



THE CHARTERED ACCOUNTANT

JOURNAL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

CAAs for Sustainability

Building Value for People, Planet, and Profit





The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)



CRAFTING CAPTIVATING THOUGHTS

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Chartered Accountants and other subject experts, with academic passion and flair for writing, are invited to share their expertise through the ICAI Journal – *The Chartered Accountant*. The article may cover any topic relevant to the **accounting world covering auditing, finance, laws, strategy, taxation, technology, artificial intelligence, sustainability, ethics, financial reporting** and so on. While submitting articles, please keep following aspects in mind:

- ★ **The length of articles should be about 2000-2500 words.**
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- ★ **An executive summary of about 100 words should accompany the article.**
- ★ **Articles should be engaging, original and aligned with Journal guidelines. Every selected article is subjected to Plagiarism check in line with Editorial Board's Plagiarism Policy.**

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Building a Greener Tomorrow with Purpose and Progress

The future is in our hands; it is in the actions that we perform today. The journey toward a sustainable future is no longer a distant ideal but an urgent and achievable reality. As the world stands at the midpoint toward 2030, the challenges confronting humanity are immense, yet the progress already made offers a compelling narrative of hope and resilience. Over the past decade, remarkable strides across health, education, technology, and environmental stewardship have illustrated that when vision meets concerted action, transformative change unfolds.

Simultaneously, the planet's urgent call to action has been met with a surge of global cooperation and innovation. Renewable energy now accounts for nearly 30% of the world's electricity generation, poised to eclipse coal as the dominant source. Protected natural areas have nearly doubled in the last decade, and over 50 countries have eliminated neglected tropical diseases, demonstrating that ambitious goals backed by collaboration can yield extraordinary outcomes.

The momentum is bolstered by a growing framework of international rules and standards that ensure transparency, accountability, and alignment with sustainability efforts. The 2025 Conference of Parties (COP28) catalyzed a historic agreement on the Loss and Damage Fund, operationalizing climate justice by financially supporting vulnerable nations impacted by climate change. The International Sustainability Standards Board (ISSB) has unified over 40 jurisdictions around IFRS S1 and S2 standards, harmonizing sustainability and climate-related disclosures, while the Corporate Sustainability Reporting Directive (CSRD) in the European Union mandates a rigorous double materiality approach, requiring companies to disclose not only how sustainability impacts their business but also their effects on society and the environment. The Taskforce on Nature-related Financial Disclosures (TNFD) expands the focus beyond carbon emissions to biodiversity, guiding investors and corporations toward truly nature-positive actions. Moreover, green taxonomies in the EU, China, and ASEAN are now classifying economic activities with environmental rigor, making greenwashing increasingly difficult and responsible investing more transparent.

India's strides in this evolving global context are both commendable and inspiring. Despite joining the sustainability dialogue relatively late, India has surged forward with remarkable speed and commitment. By mid-2025, non-fossil fuel energy capacity reached 235.7 gigawatts, accounting for nearly half of the country's total power generation, achieving the Nationally Determined Contribution (NDC) target of 50% non-fossil energy five years ahead of schedule. India's leadership is further reinforced by its co-founding of the International Solar Alliance, which now includes 105 member nations with a bold ambition to mobilize one trillion US dollars in solar investments by 2030. The National Green

Hydrogen Mission signals India's commitment to pioneering clean-fuel technologies that will underpin the next industrial revolution.

India's regulatory landscape for sustainability has also matured rapidly. The Securities and Exchange Board of India's (SEBI) Business Responsibility and Sustainability Reporting (BRSR) framework, initially voluntary, now sets a structured, rigorous standard for environmental, social, and governance (ESG) disclosures across the top 1,000 listed companies. Its evolution into BRSR Core introduces quantifiable metrics, ranging from greenhouse gas emissions and gender diversity to supply chain due diligence, empowering investors and regulators with robust, actionable data. Complementing this, the Ministry of Finance's Green Taxonomy Working Group is devising a classification system that aligns with international standards to identify sustainable economic activities clearly. The Reserve Bank of India has issued draft guidelines on climate stress testing, financed emissions, and green lending incentives, embedding sustainability deeply within financial sector governance. These initiatives will channel capital toward sustainable activities & green finance, strengthen the financial system's resilience to climate risks, and accelerate India's transition to a low-carbon, green economy.

On the financing front, India's issuance of Sovereign Green Bonds, totaling ₹16,000 crore in FY 2024–25 with a target of ₹25,000 crore for the current year, illustrates a vibrant commitment to channel capital into clean energy, sustainable transport, and nature-based solutions. At the grassroots, the national campaign "Ek Ped Maa Ke Naam 2.0" has already seen over 5.5 crore trees planted, reflecting a profound cultural embrace of environmental stewardship.

These dynamic global and national efforts reveal that sustainability is no longer an abstract aspiration but the foundation of modern governance, economic growth, and ethical leadership. The world is witnessing a fundamental transformation where climate commitments, transparent reporting frameworks, and innovative financing mechanisms unite to forge a future of shared prosperity and environmental stewardship.

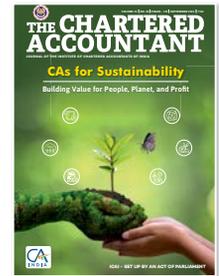
The road ahead, while challenging, is illuminated by a collective resolve and the power of cooperation. The remarkable progress achieved thus far provides compelling evidence that through strategic vision, policy alignment, and shared accountability, humanity can surmount the greatest challenges and construct an equitable, resilient, and flourishing world. The moment for decisive action is now, to transform ambitious commitments into measurable outcomes and convert aspirational hope into lasting, transformative change.

-Editorial Board ICAI

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From the President



CA. Charanjot Singh Nanda
President, ICAI

Dear Professional Colleagues,

“Earth provides enough to satisfy every man’s need, but not every man’s greed.” — Mahatma Gandhi

I draw inspiration from the timeless wisdom of the Atharva Veda, which proclaims, “माता भूमिः पुत्रोऽहं पृथिव्याः” — the Earth is my mother, and I am her child. This profound truth reminds us of our sacred duty to protect other nature and the planet. As Indians, we are heirs to a civilization that reveres nature, worshipping the Sun, Moon, rivers, trees, and the Earth itself. This cultural ethos instils in us the responsibility to treat every resource not merely as a utility, but as a divine blessing entrusted to our care. At this defining moment, India holds the moral and cultural strength to emerge as a torchbearer of sustainability, guiding the world toward harmony between progress and preservation.

India has made steady strides on the global sustainability landscape, demonstrating both ambition and tangible results. The country ranks 7th in the Renewable Energy Country Attractiveness Index and scores 67 on the UN Sustainable Development Goals Index, reflecting a strong balance between economic progress, environmental stewardship, and social responsibility. Flagship initiatives such as the Green Hydrogen Mission and PM Surya Ghar yojana have significantly expanded access to rooftop

solar for millions of households. Efforts such as Forest conservation, mass tree plantations, and Palli’s achievement as India’s first carbon-neutral panchayat underscore a holistic, people-centric approach to the green transition.

Yet, the path to sustainability remains challenging. India’s *Panchamrit* vision sets ambitious targets: achieving 500 GW of non-fossil fuel energy capacity by 2030, meeting half of national energy needs through renewables, reducing carbon emissions by one billion tonnes, cutting carbon intensity by 45% by 2030, and attaining net-zero emissions by 2070. Achieving these goals needs persistent action, robust policies, and collective will.

Sustainable finance, especially green finance, is emerging as a key enabler of this transition. Globally, labelled green, social, and sustainability bonds reached a record 1.1 trillion dollars in

2024, with green bonds forming the largest share. India has issued over 55.9 billion dollars of such bonds, mostly green, yet the scale of investment needed is enormous. To fulfil its climate commitments, India will need an estimated 160 billion dollars annually until 2030, rising to 1.5 trillion dollars by 2030, and a staggering 10.1 trillion dollars by 2070 to achieve net-zero. Mobilizing both private and public capital for green finance is therefore not just desirable, but essential.

Encouragingly, India’s regulatory framework is strengthening. The Reserve Bank of India’s Green Deposits framework, effective from June 2023, allows banks and non-banking finance companies to raise finance for genuine green projects. SEBI’s updated Green Debt Securities rules mandate clear disclosure of use of proceeds and independent external review, reducing the risk of greenwashing. Municipal bonds are also gaining momentum as instruments for sustainable urban development. SEBI regulations ensure transparency and discipline in issuing bonds. For instance, Indore Municipal Corporation’s green bond for a 60 MW solar project was oversubscribed, and the Ghaziabad Nagar Nigam issued India’s first certified green municipal bond to fund a sewage treatment plant. These examples demonstrate India’s ability to connect global sustainable capital with local needs, promoting ease of living and societal development.

Globally, sustainability is transforming the role of professionals, including accountants. International frameworks such as the ISSB, IFRS S1 & S2, and GRI standards embed ESG reporting within corporate governance. In India, SEBI's ESG disclosure regime and national green initiatives position Chartered Accountants as sustainability strategists, guiding organizations to balance profitability with broader environmental and social responsibility.

ICAI is actively supporting India's journey toward sustainable development and responsible growth. Through its Sustainability Reporting Standards Board, the Institute aligns with global ESG frameworks and equips businesses and professionals to adopt effective sustainability practices. Leveraging initiatives such as BRSR, dedicated groups on Impact Finance and Lifestyle for Environment (LiFE), comprehensive training and professional certifications, as well as the institutionalization of the Institute of Social Audit of India to support the development of the social sector in the country, ICAI is preparing Chartered Accountants to serve as champions of sustainability across industries. In June 2025, the Sustainability Reporting Standards Board (SRSB) of ICAI launched ICAI Sustainability Month, a nationwide campaign designed to raise awareness and encourage action on sustainability amongst members, students, and society. To further empower individuals and organizations in reducing their environmental impact, SRSB introduced the ICAI Carbon Emission Calculator, which enables accurate measurement and management of carbon footprints.

Rome was not built in a day, and neither will India's mission for sustainability. Yet the best view comes after the hardest climb. Achieving the Sustainable Development Goals (SDGs) requires coordinated action across sectors, from Smart Cities that reduce emissions and conserve resources to green finance mobilization that channels private and public capital into real impact. Personal actions, regenerative agriculture, reducing food waste, and localizing SDGs through empowered communities amplify these efforts. As trusted custodians, Chartered Accountants must lead the way in ensuring accountability, transparency, and sustainable decision-making. With determination and unity, India can achieve a sustainable future and position itself as a model of responsible global leadership.

Let us look at the developments of interest to the profession since our last communication –

From Policy to Progress: ICAI's Initiatives for Development in Jammu & Kashmir

On the occasion of India's 79th Independence Day, ICAI reaffirmed its commitment to the people of Jammu & Kashmir by convening its historic 445th Council Meeting in Pahalgam from August 12–14, 2025, becoming the first national institution to do so after the recent tragic incident in the Valley. The meeting was graced and addressed by Shri Omar Abdullah Ji, Hon'ble Chief Minister of Jammu & Kashmir. Addressing the Council, Shri Omar Abdullah Ji lauded ICAI's role in supporting governance reforms, strengthening economic planning, and inspiring confidence in the Valley. He remarked, *"Your presence here sends a powerful message of trust and reassurance. It reflects your faith in this land and assures our people that brighter days lie ahead. Winter is never eternal; spring will surely come."*

During the meeting, ICAI released and handed over a groundbreaking research report — *From Policy to Profit: Amplifying MSME Revenues in J&K through Targeted Government Initiatives to Hon'ble CM*. This study outlined a five-pillar strategy for enabling MSMEs to become sustainable revenue generators and offered actionable recommendations, inspired by global best practices. ICAI also announced collaborative initiatives with the J&K Government, extended fee waiver for local students, and unveiled plans for a Centre of Excellence to drive capacity building, research, and skill development. A detailed report of the meeting that took place is printed separately in this Journal.

Transformative Tax Reforms for a Simplified and Transparent India

India's economic framework is entering a historic phase of transformation with the passage of the Income-tax Bill, 2025, in Parliament alongside the announcement of next-generation GST reforms. Together, these initiatives represent a decisive leap toward simplification, transparency, and a compliance-friendly tax regime. The Hon'ble President of India's assent has been received on 21.8.2025, and the Income-tax Act, 2025 has been notified in the Official Gazette. The Income-tax Act, 2025, effective from April 1, 2026, replaces the six-decade-old 1961 Act with a modernised framework. By reducing the number of sections from over 800 to 536, introducing the concept of "Tax Year," making extensive use of tabular presentations to consolidate provisions, and placing exemption provisions in Schedules, the new Act has made the income-tax law lucid and easy to read and understand.

Further, I am happy to inform that the *status quo* has rightly been maintained in the definition of “accountant”, underlining that Chartered Accountants are the only professionals who possess the expertise to conduct tax audit and furnish reports and certificates under the various provisions of the Income-tax Acts of 1961 and 2025. Also, it is heartening to note that more than 90 suggestions in the ICAI’s Memorandum of Suggestions on the Income-tax Bill, 2025, submitted on 21st April, 2025, have been considered in the Income-tax Act, 2025.

Simultaneously, on the 79th Independence Day, Hon’ble Prime Minister Shri Narendra Modi Ji announced sweeping GST reforms focused on structural changes, rate rationalisation, and ease of living. These measures promise a simpler and more predictable tax system that will reduce the burden on essential items, stimulate demand, support MSMEs, and formalise supply chains. By addressing inverted duty structures, cutting disputes, and streamlining slabs, the reforms will strengthen the ease of doing business and advance the vision of *Viksit Bharat*.

Chartered Accountants, as financial soldiers and partners in nation-building, will be at the forefront of translating these tax reforms into action. Like in 2017 during the introduction of the new GST Regime, the profession is set to play an enabler and facilitator role towards the smooth implementation of the Income-tax Act, 2025 through webinars and outreach programs both for Taxpayers and professionals. By guiding enterprises, governments, and communities through this new era of compliance and transparency, the profession will not only ease the transition but also help channel resources towards productive growth. In doing so, CAs will strengthen the pillars of self-reliance, nurture sustainable development, and ensure that India’s economic journey remains firmly aligned with the vision of *Viksit Bharat*.

Driving Transparency, Innovation, and Growth through Strategic Alliances

The Institute continues to expand its leadership role in nation-building through strategic partnerships that promote transparency, capacity-building, and sustainable growth across key sectors of the economy.

■ Strengthening Gold Industry Standards - MoU with IAGES

ICAI has signed a landmark Memorandum of Understanding (MoU) with the Indian Association of Gold Excellence and Standards (IAGES) to establish a comprehensive accreditation framework for nearly six

lakh stakeholders across India’s gold value chain. The MoU was formally exchanged in the august presence of Shri Arjun Ram Meghwal Ji, Hon’ble Minister of Law and Justice. This initiative is expected to create meaningful professional opportunities for members in accreditation and compliance roles across the gold industry and contribute significantly to improving governance and standardization of processes within the gold industry.

■ Building Alternative Capital and Global Market Capabilities - MoUs with IVCA and NSE IX

In the realm of alternative capital, ICAI has entered into an MoU with the Indian Venture and Alternative Capital Association (IVCA) to co-develop reporting best practices, establish expert working groups, and drive policy advocacy. Another MoU was signed with the NSE IFSC Limited (NSE IX), focusing on joint knowledge initiatives and capacity-building programs, to deepen members’ expertise in cross-border capital markets.

■ ICAI’s Pioneering Efforts to Strengthen MSMEs and Startups

Reinforcing its commitment to India’s growth engines, ICAI is actively supporting the MSME and startup ecosystem through strategic collaborations. On 8th August 2025, ICAI approved an MoU with the National Payments Corporation of India (NPCI) to promote secure digital payment solutions, enhance financial inclusion, and build capabilities across MSMEs.

ICAI at the Forefront of Digital Assurance and Forensic Excellence

I am pleased to share ICAI’s remarkable journey in augmenting Digital Assurance and Forensic Excellence. The Digital Accounting and Assurance Board (DAAB) of ICAI has completed twenty-five years of pioneering work in digital transformation, empowering more than 35,000 members in systems audit and 14,000 in forensics. Notably, DAAB introduced the world’s first Forensic Accounting and Investigation Standards (FAIS), setting new benchmarks in the profession. Building on this strong legacy, we are now advancing initiatives such as DISA 4.0, certifications in cybersecurity and data protection, and the upcoming Diploma in Forensic Investigation, positioning ICAI as a global thought leader in IS Audit, Cybersecurity, and Forensic Investigations.

Recently, the Board hosted *Future Proof Forensics 2025* on 1–2 August in Mumbai, in association with the Indian Banks’

Association and the Association of ARCs in India. The event brought together more than 130 senior regulators, banking leaders, NBFCs, and ARCs to deliberate on evolving fraud risks, emerging technologies, and proactive financial governance. The programme was inaugurated by Shri Tuhin Kanta Pandey, Chairman, SEBI, and Shri Anand Mohan Bajaj, Deputy Comptroller & Auditor General of India. A key highlight was the release of *Early Signals of Frauds in the Banking Sector*, designed to strengthen detection and prevention frameworks across financial institutions.

Further, the *Digital Transformation Finance Summit 2025* was held on 7–8 August 2025 in Hyderabad, supported by the Ministry of Electronics & IT (MeitY) and in collaboration with the National Forensic Sciences University (NFSU) and Rashtriya Raksha University (RRU). Attracting over 1,300 delegates, the summit focused on strengthening digital trust, enhancing cyber resilience, and fostering collaboration between industry, academia, and government for a secure, innovation-driven financial future.

