts from his working papers available to the client.

Q Whether Joint Auditors can demand the working papers of one another?

No, the working papers are the property of an auditor. Therefore, no Joint Auditor can demand the working papers of the other auditor.

Q Whether a Joint Auditor will be responsible for the work done by other Joint Auditor?

The Council direction under Paragraph 2.15.1.2(ii) under Clause (2) of Part -I of the Second Schedule to the Chartered Accountants Act, 1949, appearing in Volume II of the Code of Ethics, prescribes that in respect of audit work divided among the Joint Auditors, each Joint Auditor is responsible only for the work allocated to him including proper execution of the audit procedures. However, on the other hand, all the Joint Auditors are jointly and severally responsible for the work which is not inter-se divided among the auditors.

Q Can a Chartered Accountant in Service accept or agree to accept any part of fees, profits or gains from a Lawyer, a Chartered Accountant or Broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification?

No, Clause (2) of Part-II of First Schedule to the Chartered Accountants Act, 1949, prohibits a member in service from accepting or agreeing to accept any part of fees, profits or gains from a Lawyer, a Chartered Accountant or Broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

Q Whether a member of the Institute shall be deemed to be guilty of professional misconduct, if he includes in any statement, return or form to be submitted to the Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false?

Yes, as per Clause (3) of Part-II of the Second Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct if he includes in any statement, return or form to be submitted to the Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

Q Whether the member in practice can permit his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast?

No, as per clause (3) of Part-I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice will be deemed to be guilty of professional misconduct if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transaction in a manner which may lead to the belief that he vouches for the accuracy of the forecast. As per opinion of the Council, a Chartered Accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts and so long as he does not vouch for the accuracy of the forecasts. The member has to comply with SAE 3400 while drafting the report for such engagements.

Q Can a member in practice express his opinion on financial statements of any business or enterprise in which he, his relative, his firm or a partner in his firm has a substantial interest?

No, as per Clause (4) of Part-I of the Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he expresses his opinion on financial statements of any business or any enterprise in which he, his firm or a partner in his firm has substantial interest. 'Substantial interest' here has the same meaning as contained in the resolution passed by the Council in pursuance to Regulation 190A of the CA Regulations, 1988.

However, in case of a company, under Section 141(3)(d)(i) of the Companies Act, 2013, a member cannot accept audit even if he or his partner holds a single share.

Further, in case of a company, under Section 141(3)(d)(i) of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014, the relative of an auditor cannot hold security or interest in the company of face value in excess of one lakh rupees.

In case of entities other than companies, the criteria laid down for relatives in Regulation 190A of the CA Regulations, 1988 may be referred.

Q Can an auditor write the books of accounts of the auditee?

No, Council directions under Paragraph 2.15.1.4(xi) under Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of Code of Ethics prescribe that an auditor is not permitted to write the books of accounts of his auditee clients.

Further section 144 of the Companies Act, 2013 bars the auditor of a company to directly or indirectly render accounting and book keeping services to the said company, or its holding company or subsidiary company.

Q Whether the fee received from limited review/quarterly Audit of the same undertaking/company under the listing regulations should be included in the fee received for carrying out the "statutory audit of the same undertaking/company", while comparing the same with the fee from permissible non-audit services?

The exemptions to the general rule contained in Chapter IX of Council General Guidelines mention "audit under any other statute". The limited/quarterly review would not be included in the same, as these are done in the same statute (i.e. Companies Act, 2013). Hence, limited Review/quarterly Audit may be deemed to be included in statutory Audit.

Q Whether a member in practice will be liable, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading?

Yes, as per Clause (5) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice shall be deemed to be guilty of professional misconduct, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading.



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Accounting treatment of expenditure towards Special Development Plan (SDP) by the Company, under Ind AS framework.

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is a wholly owned undertaking of the Government of Karnataka (GoK), incorporated under the Companies Act, 2013 on 20th October, 2016 in the state of Karnataka as a Special Purpose Vehicle to cater to the drinking water and irrigation needs of drought prone areas of various districts of the Karnataka. The Government has transferred the following projects to the Company which cover the above districts for expeditious implementation:

1. U B Project
2. Y Integrated Drinking Water Project
3. K Tank Filling Project
4. V Sagar Project
5. G Project

2. Besides, in keeping with the demands of certain districts which have been facing persistent drought situation owing to poor rainfall and depletion of groundwater without any permanent source of irrigation, the Government has constituted an expert committee to study alternative sources of water availability from different sources to provide permanent irrigation facilities to these districts. Any such project recommended by this committee if approved and entrusted by the Government, the Company will take action for its implementation.

3. The Company functions as a corporate entity through financial assistance by way of budgetary support from the Government of Karnataka; besides, it will also borrow the funds from financial institutions based on government guarantee to execute its projects.

4. Shareholding pattern of the Company is follows:

Sl.	Name of the Shareholder	No. of Shares	Equity Share Capital as on 31.03.2024	% of Holding
1	Government of Karnataka	21,48,89,631 (Face value of Rs.1,000/- each)	2,14,88,96,31,000	100%

5. Objectives of the Company include:

Providing irrigation facilities to drought areas of Karnataka such as:

- i. To take up and implement the projects proposed based on the study report to be submitted by the Expert Committee for formulation of permanent irrigation facilities to certain districts and has transferred the Y Integrated drinking water project and the U B Irrigation Project and allied projects from K Nigam Limited and also other projects that the State Government may entrust from time to time for catering to the water needs of the drought prone areas of various districts of Karnataka.
- ii. To plan, investigate, estimate, build, operate, and maintain all kinds of infrastructures like Dams, Reservoirs, Barrages, Weirs, Canals, Lift Irrigation Schemes, Solar Irrigation Systems, Pipelines, Road Works, etc. required for the Project for supply of water for irrigation, drinking, power generation and other purposes including the works of Command Area Development Authority (CADA).
- iii. To promote, adopt modern irrigation systems / methods like sprinkler, drip, solar water pumps and any other methods or systems for effective utilisation of water and build, construct, operate, maintain irrigation project entrusted by the State Government including providing rehabilitation of people and places affected by the building of water utilisation projects and promote suitable scheme for afforestation and control flood by

adopting suitable ways, means and standards and also providing navigation, leisure / recreation activities, fisheries, etc., in the rivers / water bodies.

- iv. The Government has also entrusted the work of providing irrigation and other facilities to backward classes of the society through Special Component Plan (SCP) and Tribal Sub Plan (TSP) and other Government schemes (National Bank for Agriculture and Rural Development (NABARD) and Special Development Plan (SDP).

6. Financial transactions of the Company:

The Company executes and fulfills the objectives out of budgetary support from the Government of Karnataka. Apart from the main objectives, the Company executes Special Component Plan (SCP) & Tribal Sub Plan (TSP) works and Special Development Plan (SDP) works through specific budgetary allocations.

The Company avails loans from banks and financial institutions to execute the works and repays the loans from budgetary support from the Government of Karnataka.

The Company capitalises the project as and when it is completed and depreciates accordingly. The commercial operations are yet to be commenced for two major projects viz., Y Integrated Drinking Water Project and U B Irrigation Project. Further, the revenue generated from the two completed projects, viz., V and G Reservoir Projects is very meager, which does not cover its operation and maintenance.

7. Accounting treatment of the transactions:

The Company is following Indian Accounting Standards (Ind AS) for preparation of its financial statements.

A. Receipt of Grants from the Government of Karnataka:

Sl.	Grants Head	Nature	Purpose
1.	Capital Grants - Received as Advance against equity	To execute the main projects.	To execute the core objectives of the Company and the assets owned by the Company.
2.	Capital Grants - Received as Advance against equity	To acquire land	To acquire the land to execute the core objectives and the assets owned by the Company.
3.	Capital Grants - Received as Advance against equity	SCP Grants	To execute the Special Component Plan and the assets are not owned by the Company.
4.	Capital Grants - Received as Advance against equity	TSP Grants	To execute the Tribal Sub Plan and the assets are not owned by the Company.
5.	Capital Grants - Received as Advance against equity	SDP Grants	To execute the Special Development Plan head works and the assets are not owned by the Company.
6.	Maintenance/ Revenue Grants	Maintenance Grants	To maintain the completed projects.

Sl.	Grants Head	Nature	Purpose
7.	Revenue Grants	Payment of Interest on Loans	Towards payment of interest on loan borrowed to execute the core objectives.
8.	Capital Grants - Received as Advance against equity	Repayment of Principal of Loan	Towards repayment of principal portion of loans.
9.	Revenue Grants	Payment of Guarantee Commission (GC)	Towards payment of GC to Government of Karnataka.