ICAI Issues Structured Checklist to Enhance Quality of Certificates by CAs

I am pleased to inform that the Centre for Audit Quality has issued a structured checklist for Chartered Accountants, aligned with the Guidance Note on Reports or Certificates for Special Purposes (2016). This checklist promotes compliance, uniformity, and proper documentation in certificate issuance. Each checkpoint is linked to the Guidance Note and provides space for remarks, making it a practical tool to maintain professional rigour. Members are encouraged to incorporate this checklist in their daily practice to enhance the quality of the certificate.

ICAI Launched International ADR Centre

The Institute launched the *ICAI International ADR Centre (IIAC)*, a Section 8 company established to promote and institutionalise Alternate Dispute Resolution (ADR) in India. Inaugurated in New Delhi by Shri Arjun Ram Meghwal, Hon'ble Minister of Law & Justice, the Centre marks ICAI's strategic entry into this vital domain. With a technology-driven, transparent framework, ICAI aims to enhance ease of doing business, reduce judicial burden, and strengthen investor confidence by providing professional, neutral, and efficient dispute resolution for domestic and global stakeholders.

ICAI Convocation

With immense pride and joy, I welcome our newly qualified 13737 Chartered Accountants to the fraternity in the

convocation held on 25 August, 2025 across India. Each one of you represents the future of the profession, entering at a time when the world of finance and business is being reshaped by technology, innovation, and global integration. I am confident that you will go beyond conventional boundaries, embrace the opportunities of the digital age, and uphold the values of integrity, independence, and excellence that define our profession.

As Swami Vivekananda once said, *"Take up one idea. Make that one idea your life; dream of it; think of it; live on that idea. Let the brain, the body, muscles, nerves, every part of your body be full of that idea, and just leave every other idea alone. This is the way to success, and this is the way great spiritual giants are produced."* Let these words be your guiding light as you step into your professional journey. I encourage you to expand your horizons, seek emerging pathways, and contribute not only to businesses but also to the nation's larger growth story.

Conclusion

Robert Swan wisely remarked, *"The greatest threat to our planet is the belief that someone else will save it."* In this era, adopting sustainable practices is not a choice but a necessity. As Chartered Accountants, we are entrusted not only with financial stewardship but also with the larger duty of shaping decisions that affect communities, businesses, and society at large. We should embrace this responsibility with conviction to advise, influence, and lead initiatives that balance economic progress with environmental stewardship and social equity.

The true legacy of our profession lies not just in financial precision but in the positive impact we create on enterprises, society, and the planet. Let us work towards building a world defined by hope, harmony, and sustainable prosperity.

फ़िज़ाओं में ज़हर मत घोल, चिराग़-ए-हयात बुझ जाएगा,
ज़मीन अगर रूठ गई, तो इंसान कहाँ जाएगा।



CA. Charanjot Singh Nanda
President, ICAI
New Delhi, 28th August, 2025

1. Meeting with Minister of Defence



CA. Charanjot Singh Nanda, President, ICAI met Shri Rajnath Singh, Hon'ble Minister of Defence on August 28, 2025 in New Delhi wherein matters related to key reforms & the profession were discussed.

2. Launch of the ICAI International ADR Centre



CA. Charanjot Singh Nanda, President, ICAI and CA. Prasanna Kumar D., Vice-President, ICAI along with Shri Arjun Ram Meghwal, Hon'ble Union Minister of Law & Justice-Chief Guest, Justice Tejas Karia, Delhi High Court & Central Council Members, graced the launch of the ICAI International ADR Centre on July 30, 2025.

3. Silver Jubilee Celebrations of Patparganj CPE Study Circle



CA. Charanjot Singh Nanda, President, ICAI with Smt. Rekha Gupta, Hon'ble Chief Minister, Delhi, Past President, Central & Regional Council Members & other dignitaries graced the Silver Jubilee Celebrations of Patparganj CPE Study Circle on August 4, 2025 and shared words of wisdom, inspiring the CA fraternity.

4. Meeting with Deputy Chief Minister, Bihar



CA. Charanjot Singh Nanda, President, ICAI met Shri Samrat Choudhary, Hon'ble Deputy Chief Minister of Bihar, along with Central Council Member on August 21, 2025 in New Delhi and discussed avenues of collaboration and strengthening the role of Chartered Accountants in nation building.

5. 51st SIRC Regional Conference



CA. Charanjot Singh Nanda, President, ICAI and CA. Prasanna Kumar D., Vice-President, ICAI along with Thiru T.M. Anbarasan, Hon'ble MSME Minister, Government of Tamil Nadu, Ms. Taryn Rulton, Deputy President, IFAC, Central Council Members & SIRC Members graced the inaugural ceremony of the 51st SIRC Regional Conference held on August 22, 2025 in Chennai.

6. Meeting with Secretary, MeitY



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Member met Shri S. Krishnan, Hon'ble Secretary, MeitY on August 20, 2025 for discussions on advancing digital transformation, AI adoption & governance frameworks & strengthening the profession's role in India's tech-driven growth.

7. Meeting with Chairperson, NFRA



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Members met Shri Nitin Gupta, Chairperson, NFRA, for a constructive discussion on matters of mutual interest, strengthening regulatory collaboration and Audit Quality on July 31, 2025.

8. Institute of Directors – 2025 Annual Directors' Conclave



CA. Charanjot Singh Nanda, President, ICAI shared insightful perspectives on governance, ethics & leadership at the Institute of Directors – 2025 Annual Directors' Conclave held on August 8, 2025, in New Delhi, alongside eminent dignitaries, inspiring corporate leaders for a sustainable future.

9. Future Proof Forensics 2025



CA. Charanjot Singh Nanda, President, ICAI along with CA. Prasanna Kumar D., Vice-President, ICAI, Shri Tuhin Kanta Pandey, Chairperson, SEBI, Shri Anand Mohan Bajaj, Deputy C&AG & Central Council Members graced the Inaugural Ceremony of "Future Proof Forensics 2025" organised on August 1, 2025 in Mumbai. The dignitaries shared visionary thoughts on resilient finance.

10. Digital Transformation (Dx) Finance Summit 2025



CA. Charanjot Singh Nanda, President, ICAI along with CA. Prasanna Kumar D., Vice-President, ICAI, Central Council Members & esteemed dignitaries shared visionary insights at the Digital Transformation (Dx) Finance Summit 2025 held on August 7, 2025, in Hyderabad empowering the profession through Forensics, Cyber security & Digital Trust.

11. InnoFest 2.0



CA. Charanjot Singh Nanda, President ICAI along with Central Council Members and Secretary, ICAI & other dignitaries graced InnoFest 2.0 on World Entrepreneurs Day organized in New Delhi on August 20, 2025, inspiring CA entrepreneurs with insights on innovation, leadership & future growth.

12. 62nd Campus Placement Program



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Members, NIRC members & other dignitaries shared their thoughts at the 62nd Campus Placement Program held on August 4, 2025, motivating newly qualified CAs to embrace opportunities & lead with integrity.

13. Training Programme for Technical Reviewers



CA. Charanjot Singh Nanda, President, ICAI along with CA. Prasanna Kumar D., Vice-President, ICAI & Central Council Members shared words of wisdom at the Training Programme for Technical Reviewers held in New Delhi on August 3, 2025, reinforcing ICAI's commitment to quality and excellence.

14. YUVA – An Ascent of Excellence



CA. Charanjot Singh Nanda, President, ICAI along with CA. (Dr.) Debashis Mitra, Past President, Central Council Members & other dignitaries graced “YUVA – An Ascent of Excellence” held in Mumbai on August 2, 2025, sharing visionary insights with young CAs on AI, Ethics, Industry, Capital Markets & more.

15. Address to CA Students - “Pariksha Pe Charcha”



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Members and NIRC representatives, shared valuable guidance and motivated CA students on August 8, 2025 for the upcoming September 2025 exams. A session filled with insights, encouragement and clarity.

16. Two Days National Conference “Navdrishti”



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Members & Bhopal Branch Management Committee Members graced the Two Days National Conference “Navdrishti” held on August 23 & 24, 2025 in Bhopal, inspiring delegates with their visionary guidance & commitment to professional excellence.

17. MoU between ICAI and Indian Venture and Alternate Capital Association



CA. Charanjot Singh Nanda, President, ICAI and CA. Prasanna Kumar D., Vice-President, ICAI along with Central Council Members and IVCA Officials graced the Signing Ceremony of the MoU between ICAI and Indian Venture and Alternate Capital Association held on July 30, 2025 in New Delhi. A step forward in strengthening professional synergies.

18. MoU between ICAI and NSE IX



CA. Charanjot Singh Nanda, President, ICAI and CA. Prasanna Kumar D., Vice-President, ICAI along with Central Council Members & NSE IX Officials graced the Signing Ceremony of the MoU between ICAI and NSE IX held on July 30, 2025 in New Delhi. Fostering synergy in financial markets, innovation, and knowledge exchange.

19. First Seminar & Members Meet- Krishna Nagar CPE Study Circle



CA. Charanjot Singh Nanda, President, ICAI inaugurated the First Seminar & Members Meet organized by Krishna Nagar CPE Study Circle of NIRC-ICAI on July 27, 2025 in New Delhi in the presence of Central Council Members, NIRC & Study Circle Members sharing his vision for a tech-driven, globally respected Profession.

20. Felicitation of the 13th batch of CA Rank Holders



CA. Charanjot Singh Nanda, President, ICAI along with Central Council Members & dignitaries, shared words of wisdom during the felicitation of the 13th batch of CA Rank Holders (May 2025) on completing the Management Development Programme in collaboration with IIM Bangalore on July 25, 2025 at COE, Hyderabad.

ICAI CONVOCATION 2025 ● THE CHARTERED ACCOUNTANT



CA. Charanjot Singh Nanda, President, ICAI along with CA. Prasanna Kumar D., Vice-President, ICAI, Smt. Ravneet Kaur, Chairperson, CCI and Central Council Members, inspired newly qualified Chartered Accountants at ICAI Convocation 2025, held on August 25, 2025 across 15 centres simultaneously.





THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

ICAI President Honoured with **ET LEADERSHIP EXCELLENCE AWARD 2025**



CA. Charanjot Singh Nanda, President-ICAI, has been conferred the prestigious **ET Leadership Excellence Award 2025** under the category *Leadership in Professional Excellence*. The award was presented at a special ceremony held in New Delhi by acclaimed National Award-winning actor Shri Anupam Kher, in the august presence of CA. Prasanna Kumar D, Vice-President, ICAI, Central Council Members of ICAI.

CA. Charanjot Singh Nanda has been a driving force behind several transformative initiatives at ICAI. As the leader of the *Digital Accounting and Assurance Board*, he spearheaded the launch of *Forensic Accounting and Investigation Standards (FAIS)*, making ICAI a global pioneer in this field.

Serving four terms as a Central Council Member, he played a pivotal role across multiple committees, consistently championing innovation and progress.

He has been instrumental in integrating *Artificial Intelligence and advanced technologies* into the profession to enhance efficiency and accuracy. His emphasis on *Work-life balance* reflects his commitment to building an ecosystem that supports both professional excellence and personal well-being. Under his visionary leadership, ICAI has advanced in areas such as global collaborations, sustainability, youth empowerment, skill development and forensic accounting, driving change with innovation and purpose.

This recognition stands as a testament to ICAI's unwavering contribution to strengthening trust, upholding the highest standards of professional ethics, and fostering innovation in the accountancy profession, both nationally and internationally.

A New Dawn in Pahalgam: ICAI Stands with Nation



The Institute of Chartered Accountants of India (ICAI) chose the tranquil valley of Pahalgam, Kashmir, as the venue for its 445th Council Meeting, held from 12th to 14th August 2025. This was followed by the celebration of the 79th Independence Day on 15th August 2025, during which the President, ICAI unfurled the Tiranga, the eternal symbol of freedom, unity, and sacrifice, marking a moment of pride and patriotism. The event witnessed the participation of over 130 individuals, including Council Members, Chartered Accountants, and their families, symbolizing ICAI's deep faith in the region and its commitment to fostering peace and prosperity in the Valley. Marking a historic milestone, ICAI became the first professional institution to host such a gathering in Pahalgam after the tragic Baisaran valley incident of April 22, 2025. The Council Meeting on 12th August 2025 was graced by the esteemed presence of Shri Omar Abdullah, Hon'ble Chief Minister of Jammu and Kashmir, as the Chief Guest.

The 15th of August holds a cherished place in the heart of every Indian, embodying the essence of independence, unity, and national pride. This year, the occasion carried a deeper meaning as the Institute celebrated India's 79th Independence Day in the valley and also convened its 445th Council Meeting in Pahalgam; an act that resonated with courage and resolve. In a valley that had recently witnessed tragic unrest, ICAI emerged as the first professional institution to host an official event, dispelling fear and reaffirming the spirit of peace, resilience, and the inseparable bond of Kashmir with the nation. The historic step was more than just the conduct of a meeting; it was a declaration of national resolve. It

reaffirmed that Kashmir remains an inseparable part of India and that the spirit of independence

thrives stronger than ever, uniting hearts with a vision of harmony, development, and patriotism.





The serene and picturesque valley of Pahalgam came alive with the presence of Chartered Accountants and their families, who gathered in large numbers for the 445th Council Meeting, held from 12th to 14th August 2025.

During the Council sessions, the Institute deliberated upon and adopted several significant decisions shaping the profession's future. Adding to the occasion's grandeur, the Chief Minister of Jammu and Kashmir, Shri Omar Abdullah, graced the event as the Chief Guest and extended a warm and heartfelt welcome to the Chartered

Accountants, acknowledging their contribution to the nation's growth and governance. The Institute further provided a study of the Jammu and Kashmir state that shall help in boosting tourism, employment and will help in the development of the region.

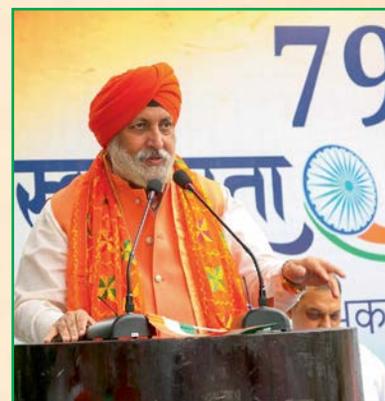
The event was then followed by the Independence Day celebration on 15th August, during which CA. Charanjot Singh Nanda, President ICAI, unfurled the national flag high in the sky, marking it as a symbol of the nation's sovereignty, sacrifice, and unyielding spirit of unity. Central Council Members were dressed in

white attire symbolizing peace, with saffron stoles representing patriotism; the gathering reflected unity and national pride. Each Council Member held the Tricolour aloft, signifying commitment to the nation, resilience in the face of challenges, and the spirit of independence.

CA. (Dr.) Jai Kumar Batra, Secretary, ICAI

The event commenced with an address by the Secretary of ICAI, who extended a warm welcome to Hon'ble CM Shri Omar Abdullah, President CA. Charanjot Singh Nanda, Vice-President CA. Prasanna Kumar D., and other dignitaries. He underscored ICAI's global standing, its role in nation-building, and its resolute commitment to ethics, innovation, and public welfare. On Independence Day, he invoked a shloka portraying independence as a priceless jewel born of sacrifice and valor, aligning with the theme "Nation First, Always First." He reaffirmed ICAI's pledge to transparency, accountability, and sustainable growth as a steadfast partner in India's progress.

CA. Charanjot Singh Nanda, President, ICAI



Our presence here is more than symbolic; it is a testament to hope, resilience, and our pledge to work together for lasting peace and shared prosperity. We are not just financial architects; we are partners in nation-building. Through this visit, we reaffirm our commitment to economic revival, vibrant tourism, and meaningful developmental collaborations in Jammu & Kashmir.



In his address, the President of ICAI recalled the rich legacy of the Institute, which was established on 1st July 1949, even before the Constitution of India came into effect, with the mission of serving the nation in its entirety. Known as the 'financial soldiers' of the country, ICAI has grown from just 1,800 members in 1949 to over 4,50,000 members and 11 lakh students today, making it the world's largest professional accounting body. He reaffirmed ICAI's commitment to nation-building and leading India towards greater global prominence.

Referring to the tragic incident of April 22 that had deeply impacted the people of Kashmir, the President remarked that the decision to hold the Council Meeting in Pahalgam and celebrating 79th Independence Day in Pahalgam was a conscious choice to stand in solidarity with the people of the Valley. He emphasized that ICAI's presence, along with families and children, conveyed a strong message of unity, resilience, and support in difficult times.

During his address, the President proposed collaborative initiatives with the Government of Jammu & Kashmir in areas including cost optimisation, adoption of accrual-based accounting in government departments, curriculum development for universities, and accounting reforms for local bodies. To encourage students of the region, he announced a 75% fee waiver on CA Course registration for students from Jammu & Kashmir, while also highlighting ICAI's plan to establish a Centre of Excellence in the region to drive capacity building, research, and skill development.

On this occasion, ICAI also released a comprehensive research report titled "From Policy to Profit: Amplifying MSME Revenues in J&K through Targeted Government Initiatives," which laid out a five-pillar strategy for transforming MSMEs into sustainable revenue

generators. The Institute, through the courses, shall also train youth in the realm of municipal accounting and panchayat accounting, further boosting employment in the region.

Shri Omar Abdulla, Chief Minister, Jammu and Kashmir



Your presence here sends a powerful message of confidence and support. It reflects your belief in this place and reassures our people that better days lie ahead. Winter is not everlasting; spring will come.