B. Accounting treatment of Grants:

Sl.	Nature of Grants	Debit	Credit
1.	Capital Grants to execute the main projects.	Expenditure is treated as Capital Work-in-progress under Property, plant and equipment.	Grant Receipt is treated as advance against equity and consequently treated as share capital on allotment.
2.	Capital Grants to acquire the land for main projects.	Expenditure is treated as Land under Property, plant and equipment.	Grant Receipt is treated as advance against equity and consequently treated as share capital on allotment.
3.	Capital Grants to execute the Special Component Plan.	Expenditure is offset against the grant's receipts grouped under liabilities.	Grant Receipt is in the nature of advance against equity and consequently converted as specific grants and offset against SCP CWIP.
4.	Capital Grants to execute the Tribal Sub Plan.	Expenditure is offset against the grant's receipts grouped under liabilities.	Grant Receipt is in the nature of advance against equity and consequently converted as specific grants and offset against TSP CWIP.
5.	Capital Grants to execute the Special Development Plan.	Expenditure is treated as revenue and debited to the Statement of Profit and Loss.	Grant Receipt is treated as advance against equity and consequently treated as share capital on allotment.
6.	Revenue Grants for maintenance of the completed projects.	Expenditure is treated as revenue and debited to the Statement of Profit and Loss.	Grant receipt is treated as income under the Statement of Profit and Loss.
7.	Revenue Grants for payment of interest.	Interest payment is treated as per Ind AS 23, 'Borrowing Costs'.	Grant receipt is treated in accordance with interest payment.
8.	Capital Grants for repayment of loan.	Utilised for Repayment of Loans by debiting loan liabilities.	Grant receipt is treated as advance against equity and consequently treated as share capital on allotment.
9.	Revenue Grants for payment of Guarantee Commission.	Treated as borrowing costs as per Ind AS 23, 'Borrowing Costs' net of grants received towards guarantee commission.	Grant receipt is initially treated as liability and fully set off against the guarantee commission paid.

The querist has stated that it may be observed from the above that the above accounting treatments are consistent with conservative accounting principles and Indian Accounting Standards.

In respect of SDP grants, refer to point no. 5 of the table.

8. The Company receives certain amount of equity funds under the mandate that it has to build infrastructure to make good the identified sector backlog in backward taluks. The expenditure on Special Development Plan (Dr.

Nanjundappa Package) works are identified and executed in the back-ward regions of the State coming under the purview of the Company's projects approved by the Planning Department, GoK.

9. The works under this plan head majorly comprise construction of barrages, check dams, roads and bridges, community halls etc., These works are generally capital in nature and some works like improvement to roads, repairs of existing barrages etc., are revenue in nature.

10. During the financial year (F.Y.) 2022-23, the Company has incurred an expenditure of Rs. 7977.93 lakhs towards construction of barrages under SDP. Since the Company does not exercise control over the assets created under SDP and hands over the same to the Government, the Company is charging such expenditure to the Statement of Profit and Loss since F.Y. 2017-18 as there is no future economic benefit from such assets to the Company.

Statutory Auditors' view:

11. The statutory auditors of the Company have been qualifying the treatment of expenditure on SDP works as follows:

“Expenditure incurred on construction of barrages under Special Development Plan in specified areas are capital in nature. Treating capital expenditures into revenue expenditure deviates the principles of fundamental accounting assumptions. Consequently, the Loss is overstated.”

The statutory auditors' view is that:

- (i) Grants received from Government is under the head of capital services and the treatment of such capital expenditure into revenue expenses deviates the concept of revenue and capital items.
- (ii) Further, corresponding grants received to execute the SDP are treated as advance against equity and consequently treated as share capital which is in deviation of matching principles in the Statement of Profit and Loss.

Comptroller and Auditor General of India (C&AG) View:

12. The Comptroller and Auditor General of India (C&AG) has observed that “As the Company was not creating its own asset using these funds and was acting only as an executing agency for the Government, the expenditure incurred was not capital in nature. Hence, the accounting treatment for booking the expenditure through profit and loss account was appropriate”.

B. Query

13. In view of the divergent opinions between statutory auditor and the C&AG, the Company is seeking an opinion from the Expert Advisory Committee (EAC) on expenditure incurred on Special Development Plan on the following issues:

- (i) Whether the accounting treatment followed by the Company of treating the expenditure on construction of barrages, other civil infrastructures, not owned by the Company as revenue expenditure by debit to Statement of Profit and Loss is appropriate and complies with the generally accepted accounting principles.

- (ii) If the accounting treatment followed by the Company is not in order, what is the correct accounting treatment that needs to be followed by the Company?

It is to be noted that the funds received from the Government of Karnataka towards SDP are in the form of ‘Advances against Equity’ and subsequently, shares are allotted towards the same.

C. Points considered by the Committee

14. The Committee notes that the basic issue raised by the querist relates to accounting treatment of expenditure towards Special Development Plan (SDP) by the Company. The Committee has therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as accounting treatment of various projects transferred by the government to the Company and works/expenditure undertaken by the Company other than SDP works (such as, SCP and TSP plans, etc.), accounting treatment of various funds borrowed from banks and financial institutions based on government guarantee for execution of projects including repayment thereof, accounting for funds or grants received from the government towards various projects/programmes including SDP, accounting for advance against equity and issuance of shares of the Company, timing of capitalisation of these projects (if any), accounting for payment of GC, appropriateness of reporting or expression of opinion by the auditors, etc. Further, the Accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time.

At the outset, the Committee notes from the facts provided and various government orders shared by the querist that the funds released to the Company towards SDP shall be considered as equity. Further, as per the submissions of the querist, the shares shall be issued for these advances against equity. Therefore, in the extant case, the Committee understands that there is no principal and agent relationship between the Company and the Government of Karnataka with regard to the funds provided for SDP and expenditure incurred out of these funds. Further, the Committee also wishes to point out that ‘matching of costs with income’ principle and source of funds do not constitute the criteria for treatment of expenditures to be met from using those funds; rather accounting for expenditure depends upon whether or not the expenditure meets the definitions and recognition criteria of ‘asset’ or ‘expense’ as per the relevant accounting framework.

15. With regard to the issue raised, the Committee notes that the work covered under SDP Project majorly comprises construction of barrages, check dams, roads and bridges,

community halls, improvement to roads, repairs of existing barrages etc. In this regard, the Committee examines, whether such expenditure leads to creation or recognition of an 'asset' (tangible or intangible) for the Company. Accordingly, the Committee notes the definition of 'asset' and other requirements from the 'Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS)', issued by the Institute of Chartered Accountants of India, as follows:

“4.3 An asset is a present economic resource controlled by the entity as a result of past events.

4.4 An economic resource is a right that has the potential to produce economic benefits.

4.5 This section discusses three aspects of those definitions:

- (a) right (see paragraphs 4.6–4.13);
- (b) potential to produce economic benefits (see paragraphs 4.14–4.18); and
- (c) control (see paragraphs 4.19–4.25).

Right

4.6 Rights that have the potential to produce economic benefits take many forms, including:

- (a) rights that correspond to an obligation of another party (see paragraph 4.39), for example:
 - (i) rights to receive cash.
 - (ii) rights to receive goods or services.
 - (iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward contract to buy an economic resource on terms that are currently favourable or an option to buy an economic resource.
 - (iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs (see paragraph 4.37).
- (b) rights that do not correspond to an obligation of another party, for example:
 - (i) rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from the residual value of a leased object.
 - (ii) rights to use intellectual property.”

“Potential to produce economic benefits

4.14 An economic resource is a right that has the potential to produce economic benefits. For that potential to exist, it does not need to be certain, or even likely, that the right will produce economic benefits. It is only necessary that the right already exists and that, in at least one circumstance, it would produce for the entity economic benefits beyond those available to all other parties.”

“Control

4.19 Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts. For example, an entity may control a proportionate share in a property without controlling the rights arising from ownership of the entire property. In such cases, the entity's asset is the share in the property, which it controls, not the rights arising from ownership of the entire property, which it does not control.

4.20 An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource.”

“4.69 Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.”

“5.5 The initial recognition of assets or liabilities arising from transactions or other events may result in the simultaneous recognition of both income and related expenses. For example, the sale of goods for cash results in the recognition of both income (from the recognition of one asset—the cash) and an expense (from the derecognition of another asset—the goods sold). The simultaneous recognition of income and related expenses is sometimes referred to as the matching of costs with income. Application of the concepts in the *Conceptual Framework* leads to such matching when it arises from the recognition of changes in assets and liabilities. However, matching of costs with income is not an objective of the *Conceptual Framework*. The *Conceptual Framework* does not allow the recognition in the balance sheet of items that do not meet the definition of an asset, a liability or equity.”

“Recognition criteria

- 5.6 Only items that meet the definition of an asset, a liability or equity are recognised in the balance sheet. Similarly, only items that meet the definition of income or expenses are recognised in the statement of profit and loss. However, not all items that meet the definition of one of those elements are recognised.”
- “5.10 It is important when making decisions about recognition to consider the information that would be given if an asset or liability were not recognised. For example, if no asset is recognised when expenditure is incurred, an expense is recognised. Over time, recognising the expense may, in some cases, provide useful information, for example, information that enables users of financial statements to identify trends.”

The Committee notes from the above that an asset can be recognised only when there is: (a) a right; (b) potential to produce economic benefits by using that right; and (c) control over the right as a resource. In the extant case, as per the facts submitted by the querist, the Company does not own or exercise control over the assets created under SDP. Further, the Company hands over the assets created to the Government after execution of works. Therefore, it can be said that the Company does not have the ability to direct the use of the assets created or to prevent other parties from directing their use or obtaining benefits from them. Furthermore, it is also specifically stated that there is no future economic

benefit from such assets to the Company. Thus, the Company neither has any right or control over the resources created nor there is any potential of future economic benefits from the expenditure incurred or the resources created in the extant case. Accordingly, the expenditure incurred towards SDP does not result into creation of any asset for the Company. Moreover, the facts submitted by the querist also do not suggest that expenditure incurred under SDP is attributable to the construction or development of another asset that may be recognised by the Company in its financial statements as per the requirements of relevant Ind AS, such as, Ind AS 16, Ind AS 38, etc. Therefore, considering the above-reproduced requirements of the Conceptual Framework, the Committee is of the view that the expenditure incurred towards SDP should be recognised as an expense in the Statement of Profit and Loss.

D. Opinion

16. On the basis of the above, the Committee is of the following opinion on the issue raised in paragraph 13 above that:
- (i) The accounting treatment followed by the Company of treating the expenditure on construction of barrages, other civil infrastructures, not owned by the Company as revenue expenditure by debit to Statement of Profit and Loss is appropriate, as discussed in paragraph 15 above.
 - (ii) In view of (i) above, answer to this question does not arise.

1.	The Opinion is only that of the Expert Advisory Committee and does not necessarily represent the Opinion of the Council of the Institute.
2.	The Opinion is based on the facts supplied and in the specific circumstances of the querist. The Committee finalised the Opinion on 30 th December, 2024. The Opinion must, therefore, be read in the light of any amendments and/or other developments subsequent to the issuance of Opinion by the Committee.
3.	The Compendium of Opinions containing the Opinions of Expert Advisory Committee has been published in forty-three volumes. These volumes are available for sale and can be procured online through CDS Portal at https://icai-cds.org/ .
4.	Opinions of the Committee may be accessed at the following link: https://eacopinion.icai.org/
5.	Opinions can be obtained from EAC as per its Advisory Service Rules which are available on the website of the ICAI, under the head ‘Resources’. For further information, write to eac@icai.in .

Accountant's Browser



PROFESSIONAL NEWS & VIEWS PUBLISHED ELSEWHERE

Index of some useful articles taken from Periodicals received during September – October 2025 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

From Published Accounts by Himanshu Kishnadwala. *BCAJ, September 2025, pp. 86-88*

2. Economics

Firm-size Distribution in Indian Manufacturing: Insights on the Missing Middle by Suraj Das, Simontini Das and Saikat Sinha Roy. *Economic & Political Weekly, September 27, 2025, pp. 48-54*

India's GIG Economy: "The Rise of Freelance India" by Kshitiz Srivastava. *Banking finance, September 2025, pp. 21-24*

Securing Futures: Innovating Health and Retirement Insurance for a Better Tomorrow by Naman Agrawal. *The Journal of Insurance Institute of India, July-September 2025, pp. 35-41*

3. Education

Higher Education Commission of India and Ministry-based Educational Institutions: A Comprehensive Perspective in the Light of NEP-2020 by Asheesh Srivastava. *University News, September 15-21, 2025, pp. 3-7*

4. Investment

Brand and IP Valuation: Economic Control vs. Legal Title by Dipam A. Patel. *BCAJ, September 2025, pp. 11-16*

5. Management

A Deep Dive into the Finances of Municipal Corporations in India by Manish Gupta, Aakash Gupta and Neeti Gupta. *Economic & Political Weekly, September 27, 2025, pp. 40-47*

Harnessing Level Five Leadership for Organizational Success in the Indian Landscape by Neenet Baby Manjaly. *Banking Finance, September 2025, pp. 42-46*

Now is the Time for Courage: Five Strategies to drive bold action amid uncertainty by Ranjay Gulati. *Harvard Business Review, September-October 2025, pp. 40-49*

Revisiting Financial Inclusion: Does Socio-economic Development Matter? by Ayushi Raichodhury. *Vikalpa, July-September 2025, pp. 231-249*

6. Taxation and Finance

Statements Recorded Under GST Law by Shraddha Sareen. *BCAJ, September 2025, pp. 23-29 & 63*

Full Texts of the above articles are available with the Central Council library, ICAI, which can be referred on all working days. For further inquiries please contact on 011-30110419 and 011-30110420 or by e-mail at library@icai.in.

CLASSIFIEDS

6129 A 45-year-old firm having HO in Kolkata, near Aaykar Bhawan Main Building, with branches in Mumbai, New Delhi, and Bengaluru, invites proposals for merger from sole proprietorship or partnership firms. Mail with a brief profile to **banbhattachal@gmail.com**

6130 We are a CA firm, just opened our new branch in Mumbai. We are looking for young, practising CAs (Max 40yrs with practising experience) as partners on full-time basis, purely on revenue-sharing model, for Mumbai and its suburbs. Contact: **vinayak030167@gmail.com**

6131 We are an Ahmedabad-based Firm with 10 partners, inviting proposals for merger from sole-proprietorship or partnership firms across India – preferred locations: Hyderabad, Bangalore, and Delhi. (No fixed remuneration) Email: **firms@shahteelani.com**



LEGAL Decisions



INCOME TAX

LD/74/43 High Court of Gujarat at Ahmedabad R/ Special Civil Application No. 6142 of 2024 Mehul Ravjibhai Surani Vs. Assessment Unit Income Tax Department & Anr 16th September 2025

High Court quashed reassessment order u/s 147 noting that it was passed without considering assessee's detailed reply in response to the notice u/s 148A(b); HC noted that AO gave a lame excuse in the affidavit-in-reply that as the Assessee had submitted irrelevant submissions, AO has not reproduced the submission in the impugned order; HC remarked that impugned order was passed in clear breach of principles of natural justice; HC therefore set aside the reassessment order and restored the matter back to the AO to pass a fresh de-novo order after providing opportunity to assessee.

LD/74/44 High Court of Chhattisgarh at Bilaspur: Tax No. 176 of 2025 Sanjay Kumar Baid Vs. Income Tax Officer 15th September 2025

HC allowed assessee's appeal observing that provisions of Section 96 of RFCTLARR that provides for exemption from income tax would be applicable to instances where land is acquired under the National Highways Act, 1956 (Act of 1956); Reliance placed on SC ruling in Tarsem Singh's case; Once the compensation is determined under the provisions of RFCTLARR Act, benefits flowing from the provisions of this Act, including exemptions from income tax, etc., contemplated u/s 96 of RFCTLARR Act, would also have to be made applicable; If the benefit flowing from Section 96 is not given to the land-losers whose lands have been acquired under the Act of 1956, it would mean that the land-

losers under the enactments are subjected to discrimination.

LD/74/45 ITAT Mumbai: ITA No. 1332/Mum/2024 H&M Housing Finance and Leasing Private Limited Vs. Deputy Commissioner of Income Tax 15th September 2025

ITAT directed Revenue to accept assessee's lease rental income under the head 'Income from house property' as against business income, following the principle of consistency; ITAT relied on Bombay HC judgment in Banzai Estates and SC judgment in Radhasoami Satsang and Bharat Sanchar Nigam Ltd. wherein the principle of consistency was upheld; Revenue brought nothing on record to show any material change in the impugned transaction, except for the contract renewal, nor was there any material change in the business objects of the Assessee; ITAT rejected Revenue's reliance on SC judgment in Chennai Properties on facts.

LD/74/46 Bombay High Court: Writ Petition No. 1489 of 2025 Vaibhav Maruti Dombale Vs. The Assistant Registrar, ITAT Mumbai 12th September 2025

Subsequent ruling of a superior court cannot be a ground for invoking the provisions of Section 254(2); Revenue filed MA before the ITAT, subsequent to ITAT order, requesting the Tribunal to recall its order dated September 5, 2022 by placing reliance on SC judgment in Checkmate Services; ITAT relied on the SC judgement in Saurashtra Kutch Stock Exchange; HC stated that Saurashtra Kutch judgment is not an authority for the proposition that the power u/s 254(2) can be invoked on the ground of "mistake apparent from the record" on the basis of a subsequent decision; Date when the original ITAT order was passed by the ITAT, it followed the law as it stood then and hence it could not be said that there was any error or apparent mistake.

LD/74/47 ITAT Mumbai: ITA No. 4692/Mum/2025 Mohanlal Chunilal Mutta Vs. The Income Tax Officer 12th September 2025

ITAT observed that, considering the voluminous documentary evidences furnished by the assessee, the additions w.r.t. alleged bogus purchases were clearly unsustainable in law; AO did not find any discrepancy in the evidences furnished by the assessee and without citing any

reason made an ad-hoc addition of 12.5% as the profit element; Assessee had demonstrated the complete cycle of the transaction; AO summarily rejected the submissions and failed to conduct any independent enquiry and primarily relied on the purported findings of the sales tax department; Also AO had failed to bring on record any evidence of cash being received by the Assessee.