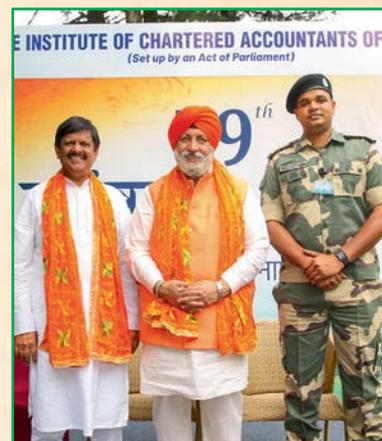
Hon'ble Chief Minister of Jammu & Kashmir, Shri Omar Abdullah, graced the Council Meeting at Pahalgam on 12th August, 2025 and extended heartfelt gratitude to ICAI for selecting Pahalgam as the venue for this landmark event. He acknowledged the Institute's immense potential in supporting the Union Territory by introducing best practices, enhancing governance standards, and strengthening economic planning.

The Chief Minister emphasized the importance of forging a collaborative relationship with ICAI, noting that the Institute's vast experience and professional expertise could provide valuable insights for replication in Jammu & Kashmir's developmental framework. He underlined that good governance must go beyond rhetoric and translate into tangible improvements in service delivery and the quality of governance experienced by citizens.

Highlighting the significance of grassroots governance, Shri Abdullah reiterated the vision of India's forefathers in establishing a three-tier

system, Parliament, State Legislatures, and local self-governments, ensuring development reaches panchayats and urban local bodies alike. He remarked that ICAI's presence in the region would contribute meaningfully to this vision by strengthening governance at every level and promoting sustainable progress in Jammu & Kashmir.

CA. Prasanna Kumar D., Vice-President, ICAI



Celebrating Independence Day here and hosting our 445th Council Meeting in Pahalgam is a moment of pride. It reflects our solidarity with the Valley, our respect for the Armed Forces, and our commitment to contribute meaningfully to J&K's growth.

In his remarks on the occasion of Independence Day, the Vice-President of ICAI conveyed his heartfelt wishes to all members, their families, and the people of Jammu & Kashmir. He expressed that celebrating the nation's 79th Independence Day in Pahalgam, alongside the 445th Council Meeting, was a matter of immense pride for the Institute. He further stated that there was also pride in sending a message to the armed forces, whose presence in the Valley ensures that such gatherings are possible at all. By convening this meeting in Pahalgam, ICAI acknowledged silently but surely, the debt owed to those who secure the freedom.





CA. Amit Singla

Member of the Institute



339 parts per million (ppm) in 1979 to 417 ppm in 2022, a 20% increase. Industrial activities are the primary drivers, with China, United States, and India being the top emitters globally. These alarming trends demand urgent action from governments, organizations, and professionals, including accountants, toward a sustainable, low-carbon future.

The Paris Agreement and Global Commitments to Carbon Neutrality

The Paris Agreement, established in 2015, marked a pivotal global response to climate change, urging nations to take decisive action to reduce GHG emissions and limit global warming to below 2°C. India, as a signatory, ratified the agreement in 2016, pledging to reduce its GHG emission intensity by 33-35% by 2030 compared to 2005 levels, later raising this target to a 45% reduction. Additionally, India aims to achieve carbon neutrality by 2070.

For these targets to be met, every sector must contribute. Accountants, in particular, play a critical role in

operationalizing these commitments. By embedding sustainability into financial systems, accountants can:

- *Track and audit carbon emissions to ensure accurate reporting.*
- *Budget for carbon costs and assess their impact on financial performance.*
- *Prepare detailed sustainability reports that showcase progress toward carbon neutrality.*
- *Support decision-making through cost-benefit analyses of carbon mitigation strategies.*

These actions position accountants as key players in bridging the gap between climate goals and organizational accountability.

Navigating the Path to a Low-Carbon Future: Internal Carbon Pricing (A Financial Tool)

The accounting profession plays a pivotal role in steering organizations toward a low-carbon future. By leveraging their expertise in financial analysis, reporting, and strategic planning, accountants can drive sustainable practices and facilitate the transition to a net-zero economy.

Climate change has become one of the most pressing challenges of our time, evident in rising global temperatures, erratic weather patterns, and the alarming rate of glacier melting. At the core of this crisis is the growing concentration of greenhouse gases (GHGs) in the atmosphere, particularly carbon dioxide (CO₂), which is responsible for about 78% of the heat-trapping effect from these gases. Over the past four decades, CO₂ levels have risen significantly, from

Carbon Mitigation Strategies and Regulatory Frameworks

Efforts to reduce carbon emissions have accelerated over the past decade, with industries shifting to renewable energy sources like wind and solar and adopting electric vehicles in place of traditional internal combustion engines. Companies are setting net-zero targets by reducing direct (Scope 1) and indirect (Scope 2) emissions.

Scope 1 emissions are direct greenhouse gas emissions from sources owned or controlled by an organization, arising from its operational activities. Scope 2 emissions are indirect emissions from purchased electricity, and Scope 3

emissions originate from sources outside the organization's direct control, such as supply chains and product usage by customers.

Government support these goals through regulatory frameworks such as:

- **Carbon Taxes:** Imposing taxes based on emission volumes to incentivize cleaner practices.
- **Emissions Trading Scheme (ETS):** Setting emission limits, allowing companies below the threshold to trade carbon credits with those exceeding it.

Accountants play a critical role by:

- *Calculating the financial impact of carbon taxes and credits.*
- *Forecasting future costs tied to carbon pricing.*
- *Ensuring compliance to avoid penalties and reputational risks.*

As the need to limit global warming to 1.5 – 2°C intensifies, carbon pricing mechanisms are becoming central to climate strategies. Accountants must be equipped to help organizations navigate this landscape, ensuring compliance, financial optimization, and a meaningful contribution to combat climate change.

Compliance Carbon Pricing Instruments Around the World, 2024

The map in Figure 1 shows jurisdictions with carbon taxes or emissions

“ Implicit carbon pricing reflects the cost of emissions reduction projects, such as renewable energy investments or energy efficiency improvements. ”

trading systems implemented, under development or under consideration.

Carbon Border Adjustment Mechanism (CBAM)

After ETS, the European Union introduced the Carbon Border Adjustment Mechanism (CBAM) on May 17, 2023, to address carbon leakage and align import carbon costs with the EU's Emissions Trading System (ETS). CBAM prevents unfair competition by charging for the carbon content of imported goods, adjusted to the exporting country's carbon pricing.

This mechanism will significantly impact India's exports, particularly aluminium and steel. CBAM will be fully implemented by 2026, with EU importers paying the levy from that year. During the transition phase (October 2023–December 2025), EU importers must report emissions for specific goods like cement, electricity, and fertilizers, without financial penalties.

For accountants, CBAM requires:

- *Monitoring and reporting the carbon content of imports.*

- *Assessing its financial impact on supply chains, especially in export-heavy industries.*
- *Guiding carbon emissions strategies to avoid penalties.*

Aligned with the EU's climate goals, CBAM ensures fair global competition, making compliance management essential for accountants.

India's Carbon Credit Trading Scheme (CCTS)

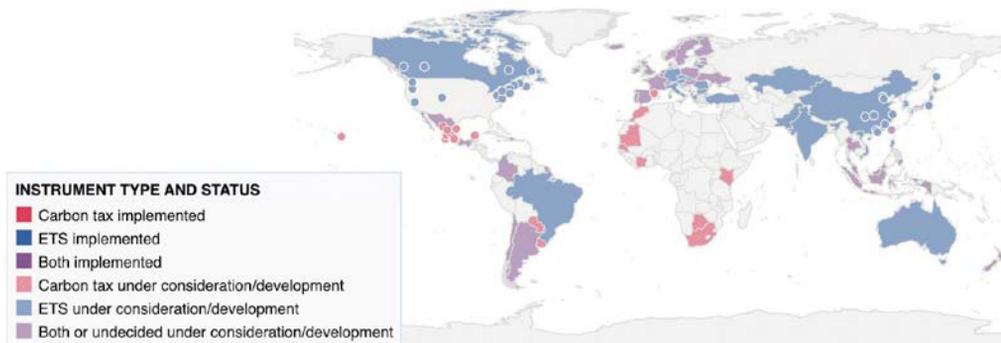
India is moving towards a national carbon market, like the EU ETS and California ETS. Amendments to the Energy Conservation Act (2022) empower the government to introduce a Carbon Credit Trading Scheme (CCTS), enabling the trading of carbon credits, each representing one ton of CO₂ equivalent (tCO₂e).

In July 2024, the Bureau of Energy Efficiency (BEE) launched a compliance system for CCTS, initially targeting four energy-intensive industries: cement, iron and steel, pulp and paper, and petrochemicals. The power generation sector will join in later phases. This initiative supports India's climate goals and commitment to reduce greenhouse gas emissions.

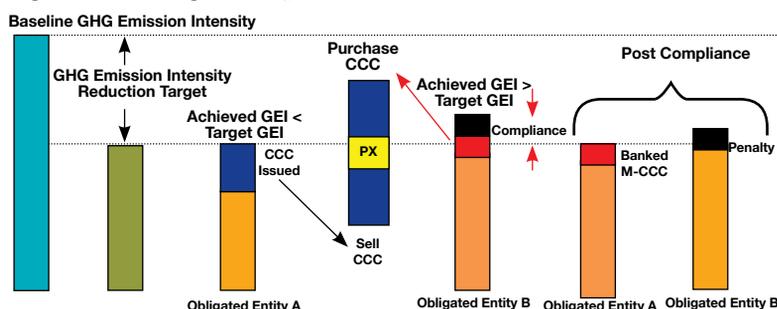
For accountants, CCTS introduces the need to:

- *Track and report carbon credit transactions for compliance.*

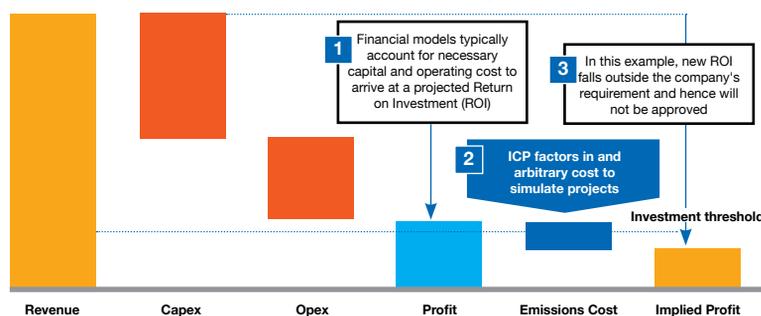
Figure 1: Implementation of Carbon Pricing



Source: worldbank.org

Figure 2: Working of Compliance Mechanism

Source: *beeindia.gov*

Figure 3: Illustration of Internal Carbon Pricing

- Assess the financial benefits of carbon trading for organizations.
- Develop strategies to manage emissions and minimize costs.

CCTS is crucial for India's climate commitments and offers businesses opportunities to trade carbon credits and lower their carbon footprint. (Refer figure 2)

Total GHG Emissions = Direct Emissions (energy) + Direct Emissions (Process) + Indirect Emissions from Purchased Electricity & Heat - Adjusted Emissions (exported power, CCUS)

GHG Emission Intensity = Total GHG Emissions (t CO₂) / Total Equivalent Output (t or MWh)

Internal Carbon Pricing: A Strategic Tool for Decarbonization and Sustainability

Internal Carbon Pricing (ICP) is a vital tool for companies aiming to meet net-zero targets and comply with evolving regulations. By assigning a financial cost to greenhouse gas emissions, ICP

“Every capital project is evaluated using a carbon-adjusted internal rate of return (CaIRR). Projects must surpass a hurdle rate that includes carbon costs.”

incentivizes emission reductions or penalizes for continued high-emission practices, aligning sustainability with financial decision-making.

Adopting ICP proactively offers a competitive edge, appealing to investors, customers, and employees focused on sustainability.

For accountants, implementing ICP involves:

- Setting an internal carbon price based on emissions and carbon risk exposure.
- Integrating carbon pricing into investment and operational decisions.

- Preparing for future carbon pricing regulations.

Establishing an internal carbon price helps companies assess the financial impact of emissions and pursue sustainable alternatives. Accountants play a crucial role in guiding these strategies, supporting the shift to a low-carbon economy while enhancing financial performance and sustainability. (Refer figure 3)

Primary types of Internal Carbon Pricing

Shadow Pricing: Shadow pricing assigns a hypothetical value to carbon emissions to evaluate risks tied to business investments, particularly in light of anticipated policies increasing emissions-related costs. This approach helps integrate these projected costs into financial planning, affecting items like net income. Shadow pricing typically ranges from \$2 to \$800 per ton of emissions, depending on investment and risk factors, supporting informed, long-term decision-making.

For accountants, shadow pricing helps:

- Projecting financial impacts of regulatory changes.
- Incorporating carbon costs into forecasts and risk assessments.
- Managing investment portfolios with future carbon costs in mind.

Implicit Pricing: Implicit carbon pricing reflects the cost of emissions reduction projects, such as renewable energy investments or energy efficiency improvements. Unlike explicit pricing (direct taxes or fees), implicit pricing is calculated after meeting reduction goals. Companies with climate-related targets often use this method.

Some companies calculate 'Implicit carbon price' using the formula:

$$\frac{\text{Cost of Carbon Abatement}}{\text{Tonnes of CO}_2\text{e abated}}$$

For accountants, implicit pricing is crucial for:

- Evaluating the costs of emission reduction efforts and tracking their impact.

- *Setting up long-term sustainability goals while aligning financial strategies with environmental objectives.*

Internal Carbon Tax/Fee: An internal carbon tax involves companies charging themselves for carbon emissions they produce, creating a fund to finance emissions reduction projects with long-term benefits. Unlike shadow pricing, which focuses on future emissions, this tax addresses present emissions.

For accountants, an internal carbon tax:

- *Creates a financial incentive for reducing emissions.*
- *Supports long-term sustainability planning through dedicated funding.*
- *Ensures adherence to internal carbon pricing mechanisms.*

Internal Carbon Trading Mechanism:

An internal cap-and-trade system sets a carbon emissions cap within the organization. Business units receive allowances for each ton of carbon emitted, which can be traded, introducing a tangible carbon price internally. This system is especially beneficial for large corporations with diverse operations, allowing flexibility for high-emission units while driving overall reductions. It fosters collaboration and innovation, encouraging sustainable practices organization-wide.

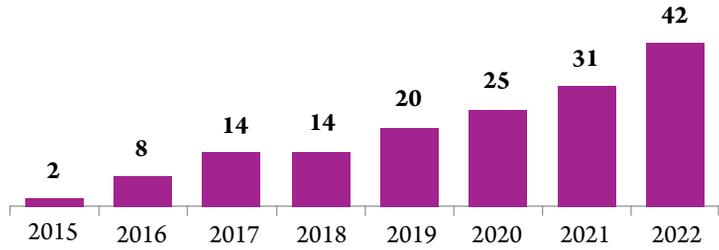
For accountants, internal trading mechanisms:

- *Track emissions and allocate allowances efficiently.*
- *Promote collaboration to achieve company-wide emission targets.*
- *Drive sustainability and cost-effective carbon reduction strategies.*

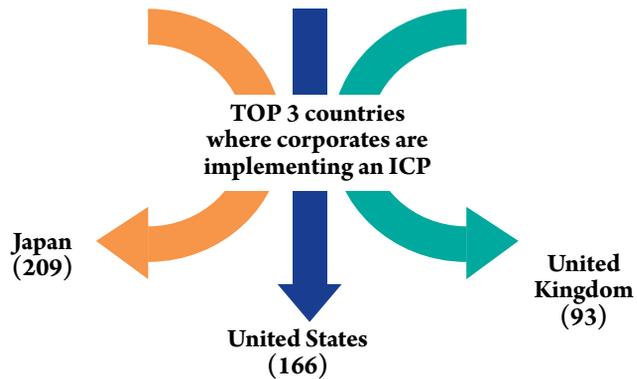
According to the 2022 CDP report (*Carbon Disclosure Project is an international non-profit organization that helps companies and cities disclose their environmental impact*), 1418 companies globally use Internal Carbon Pricing.

Specifically in India, 42 companies have integrated ICP into their

Figure 4 ICP adoption trends in India



The use of ICP is reported by 1418 companies globally in 2022



Source: CDP India Annual Report 2022

operations, marking a 35% increase from 2021. Moreover, 68 companies in India are actively planning to implement ICP, representing a 25% rise from 2021.

How to Implement ICP?

Here are the recommended steps:

I. Understand ICP Objectives and Align with Corporate Climate Goals:

To begin implementing ICP, it's essential to establish a clear understanding of its objectives

and ensure they align with the organization's broader climate goals. A dedicated team should:

- Define clear objectives for ICP.
- Review capital requirements for implementing carbon reduction initiatives.
- Align ICP strategies with corporate climate and sustainability targets.

Key Outcome: Establishment of a strong foundation for



implementing an effective ICP framework that supports both financial and environmental goals.

II. Review GHG Emissions & Past Climate Actions:

Conducting a comprehensive review of greenhouse gas (GHG) emissions and past climate actions is critical. This step involves:

- Assessing the organization's carbon footprint.
- Evaluating the effectiveness of previous climate initiatives.
- Analyzing carbon abatement costs to identify potential savings.

Key Outcome: Actionable insights to optimize future carbon reduction strategies and enhance the efficiency of existing efforts.