LD/74/48 High Court of Gujarat at Ahmedabad: R/ Tax Appeal No. 1082 of 2024 The Commissioner of Income Tax (Exemption) Vs. Bhojaram Leuva Patel Seva Samaj Trust 08th September 2025

ITAT had set aside CIT(E) order which had rejected assessee's application for registration u/s 12AB holding that the question as to whether Trust is created or established for benefit of any particular religious community or caste in violation of Section 13 would be relevant for assessment of income under Section 11 and not at the time of granting registration; Power of CIT(E) u/s 12AB is limited to decide whether Trust has fulfilled necessary requirements of registration u/s 12A; CIT cannot mix the requirement of registration of a trust with that of granting exemption u/s 13; HC dismissed Revenue's appeal.

LD/74/49 ITAT Delhi: ITA Nos. 1879 & 1878/ DEL/2022 Anuvu UK Operations Ltd. (Erstwhile Known As Global Eagle Entertainment Ltd.) Vs. Assistant Commissioner of Income Tax, 3rd September 2025

ITAT held that consideration received by a UK based company towards providing video and audio content for in-flight entertainment (IFE) system to Indian airlines does not constitute as royalty in terms of Section 9(1)(vii) read with Article 13(4) of India-UK DTAA; Final product that emerges after compilation encoding and integration of videos as per the requirements of airlines was a copyrighted product of the assessee which is exhibited on IFE systems of the aircrafts operated by Air India, and as per the agreement assessee did not transfer any right in the copyrighted product but only permitted use of the copyrighted product; Revenue failed to show transfer of any knowhow or technical knowledge to airlines.

LD/74/50 Telangana High Court: Writ Petition No. 3201 of 2023 Smt. Anvida Bandi Vs. Deputy Commissioner of Income-Tax, 22nd August 2025

HC quashes GAAR proceedings initiated against an assessee holding that share transactions were

part of the investment portfolio of the assessee and hence not hit by GAAR provisions; Assessee sold her shares in HCL Technologies to generate a capital loss, in order to off-set the same against other long term capital gains to the tune of Rs. 44 Cr; HC quoted from the Expert Committee report on GAAR, wherein the Committee opined that sale and purchase through stock market transactions would not come under the GAAR provisions; As per HC, it was a 'pure trading' by the assessee, with no evidence of any 'arrangement' so as to attract GAAR.

LD/74/51 Chhattisgarh High Court: TAXC No. 111 of 2025 Collector Mining, Kanker Vs. The Deputy Commissioner of Income Tax (TDS) 27th August 2025

High Court set aside the ITAT order wherein demand was raised and interest and penalty was levied for non-compliance of Section 206C(1C); Compounding fee/fine collected u/s 23A of the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act) cannot be subjected to proceeding under Section 206C(1C) as there is no legislative mandate to collect tax at source (TCS) on it; Section 206C(1C) only obliges the assessee to collect TCS from person from whom 'royalty' is payable to the State Government and Section 206C(1C) cannot be extended to the person involved in illegal mining or transporting illegal minerals; Terms "royalty" and "compounding fee", both, are mutually exclusive".

LD/74/52 ITAT Bangalore: ITA No. 49/Bang/2023 Sushama Rajesh Rao Vs. The Deputy Commissioner of Income Tax 18th August 2025

ITAT held income after transfer of the asset, received by the assessee as a gift from her husband, is chargeable to tax in the hands of the husband of the assessee and not the assessee, in view of Section 64(1)(iv); Said property was sold which resulted in capital gain, and such capital gain was chargeable to tax only in the hands of the husband; ITAT rejected Revenue's argument that assessee's contention of capital gain being taxable in her husband's hand was an afterthought and so the assessee be prevented from raising this argument before the ITAT for the first time; As per ITAT, there is no option with the assessee or with AO to ignore the specific anti-avoidance rules under Section 64(1)(iv).



FEMA UPDATES

International Trade Settlement in Indian Rupees (INR)

A.P. (DIR Series) Circular No. 14 dated October 03, 2025

AD banks may permit investment of surplus balances in the Special Rupee Vostro Accounts, also in non-convertible debentures/bonds and commercial papers issued by an Indian company in terms of guidelines and limits prescribed vide the referred circular dated October 03, 2025.

Export Data Processing and Monitoring System (EDPMS) and Import Data Processing and Monitoring System (IDPMS) – Reconciliation of export/import entries

A.P. (DIR Series) Circular No. 12 dated October 01, 2025

To facilitate timely closure of entries in EDPMS and IDPMS and to reduce compliance burden on small exporters and importers, AD banks shall adopt following procedure while closing entries in EDPMS & IDPMS of value equivalent to Rs. 10 lakh per entry/bill or less:

- Such entries shall be reconciled and closed based on a declaration provided by the concerned exporter that the amount has been realised or by the importer that the amount has been paid.
- Any reduction in declared value or invoice value of the shipping bills/bills of entry shall also be accepted, based on the declaration by the concerned exporter or importer.
- The declarations referred above may also be received on a quarterly basis from the exporters and importers in a consolidated manner (by combining several bills in one declaration) for bulk reconciliation and closing of EDPMS/IDPMS entries.

AD banks shall also review the charges levied for handling these small-value export and import transactions, keeping in view the revised procedure/relaxations mentioned above and ensure that the same are commensurate with the services rendered. AD banks shall not levy any penal charges (penalty) for delays in adherence to any regulatory guidelines.

The above instructions shall come into force with immediate effect. The Master Direction – Export of

Goods & Services and Master Direction – Import of Goods & Services shall accordingly be updated to reflect the above changes.

Merchanting Trade Transactions (MTT) – Review of time period for outlay of foreign exchange

A.P. (DIR Series) Circular No. 11 dated October 01, 2025

As per prevalent guidelines, *the entire MTT shall be completed within an overall period of nine months and there shall not be any outlay of foreign exchange beyond four months. The commencement date of merchanting trade shall be the date of shipment / export leg receipt or import leg payment, whichever is first. The completion date shall be the date of shipment / export leg receipt or import leg payment, whichever is the last.*

In order to facilitate the traders to manage their MTT efficiently, it has been decided to increase the time period for outlay of foreign exchange from four to six months.

Foreign Exchange Management (Borrowing and Lending) Amendment Regulations, 2025

Notification No. FEMA 3(R)(4)/2025-RB dated October 06, 2025

In the principal regulations, in regulation 7 sub-regulation A, after clause (iii), the following clause (iv) shall be inserted, namely:-

“An AD bank may lend in Indian Rupees to a person resident outside India being a resident in Bhutan, Nepal or Sri Lanka, including a bank in these jurisdictions, for cross border trade transactions.”

Draft Regulations on Establishment of Branch/Office in India (2025)

On October 03, 2025, the Reserve Bank of India issued the **Draft FEMA (Establishment in India of a Branch or Office) Regulations, 2025**, proposing a complete revamp of the existing FEMA 22(R)/2016 framework governing foreign entities' presence in India.

Key Highlights of proposed changes are as under:

- **Unified Framework:** Consolidates Branch Office (BO), Liaison Office (LO), and Project Office (PO) into two categories – *Branch* and *Office*.

- **New Definition:** Introduces the term *Entity Resident Outside India (EROI)*, covering all foreign entities (excluding individuals).
- **Simplified Approval:** Dual-route system – *General Permission Route* (via AD Banks) and *Specific Approval Route* (for sensitive countries/sectors, government-controlled or NPO entities).
- **Relaxed Criteria:** Removes profit track record and minimum net worth conditions; adopts a principle-based approach by AD Banks.
- **Security Protocols:** Mandatory registration and reporting for EROIs from sensitive jurisdictions.
- **Operational Flexibility:** Allows additional business places with intimation; non-interest-bearing INR accounts; short-term deposits permitted.
- **Compliance Streamlining:** Annual Activity Certificate (AAC) filing timeline retained (6 months + 30 days) with flexibility; non-filing may lead to account freeze or closure.
- **Closure Mechanism:** Voluntary, automatic, and regulatory closure provisions with formal appeal process within RBI.
- **Ease of Exit:** Winding-up remittances allowed post-tax and legal compliance with CA certification.
- **Enhanced Oversight:** AD Banks to report establishment and closure monthly to RBI.

The draft shifts from a *rule-based* to a *principle-driven* regime—delegating more powers to AD Banks, reducing compliance burden, and improving ease of doing business while maintaining security oversight. **Comments have been invited by the RBI till 24 October 2025.**

Draft ECB Framework (Borrowing & Lending Regulations, 2025)

The Reserve Bank of India, on 3 October 2025, released the Draft FEMA (Borrowing and Lending)

(Fourth Amendment) Regulations, 2025, proposing a modernised and principle-based External Commercial Borrowing (ECB) regime to replace the existing 2018 framework.