III. Identify & Review Various ICP Methodologies:

Selecting the most appropriate ICP methodology requires careful consideration of available options. Organizations should:

- Identify and compare different ICP methodologies.
- Analyze costs and benefits relative to market prices.
- Finalize a pricing structure tailored to the organization's needs.
- Estimate the impact of ICP on sample projects.

Key Outcome: A customized, effective ICP approach that balances carbon reduction goals with financial feasibility.

IV. Finalize Best ICP Implementation Route:

To ensure smooth implementation, organizations need to finalize a detailed plan that aligns with corporate goals. Key steps include:

- Developing a comprehensive implementation plan, including Standard Operating Procedures (SOPs).
- Identifying strategies for periodic updates to the framework.
- Ensuring alignment with internal policies and market dynamics.

Key Outcome: A clear roadmap for integrating ICP into business operations and achieving meaningful emissions reduction.

V. Monitor and Evaluate:

Regular monitoring and evaluation are vital to ensure the ICP framework's success and identify areas for improvement. Organizations should:

- Establish mechanisms for tracking carbon emissions and pricing impacts.
- Evaluate progress toward emission reduction targets.
- Conduct regular reviews of the ICP framework.
- Implement continuous improvements based on findings.

Key Outcome: Formulation of an adaptive, effective ICP framework that drives continuous improvement and supports long-term sustainability goals.

Case Studies

ICP helps align investment decisions with decarbonization goals, enabling organizations to manage climate risks and achieve environmental objectives. Below are key examples of how companies have effectively implemented ICP to foster low-carbon practices in leading organizations.

Driving Low-Carbon Investments through a Carbon Pricing Fund

In 2015, a leading cement manufacturer in India introduced a carbon fee to generate funds for low-

“While Internal Carbon Pricing (ICP) offers immense potential to drive sustainability, it also presents certain challenges and limitations that organizations must address for effective implementation.”

carbon projects. Based on low-carbon projects, the company set an ICP of \$11 per metric ton of CO₂. This fee, modelled against Indian carbon regulations, incentivized reductions in energy-intensive activities.

Revenue generated was allocated to a dedicated carbon pricing fund, enabling the company to bridge the viability gap for projects like a 10MW waste heat recovery plant in Odisha. This project reduced emissions by 80,000 metric tons of CO₂ annually. The company ensured that the fund's investments aligned with its renewable energy and energy productivity targets, demonstrating how financial expertise can support decarbonization.

Achieving Carbon Neutrality by 2045 with ICP Integration

A leading steel manufacturing company employs ICP as a core tool for its decarbonization strategy, targeting carbon neutrality by 2045. The company has embedded ICP into two critical processes:

- **Capital Expenditure (CapEx):** Every capital project is evaluated using a carbon-adjusted internal rate of return. Projects must surpass a hurdle rate that includes carbon costs.
- **Operational Decisions:** ICP is used to calculate the Total Cost of Ownership (TCO) for raw materials, incorporating emissions-related costs into procurement decisions.

By aligning investment appraisals with emissions reduction goals, the company demonstrates that sustainability is central to its business planning.

Striving for Carbon Neutrality by an IT Company

A global IT company in India aims to achieve carbon neutrality through internal carbon pricing. Its strategy focuses on reducing electricity consumption by 50% (per capita, 2008–2018), switching to green power for remaining needs, and investing in offset projects for unavoidable emissions.

In 2016, the company worked with WRI India to establish an internal carbon price of \$10.50 per metric ton of CO₂, targeting its primary emissions from purchased electricity. The price was based on electricity costs, energy efficiency and renewable measures, and offset procurement costs. This mechanism encourages business units to prioritize renewable energy investments, supporting the goal of 100% green electricity use.

Challenges & Limitations

While Internal Carbon Pricing (ICP) offers immense potential to drive sustainability, it also presents certain challenges and limitations that organizations must address for effective implementation.

A major challenge lies in accurately measuring and monitoring emissions data. Reliable data is essential for setting a meaningful internal carbon price. However, collecting such data is resource-intensive and requires robust systems, particularly in large, diverse organizations.

Another limitation is the inconsistency in regional regulations. Variations in carbon policies across jurisdictions can complicate the integration of ICP into global operations. Such discrepancies may undermine the intended benefits of aligning business practices with broader climate goals.

“Accountants integrate ICP into project evaluations to prioritize low-carbon investments, conduct cost-benefit analyses, and guide resource allocation.”

Fluctuating carbon market prices add to the complexity. Companies often struggle to set an internal price that balances short-term financial performance with long-term sustainability objectives. These price uncertainties can deter investments in low-carbon technologies and hinder effective risk mitigation.

The lack of a well-established sustainability culture within organizations further compounds the issue. Without a clear commitment to sustainability from leadership, ICP implementation may lack the necessary support and strategic alignment.

Additionally, the initial costs of adopting low-carbon technologies and adapting business models can strain financial resources. Companies may hesitate to prioritize sustainability initiatives over immediate profitability, especially in competitive markets.

Lastly, market and policy uncertainties create challenges in forecasting the long-term impact of ICP. Shifts in government policies or global economic conditions can affect the relevance and effectiveness of internal carbon pricing strategies.

Addressing these challenges requires a proactive approach. Investing in advanced emissions monitoring tools, fostering a culture of sustainability, and closely monitoring policy trends can mitigate risks. Regularly revisiting and adjusting the internal carbon price can help organizations stay agile and effective in their decarbonization efforts.

By overcoming these limitations, ICP can remain a powerful tool for

promoting sustainable growth and aligning corporate practices with global climate commitments.

Role of the Accountancy Profession

The accounting profession plays a crucial role in driving sustainability, managing climate-related risks, and guiding companies toward greener operations. Here's how accountants contribute to this transition:

I. Developing a Robust ICP Framework

Accountants collaborate with stakeholders to create an effective ICP framework, set objectives aligned with sustainability goals, and evaluate pricing mechanisms like shadow pricing, carbon taxes, or cap-and-trade.

II. Data Collection and Analysis

Accountants ensure accurate measurement of GHG emissions and integrate data into financial reports to assess ICP's impact on profitability and investment decisions.

III. Scenario Planning and Risk Management

By using ICP for scenario planning, accountants model financial outcomes under different carbon pricing scenarios and evaluate risks and opportunities arising from evolving regulations.

IV. Budgeting and Investment Decision Support

Accountants integrate ICP into project evaluations to prioritize low-carbon investments, conduct cost-benefit analyses, and guide resource allocation.

V. Sustainability Strategy and Decision-Making

Accountants help shape sustainability strategies by evaluating the financial viability of carbon reduction initiatives. They assess ROI for projects like renewable energy, energy



efficiency upgrades, and carbon offset programs, ensuring sustainability is integrated into business operations.

Key Actions for Accountants

CAs should focus on:

- Understanding how carbon pricing, CCTS, and other climate-related regulations, like CBAM, impact financial planning.
- Gaining expertise in carbon accounting and emissions reporting standards, such as the Greenhouse Gas Protocol, Science-Based Targets initiative (SBTi), and the Task Force on Climate-Related Financial Disclosures (TCFD).
- Developing systems for accurate emissions measurement and reporting.
- Strengthening internal controls for emissions data tracking and sustainability reporting.

By taking these steps, accountants can help clients meet environmental regulations and support broader sustainability efforts.

Conclusion

In conclusion, addressing climate change requires immediate and

concerted action from all sectors, including the financial community, with accountants playing a pivotal role in operationalizing sustainability goals. With global commitments, such as the Paris Agreement, and regulatory frameworks, including carbon taxes, emissions trading schemes, and the emerging Carbon Border Adjustment Mechanism (CBAM), there is a clear path forward for businesses to align with climate targets.

Internal Carbon Pricing (ICP) serves as a crucial strategic tool, allowing organizations to embed carbon costs into their decision-making, incentivize emission reductions, and ensure compliance with evolving regulations.

As we move towards a low-carbon future, accountants must take proactive steps to integrate carbon pricing into their organizations' financial and operational strategies. This involves setting internal carbon prices, managing carbon credit trading, and preparing for future carbon taxes and regulations. By embedding sustainability in financial systems, accountants help businesses not only meet regulatory requirements but also enhance long-term financial performance while contributing to global climate goals.

The future of carbon pricing is clear: it will continue to shape investment decisions, regulatory compliance, and sustainability efforts. Companies that embrace ICP will not only mitigate risks but also unlock opportunities in a rapidly evolving market. Now is the time for organizations to act by taking responsibility for their emissions and adopting carbon pricing mechanisms, positioning themselves as leaders in the global transition to a sustainable, low-carbon economy.

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Practical Nuances of Governance and Compliance Norms

Effective governance requires strengthening the vigil mechanism and the board's role to address challenges associated with managerial override of controls, compliance gaps, and revenue leakages. In real-life situations, the operational definition of what constitutes fraud is often blurred and requires a complete sequence of evidential information trail. The challenges include the absence of a governance taxonomy that poses impediments in resolving matters in distinguishing fraudulent practices from genuine procedural lapses. The Environment, Social and Governance

The Importance of the Board's Role in ESG Disclosures: A Governance Perspective

In today's complex business landscape, distinguishing management fraud from procedural aberrations is vital for addressing control overrides, governance lapses, compliance gaps, and revenue leakages. Effective compliance relies on frameworks like CARO 2020, the Companies Act 2013, SEBI (LODR) Regulations, 2015, and BRSR disclosures. Key areas include compliance certifications, data governance, validation checks, record-to-report controls, and robust communication between management and boards. Since April 2023, mandatory audit trail functionality ensures preservation of electronic evidence with source document support. This article highlights the critical role of Independent Directors in monitoring financial decisions, ensuring impartial investigations, and fostering enhanced disclosure norms to drive transparency and sustainable investments.

(ESG) factors are increasingly demanding and increase the importance of vouching, accounting trails, the preservation of source documents, the validation check, including tracing and tracking of budgets to end use monitoring of the various initiatives and measures taken by the management. Additionally, continuous monitoring of budgets and initiatives taken by management must be tracked and validated to maintain compliance and transparency. In some cases, the failure to escalate matters to governance boards or regulatory agencies results in delayed disclosures or post facto actions that could violate statutory reporting norms such as CARO 2020, applicable provisions of the Companies Act 2013, or SEBI (LODR) Regulations, 2015.

Further, frameworks such as CARO 2020, Internal Audit Standards, organizational policies, and company laws create distinctions between Key Managerial Personnel (KMP), senior management, non-management

cadres, workers, and contractual employees. Such classifications are also applied across different segments, including gender, geography, corporate office, registered office, and project offices. A deep understanding of these distinctions is critical for ensuring regulatory compliance and effective ESG disclosures, particularly when considering the practical nuances of corporate governance in a diverse regulatory environment.

This article aims to address this gap by emphasizing the importance of data governance solutions, the necessity of validation checks in compliance certifications, and the creation of an evidential trail for impact assessments, particularly related to sustainability measures.

Data Validation in Business Reporting and ESG Disclosure

In professionally managed corporate business groups, the Chairman typically communicates the company's

vision, mission, and ethical values through the Business Responsibility and Sustainability Reporting (BRSR) or erstwhile Business Responsibility Reports (BRR), in the annual report. These documents outline the company's strategic goals, aligned with business outlooks and value creation efforts, and demonstrate the organisation's commitment to ethical business practices.

However, a misclassification of data at the input stage, whether during data validation, accounting categorization, or initial analysis, can have disastrous consequences, in terms of audit risks and control risks. Such errors create long-term risks for organizations that neglect the critical importance of validating data at both the input and analysis stages. The accuracy of secondary data, annual reports, and ESG rating scores is directly linked to the integrity of primary data and the thoroughness of input validation checks. Ignoring these checks compromises the entire reporting framework and can undermine the credibility of ESG disclosures and financial reporting.

Case Study: Budgeting Controls and Financial Management

A foreign company's budgeting process, cost control mechanisms, and cash flow monitoring raised concerns, prompting an independent investigation in its Indian project office. This marked the critical importance of budgeting controls and financial management to report exceptions, abnormalities, overrides, variances and deviations to governance boards, audit committees, and key stakeholders.

The Chief Financial Officer (CFO), whose performance was tied to cost savings and budget utilization, exploited the system by outsourcing bookkeeping to his nephew, engaging in undisclosed related-party transactions, and fabricating expenses using false letterheads and rubber stamps. Revenues and collections were inflated

through fictitious documentation, while legal notices added a layer of perceived authenticity.

The investigation was triggered by a seemingly minor anomaly, a handwritten cash memo in Hindi for Rs. 1,000 in Chennai, where Tamil or English is predominantly spoken. The CFO's overconfident statement, "You will find a voucher for every transaction," prompted deeper scrutiny. The audit team uncovered fabricated documents and other incriminating evidence, all meticulously documented.

This case underscores the necessity of robust governance frameworks, vigilance mechanisms, and proactive auditing to detect and address fraud, safeguarding organizational integrity and accountability.

External Validations

How to ascertain a conflict of interest? The chain of money traces from source to various entities, closes the loop on the evidential trail, where the money keeps recycling in various forms till it evaporates completely when it is converted into goods and services in the chain of money trail outside the organisation. This results in Non-Performing Assets (NPA) provisioning in bank records or is provision for bad debts in books of account after a period of limitation is over in recovery of dues, or is reflected in the form of failed projects or discontinued business operations. Often, the mastermind

“Whenever there is a transition in leadership, data migration, software version change, or quarter and year-end accounting closures, these are areas of high risk priority in the planning stage of the audit process.”

ensures control over the funds in the Payee Listed Entity and Payee Vendor Entity in the chain of money trails. These expense claims are generally booked in subsequent financial years after the closure of books. This makes detection of suspicious transactions difficult due to crossover of financial transactions beyond the audit purview period (generally after the month of April of the next year) spread over months in the next financial years to provide legitimacy in the accounting transactions in breaking down the amount of expense claims to smaller denominations that makes the entire transaction non-material or insignificant beyond scrutiny of the computer aided audit tools and other filtering mechanism.

Whenever there is a transition in leadership, data migration, software version change, or quarter and year-end accounting closures, these are areas of high risk priority in the



planning stage of the audit process. These are transitions that require maintaining of records in versions, and require a thorough evaluation of managerial override of controls against any form of manual intervention. The alterations to computer programme codes, cybercrime, and other forms of manipulation are beyond the scope of this article. The primary focus is on the accounting trail, data accuracy, and validation checks in compliance management. A trail of how changes in data structure, contents are taken on record, is important from the point of view of validation of evidential information.

Another area of focus could be contracts executed, signed and liabilities created in the books by outgoing officials exiting the organisation and improper handover procedures. The symptomatic disorders could be:

- (a) Wherein the greed factor is to recover as much amount as possible before such transfers in roles, within their authority, directly or through proxies and surrogate methods, or delegated authorities, like self-certification of claims without reaching out to reporting supervisors.
- (b) What cannot be claimed directly called settlement of dues, is indirectly treated as business expense claims.
- (c) The masking of expense heads in the digital payment system is a serious fraud risk that can impact the quality of financial reporting.
- (d) The data analysis software can only throw light on abnormalities, whereas it requires an eagle eye, to distinguish personal expenses from regular business expenditures.
- (e) Expense claims might have contracts in a proxy firm, ensuring monthly rental contracts with the organisation for hire charges, to ensure a parallel cash flow of operations, working in the

“The budgeting controls play a crucial role in cost control and compliance management, and cannot be seen in isolation.”

company managing vehicle loan instalments for EMI that are paid from assured monthly rentals.

Financial Controllership

In Indian Corporations, there is a robust budgeting process and control mechanism, prudent norms on spending, conservatism, thriftiness, and austerity practiced. This is extended to suppliers and vendors in the value chain. All information related to bill passing and budget vs. actuals are routed through HoDs, and where there is collusion or concurrence amongst HoDs, the control fails, resulting in revenue leakages. These Budget Analyses at the functional and entity levels are consolidated, summarized, and reported as the Management Information System. When the findings or variation analyses reach a tipping point, these are escalated to higher authorities wherever there is no satisfactory response from HoDs.

The budgeting controls play a crucial role in cost control and compliance management that cannot be seen in isolation. An integrated approach to compliance management, financial reporting, and governance practices would ensure that the big picture is presented before the governance board and its sub-committees.

The role of external consultants and 'outside-in' experts brings credibility to the process of investigation post a mandate from the management, governance board, or audit committee, preferably from independent directors, where there is a case of suspected management fraud or override of managerial controls as described under CARO 2020 and SEBI Regulations.

The investigation plan and strategy normally include gathering preliminary information through interviews, survey methods, and process flow diagrams. This risk prioritisation of the issues enables a proper documentation process tuned to auditing standards and guidelines published by regulatory agencies.

Governance Challenges

Over the decades, there have been several corporate scandals where there is a lead and lag in reporting aberrations in the timely reporting of financial irregularities. These primarily relate to suspicious expense claims, expense frauds, and the misreporting of funds utilisation, often personal contributions or self-branding expenses disguised as business expense claims. These practices have been observed across various industries, including notable instances during major events such as large sports events in the country, and sponsorships and social engagements. As distinguished from CSR initiatives, often these events and activities, beyond an entity's business operations, involve crowd-sourcing of funds and settlement processes after the conclusion of the event to remove initial personal contributions. Such expense claims are commonly reviewed for linkages to the manipulation of funds and misclassification of expenses.

Leadership transitions, data migrations, software version changes, and the closing of financial periods (quarter or year-end) often present significant challenges in maintaining data integrity. These transitions require careful record management, especially to ensure the preservation of records across various versions. A thorough evaluation of managerial override of controls is essential during such transitions to prevent manual interventions that could lead to discrepancies. While alterations to program codes and cybercrimes fall outside the scope of this article, the primary focus remains on ensuring accurate accounting trails,

maintaining data accuracy, and implementing effective validation checks in compliance management systems.