Key Highlights of proposed changes are as under:

- **Net Worth-Linked Limit:** Borrowing permitted up to the higher of USD 1 billion or 300% of net worth; regulated financial entities exempt.
- **Market-Based Pricing:** Prescriptive cost ceilings removed; ECBs to follow market-determined rates on arm's-length terms.
- **Liberalised End Use:** ECBs allowed for FDI-permitted sectors, land acquisition/lease for industrial projects, and M&A transactions; certain traditional prohibitions (real estate, chit funds, etc.) retained.
- **Expanded Eligibility:** Wider base of Indian borrowers and recognised foreign lenders, including IFSC entities and regulated overseas branches.
- **Flexible Maturity:** Minimum average maturity of 3 years; manufacturing sector allowed ECBs of 1–3 years up to USD 50 million.
- **Currency Flexibility:** Borrowings permitted in INR or foreign currency, with ability to switch between them under defined conditions.
- **Security & Refinancing:** Flexibility in collateral and guarantees; permitted conversion of ECB into equity and refinancing subject to conditions.
- **Simplified Compliance:** Streamlined Form ECB / ECB-2 reporting; late submission fees for delay; LRN cancelled if no drawdown.

This draft marks a major liberalisation of India's ECB framework, shifting from rigid limits to a risk-based, globally aligned regime, facilitating easier access to international capital while maintaining prudential oversight. **Comments have been invited by the RBI till 24 October 2025.**

The section on Legal Decisions has been contributed by CA. Sahil Garud, Disciplinary Directorate. Matter related to FEMA has been contributed by CA. Manoj Shah, CA. Hinesh Doshi, CA. Sudha Bhushan, and C.A. Viral Satra, Mumbai.

DISCIPLINARY CASE

Failure to report outstanding loan liability in the audit report – Accepting appointment as an Auditor without first communicating with previous auditor and ensuring due procedure as laid down under the provisions of Companies Act, 2013 has been followed – Respondent is guilty of professional misconduct under Clauses (5) & (7) of Part I of the Second Schedule and Clauses (8) & (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

Held:

In this case, the Respondent, who was the statutory auditor for the financial years 2012-13 to 2014-15, was held guilty of professional misconduct for failing to report a significant outstanding loan of ₹19.44 crore owed by the Company to Bank, which had been classified as a non-performing asset and was under litigation before the Debt Recovery Tribunal. Despite being aware of the classification and legal proceedings, the Respondent did not report this material fact in his audit reports, nor did he disclose the associated contingent liabilities or security against the property in the financial statements, thereby failing to exercise due diligence and violating Clauses (5) and (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. Further, the Respondent accepted the statutory audit for FY 2014-15 without ensuring that the previous auditor had properly resigned or was removed in accordance with Sections 139 and 140 of the Companies Act, 2013. The Committee noted that the consent letters on record were contradictory, as the Respondent's consent was dated prior to that of the outgoing auditor, and no documentary evidence was submitted to establish written communication with the previous auditor in the manner prescribed under Clause (8) of Part I of the First Schedule. The Respondent also failed to produce minutes of appointment, resolutions passed by the Board or shareholders, or approval of the Central Government, if applicable, in accordance with Clause (9) of the First Schedule. The Committee, therefore, concluded that the Respondent had failed to comply with professional standards and statutory requirements and accordingly held him guilty of professional misconduct under Clauses (5) and (7) of Part I of the Second Schedule and Clauses (8) and (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

[PR-174A/2017/DD/229/2017/DC/1351/2020]

Acceptance of audit assignments without written communication to previous auditor – No positive evidence of prior communication – Respondent held guilty under Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949; exonerated under Clause (1) of Part II of the Second Schedule.

Held:

In this case, the Respondent was held guilty of professional misconduct for accepting the tax audit of six entities for the financial year 2017-18 without first communicating in writing with the Complainant, who was the previous auditor. The Committee noted that the Respondent merely attempted to contact the Complainant telephonically and failed to produce any positive evidence of communication in the prescribed manner, such as through Registered Post or other modes that ensure proof of delivery. As per the Code of Ethics and Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949, it is mandatory for the incoming auditor to communicate with the outgoing auditor in writing before accepting such assignments. The Respondent's failure to comply with this requirement constituted a violation of professional standards, and he was accordingly held guilty under Clause (8). With respect to the allegation of accepting audit assignments where undisputed fees of the previous auditor were pending, the Committee noted that the Complainant failed to substantiate this charge with the relevant financial statements or supporting records. It was also observed that a sum of ₹1.73 lakhs had already been paid to the Complainant, which could be construed as payment towards audit or other services, and the Complainant had not raised any formal objection with the auditee entity for non-payment of fees. Hence, in the absence of documentary evidence, the Committee exonerated the Respondent from the charge under Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

[PR/57/19-DD/79/19-DC/1374/2020]

ANNOUNCEMENT

Invitation to contribute in developing the Module wise Comprehensive Background Material of the Certificate Course on Skills Enrichment

The Professional Skills Enrichment Committee (PSEC), ICAI, cordially invites you to contribute to the development of the module-wise Comprehensive Background Material for the Certificate Course on Skills Enrichment. Your distinguished expertise and scholarly acumen are invaluable in shaping a curriculum that not only informs but also inspires our participants.

To elaborate, we are seeking detailed, well-researched documentation that outlines the foundational context, core objectives, and theoretical underpinnings of your respective modules. The material should elucidate the relevance of each subject area, address contemporary trends and challenges, and propose innovative pedagogical approaches that resonate with professionals in our field.

The course comprises ten modules, each focusing on essential professional skills. We would greatly appreciate your willingness to develop the background material for one or more modules of your choice. Your contributions will not only enhance the quality of the course but also provide participants with a strong conceptual foundation.

Purpose and Expectations

As part of our commitment to delivering a comprehensive and enriching learning experience, we aim to provide participants with well-structured background material for each module. This material will serve as a foundational reference, equipping learners with essential theoretical insights, key concepts, relevant case studies, and practical applications before they delve into deeper discussions and hands-on activities.

Key points to consider in your submission include:

- **Module Overview:** A succinct summary of the module's thematic focus and its significance in today's professional landscape.
- **Theoretical Foundations:** A discussion of the primary theories, models, and frameworks that inform the module's content.
- **Practical Relevance:** Insights into the module's application in real-world scenarios, highlighting case studies, examples, and best practices.
- **Future Directions:** An exploration of emerging trends and potential areas for further study that could enrich the module's content.

Remuneration and Submission

As a token of appreciation for your time and effort, you will receive remuneration as decided by the Committee upon successful submission of the background material & upon receiving the feedback of the participants of the aforesaid Certificate Course.

Selection Protocol

It is a rigorous evaluation process comprising credential verification and assessment of subject expertise. Final selection is based on experience and institutional requirements.

How to Apply

We kindly request you to revert to Dr. Sambit Kumar Mishra, Secretary, PSEC, ICAI (Telephone: 0120-3045994, E-mail: sambit.mishra@icai.in; psec@icai.in) at the earliest, with a brief profile, specific experience & expertise with reference to module you intend to write, proposed coverage in developing particular module & synopsis as per the syllabus of the certificate course, and proposed time frame for submitting the contribution by 30.11.2025.

Syllabus of the Certificate Course

Syllabus encompassing topics and their corresponding units of the module is available at <https://resource.cdn.icai.org/85081psec270325.pdf>

Should you require any further clarifications or specific guidelines, feel free to reach out. We truly value your involvement in shaping this professional development initiative and look forward to your affirmative response.

Chairman, PSEC, ICAI

Vice Chairman, PSEC, ICAI

Winners of the Global Ethics Day Quiz Contest 2025

Names of the winners of the Quiz Contest organized by the Ethical Standards Board, ICAI, on the occasion of Global Ethics Day, held between 1st - 15th October 2025.

Rank	Member's name	Membership No.
1 st	CA. Prachi Singh	195744
2 nd	CA. Yogesh Mehta S	190876
3 rd	CA. Ankit Nitin Gala	190718

Other top 25 performers

1.	CA. Anoop Kumar Sharma	459460
2.	CA. Vikalp Gupta	476885
3.	CA. Narayanan S	275705
4.	CA. Vinay Kr. Srivastav	82988
5.	CA. Sarthak Gupta	581070
6.	CA. Prabhjot Kaur	531164
7.	CA. Dhruvin Pankajkumar Talati	606975
8.	CA. Aditya Gulati	472715
9.	CA. Pratit Girishbhai Shah	193284
10.	CA. Abhishek Srivastava	472090
11.	CA. Santosh Dutta	302497
12.	CA. Ankita Kumari	565419
13.	CA. Lipu Ranjan Raj	314993
14.	CA. Chandan DC	284642
15.	CA. Arpit Rungta	438870
16.	CA. Swati Jain	445166
17.	CA. Vinay Kumar	567054
18.	CA. Ayush Pandoh	581049
19.	CA. Savan Subhashchandra Davda	173881
20.	CA. Rakesh Kumar Singh	404918
21.	CA. Sumit Kumar Yadav	453988
22.	CA. Samta Ahuja	98205
23.	CA. Sakshi Agarwal	177734
24.	CA. Subhayu Sanyal	53846
25.	CA. Neenu Babu	284696



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
Organised by: Committee on Financial Markets &
Investors Protection - ICAI
Hosted by: WIRC of ICAI



2 DAYS NATIONAL CONFERENCE ON CAPITAL MARKETS 2025

7&8
November
2025

Terapanth Bhavan,
Thakur Complex, Kandivalli East
 10.00 AM to 6.00 PM

Programme Schedule

12
CPE Hrs

Day 1 - 7th November, 2025

Keynote Address

Eminent Speaker

----- 11.00 AM to 12.00 Noon -----

Technical Session 1:

Mastering the IPO Landscape: Insights and Strategies

Session Chairman

CA. Krishnan Iyer

CA. Ratiraj Tibrewal

CA. Deepika Jain

CA. Prafulla Chhajed
President, CAPA and Past
President, ICAI

----- 12.00 Noon to 1.00 PM -----

Technical Session 2:

Decoding REITs & InVITs: Key Features and Investment Potential

----- 2.00 PM to 3.00 PM -----

Mr. Gaurav Chandna

CA. Preeti Chheda

Technical Session 3:

Accelerating Growth: Understanding Modern Capital Avenues

----- 3.00 PM to 4.00 PM -----

Session Chairman

CA. Ankit Agarwal

CA. Prateek Jhavar

CA. Subodh Kr. Agrawal
Past President, ICAI

CA. Vikas Khemani

CA. Ankur Maheshwari

Technical Session 4:

The Strategic Role of Chartered Accountants in Listed
Companies

----- 4.00 PM to 5.00 PM -----

Session Chairman

CA. Kailash B Gupta

CA. Vivek Mathur

CA. Kuldeep Kothari

CA. Nihar N Jambusaria,
Past President, ICAI



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
Organised by: **Committee on Financial Markets &
Investors Protection - ICAI**
Hosted by: **WIRC of ICAI**



2 DAYS NATIONAL CONFERENCE ON CAPITAL MARKETS 2025

Programme Schedule

Day 2 - 8th November, 2025

7&8
November
2025

Terapanth Bhavan,
Thakur Complex, Kandivali East

10.00 AM to 6.00 PM

12
CPE Hrs

Technical Session 5:

10.00 AM to 11.30 AM

Investment ki Pathshala – CA. – The Investment Guru

CA. Pawan Jain CA. Biharilal Deora

Technical Session 6:

11.30 AM to 1.00 PM

Unlocking the Power of MIS Reporting: Benefits and Insights

CA. Kumar Subbiah CA. Jugal Mantri

CA. Amit Kumar
Choudhary

Session Chairman

CA. Kamlesh S. Vikamsey,
Past President, ICAI

Technical Session 7:

2.00 PM to 3.30 PM

Unlocking the Potential of GIFT City: Global Connectivity & Growth

Shri. Pradeep
Ramakrishnan

CA. Aniket Talati
Past President, ICAI

Shri. Mr. V.
Balasubramaniam

CA. Amit Kedia

Technical Session 8:

3.30 PM to 5.00 PM

Capital Markets Decoded: A Strategic Perspective for Investors
and Professionals

Mr. Anuj Singhal CA. Sonal Bhutra

Conference Fees: **2,000/-**
*GST as Applicable



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Profession in Headlines...

HT Hindustan Times

Top chartered accountants' body to provide data for sovereign AI model

Press Trust of India

feedback@livemint.com

CANDOLIM (GOA): Chartered accountants' apex body ICAI is in discussions with the Ministry of Electronics and Information Technology (MeitY) to provide financial and economic data of listed companies for India's sovereign Artificial Intelligence (AI) model.

The ministry is working to develop the country's own large language models (LLMs).

A senior functionary at the Institute of Chartered Accountants of India (ICAI) said the institute plans to provide financial and economic data of listed companies to the LLMs (large language models) that will be developed in India.

ICAI, which also plays a key

THE MINISTRY IS WORKING TO DEVELOP THE COUNTRY'S OWN LARGE LANGUAGE MODELS

role in taxation and financial matters, has more than four lakh members.

"We are in discussions with MeitY. ICAI has a proposal to connect with MeitY to provide financial and economic data to the India-grown LLMs," the functionary told PTI.

According to him, the institute has data on listed companies, such as their balance sheets and audit reports. "We can give authenticated financial data for the LLMs." On October

10, Electronics and IT Secretary S Krishnan said India's sovereign AI model is expected to be ready before the AI Impact Summit in February next year.

The government will be organising a two-day India AI Impact Summit 2026 on February 19 and February 20 next year.

ICAI has started using AI in its activities to help its members in auditing work.

Among others, AI can automate repetitive tasks, enable continuous auditing, and perform data analytics for fraud detection and risk.

The ICAI functionary also said the institute is working on ways to tackle online and digital frauds and hoped that around 25% of such frauds can be reduced with its efforts.



THE TIMES OF INDIA

ICAI to launch international curriculum for CA aspirants in Ethiopia and Mauritius

Sonal Srivastava
@timesofindia.com

Charanjot Singh Nanda, president, ICAI.

The Institute of Chartered Accountants of India (ICAI) has zeroed in on two countries — Ethiopia and Mauritius — to launch an international curriculum within the next two years to support CA aspirants and accounting professionals in these countries.

The international curriculum will propagate the best practices of the Indian CA group globally, supporting the NEP 2020 objective of internationalisation of higher education, and is expected to expand ICAI's global presence while strengthening India's role in accountancy education. It aims to build international trust in ICAI's qualifications.

"ICAI is planning to launch its international curriculum in countries which do not have any professional accountancy body of their own or in countries where professional accountancy bodies are at a nascent stage. In this regard, ICAI is in the process of identifying potential jurisdictions to launch its international curriculum in countries where there is a good scope for robust accounting education and qualification systems. Recently, the IA Committee has reported having identified two countries — Ethiopia and Mauritius to take the project of international curriculum forward," says CA

Evaluating Syllabi
According to ICAI, the first step was to identify the countries. The next step will include the evaluation of syllabi, education patterns, and the expectations of the respective governments. After the evaluation, ICAI will make the necessary adjustments. International students will undergo a two-year practical training under an IFAC member body. Soft skills training will also be included in the curriculum.

ICAI will seek statutory recognition from the governments of these countries so that members qualified through the international course curriculum can practice locally. "There would be a single common curriculum for both Indian and international students in line with international best practices, with the exception of country-specific tax and law papers. All other subjects would have globally relevant standards and topics, making them common for both domestic and international students. After the formulation of syllabi, country-specific guidelines would be laid down. Formulation of syllabi for country-specific papers, ie, law and tax, would be done in consultation with governments — Ethiopia and Mauritius to take the project of international curriculum forward," says CA

based on the approved syllabi, the study material will be developed with the help of the subject experts," says CA Nanda.

"Following the development of syllabi, country-specific guidelines would be laid down in consultation with governments of respective countries," adds Nanda.

Furthermore, the Institute of Chartered Accountants of India has benchmarked its current Scheme of Education and Training against leading global accountancy bodies — CPA Canada, ICAEW, Singapore CA, CPA Australia, CIMA, ACCA, and AICPA. Key aspects such as the duration of the course, the number of levels, papers at each level, subjects covered, nomenclature, mode of assessment, and duration of practical training have been analysed to incorporate global best practices into ICAI's current scheme.

Global Reach

To enable its CA professionals to be globally ready, ICAI has also developed electives in niche areas such as forensic accounting, sustainability reporting, risk management, valuation, digital ecosystems, entrepreneurship and startup ecosystem, treasury management, and financial services. These have been integrated as electives through self-paced online modules.

(The journalist was invited to attend ICAI's media residential meet)



FINANCIAL EXPRESS

Read to Lead

ICAI to recommend ways to finance homegrown MDPs

MANU KAUSHIK

Candolim (Goa), October 12

AS THE GOVERNMENT is moving fast to enable formation of multi-disciplinary partnership (MDP) firms of professionals in India with necessary regulatory frameworks, the Institute of Chartered Accountants of India (ICAI) is planning to make recommendations on ways to arrange finances for proliferation and growth of such entities in India.

The ICAI, which is a body supported by a law made by Parliament, will prepare a report focusing on bringing finances to such firms.

ICAI President Charanjot Singh Nanda said on Sunday that discussions are on at the government level on boosting the financial avenues for MDPs, so that they can grow in size, with some even big enough to compete with the global Big Four.

The global consulting and auditing industry is currently valued at around \$240 billion. The government has stated that it wants to encourage indigenous professional service firms. The free trade agreements (FTAs) with the UK, EFTA and the ones on the anvil with the European Union are expected to facilitate rapid growth of Indian MDPs.

Commenting on the feasibility of Indian MDPs,

Nanda said the five elements, including regulatory benefits, technology, finance and capacity building will play a key role.

He also stressed the need to have a change in mindset when it comes to developing MDPs.

An ICAI working group on financing of homegrown MDPs will examine various aspects related to MDPs, such as getting funding for setting up offices and infrastructure, Nanda said.

On its part, the Ministry of Corporate Affairs has consti-

tuted an Inter-ministerial Group (IMG) on developing the domestic ecosystem of consulting and auditing firms.

The MDP firms will encompass areas like maintenance of cost records, accounting, auditing, assurance, secretarial, legal, valuation, and management, among others.