A detailed record trail is essential when addressing changes in data structure and content, especially from the perspective of validating evidential information. How these modifications or changes are handled must be clear and accountable, ideally with independent approval from a higher authority outside the direct chain of accounting transactions. This process ensures transparency and safeguards the integrity of the records.

While law and secretarial standards do not require verbatim transcription of board proceedings, capturing the essence of discussions effectively is vital. Such documentation serves as an evidential record, archived for future reference. In governance practices, management interactions with the governance board are often informal, verbal, and confidential. This can lead to issues when suspected aberrations or managerial overrides occur, particularly when the absence of documented records, notes, or justifications weakens the defence in a fair trial. Without proper documentation, issues may be dismissed prematurely to protect the brand's reputation, often at the expense of stakeholder interests. It is crucial that communication protocols follow established mandates from engagement terms, organisational

“A detailed record trail is essential when addressing changes in data structure and content, especially from the perspective of validating evidential information.”

procedures, and relevant laws and regulations. Using documented trails such as emails or other formal communication methods provides a strong defence, offering clarity and accountability for all stakeholders, particularly in situations involving scrutiny or legal examination.

Harmonious Interpretation of Laws and Regulations

The Companies Act, 2013, in conjunction with the SEBI (LODR) Regulations 2015, provides a robust framework for corporate governance and compliance. A harmonious reading of key provisions such as Section 2(60), Section 2(76), Section 134, Section 135, Section 138, Section 141, Section 143(12), Section 166, Section 177, Section 188, Section 197, Sections 241 to 246, Section 447, and Section 448 is essential to address the operational, legal, and regulatory aspects of the company's functioning, particularly in relation to Board and committee responsibilities.

The SEBI (LODR) Regulations, 2015 further supplement the

Companies Act, 2013 by defining the operational modalities of the Board and its committees, ensuring that the implementation of company law, listing obligations, and transparency in reporting, especially in Environment, Social, and Governance (ESG) matters, are effectively integrated into corporate practices.

This alignment is critical for reinforcing the organization's ethical and operational governance.

From a compliance management perspective, it is imperative that auditors, board members, and audit committee members ensure adherence to data governance practices, validating compliance certifications, and verifying the completeness, relevance, and sufficiency of contractual obligations disclosed. Furthermore, proactive measures such as conducting “Propriety Audits” during CFO transitions can significantly mitigate risks related to financial decisions that impact the long-term sustainability of the organization. These audits focus on legacy issues and establish clear accountability for individuals holding fiduciary responsibilities.

Key elements to monitor in this regard include:

- 1. CFO Transitions:** CFO transitions require careful examination of job roles, employment records, and appointment dates to ensure a smooth handover and address legacy issues. Documenting formal handover processes, including board resolutions, is crucial. Propriety audits are recommended to assign accountability for legacy matters in financial management and reporting. Such audits should adhere to legal and regulatory frameworks, including the Companies Act 2013, covering CFO appointments, terms, remuneration, and claim settlements. These measures ensure compliance with board mandates and uphold transparency, fostering trust in financial reporting





and governance during CFO transitions.

2. Audit Trails: Examining audit findings, trail actions, and compliance reports is critical to maintaining financial record accuracy and integrity during leadership transitions. The Ministry of Corporate Affairs reinforced this through amendments to Rule 3(1) of the Companies (Accounts) Rules, 2014, mandating the implementation of audit trail functionality. Effective from FY 2023-24, this requirement ensures transparent tracking of financial data modifications, bolstering accountability and regulatory compliance. Such measures strengthen governance frameworks by providing robust documentation, which becomes essential during leadership changes, safeguarding organizational interests, and upholding confidence in financial reporting practices.

3. Regulatory Compliance: Ensuring smooth data migration, seamless role transitions, and proper handling of conflicts of interest requires strict adherence to mandatory secretarial standards, accounting standards, and compliance norms set by the Ministry of Corporate Affairs (MCA). Accurate and transparent disclosures are essential to meet statutory requirements. Special

attention must be given to timely and error-free filings, ensuring alignment with regulatory expectations. By prioritizing these measures, organizations can strengthen governance, uphold accountability, and maintain stakeholder confidence throughout role transitions and compliance processes.

By implementing these measures, organizations can enhance governance mechanisms, ensure transparency, and promote long-term sustainability while adhering to the Companies Act, 2013, prescribed rules therein, and SEBI regulations.

Conclusion

This article underscores the significance of strengthening vigil mechanisms, fraud reporting backed by independent scrutiny, and clear communication protocols for senior management personnel in addressing control overrides. It advocates for improved transparency in disclosures and accountability in corporate governance. Emphasizing fraud prevention, data validation, and regulatory compliance, it highlights the role of special investigative assignments in enhancing credibility and attracting sustainable investments. The aim is to foster robust corporate governance and drive long-term sustainability towards value-driven growth in Indian corporates.

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Impact of ESG Factors on Private Equity Investments

The integration of Environmental, Social, and Governance (ESG) factors into Private Equity (PE) investments has shifted from a niche focus to a crucial aspect of investment strategy. Traditionally reliant on financial metrics, PE now sees ESG as key to identifying risks, fostering value, and meeting evolving regulatory and societal standards. This article examines the benefits, challenges, empirical evidence supporting the correlation between ESG adoption and superior

financial performance, and value potential of ESG in PE, with case studies from leading global private equity firms. Chartered Accountants play a vital role in ESG integration, guiding strategy and valuation. Firms that prioritize ESG are positioned for long-term success and positive societal impact.

Introduction

In recent years, Environmental, Social, and Governance (ESG) criteria have evolved from a niche focus to a core aspect of investment evaluation, particularly within private equity. Traditionally, private equity firms emphasized financial metrics and operational improvements to drive returns. However, as the link between business practices and long-term sustainability becomes clearer, ESG factors are increasingly influencing investment strategies. These non-financial considerations, such as environmental stewardship, social responsibility, and governance practices, are now viewed as critical indicators of future performance, risk management, and resilience.

ESG considerations have become integral to the private equity landscape, as investors seek more than just financial returns. Institutional investors, in particular, are pursuing opportunities that align with their ethical values and long-term sustainability goals. As a result, ESG factors have shifted from optional to essential elements in establishing competitive advantages

within a rapidly changing market. Moreover, integrating ESG into investment strategies can unlock new growth opportunities, drive value creation, and mitigate potential risks.

Private equity firms that prioritize ESG are likely to see improvements in operational efficiency, customer loyalty, and market position, which can ultimately lead to enhanced financial results. This growing focus on ESG reflects broader societal trends and evolving regulations, with both public and private entities stressing the importance of responsible business practices. As private equity firms work to maintain a competitive edge, the integration of ESG factors into their decision-making processes is becoming a critical part of their investment framework.

This article explores the increasing significance of ESG factors in private equity, examining their impact on investment strategies, decision-making, value creation, and financial outcomes. By understanding the relationship between ESG and private equity, firms can better navigate changing market dynamics, achieve

sustainable growth, and meet the demand for greater transparency and accountability in business practices.

Understanding ESG Factors in Private Equity

Environmental, Social, and Governance (ESG) elements are playing an increasingly crucial role in shaping private equity investment strategies. These non-financial elements assist private equity firms in evaluating the long-term viability, ethical conduct, and risk management of businesses. Below are the principal ESG elements that private equity firms consider throughout the investment process.

■ Environmental Factors

Environmental factors focus on a company's impact on the environment, with private equity firms evaluating aspects like carbon emissions, waste management, energy consumption, and resource efficiency. Businesses that adopt strong environmental practices are seen as lower-risk and more sustainable over time. For instance, companies that reduce carbon

emissions and use renewable energy sources are favoured, especially as climate change becomes a global concern. Additionally, firms assess compliance with environmental regulations and the management of risks such as resource depletion and climate-related challenges, while also creating opportunities in green technologies and energy-efficient solutions.

■ Social Factors

Social factors relate to a company's interactions with its employees, customers, suppliers, and local communities. Key considerations include labour practices, health and safety measures, diversity and inclusion, and human rights. Private equity firms are increasingly recognizing the social impact of their investments, understanding that businesses that treat employees fairly, maintain safe working environments, and uphold equitable labour practices are more likely to succeed long-term. Companies that embrace diversity and inclusion tend to foster innovation and better decision-making. Social responsibility extends beyond the workplace, influencing community engagement, social initiatives, and human rights, which helps mitigate reputational risks and build brand loyalty.

■ Governance Factors

Governance elements emphasize the leadership and operational transparency of a business. This encompasses the composition and diversity of the board, executive pay, shareholder rights, and anti-corruption measures. Strong governance guarantees that a company is managed ethically and in the best interests of shareholders and other stakeholders. Private equity firms seek businesses with diverse boards, appropriately aligned executive compensation structures, and efficient internal controls to deter fraud and corruption. Clear governance practices foster investor trust and

decrease the chances of legal or regulatory challenges that could jeopardize long-term profitability.

In conclusion, by prioritizing these ESG elements, private equity firms can make better-informed investment choices that support sustainable, long-term value creation.

The Growing Importance of ESG in Private Equity Investments

The need for incorporating ESG criteria in private equity investments is rapidly increasing, propelled by investor expectations, regulatory demands, and the potential for improved reputation and brand equity.

- **Investor Expectations:** Institutional investors such as pension funds, endowments, and sovereign wealth funds are progressively requiring private equity firms to integrate ESG factors into their investment processes. As sustainable investing becomes increasingly common, investors are looking for options that align with environmental, social, and governance standards. Private equity firms that show a dedication to ESG are more likely to draw in capital and secure funding.
- **Regulatory Demands:** Governments and regulatory agencies are enforcing more stringent ESG-related regulations. Significant examples include the European Union's Sustainable Finance Disclosure Regulation (SFDR) and the U.S. SEC's heightened focus on climate-related disclosures. These regulations mandate private equity firms to provide information on ESG risks and practices, encouraging firms to modify their strategies and ensure adherence, thus avoiding regulatory challenges and promoting transparency.
- **Reputation and Brand Equity:** Companies that give precedence to ESG factors are regarded as

“Environmental factors focus on a company's impact on the environment, with private equity firms evaluating aspects like carbon emissions, waste management, energy consumption, and resource efficiency.”

responsible and reliable, enhancing their public image. This improved perception can lead to stronger connections with investors, clients, and employees, resulting in appealing investment prospects and potentially higher exit valuations. Firms that focus on ESG are often viewed as superior long-term investments.

Benefits of Incorporating ESG in Private Equity Investments

Integrating ESG considerations into private equity investments presents several significant advantages that can improve both immediate and future performance.

- **Sustainable Value Generation:** Businesses that embrace robust ESG practices are often in a stronger position for enduring success. They tend to exhibit superior risk management, reduced operational expenses, and more consistent financial growth. By investing in companies that emphasize environmental, social, and governance factors, private equity firms can foster lasting value, as these firms are likely to thrive over the long haul due to their commitment to responsible practices.
- **Risk Reduction:** The incorporation of ESG factors aids in minimizing various risks, including regulatory, operational, and reputational threats. For instance, firms that

comply with environmental laws or maintain ethical labour standards are less likely to face legal issues or public criticism. This proactive approach to risk management helps shield investments and ensures sustained profitability.

- **Drawing Investments:** As institutional investors increasingly prioritize ESG criteria, private equity firms that embed these considerations in their investment approaches are more capable of attracting capital. Investors with an emphasis on ESG, such as pension funds and endowments, are more inclined to support firms that align with their sustainability objectives.
- **Improved Exit Opportunities:** Firms with strong ESG standings frequently secure higher valuations during exits. Whether through initial public offerings (IPOs) or strategic sales, acquirers are increasingly assessing ESG performance as part of their decision-making process. This trend can result in more profitable exits for private equity firms, boosting their investment returns.

Challenges in Implementing ESG in Private Equity

Integrating ESG considerations into private equity investments presents numerous challenges that firms must overcome to achieve successful implementation.

- **Lack of Standardized Metrics:** The absence of standardized metrics is one of the primary obstacles in embedding ESG factors. Without a common framework for ESG disclosures, it is difficult for investors to evaluate the ESG performance of companies across different sectors. This lack of consistency complicates decision-making and poses risks of inconsistent reporting, making the assessment of long-term sustainability more challenging.

- **Data Availability and Quality:** Reliable and accurate ESG data is essential for assessing potential investments. However, many companies do not provide transparent or consistent disclosures about their ESG practices, which complicates the process of obtaining trustworthy information. Private equity firms may have to turn to third-party ESG rating agencies or invest in data analytics to ensure that the data they utilize is credible and relevant for their investment decisions.

- **Balancing Profitability with ESG Goals:** There may be concerns about the possibility of short-term impacts on profitability while pursuing ESG goals. Private equity firms must find a careful balance between achieving financial returns and incorporating ESG targets, ensuring that both objectives are harmonized without sacrificing one for the other.

- **Short-Term Focus in Traditional Private Equity:** The conventional private equity model, characterized by a 3–7 year investment horizon, may conflict with the long-term focus required by certain ESG strategies. Consequently, private equity firms need to adjust their strategies to effectively implement and evaluate ESG initiatives within the typical duration of their investments.

The Role of Chartered Accountants in ESG Integration

Chartered Accountants (CAs) are essential in assisting private equity firms to effectively integrate ESG (Environmental, Social, and Governance) considerations into their operations and investment strategies.

- **ESG Reporting and Assurance:** CAs can enhance the accuracy and transparency of ESG reporting by establishing solid reporting frameworks and validating ESG

data. They aid private equity firms in meeting regulatory obligations and industry standards, ensuring that the disclosed ESG information is dependable and credible. This fosters accountability and transparency, which are vital for attracting investors.

- **Advisory on ESG Strategies:** CAs offer invaluable advisory services by supporting private equity firms in embedding ESG elements into their investment strategies, due diligence processes, and post-investment evaluations. They can synchronize ESG objectives with financial goals, ensuring that investments yield both social benefits and sustainable financial returns.

- **Risk Management:** CAs help identify and reduce ESG-related risks such as environmental liabilities, labour violations, or governance challenges. By incorporating these risks into the firm's comprehensive risk management framework, they help prevent financial or reputational harm, thus supporting long-term value retention.

- **Valuation of ESG Initiatives:** CAs also play a crucial role in measuring the financial impact of ESG initiatives. They assist private equity firms in evaluating the added value generated by sustainable practices, aiding in improved decision-making and showcasing the long-term advantages of ESG investments.

Secondary Research and Empirical Evidence

To establish a clearer correlation between ESG integration and private equity performance, recent studies provide compelling data supporting this relationship.

According to a 2022 study¹, PE funds with strong ESG integration achieved internal rates of return (IRR) up to

¹ 2022 EY Study on ESG Integration and Private Equity Performance (https://www.ey.com/en_us/insights/private-equity/how-private-equity-can-optimize-esg-to-maximize-value-creation)

8% higher than those with minimal ESG consideration. This suggests that ESG factors contribute positively to investment outcomes, reducing risk and enhancing operational efficiencies.

A 2021 report² found that ESG-aligned companies exhibit lower volatility, higher valuation multiples, and stronger long-term growth prospects.

Similarly, a study by Principles for Responsible Investment (PRI) indicated that ESG integration leads to lower downside risk and improved exit valuations, demonstrating that ESG can be a tool for value creation in private equity investments.

However, not all studies agree on a direct positive correlation. Research from The Wall Street Journal (2023) highlighted tensions between PE firms and investors regarding ESG-related expenses. Some institutional investors argue that ESG compliance costs reduce short-term profitability, and certain regulatory changes have led to increased scrutiny of ESG disclosures.

Case Studies: Successful ESG Integration in Private Equity

The below given case studies demonstrate that incorporating ESG factors into private equity investments can enhance operational effectiveness, improve risk management, build stronger reputations, and ultimately yield better financial outcomes. By implementing ESG strategies, private equity firms can play a role in fostering a more sustainable future while generating considerable value for their stakeholders.

Global private equity leaders such as KKR, the Carlyle Group, and

“Private equity firms may have to turn to third-party ESG rating agencies or invest in data analytics to ensure that the data they utilize is credible and relevant for their investment decisions.”

Blackstone have each made ESG central to investing, though with different levers that tie sustainability to performance. The first embeds ESG through structured diligence that becomes post-close action plans with measurable targets, enabling portfolio companies like Contour Global to expand renewable projects, cut emissions, and commit to net-zero goals³. The second emphasizes governance and social factors, upgrading boards, compliance, and workforce practices to reduce risk and unlock opportunities, including \$13 billion in sustainability-linked revenue in 2024⁴. The third applies ESG at scale in real estate, committing over \$18 billion to energy-transition projects and efficiency upgrades that have reduced emissions by 15% since 2021, cut operating costs, and enhanced valuations⁵. Together, these approaches show ESG is not a trade-off but disciplined execution that lowers risk, improves efficiency, and compounds value from acquisition through exit.

Conclusion

Integrating ESG factors into private equity investments is no longer a niche interest or optional practice; it has become a core component of the investment process. As

investors, regulators, and stakeholders increasingly prioritize sustainability, private equity firms that focus on ESG are positioned to outperform their competitors and drive sustainable, long-term growth. Chartered Accountants play a crucial role in this shift by helping private equity firms navigate the financial, regulatory, and strategic complexities of ESG integration. They can guide firms in managing risks, creating value, and seizing new opportunities.