Experts have said for the first time that there is real momentum behind this effort. "It is not about enabling new small and medium enterprises (SMEs), it's about creating 10-20 large firms in addition to the ones that are there today. If we don't have the ecosystem to support local firms, then only the MNC firms will keep getting bigger. MDP is about having regulated business and unregulated business under one umbrella," Vishesh Chandniok, CEO, Grant Thornton Bharat, told FE.

The regulated business is restricted to be practiced by only specific professionals — company secretaries, accountants, lawyers, etc. The unregulated businesses include consulting, M&A, etc. The idea is how do you create enterprises which are multidisciplinary.

"Despite India's world-class talent pool, domestic firms remain marginal players, particularly in high-value audits and consulting, partly due to structural and regulatory barriers," the ministry said last month.

CHARANJOT SINGH
NANDA, PRESIDENT, ICAI

An ICAI working group on financing of homegrown MDPs will examine various aspects related to MDPs



FINANCIAL EXPRESS

READ TO LEAD

Local Big 4 plan to get legal boost

● **MCA drafting Companies Act amendments**

MANU KAUSHIK
New Delhi, October 13

A CLUTCH OF amendments to the Companies Act, 2013 is on the anvil to remove regulatory hurdles that stand in the way of the growth of multi-disciplinary partnership (MDP) firms of professionals.

According to sources, these amendments, now being prepared by the ministry of corporate affairs, would make it easy for the chartered accountants (CA), company secretaries, cost auditors, and actuaries to form MDPs that could provide both regulated and unregulated professional services.

"The government wants to bring everyone on board. It will require amendments in different sections of the Companies Act. The directive from the

TWEAKS IN THE OFFING

● The amendments would make it easy for CAs, company secretaries, others to form MDPs

● These could provide both regulated and unregulated professional services

● ICAI released MDP rules in 2021, but faced opposition from other regulatory bodies

● Regulated services include auditing, secretarial, cost auditing, and legal under a single firm

Prime Minister's Office (PMO) is to create firms that can offer all services under one umbrella, and compete with the Big Four," one of the sources said.



Under Section 141, for instance, an auditing firm can be appointed as a company's auditor only if a majority of its partners practising in India are qualified CAs. Similarly, Sections 148 and 204 apply to the cost auditors and company secretaries, respectively. However,

in an MDP structure with multiple partners from different professions, such "restrictive" regulations might not work.

"Alternatively, the government can bring a new section within the Companies Act that will allow formation of MDPs that can operate without any limitations mentioned in the Act," the source said.

In 2021, the Institute of Chartered Accountants of India (ICAI) released MDP guidelines but it faced opposition from other professional regulatory bodies like ICAI, ICSI due to some restrictive provisions.

Regulated services include auditing, secretarial, cost auditing, and legal under a single firm. Unregulated services are consulting, advisory, forensics, management, etc. Large size MDPs in the world offer atleast 10 services, with seamless collaboration to the benefit of large corporate groups.

Continued on Page 18

FINANCIAL EXPRESS

Local Big 4 plan to get legal muscle

TO TACKLE THESE regulatory shortcomings, the ministry initiated a public consultation in September 2023 to bring about a more relaxed framework for establishing MDPs in India.

"In India, restrictions on MDPs prevent professionals from working together under a single firm structure. As a result, they often operate in silos, limiting collaboration and the ability to offer integrated services like those provided by international firms. This restriction makes work less efficient, limits new ideas, and stops Indian professional firms from growing into full-service firms that can compete at the international level," the discussion paper noted.

Simultaneously, an inter-ministerial panel headed by Shaktikanta Das, the principal secretary to the Prime Minister, is planning a slew of changes in the current regulations to put into action the agenda of creating large Indian advisory and audit firms that can compete with the Big Four - EY, KPMG, PricewaterhouseCoopers, and Deloitte.

These include easing curbs on advertising by CAs, company secretaries, cost auditors, lawyers, etc. Also, a proposal to restrict the participation of foreign advisory firms in government



contracts is being discussed.

The Big Four have been able to scale up by offering specialised services such as valuation, cyber and IT risk evaluation, taxation, forensics, etc. in addition to providing statutory services. "The current law prohibits Indian CAs and audit firms from taking on non-Indian CAs as partners and limits opportunities to raise capital and scale as well as forces firms to operate under alternate practice structures," Grant Thornton Bharat said in a note.

Countries such as the US, UK, Australia and Canada allow firms to operate as a single entity providing both regulated and unregulated services with certain safeguards like mandating control to be retained by the domestic qualified individuals.

the pioneer

ICAI plans to provide financial data for India's sovereign AI model



Chartered accountants' apex body ICAI is in discussions with the Ministry of Electronics and Information Technology (MeitY) to provide financial and economic data of listed companies for India's sovereign Artificial Intelligence (AI) model. The ministry is working to develop the country's own large language models (LLMs). A senior functionary at the Institute of Chartered Accountants of India (ICAI) said the institute plans to provide financial and economic data of listed companies to the LLMs (large language models) that will be developed in India. ICAI, which also plays a key role in taxation and financial matters, has more than four lakh members. On October 10, Electronics and IT Secretary S Krishnan said India's sovereign AI model is expected to be ready before the AI Impact Summit in February next year. The government will be organising a two-day India AI Impact Summit 2026 on February 19 and February 20 next year. ICAI has started using AI in its activities to help its members in auditing work. Among others, AI can automate repetitive tasks, enable continuous auditing, and perform data analytics for fraud detection and risk. The ICAI functionary also said the institute is working on ways to tackle online and digital frauds and hoped that around 25 per cent of such frauds can be reduced with its efforts.



दैनिक जागरण

आईसीएआई ने कंपनियों के वित्तीय विवरणों की समीक्षा के नए मानक पेश किए
एजेंसी | नई दिल्ली

चार्टर्ड अकाउंटेंट के शीर्ष निकाय आईसीएआई के 'वित्तीय रिपोर्टिंग समीक्षा बोर्ड' (एफआरआरबी) ने कंपनियों के वित्तीय विवरणों की समीक्षा में गुणवत्ता सुधार के लिए नए मानदंड पेश किए हैं। इन मानदंडों में कम ऑडिट शुल्क, रिजर्व की नकारात्मक स्थिति, अधिक ऋण जोखिम वाली कंपनियां और दिवाला समाधान प्रक्रिया (आईआरपी) में भेजी गई कंपनियों को शामिल किया गया है। एफआरआरबी यह सुनिश्चित करना चाहता है कि कंपनियां लेखा मानक, लेखा-परीक्षा मानक और कंपनी अधिनियम की दूसरी एवं तीसरी सूची का अनुपालन करें।

DH

DECCAN HERALD

ICAI to support in training homegrown AI on tax, finance issues

India targets to rollout indigenous LLM in February

GVANENDRA KESHRI
NEW DELHI, DHNS

The Institute of Chartered Accountants of India (ICAI) has said that it will provide critical inputs and support in the development of India's homegrown Large Language Model (LLM) artificial intelligence, which is expected to be rolled out in February next year.

The accounting body is in discussions with the Ministry of Electronics and Information Technology (MeitY) to provide input based on the analysis of data of the listed companies.

Speaking at a media residential meet in Goa, ICAI President CA Charanjot Singh Nanda said the ICAI has been at the forefront of adopting the new technology in accounting and financial fraud detection.

The Indian accounting body has made artificial intelligence (AI) a part of its curriculum and training programmes. All students passing the Chartered Accountancy final examination from 2027 onwards will be trained in using artificial intelligence.

The institute has also taken initiatives to train its existing members in AI. Electronics and IT Secretary S Krishnan recently announced that India's indigenous LLM would be launched in February. LLM is a type of artificial intelligence system trained on vast amounts of data to understand and generate human-like language.

The ICAI input in the development of LLM would play a critical role in training the system on the issues related to Indian taxation and financial matters. It will also help in detecting and preventing financial frauds.

Individuals and firms in India suffered around Rs 25,000 crore losses in 2024 due to financial frauds. There have been growing instances of financial



ICAI President Charanjot Singh Nanda

frauds in recent years in different forms including digital arrests, account hacking and OTP frauds. According to the Indian Cybercrime Coordination Centre, the losses due to financial frauds are estimated to jump multi-fold in the coming years.

A top ICAI functionary claimed that the initiatives taken by the accountancy body could help prevent a substantial number of financial frauds and reduce the losses by upto 25%.

Nanda said the ICAI has been pushing for the use of technologically advanced accounting practices. "We encourage the use of cloud accounting, machine learning and blockchain for transparency," he said.

The ICAI is collaborating with leading global accounting bodies and educational institutions to push forward financial awareness and raise accounting standards.

Several accounting bodies and governments have shown keenness to use the forensic standards developed by the ICAI. "Our vision is to have 3 million highly skilled CAs to meet the growing demands of the global economy," Nanda said.

He said that several governments and accounting bodies have shown readiness to pay royalties for the use of ICAI forensic standards. The ICAI is also working on an international curriculum to enable Indian students to understand global compliance and regulatory frameworks. It has selected Mauritius and Ethiopia for the initial phase of syllabus mapping. The more countries will follow, an ICAI functionary said.