As ESG becomes a critical factor in future investment success, private equity firms that effectively integrate ESG considerations into their strategies will not only meet the demands of investors but also contribute significantly to a more sustainable global economy. By embedding ESG principles, these firms can ensure they remain competitive while supporting broader environmental, social, and governance goals.

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Sustainable Finance and its Prominence in the Sustainable Development of the Indian Economy

The 'Conference of Parties 11' (CoP 11) to the Convention on Biological Diversity, held in Hyderabad, had the theme 'प्रकृति रक्षित रक्षतः' which expresses the notion that 'Nature protects if she is protected', meaning that when we protect nature, she, in turn, protects us. Environmental issues such as rising temperatures, shifting weather patterns, and increasing frequency of extreme weather events, and global climate change have brought us to the brink of a planetary crisis, and global warming has become one of the biggest challenges of our times. It is, therefore, high time for each stakeholder to take responsibility for the protection of the planet. Sustainable Finance can play a major role in contributing to this noble cause from the side of the business world. Mobilizing the necessary financial resources from the public and private sectors needed to ensure the global pursuit of sustainable development and environmental conservation has paved the way for innovative financial instruments to align economic growth with ecological responsibility. These financial instruments are designed to fund projects with environmental benefits, including renewable energy, clean transportation, and waste management, and hence are termed as Sustainable Finance. (UNO)

The growing urgency to tackle climate change and environmental decline has positioned green finance as an essential element of sustainable development. This field includes various financial products and services designed to support initiatives that benefit the environment. Thus, green finance can be understood as the flow of financial investments into projects and initiatives that promote environmental conservation.

This article dives into the conceptual understanding of Sustainable Finance. This includes its functions, its stages, the current scenario, its advantages, and the problems it is facing, particularly in the Indian context. This article also throws

light on the role and importance of Sustainable Finance in the sustainable development of the Indian economy and the major initiatives taken by the government that have contributed to the advancement of the concept of Sustainable Finance in India.

Introduction

Charles (2009) has studied carbon neutrality and environmental sustainability to reduce carbon footprints and has given various programs related to environmental sustainability. Problems like carbon emissions, pollution, climate change, resource depletion, etc., were on the radar of his study. This led to a survey about sustainable finance as a way to tackle the problems. Before that,

green finance had been in debate since 2008, when the World Bank issued its first Green Bond, which followed a conventional “plain vanilla” approach.

Gutterman (2024) describes the parameters of Sustainable Finance, and also defines the concept of interrelationships that exist between environmental, social, and governance (“ESG”) issues on the one hand, and financing, lending, and investment decisions, on the other, along with long-term-oriented financial decision making that integrates ESG considerations. Sustainable finance is the process of taking ESG considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.

Sustainable finance is the term used to describe financial operations and investments that promote projects and activities that are environmentally sustainable. It entails investing money in initiatives, companies, and innovations that benefit the environment, including sustainable agriculture, energy efficiency, renewable energy, and more. Sustainable finance encompasses various financial instruments such as impact investments, sustainable loans, green bonds, and others that aim to generate financial gains while advancing environmental sustainability. It is essential for tackling environmental issues such as adaptation, mitigation, and the shift to a low-carbon, more sustainable economy.

According to the United Nations Environment Programme, sustainable financing will boost the amount of money flowing to sustainable development priorities from the public, private, and nonprofit sectors (through banking, microcredit, insurance, and investment). A foundational element of this involves effectively handling environmental and social hazards, capitalizing on prospects and advancing them through modifications to national regulatory structures, standardizing financing

“Financial institutions are increasingly embracing sustainable finance methods, such as green bonds, impact investing, and responsible lending. These strategies not only help to reduce risks linked to unsustainable practices but also open up avenues for long-term value creation.”

decisions for the public sector, fulfilling the environmental aspect of the Sustainable Development Goals (also known as the Global Goals, adopted by the United Nations in 2015 as a universal call to action for peace and prosperity of the people by 2030) by augmenting investments in eco-friendly technologies, funding sustainable natural resource development grounded in green economies and climate-smart blue economies, utilizing green bonds more frequently, and so forth.

Sustainable Finance: Concept

Sustainable finance encompasses financial services and investments that

incorporate Environmental, Social, and Governance (ESG) considerations into their decision-making processes. Its primary objective is to foster sustainable economic growth while tackling pressing global issues such as climate change, resource depletion, and social inequality. By applying ESG criteria, sustainable finance promotes investments in initiatives that yield positive societal outcomes, including renewable energy, affordable housing, and sustainable agriculture. Financial institutions are increasingly embracing sustainable finance methods, such as green bonds, impact investing, and responsible lending. These strategies not only help to reduce risks linked to unsustainable practices but also open up avenues for long-term value creation. Additionally, regulatory frameworks and international accords like the Paris Agreement play a crucial role in encouraging the adoption of sustainable finance principles. Ultimately, the goal of sustainable finance is to align capital flows with sustainable development objectives, contributing to a more resilient and equitable economy for future generations.

Drivers of Sustainable Finance

Sustainable finance is shaped by various factors that influence both the demand for and the supply of sustainable investment options, like-



- **Regulatory pressure:** Governments and regulatory bodies establish policies mandating companies to disclose their environmental, social, and governance (ESG) practices. The EU Sustainable Finance Disclosure Regulation (SFDR) and the Task Force on Climate-related Financial Disclosures (TCFD) are important frameworks.
- **Rising demand from investors:** Investors are increasingly prioritizing sustainability in their portfolios, especially institutional ones. This shift is driven by a commitment to responsible investing and the belief that sustainable companies are likely to deliver better long-term returns.
- **Awareness regarding Climate Change:** The growing awareness of climate change as a critical global challenge has led to heightened interest in green investments and renewable energy projects. Companies are adopting sustainable practices not only to comply with regulations but also to enhance their brand image and meet consumer expectations, further fuelling the need for sustainable finance solutions.
- **Technological innovations:** Technological innovations such as blockchain and artificial intelligence, improve the tracking of ESG metrics, enhancing transparency and creating more investment opportunities.
- **Financial institutions:** Financial institutions are also recognizing that ESG factors can significantly impact financial performance and risk management. By incorporating these considerations into their decision-making processes, they can better identify potential risks and opportunities.
- **Global initiatives:** Initiatives at the global level like the Paris Agreement motivate nations and businesses to commit to sustainable practices, directing investments toward sustainable projects.

“Financial institutions are also recognizing that ESG factors can significantly impact financial performance and risk management. By incorporating these considerations into their decision-making processes, they can better identify potential risks and opportunities.”

- **Social movements:** The movements at the social level advocating for issues such as inequality and labour rights also encourage investors and companies to integrate social criteria into their investment strategies.

There is an increasing acknowledgment that sustainable practices can lead to long-term value creation, with companies that focus on sustainability often experiencing lower costs and enhanced operational efficiency. Furthermore, the availability of financial products like green bonds and sustainability-linked loans is facilitating easier access to capital for businesses pursuing sustainable initiatives. Together, these factors are transforming the landscape of sustainable finance, promoting a shift toward more responsible investment and lending practices.

Sustainable Financial Instruments

Sustainable financial instruments are financial products designed to support environmental, social, and governance (ESG) initiatives. Their primary goal is to direct capital toward projects and companies that have a positive impact on sustainability. Notable examples include green bonds, sustainable bonds, sustainability-linked bonds, impact investing funds, etc.

- **Green Bonds:** These are the debt securities aimed at funding

environmentally beneficial projects like renewable energy and energy efficiency i.e., eco-friendly projects.

- **Social Bonds:** These are financial instruments issued to raise capital for projects or initiatives with specific social or environmental purposes, such as social security and healthcare facilities.
- **Sustainability-linked Bonds:** These bonds have financial terms tied to the issuer's performance on specific sustainability targets. These are the bonds “for which the financial and/or structural characteristics can vary depending on whether the issuer achieved pre-defined sustainability/ ESG objectives.” (ICMA)
- **Impact Investing Funds:** They focus on generating measurable social or environmental benefits alongside financial return, while ESG funds, comprising mutual funds or ETFs, invest in companies based on their ESG performance.
- **Green loans:** A Green loan is a form of financing that enables borrowers to use the proceeds to exclusively fund projects that make a substantial contribution to an environmental objective.
- **Blue Bonds:** These are the bonds used for clean water management, water recycling, and for the sustainable maritime sector, like sustainable shipping, sustainable fishing, fully traceable sustainable seafood, ocean energy, and ocean mapping. It was issued by SEBI in February 2023 along with the Yellow and Transition Bonds.
- **Yellow Bonds:** These are the bonds raised for solar energy generation and the industries related to it. It was issued by SEBI in February 2023.
- **Transition Bonds:** ‘Transition bonds’ is one of the sub-categories of the revised definition of ‘green debt security’. As per the SEBI (Issue and Listing of Non-

Convertible Securities), transition bonds comprise “funds raised for transitioning to a more sustainable form of operations, in line with India’s Intended Nationally Determined Contributions.”

Sustainable Financial Institutions

Sustainable financial institutions are organizations that incorporate sustainability into their operations, investment strategies, and lending practices. Their main objective is to foster responsible finance and support projects aligned with Environmental, Social, and Governance (ESG) criteria, addressing global issues like climate change and social inequality. Development banks, such as the World Bank, are a key type of sustainable financial institution. They focus on financing sustainable development projects in areas like infrastructure and poverty alleviation, providing crucial funding for long-term growth in developing regions. Some of them are:

- **Green Banks:** It specializes in financing renewable energy and energy efficiency projects. By leveraging public funds to attract private investment, they facilitate the transition to a low-carbon economy.
- **Sustainable Commercial banks:** Traditional banks that incorporate ESG principles into their lending and investment policies.
- **Socially Responsible Investment (SRI) Firms:** They prioritize investments in companies with strong ESG practices while avoiding those involved in harmful industries. This approach helps create a more sustainable economic landscape.
- **Insurance Companies with an ESG focus:** They are also increasingly integrating sustainability into their risk management and investment strategies.

Lastly, Pension Funds with sustainable mandates invest in assets that reflect the values of their beneficiaries,

ensuring a stable future. Together, these institutions mobilize capital for initiatives that tackle pressing global challenges.

Sustainable Finance in India

Sustainable finance is rapidly becoming an essential part of India’s financial landscape, incorporating environmental, social, and governance (ESG) criteria into investment strategies. The Securities and Exchange Board of India (SEBI) has rolled out regulations like the Business Responsibility and Sustainability Report (BRSR), which requires listed companies to disclose their sustainability efforts. This regulatory framework, along with initiatives from the Reserve Bank of India (RBI), aims to improve transparency and accountability in corporate governance. India has also established itself as a key player in the green bond market, directing investments toward renewable energy projects to achieve its ambitious goal of 500 GW by 2030. Furthermore, the growth of impact investing and fintech solutions is making sustainable investment options more accessible to a rising number of socially conscious investors. Despite this progress, challenges such as limited data availability, regulatory inconsistencies, and varying levels of market development persist. However, the growing interest in responsible investment and the potential for collaboration between public and private sectors offer significant opportunities for advancing sustainable finance. As knowledge and awareness of ESG factors continue to expand, India is well-positioned to harness sustainable finance for both economic growth and addressing critical environmental and social issues.

In India, green bond IPOs are currently issued in large numbers, as the RBI has issued a total of ₹36,000 crore in green bonds since 2022-23. The government plans to issue ₹20,000 crore in green bonds in four

“ Sustainable finance places a high priority on funding programs that support renewable energy, sustainable agriculture, and ethical corporate governance in order to address pressing global concerns including resource depletion, social inequality, and climate change. ”

tranches in the second half of 2025. Even public and private companies like NTPC (National Thermal Power Corporation Ltd.) and Adani Group are going to issue green bonds in the coming days.

To raise funds for sustainability in India, green debt securities like Blue Bonds for SDG Goal 6 of Clean Water and Sanitation and SDG Goal 14 of Life Below Water, Yellow Bonds for the generation of solar energy and related industries, and Thematic Bonds for SDG Goal 13 of Climate Action under the targets set up by India’s Nationally Determined Contributions of Paris Agreement were authorized by the Securities and Exchange Board of India (SEBI) in February 2023.

Sustainable Finance & Sustainability

Sustainable finance refers to financial practices that include environmental, social, and governance (ESG) factors into financial services and investment decision-making. Long-term benefits for investors, the environment, and society are the goals of this strategy. Sustainable finance places a high priority on funding programs that support renewable energy, sustainable agriculture, and ethical corporate governance in order to address pressing global concerns including resource depletion, social inequality, and climate change.

Tools like impact investing, which seeks to provide measurable social or environmental benefits in addition to financial gains, and green bonds, which provide funding for environmentally friendly initiatives, are significant components of this paradigm. Ultimately, sustainable finance advocates for a shift away from traditional financial metrics and toward a more holistic viewpoint that recognizes the connection between environmental, social, and governance stewardship.

The general idea of sustainability highlights the need to address current demands without sacrificing the capacity of future generations to address their own. Sustainability in terms of the environment, society, and economy is comprised of three interconnected pillars. Environmental sustainability is centred on safeguarding natural resources and ecosystems, promoting pollution-reduction strategies, and fostering biodiversity. By putting an emphasis on fairness, communal well-being, and human rights, social sustainability makes sure that everyone has access to opportunities and a respectable standard of living. Establishing mechanisms that promote steady employment, fair wealth distribution, and conscientious consumer habits is essential to achieving economic sustainability. These pillars work together to provide a holistic framework that respects natural boundaries, encourages social equality, and builds economic resilience through a balanced approach to growth. Sustainable finance plays a critical role in advancing these goals by mobilizing capital toward initiatives that align with sustainability principles.

Challenges faced by Sustainable Finance

Sustainable finance faces a variety of challenges that can hinder its growth and effectiveness. A major issue is the absence of standardized methods for measuring and

reporting Environmental, Social, and Governance (ESG) factors. This lack of uniformity leads to inconsistent data and evaluations, making it difficult for investors to compare sustainable investment opportunities.

Additionally, greenwashing is a significant concern, as some companies may inflate their sustainability efforts to attract investment, complicating the task of identifying truly sustainable projects. The availability and quality of ESG performance data are often insufficient, with many companies not disclosing critical information, resulting in inconsistencies. Furthermore, a short-term focus among many investors can detract from long-term sustainability objectives. Inconsistent regulatory frameworks across various regions also create obstacles for sustainable investments, as this uncertainty may deter financial institutions from fully committing to sustainable finance. Market perceptions contribute to the issue, as some investors still consider sustainable finance a niche area with potentially lower returns, limiting capital flow into sustainable initiatives. Traditional financial models frequently overlook environmental and social risks, leading to an under appreciation of potential losses associated with unsustainable practices. Moreover, there is often a lack of knowledge and expertise within financial institutions regarding sustainable finance strategies, which hampers effective development. Political and economic instability can further impact investments in sustainable projects, especially in developing regions where access to sustainable finance is limited due to weaker financial markets and infrastructure. To tackle these challenges, collaboration among governments, financial institutions, businesses, and civil society is essential for creating a more robust framework for sustainable finance.

Conclusion

India's Sustainable Finance scene is still relatively young. To stay up to date on the most recent advancements in this

field, it is crucial to refer to more recent sources and official announcements. Governments, corporations, and financial institutions are constantly adapting and innovating in the field of green finance to meet environmental challenges. Since green finance is giving environmentally sustainable projects the funding they need, it is genuinely illuminating the path forward for India's sustainable future. The country's green finance industry is expanding as a result of government initiatives, increased tech optimization, and participation from the private sector. India stands to gain from the adoption of green finance in a number of ways, including enhanced energy security, reduced carbon emissions, and promotion of sustainable development. It is anticipated that India will continue to prioritize green finance and accelerate its efforts in unfurling a sustainable and greener future.

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Introduction

ESG (Environment, Social, and Governance) is a critical framework for assessing a company's ethical and sustainable practices. The ESG encompasses three key non-financial dimensions that include: impact on society, environment, and corporate governance. ESG holds utmost importance for India, as India experiences extreme weather events, rising sea levels, floods, changes in weather patterns, uneven rainfall, and landslides. Also, India continues to work towards addressing important social challenges like poverty, low-level income, and income inequality.

Investing in ESG Initiatives: The Way Ahead

In the wake of escalating global challenges like climate change, corporate misconduct, and rising social and income inequality, ESG investing has gained significant prominence among investors, stakeholders, and regulatory bodies. This article provides an in-depth coverage of the various challenges, complexities, and improvement areas associated with the ESG framework. Further, it highlights the crucial role of asset managers, investors, regulatory bodies, company managers, and society in advancing and shaping ESG investing in India.

Ethical conduct and strong governance contribute to promoting transparency and attracting investment in India.

The regulatory framework for reporting sustainable business practices in India can be dated back to 2009, when the Ministry of Corporate Affairs (MCA) launched "Voluntary Guidelines on Corporate Social Responsibility". Over the years, the reporting framework for responsible business practices has changed from voluntary guidelines to mandatory reporting. SEBI introduced the Business Responsibility Report (BRR) in August 2012, making it mandatory for the top 100 listed companies to file the BRR. The BRR intends to communicate the responsible business practices adopted by the companies to their stakeholders. In 2021, the Business Responsibility and Sustainability Report (BRSR) replaced BRR. The top 1000 companies based on market capitalization have to compulsorily include BRSR as a part of the Annual Report from the financial year 2023-24. The BRSR is indeed organized into 3 sections, the first section is related to general disclosures, the second pertains to management and process disclosures, and the third section focuses on principle-wise performance indicators. The BRSR initiative will help investors and companies alike. Investors will now be able to take informed

investment decisions, as investors will be aware of opportunities and risks related to sustainability. On the other hand, companies can also attract new capital and investors by sharing their sustainability initiatives and bringing in more transparency. Furthermore, "BRSR Core" was introduced in 2023. BRSR Core is a subset of BRSR, and it discloses the ESG performance of companies across nine major Key Performance Indicators (KPIs)/metrics (SEBI, 2023). Beginning from the financial year 2024, the top 150 companies based on market capitalization are required to file BRSR Core compulsorily.

Indian companies' efforts towards sustainability are getting recognized by international agencies. 18¹ out of the 106 companies in the Dow Jones Sustainability Emerging Markets Index, which is a gold standard for measuring the company's efforts towards ESG parameters, are of Indian origin. The index consists of companies from 20 emerging nations and is widely referred to by analysts and investors around the globe for investment decisions. Further, according to a study by DBS Bank, Indian companies are more focused on ESG reporting and compliance as compared to the regional counterparts like China, Singapore, and Hong Kong. Additionally, India is also a signatory

¹ As on 29th February, 2024

to “The Paris Agreement”² and has pledged to reduce the emissions intensity of greenhouse gas as a percentage of GDP to 30-35% by 2030 from the 2005 level. Further, it has pledged to increase the forest cover and scale up the power capacity using non-fossil fuels to 40% in 2030 (Centre for Policy Research, 2016). Many corporate houses like Dalmia Cement, Infosys, Tata Motors, and Mahindra & Mahindra have become part of the RE100³ initiative and are committed to sourcing 100% energy from renewable sources (Mudaliar and Telang, 2020).

The Reserve Bank of India (RBI)⁴ is now a member of the Network for Greening the Financial System (NGFS). The NGFS is a group of central banks and financial supervisors that share best practices and work to mitigate financial risks posed by climate change, while also mobilising capital for low-carbon and green investments. This step would help India in its transition towards a sustainable economy. Besides various regulatory measures, the Indian government has also introduced various policies, financial incentives, and tax rebates to support sustainable business practices, renewable energy, and eco-friendly business conduct.

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Apart from regulatory actions and policy initiatives, the ESG adoption in Indian is also driven by domestic and foreign businesses. India is a part of the supply chain for a lot of MNCs, and they all have high standards with respect to ESG parameters. This results in Indian businesses addressing ESG issues (Davis-Peccoud as cited in Mathew, 2022).

Challenges Associated with ESG Finance

Socially Responsible Investing (SRI) refers to incorporating social and environmental aspects in investment decision-making (Searcy and Elkhawas, 2012). SRI is flourishing and picking up pace globally. However, there are still some challenges that need to be addressed. First, there is a lack of SRI-related data for emerging economies. Lack of data is an impediment to the growth of SRI and results in low inflow of funds (Bruggia, 2022). Data acts as a link between ESG investments and investors in emerging markets. It helps the domestic and foreign investors to evaluate the companies and thus, make an investment. Further, emerging nations also face challenges in extracting ESG-based information from companies, and often there are imbalances between the information available and the information required for ESG screening (Payton, 2024).

Secondly, there is a lack of standardization in SRI-related terms, definitions, strategies, standards, and ratings. Socially responsible investing, sustainable investment, ESG integration, and responsible investing are often used interchangeably, and there are regional variations in definitions. Moreover, with respect to SRI strategies, the United States and Australasia do not track data on norms-based screening. Further, Australasia includes corporate engagement within ESG integration. Furthermore, ESG ratings are provided by many providers such as Bloomberg, Refinitiv, Crisil, Sustainalytics, etc., and there is low correlation between the ratings provided by these agencies (Dimson et al., 2020; Brandon et al., 2021, and Berg et al., 2022). Each rating agency uses its own criteria and methodology for providing ESG ratings. Sometimes, a company can be rated best by one provider, but on the other hand, it can be rated worst by others.



² The Paris Agreement is an agreement which is signed by 195 countries in the year 2015 and is enforced by law. The signatories have collectively decided to restrict the rise in global temperature to 2 per cent preferably 1.5 per cent in this century.

³ RE 100 initiative is a global collaborative effort bringing together influential businesses committed for 100% renewable electricity.

⁴ RBI is the central bank of India.

Third, the social pillar is lagging behind. Till now, among the ESG parameters, the environment and governance parameters have received most of the attention across the globe. India has also witnessed a similar trend where investors have majorly invested in climate tech. Lack of attention for the social pillar could be due to some reasons: Firstly, there is difficulty in quantifying social impact. Secondly, data related to social parameters is complex for analysis and inclusion in the investment process (Allen et al., 2021). Thirdly, unlike environmental parameters, there is an absence of a standard and reliable metric for measuring societal impact. For instance, we have greenhouse gas emission units for measuring environmental impact. All three ESG parameters are interlinked; however, by focusing on the “S” parameter, companies can improve the well-being of employees (the most important asset), build customer loyalty, and improve reputation. Fourth, excessive focus on disclosure could result in “greenwashing” efforts by the companies. Greenwashing is when a company claims to be conscious of ESG parameters for marketing/disclosure purposes, but in reality, isn’t making any efforts towards sustainability.

Corporations make false or exaggerated claims about sustainability practices. Moreover, asset managers can also attach misleading names to the funds and further, can mislead on how sustainability is integrated in the investment process. Greenwashing can induce investors to prefer one fund over another. In addition to this, it can also result in biased ESG ratings by the rating agencies. To curb greenwashing, governments and regulators across the globe are taking steps such as increased regulation and scrutiny. Recently, the U.S. Securities and Exchange Commission (SEC) took action against firms like BNY Mellon and Goldman Sachs Asset Management for various ESG-related misstatements (Fernstrom,

“To curb greenwashing, governments and regulators across the globe are taking steps such as increased regulation and scrutiny.”

2023). However, with increased regulation, there is always a risk of unintended consequences. One such consequence is green hushing. Companies engage in green hushing by deliberately avoiding or underreporting sustainability efforts in order to escape strict regulatory actions. Worried about legal trouble and tarnished image, companies become conservative while reporting sustainability efforts to avoid greenwashing accusations.

Role of Key Stakeholders

Investors, asset managers, company management, government, and regulators all play a pivotal role in nurturing SRI. Investors, both institutional and individual investors, can act as a catalyst and bring the necessary changes to the investee company. Firstly, investors can consciously invest in funds that meet sustainability parameters. Secondly, investors might choose to use their ownership rights to improve corporate behavior, social responsibility, and ESG performance.

Investors can use various methods such as shareholder activism, proxy voting, and direct dialogue with company leadership. Thirdly, investors can drive innovation in financial products by demanding more SRI options such as ESG-themed funds, green bonds, and impact investing vehicles.

On the other hand, asset managers can disclose all the material information, like portfolio holdings, investment processes, and ESG integration methodologies, to the investors. This helps to foster transparency and enables investors to make informed decisions. Further, asset managers with investment expertise can curate more SRI-focused funds according to the diverse needs and risk preferences of investors. Asset managers can also take initiatives to educate clients and contribute towards the growth and mainstream adoption of sustainable investment practices. Moreover, the asset managers can support the policy and regulatory changes that aid sustainable investment.

The management of the company can adopt sustainable practices such as reducing carbon emissions, recycling waste, and use of renewable energy sources, etc. Further, the managers can contribute by meeting the expectations of all the stakeholders. Open communication with the important stakeholders can help to build trust and confidence in the company. The management must



comprehensively review the existing policies with regard to ESG criteria and accordingly plan the roadmap for the future. In addition to this, focus on diversity, workplace safety, well-being of employees, and transparent pay policy can further enhance responsible behavior. Managers can uphold high standards for corporate governance by fostering transparency and encouraging ethical behavior.

The government undertakes a pivotal role in fostering the growth of SRI in a nation. Firstly, the government can shape the regulation that promotes transparency, standardization, and accountability in SRI. Secondly, it can oversee the proper implementation of rules and regulations and strengthen regulations related to investor protection. Thirdly, the government can develop a reporting framework that helps companies to disclose all the sustainability-relevant information in a standardized manner that is easy to compare and comprehend by the investors. Further, the government can provide financial incentives like tax breaks and subsidies to encourage the adoption of sustainability practices. Moreover, a partnership with the private sector can help to develop renewable energy solutions, develop green infrastructure, and water conservation, etc. The government can also lead by example by adopting ESG parameters in government spending.

On the other hand, regulators assume a critical role in shaping the regulatory climate, providing clarity to market participants, building investor confidence, and promoting accountability. Regulators may identify gaps and introduce new elements that strengthen SRI. Regulators also devise rules to avoid greenwashing, greenhushing, fraud, and unethical behavior. Regulators may mandate and standardize sustainability reporting from listed companies and to disclose all the material information related to sustainability indicators.

“Asset managers can disclose all the material information, like portfolio holdings, investment processes, and ESG integration methodologies, to the investors. This helps to foster transparency and enables investors to make informed decisions.”

Conclusion

In this article, we focus on the road ahead in ESG Investing. SRI is quite popular and often promoted as the solution to the problems that the world is facing today. However, SRI faces some of the challenges that include a deficiency of credible data, insufficient data from emerging economies, a lack of standardization, clarity of terminology, greenwashing, green hushing, and the missing social parameter. Further, investors, regulators, government, asset managers, and the management of the company are central to the development of SRI.

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In Norse mythology, Thor's hammer, Mjolnir, is not just a weapon; it is a symbol of strength, resilience, and the power to restore balance. With Mjolnir in hand, Thor was able to protect Asgard, defeat giants, and ensure harmony in the cosmos. In much the same way, India's e-INR, the digital rupee introduced by the Reserve Bank of India (RBI), stands as a modern-day equivalent, a tool of immense potential to tackle one of humanity's greatest adversaries: climate change.

Just as Mjolnir could strike down the fiercest of foes with precision and might, the e-INR has the power to dismantle the systemic inefficiencies and environmental impacts of

e-INR: The Mjolnir of RBI against Climate Change

The e-INR, India's Central Bank Digital Currency (CBDC), is more than a digital payment solution; it is a transformative tool designed to reduce the production cost of physical cash, increase accessibility to money, and make management of payment systems easier. The acceptance of e-INR in our daily transactions will also have a significant impact on climate change, which is being discussed in the article. Much like Thor's hammer, Mjolnir, the e-INR wields the power to dismantle inefficiencies, foster sustainable practices, and combat environmental challenges. This article explores how the e-INR can revolutionize green finance, streamline energy usage, incentivize eco-friendly behaviours, and empower policymakers with real-time data. By addressing physical and transition risks associated with climate change, the e-INR emerges as a catalyst for sustainability, ensuring financial inclusion, environmental protection, and economic resilience. However, to realize its full potential, challenges such as energy efficiency, public trust, and equitable infrastructure must be overcome.

traditional financial systems. Mjolnir could also summon storms, much like how the e-INR can summon revolutionary changes in how we perceive and address environmental challenges. From enabling transparent carbon markets to incentivizing sustainable consumer behaviour, the e-INR wields the capability to transform the financial ecosystem into a driver of sustainability.

Imagine Mjolnir in Thor's hands as the ultimate equalizer against the chaotic forces of frost giants. Similarly, the e-INR is the RBI's weapon to fight the disarray caused by climate change, be it the rising costs of carbon emissions, the inefficiencies of physical cash, or the need for a greener economy. Where Mjolnir smashed through obstacles, the e-INR breaks through barriers like the digital divide, high transaction costs, and the slow pace of green finance implementation.

Just as Thor's hammer had the unique ability to return to its master, the e-INR also comes full circle by not

only addressing current challenges but also creating long-term benefits. It builds financial inclusion by bringing digital currency to rural and vulnerable populations, empowers communities with renewable energy trade, and supports governments in developing real-time, data-driven climate policies.

Moreover, Thor's hammer is a symbol of hope and strength, a reminder that even in the face of overwhelming challenges, there is a way to fight back. The e-INR embodies this same spirit for India. It is more than just a digital currency; it is a call to action, a leap toward innovation, and a tool to forge a sustainable future. Like Thor wielding Mjolnir to protect his realm, India can wield the e-INR to safeguard its environment, economy, and future generations from the looming threats of climate change.

CBDC or e-INR — The Weapon

CBDC stands for Central Bank Digital Currency. Just from the name, one

can understand that it is a currency, in digital form, and is issued by central banks. This currency is similar to fiat money or money in physical form, issued by the government, and not backed up by gold reserves, but exists solely in electronic form. The e-INR, or Digital Rupee, is India's Central Bank Digital Currency (CBDC) introduced by the Reserve Bank of India (RBI). So, two questions arise in the mind after reading this:

First, how is it different from online payment banks or UPIs?

To answer this let us understand some scenarios, imagine going to sketchers to buy yourself trendy sports shoes, you like one pair of shoes, the salesman takes it to the cashier and now it is time for you to pay the money, you take out your mobile phone, scanned the QR code and received a pop-up "Your banks' server is down please try later". Let's take another example- you purchased an anime merchandise from Japan that costs around 8000 INR, you add it to your cart and proceed to payment options through digital wallets, the wallet shows a transaction fee of 5% for international purchases means now you have to pay 400 rupees extra to the wallet's company. Let's go with one more example, suppose you go to a village, you are thirsty and you forgot your purse, you find a shop, but the shopkeeper says they have a mobile but do not have a bank account, therefore, they cannot receive online money. In all the above scenarios, e-INR can work wonders. e-INR minimizes intermediaries like banks or private companies, reducing transaction costs and technical problems of the intermediaries. The major benefit of CBDC is financial inclusion; e-INR will make digital money available to people without a bank account. It will also ensure highly secure transactions that will minimize the risk of hacking and fraud, and reduce the risk of privacy invasion by fraudulent practices.

The second question that comes to our mind is: how does it differ from cryptocurrency?

“The Task Force on Climate-related Financial Disclosures (TCFD) has divided climate change-related financial risks into two categories - physical and transition risks.”

Well, the answer is simple: e-INR or CBDCs are centralized, issued, and regulated by central banks, with their value tied to the national currency, ensuring stability, whereas cryptocurrencies, like Bitcoin, are decentralized, privately created, and often operate on public blockchains without government control. Their value is highly volatile and determined by market demand.

Climate-Change — The Villain

Flood in Rajasthan, drought in western Uttar Pradesh, snow-less January in Shimla, fifty-two degrees Celsius in April, depleted groundwater in Delhi, warm winters- we all are witnessing climate change with our own eyes, and we cannot deny it as propaganda, as we are ourselves the reason and spectators of this changing environment.

The Task Force on Climate-related Financial Disclosures (TCFD) has divided climate change-related financial risks into two categories - physical and transition risks.

Physical Risks- Physical risks refer to the tangible damage and financial losses caused by climatic hazards, impacting infrastructure, assets, and the economy. These risks are categorized as acute, which are immediate and event-driven (e.g., cyclones, floods, wildfires), or chronic, which involve long-term climate changes (e.g., rising sea levels, global warming). Acute risks can lead to significant losses, such as Australia's \$110 billion wildfire damage (2019–2020) or Himachal Pradesh's ₹ 8,000 crore loss from heavy rains in 2023. Chronic risks, like Antarctic ice melting at 150 billion tons per year,

exacerbate issues like sea-level rise and ocean acidification, causing widespread environmental and economic harm.

Transition Risks- Transition risks emerge when countries make significant changes to achieve lower-carbon goals, involving shifts in technology, legal frameworks, markets, and policies. These changes can pose financial and reputational risks to organizations. Policy and legal risks include the implementation of regulations like carbon pricing and sustainability incentives, which may impact businesses depending on the policy's scope and timing. Legal risks also arise from climate-related litigation against organizations for failing to adapt to climate change or disclose its financial effects. Technology risks relate to the high costs and resource demands of adopting new technologies, which can also displace workers. Reputation risks highlight the potential impact on a company's brand image as consumers assess its contributions to the transition to a low-carbon economy.

How CBDC tackles climate-related financial risks — The Strategy

Now let us come to the main theme of this article, "How is a monetary instrument going to help us with our fight against our arch-nemesis, the CLIMATE CHANGE?"

The e-INR RBI's Mjolnir has the potential to play a significant role in addressing climate change by promoting sustainable practices, reducing environmental impacts, and fostering green economic policies. The following are some of the ways it can help us in mitigating the impact of climate change on our economy.

■ Reducing the Environmental Cost of Physical Cash

The production, distribution, and disposal of physical currency or paper currency incur a considerable environmental cost. It requires paper (trees), ink, and a significant amount of water as its raw materials. Manufacturing, transporting, and

storing cash consumes energy, contributing to greenhouse gas emissions. Worn-out notes must be shredded or incinerated, creating waste and emissions.

By replacing a portion of physical cash with the e-INR, India can reduce deforestation and conserve water, cut down the carbon footprint associated with the logistics of cash management, and lower overall waste generated from currency disposal.

■ Enabling Green Finance

The e-INR can serve as a tool to promote and track green finance initiatives. It can directly allot funds to green finance. Government and financial institutions can channel funds to renewable energy projects, sustainable agriculture, and green infrastructure using e-INR, ensuring transparency and accountability. e-INR can also streamline the issuance and management of green bonds, making it easier to raise funds for climate-friendly projects. Blockchain or centralized ledgers used in e-INR enable real-time tracking of funds, ensuring they are used for their intended environmental purposes.