THE HINDU
BusinessLine

ICAI mulling ways to help desi firms gain financial muscle to compete with big four audit companies

Shishir Sinha
Goa

In order to facilitate the government's vision for developing big desi firms to compete with the big four audit, accounting and advisory firms, the Institute of Chartered Accounts of India (ICAI) on Sunday said it is studying ways to help such Indian companies gain financial strength.

"Indian firms getting ready to compete with big global firms will need to open more branches, employ more people beside other things. All these will require financial resources. ICAI is preparing a report to help in this direction," Charanjot Singh Nanda, ICAI President said here during a special media event. He also high-



lighted that apart from finance, the process for desi firms to become big will require regulatory benefit, technology, mindset to change and training & capability.

KEY ISSUES

The Prime Minister Office is actively working on Indian Multi-Disciplinary Partnership (MDP) firms. The Principal Secretary to the Prime Minister Shaktikanta Das has already chaired two meetings, attended by top-

officials from the Finance Ministry and Corporate Affairs Ministry, among others. Last month, the Corporate Affairs Ministry invited suggestions on the establishment of MDP firms. An office memorandum by the Ministry identified six key issues that need to be addressed to help Indian firms grow to an international level.

These include advertising and marketing bans, restrictions on MDPs, fragmented licencing, public procurement and empanelment processes, standalone operations, and the absence of global collaboration platforms. The global consulting and auditing industry is valued at nearly \$240 billion. Per MCA, despite India's world-class talent pool, domestic firms remain marginal players.

Meanwhile, talking about ICAI's blueprint for 'Economic Transformation Towards Viksit Bharat 2047', Nanda presented a five-point agenda. The first is to have 30 lakh highly skilled CAs. Second, a digitally empowered economy with AI, blockchain, and IoT driving governance and businesses. Third, supporting start-ups with compliance, fundraising, and fintech regulation. Fourth, collaborations with leading global accounting bodies and educational institutions, along with establishing global offices in collaborating nations. And fifth, encourage the use of cloud accounting, machine learning and blockchain for transparency.

The writer was in Goa at the invitation of ICAI



Nation Building to Global Collaboration: Strengthening Trust, Enabling Growth

About —•••

The World Forum of Accountants (WOFA) is a premier global platform that highlights the pivotal role of the Chartered Accountancy profession in shaping economies both nationally and internationally. As architects of growth, guardians of transparency, and stewards of integrity, Chartered Accountants have long been central to building trust and enabling sustainable progress.

WOFA 2.0 showcases the profession's impact in driving responsible innovation, financial stability and inclusive growth. With integrity as their cornerstone, Chartered Accountants have long contributed to the nation's economic foundation-strengthening trust through ethical practices and enabling growth through their expertise. The forum also underlines how these values extend across borders, positioning the profession as trusted partners in advancing sustainable development, global financial stability and responsible innovation worldwide.

The forum emphasizes collaboration, knowledge sharing, and professional excellence, inspiring accountants to act as bridges between governments, businesses, and communities. WOFA celebrates the profession's ability to transform expertise into global solutions, contributing to a future that is ethical, sustainable, and prosperous for all.

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Speaking Opportunity at WOFA 2.0	Y	Y	-	-	-	-	-
Physical Booth	90 m ²	72 m ²	54 m ²	36 m ²	18 m ²	9 m ²	6 m ²
Networking Slot (Dedicated meeting room at the venue)	Dedicated room (for 3 days)	Dedicated room -for Half day (for 3 days)	2 hrs per day for 3 days	2 hrs per day (for 2 days)	90 mins per day (for 2 days)	90 mins (for 1 day)	-
Complimentary registration (Full Access including social event)	80	70	50	30	20	10	5
Discount on Registration	Up to 80 delegate registration @ 10% discount	Up to 70 delegate registration @ 10% discount	Up to 50 delegate registration @ 10% discount	Up to 30 delegate registration @ 10% discount	Up to 20 delegate registration @ 10% discount	Up to 10 delegate registration @ 10% discount	Up to 5 delegate registration @ 10% discount
Complimentary Accompanying person for social event	80	70	50	30	20	10	5
Colour Advertisement in Souvenir	Inside Back cover full page	Full page	Full page	Full page	Half page	Half page	Name Listing
Firm Name on the website	Y (Home page)	Y (Home page)	Y	Y	Y	Y	Y
Displaying Firm's name at the Venue	Y	Y	Y	Y	Y	Y	-
Research Paper/Article in WOFA 2.0 Souvenir	Y (2500 words)	Y (1500 words)	Y (1500 words)	-	-	-	-
Recognition in post convention thank you emails to delegates	Y	Y	Y	Y	-	-	-
Firm Name on Registration Counter	Y	Y	-	-	-	-	-
Firm Name on delegate Badge	Y	-	-	-	-	-	-

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CORPORATE SPONSORS

WOFA 2.0 - Sponsorship Deliverables

Particulars	Lead Sponsor (Only one across all categories)	Titanium Sponsor	Platinum Sponsor	Diamond Sponsor	Gold Sponsor	Silver Sponsor	Bronze Sponsor
Price	5 Crores	1.5 Crores	75 Lacs	60 Lacs	40 Lacs	20 Lacs	10 Lacs
Speaking opportunities	Opportunity to host one high-level Roundtable with global leaders	Y	-	-	-	-	-
	Speaking Opportunity at WOFA 2.0	Keynote Address + Two Slots in Panel Session	Keynote Address	Y	Y	-	-
Networking & Hospitality	One high-profile Cultural Night (powered by [Company]).	Y	-	-	-	-	-
	One Award Night (powered by [Company]).	Y	-	-	-	-	-
	Exclusive Networking Lounge (powered by [Company]).	Y	-	-	-	-	-
	Exclusive Networking Dinner (powered by [Company]) (150 pax)	Y	-	-	-	-	-
Exhibition & Engagement Opportunities	Exhibition Stall Space	216 m ² (Prime Location)	126 m ²	90 m ²	54 m ²	36 m ²	24 m ²
	Exclusive Meeting Room for Workshop/Networking from January 30 to February 1, 2026 (100 pax)	2 rooms (for all 3 days)	1 room (for all 3 days)	1 room - for Half Day (for all 3 days)	1 room - for Half Day (for all 3 days)	-	-
	Dedicated hospitality desk with concierge for Lead Sponsor delegates.	Y	-	-	-	-	-
Registration and Social Event	Complimentary Registrations	500	250	75	60	40	20
	Discount on Registration	Up to 500 delegate registration @ 10% discount	Up to 250 delegate registration @ 10% discount	Up to 125 delegate registration @ 10% discount	Up to 100 delegate registration @ 10% discount	Up to 70 delegate registration @ 10% discount	Up to 30 delegate registration @ 10% discount
	Complimentary Social Event Passes	500	250	75	60	40	20
Marketing	Logo on Registration Counter	Y	Y	-	-	-	-
	Logo on all Outdoor Advertising & Digital Marketing Materials	Y	Y	Y	Y	Y	Y
	Logo on Dedicated Sponsor Banners at Venue	Y	Y	Y	Y	Y	Y
	Logo hyperlinked on the website	Y (Home page)	Y (Home page)	Y	Y	Y	Y
	Logo on all Invites & Passes	Y	Y	Y	-	-	-
	Logo on Delegate Badges	Y	Y	-	-	-	-
	Research Paper/Article in WOFA Souvenir	Y (2500 words)	Y (1500 words)	Y (1500 words)	Y (1500 words)	-	-
	Colour Advertisement in Souvenir	Back Cover Full Page	Front Inside Full Page	1 Full Page	1 Full Page	1 Half Page	1 Half Page
	Colour Advertisement in CA Journal	1 Full Page (6 editions)	1 Full Page (4 editions)	1 Full Page (3 editions)	1 Full Page (2 editions)	1 Full Page	-
Sponsor Recognition in post WOFA 2.0 thank you emails to delegates	Y	Y	Y	Y	Y	-	
Media Recognition	An interview with the leadership, promoted via WOFA 2.0 website and social media platforms	Y	Y	-	-	-	-
	Acknowledgement as sponsor in electronic media	Y	Y	-	-	-	-
	Acknowledgement as category sponsor in newspaper advertisement	Y	Y	Y	Y	Y	-
	Recorded Video with CEO / Leadership to be promoted at WOFA 2.0 website	3 min	2 min	-	-	-	-
	Social Media Posts with tags, mentions across Facebook, Instagram and Twitter	All posts	40	25	15	10	-
Brand Exposure	Display opportunity for your promotional film at Venue	2-3 min	2-3 min	1-2 min	1 min	-	-
	Recognition during WOFA 2.0	Y (before inaugural session)	Y (before inaugural session)	Y	Y	Y	-

Plus Applicable 18% GST.

World Forum of Accountants (WOFA 2.0), Greater Noida



WHY TO ATTEND

Engage to Expand your Network
and
Elevate your Expertise

Learn from
Global Leaders

Celebrate
the Profession

Stay
Future-Ready

Shape the
Future

Build Powerful
Networks

Gain Strategic
Perspectives

Explore
Innovation



Contact us:



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CA Firm Participation:
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