■ Supporting Carbon Markets

Efficient carbon markets play a crucial role in reducing greenhouse gas emissions, and the e-INR can enhance their effectiveness. By providing a secure and transparent platform for buying, selling, and settling carbon credits, the e-INR ensures quicker transactions with reduced costs. Additionally, it can facilitate cross-border carbon trade by offering a stable and regulated medium of exchange, simplifying and standardizing international carbon trading. This would not only promote global collaboration in emissions reduction but also encourage investment in sustainable practices, helping countries and businesses meet their climate goals more efficiently.

“The e-INR RBI's Mjolnir has the potential to play a significant role in addressing climate change by promoting sustainable practices, reducing environmental impacts, and fostering green economic policies.”

■ Incentivizing Sustainable Consumer Behavior

The e-INR could be programmed to incentivize eco-friendly choices through various mechanisms. Consumers could receive cashback or discounts in e-INR when purchasing renewable energy products, electric vehicles, or energy-efficient appliances, encouraging sustainable consumption. Additionally, dynamic taxation could be implemented, where eco-friendly products and services are taxed at a lower rate, while carbon-intensive goods face higher taxes, all facilitated seamlessly through e-INR transactions. For instance, public transport users could earn small e-INR rewards, promoting the use of environmentally friendly

transport. Similarly, retailers could offer discounts to customers using reusable bags, further encouraging sustainable practices, all managed through the e-INR payment system.

■ Revolutionizing Energy Payments

The e-INR can be integrated with smart grids to optimize energy use, offering several benefits for sustainable energy management. Through smart energy payments, consumers could pay for electricity in real-time based on their usage, enabling time-of-use pricing that encourages the consumption of renewable energy during peak production periods. This approach would help balance demand and supply while promoting the use of clean energy. Additionally, decentralized renewable energy systems could be enhanced with the e-INR, allowing communities that generate excess energy from sources like solar to trade it with neighbours. This would foster local green energy ecosystems, encouraging sustainability and reducing reliance on centralized energy grids.

■ Enhancing Financial Inclusion for Climate Resilience

India's rural and vulnerable populations, who are often the most affected by climate change, can benefit significantly from the



e-INR. It can facilitate the direct disbursement of financial aid, allowing subsidies, disaster relief, or funds for climate adaptation programs to reach affected communities quickly and without intermediaries. This direct support ensures faster and more efficient assistance in times of need. Additionally, the e-INR can enable access to green subsidies, providing farmers and small businesses with financial incentives to adopt sustainable practices. This could include support for eco-friendly solutions like solar-powered irrigation systems or organic fertilizers, promoting long-term resilience and sustainability in rural areas.

■ **Reducing Energy Use in Financial Systems**

Traditional banking systems, including ATMs, cash logistics, and branch operations, consume large amounts of energy. The e-INR can help mitigate this by streamlining payments, reducing the need for physical infrastructure and cutting operational energy costs. Since it operates entirely digitally, the e-INR promotes a digital-first approach, which requires fewer physical resources, such as paper or coins, and thus has a significantly smaller carbon footprint. This shift towards a completely digital currency system not only enhances efficiency but also contributes to a more sustainable financial ecosystem, reducing the environmental impact associated with traditional banking methods.

■ **Promoting Supply Chain Sustainability**

The e-INR, when integrated with blockchain or traceable ledgers, can significantly promote sustainability in business practices. It can encourage green supply chains by providing transparency into the environmental footprint of goods, enabling eco-conscious consumers and businesses to make informed choices and opt for sustainable

products. Additionally, businesses that adopt sustainable practices could receive certifications and rewards through the e-INR system, such as lower transaction fees or tax incentives. This approach not only incentivizes companies to adopt greener practices but also creates a transparent system that supports environmentally responsible consumer behavior.

■ **Supporting a Circular Economy**

The e-INR can play a key role in fostering a circular economy, where resources are reused to minimize waste. Through recycling rewards, citizens could be incentivized with e-INR for recycling or participating in waste reduction initiatives, encouraging more sustainable behavior. Additionally, companies that adopt circular practices, such as using recycled materials or engaging in sustainable production, could receive subsidies or tax breaks directly in e-INR. This would create a financial incentive for businesses to contribute to resource efficiency, helping to drive a more sustainable and waste-reducing economy.

■ **Empowering Policymakers with Real-Time Data**

The digital nature of the e-INR offers valuable insights that can support climate action. By monitoring consumption patterns, the e-INR enables the analysis of spending trends, helping to identify areas with high carbon footprints. This data can then be used to target those sectors for green initiatives, promoting more sustainable practices. Additionally, real-time data from e-INR transactions can be leveraged to customize climate policies, allowing for the design and implementation of tailored measures such as carbon taxes, renewable energy incentives, or fuel subsidies. This data-driven approach ensures that climate policies are more effective and responsive to current consumption patterns.

“ Consumers could receive cashback or discounts in e-INR when purchasing renewable energy products, electric vehicles, or energy-efficient appliances, encouraging sustainable consumption. ”

■ **Enhancing Cross-Border Climate Collaboration**

Climate change demands global cooperation, and the e-INR can facilitate international efforts in several ways. First, it can enable efficient climate funds transfers, allowing India to contribute to or receive climate funds from global institutions directly via e-INR, ensuring transparency and reducing delays. Additionally, a CBDC-backed system like the e-INR can support standardized transactions, simplifying collaboration on large-scale environmental projects. This streamlined process would foster more effective and transparent partnerships between countries, international organizations, and businesses, making it easier to allocate resources and fund initiatives aimed at combating climate change.

■ **Educating and Engaging Citizens**

The e-INR can incorporate built-in features to promote climate change awareness and encourage sustainable behaviours. Through gamified incentives, citizens could earn e-INR rewards by participating in climate-friendly activities, such as planting trees, reducing energy consumption, or adopting eco-friendly practices. This fun and engaging approach motivates individuals to contribute to environmental sustainability. Additionally, educational



campaigns could be integrated into e-INR payment platforms, displaying climate awareness messages or reminders to encourage eco-conscious habits. These features would help raise awareness and foster a culture of sustainability, empowering individuals to make more environmentally responsible choices in their daily lives.

The Obstacles in the War

While the e-INR offers significant potential, several challenges need to be addressed. First, energy efficiency is a concern; if based on blockchain, the system must adopt energy-efficient models to avoid the high power consumption associated with cryptocurrencies. A large-scale move to renewable energy should also be considered to maintain sustainability. Another challenge is the digital divide, as infrastructure must be accessible to rural and underprivileged communities to ensure inclusivity and equitable participation. Implementation costs are also significant, as transitioning to a CBDC system requires substantial investments in technology, infrastructure, and cybersecurity. Additionally, there may be privacy concerns, as the digital nature of the currency raises questions about data security and surveillance. The adaptation of existing financial systems is another challenge, as banks and financial institutions need to integrate the e-INR seamlessly with their current operations. Lastly, public trust could be an issue, as citizens may be hesitant to adopt a digital currency

without a clear understanding or confidence in its security and long-term viability.

The e-INR is more than just a digital currency; it is a tool that can transform how India addresses climate change. By reducing the environmental footprint of money, incentivizing green behaviour, enabling efficient carbon trading, and supporting sustainable practices, the e-INR aligns economic activities with the country's climate goals. While challenges exist, with thoughtful design and implementation, the e-INR has the potential to lead India towards a greener and more sustainable future.

Conclusion

The e-INR represents a bold step forward in India's fight against climate change, serving as a modern-day Mjolnir to restore balance to the environment and economy. By reducing the environmental cost of physical cash, facilitating carbon markets, and promoting sustainable consumer and corporate behaviors, the e-INR aligns financial innovation with climate goals. Its integration with smart grids, renewable energy systems, and data-driven policymaking further strengthens its potential as a green financial tool. Despite challenges like the digital divide, privacy concerns, and implementation costs, the e-INR offers a promising pathway to a sustainable future. With careful planning, robust infrastructure, and widespread adoption, the e-INR can become a cornerstone of India's commitment to combating climate change and achieving environmental and economic resilience.

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Challenges Faced in Implementing Objective Accounting for Sustainable Financial Reporting - Evidence from Selected Indian Municipalities

With the vision of Viksit Bharat 2047 and the growing need for improved urbanization, states and cities need additional funds to access capital markets, which requires strong financial discipline through standardized financial reporting as per applicable guidelines. Despite the introduction of the National Municipal Accounts Manual (NMAM) in 2004, many municipalities still struggle with adopting accrual accounting, leading to inconsistencies with NMAM guidance. This article highlights the need for objective accounting over selective accounting to ensure transparency, accuracy, and financial integrity in municipal reporting. It emphasizes the challenges posed by inconsistent accounting practices in Indian municipalities and advocates for a standardized and objective approach to financial reporting.

Introduction

The Chintan Shivir on “Reimagining Urban Governance and Urban Spaces,” organized by MoHUA on May 29-30, 2024, fostered insightful discussions and meaningful knowledge exchange. The event focused on key thematic sessions that addressed urban challenges, promoted inclusive development and economic growth, and envisioned cities as economic powerhouses. To achieve this, cities must be prepared to raise funds whenever required, with robust financial reports and sound credit ratings.

At present, municipalities serve 377 million people, representing 31% of India’s population, while contributing

63% to the national GDP. By 2050, this urban population is projected to rise to 800 million, with every second Indian living in a city. Despite SEBI’s 2015 municipal bond guidelines, only 23 municipalities have accessed these bonds, accounting for less than 1% of India’s 4,000+ cities.¹ This highlights a significant concern, as access to capital markets hinges on several factors, particularly the availability of high-quality, objectively prepared Annual Financial Statements (AFS).

Many municipalities still follow the cash-based accounting system at the local level, whereas worldwide, the Urban Local Bodies are shifting to an “accrual-based accounting system.”² In Kautilya’s Arthashastra, there is evidence of the accrual concept,

1 <https://www.sebi.gov.in/statistics/municipalbonds.html>

2 ICAI - ICAI ARF (2023). Transition to accrual accounting: Models and learnings for urban local bodies. January, 611–614.

with revenue being recognized in a manner similar to the modern revenue recognition principle. Yet, even after so many centuries, a lot of municipalities in India still struggle to migrate from cash to accrual accounting. (Tulsyan, 2021)

More than 30 years have passed since autonomy was provided to Urban Local Bodies (ULBs) through the 74th Constitutional Amendment Act (CAA), and still, financial reporting is restricted to the preparation and uploading of Annual Financial Statements (AFS), and that too with the assistance of third-party professionals with the limited capacity of Municipal Accountant. Now, the time has come for these selective accounting practices of ULBs to be tested and validated on many parameters to migrate to objectivity in accounting. This examination is essential because if India aims to achieve the Sustainable Development Goals (SDGs) and transform by 2030, it must prioritize SDG 11—Sustainable Cities. By 2030, over 60% of India's population will reside in urban areas, making the attainment of sustainable cities crucial. Achieving this goal requires sustainable financing strategies supported by objective municipal financial reporting

Broad Objectives of the study:

The objectives of this study, therefore, are as follows:

- a) To identify key challenges to objective accounting through the assessment of current financial reporting practices in selected municipalities by examining annual financial statements available on the City Finance Portal.
- b) To recommend strategies for strengthening objective accounting practices in municipalities.

Each section of this article has been designed to flow logically from the previous one, building a cohesive argument for addressing selective accounting practices in municipalities. The structure of the article is as follows: after the introductory section, which outlines the background of the study, Section 2 examines the

rationale of objectivity in accounting as prescribed by commissions/guidelines/standards. Section 3 details the data collection and methodology employed in the study. Section 4 explores selective accounting practices in various municipalities, supported by practical examples from their published Annual Financial Statements (AFS). Finally, Section 5 presents the conclusions and implications of the study.

Objectivity in Accounting - Governance effort to date

Municipalities in India face challenges in financial management, with weak fiscal practices and delays in preparing audited annual accounts. The evolution of accounting reforms includes phases of computerization and accrual-based accounting, with guidelines from the Supreme Court and the Ministry of Housing and Urban Affairs. Key developments include the introduction of the National Municipal Accounts Manual (November 2004), the development of State-level municipal accounts manuals, and the commencement of issuance of the Accounting Standards for Local Bodies by ICAI (March 2005). Municipalities are required to adopt an accrual-based double-entry accounting system to qualify for funding under urban reform schemes. Recommendations from the CAG and the 14th and 15th Finance Commissions stress the need for standardized accounting practices and performance-based grants to ensure timely financial reporting. City financial rankings are being used to assess fiscal health based on these reforms. The 15th Finance Commission specifically set deadlines for financial disclosures, requiring unaudited Annual Financial Statements (AFS) for FY 2023-24 to be uploaded by May 15, 2024, and audited AFS for FY 2022-23 by the same date. Looking ahead, the 16th Finance Commission, whose report is expected in October 2025 and will be applicable from April 1, 2026, for five years, may introduce further provisions for enhanced financial reporting, aligning with India's SDG 2030 goals. Various Government policies and guidelines expect

adherence to basic accounting principles and reporting practices by municipalities, as prescribed by the National Municipal Accounts Manual (NMAM), for objective financial reporting. By following standardized accounting principles and reporting guidelines, municipalities can ensure consistency and accuracy in their financial statements to enhance transparency and accountability for better decision-making by stakeholders.

1. Data Collection and Methodology

In this study, secondary sources were explored alongside other relevant materials, as most existing studies are narrative-driven and lack an in-depth analysis using actual Annual Financial Statements (AFS) from municipalities. The majority of research on financial reporting focused on corporate governance in private and public sector enterprises, with limited attention given to municipalities. This gap in the literature forms the foundation for the argument in the present article, highlighting the need for objectivity in financial reporting for enhanced access to capital markets. The data has been collected from the annual financial statements of 30 cities from selected States, covering three zones to highlight the selective accounting practices followed by the selected municipalities, i.e., States of Assam (5), Uttar Pradesh (5), and Jharkhand (20).

2. Evidence of Selective Accounting and Financial Reporting Practices Followed

About Objective 1 of the article, which aims to identify key challenges to objective accounting through an assessment of current financial reporting practices in selected municipalities, the following key issues have been identified. These issues, highlighted by an examination of the annual financial statements available on the City Finance Portal, suggest that selective accounting practices create doubt among analysts

when assessing creditworthiness. This is primarily due to the lack of qualitative characteristics in the financial statements, which undermines their reliability and effectiveness in credit assessments.

i. Error of Omission: Omission in Reporting (Non-Disclosure of Financial Indicators as per NMAM)

Chapter 31 of NMAM, specifically Para 31.4, mandates that the Annual Report of Urban Local Bodies (ULBs) should include financial statements such as the Balance Sheet, Income and Expenditure Statement, Statement of Cash Flows, Receipts and Payments Account, Notes to Accounts, and Financial Performance Indicators. *However, an analysis of a selected sample of cities reveals that only Jharkhand consistently includes Financial Performance Indicators in its Annual Financial Statements. Among the 30 cities examined, only 12 in Jharkhand use these indicators, highlighting a gap in standardization and adherence to best practices.* Jharkhand municipalities began incorporating these indicators in the fiscal year 2021-22, following recommendations from their Project Management Unit (PMU),

demonstrating a proactive effort to improve financial management, transparency, and accountability. (Pankaj Goel, 2023)

ii. Error of Principle: Common Errors in Accounting

The analysis of annual financial statements from selected cities indicates that many municipal accountants responsible for preparing these statements have a limited understanding of NMAM. As a result, essential accrual accounting principles are often ignored, leading to selective accounting practices that fail to present a true and accurate picture of the municipality's finances. An illustrative example of an error in accounting from Annual Financial Statements is given below.

It's important for municipalities to record tax revenue accurately, particularly property tax, as outlined in the NMAM. In the recording of Tax Revenue (Code -110 as per NMAM) - Property Tax, a municipality may get some advance amount as a round-off amount, some rebates may be allowed to citizens for digital payment, senior citizens, etc., and due to late deposit, a fine may be



collected. It has been seen that the total collection is recorded as income against Property Tax without taking into account the effect of rebates, advances, and fines. As per NMAM, the effect of rebate and advance shall be accounted for separately, and fines shall be recorded independently.³

Example: Mr. X has a property tax demand of Rs 95 for FY 2023-24; Rs 100 was paid online on 15th June 2023, including a fine of Rs 5. The municipality, in general, allows a rebate of 5% online and 5% for payment up to Quarter 1 of FY.⁴

#	Incorrect Accounting by Municipality	Correct Accounting as per NMAM
	<p>Bank (Code:450) 100 To Property Tax 100 (Code:110 tax Revenue) This shows an inflated figure of Tax revenue, which is not a correct picture</p>	<p>Property Tax Receivables: Code:431 -Dr 95 To Tax Revenue, Code:110 - Cr 95</p> <p>The municipality must pass Demand Entry as of 1 April, FY</p>
		<p>Bank A/c - Dr 100 Rebate on Property Tax-Dr 9.5 To Property Tax Receivables – Cr 95 To Other Income (Code 180) Fines Cr 5 To Income in Advance Cr 9.5</p> <p>Note: Current Demand Rs 95 less rebate 10% 9.5= Due is Rs 85.5, Fine Rs 5, The Total Due is Rs 90.5, but what is paid by a citizen is Rs 100. Thus, Rs 9.5 shall be accounted as an advance.</p>

³ Chapter 6 of NMAM

⁴ Jharkhand ULBs provide 5% rebate for online payments and 5% for payment up to 30th June of FY

A significant portion of selected cities (10 out of 30) do not account for property tax correctly, according to the guidelines outlined in the NMAM. Recording the entire collection as tax revenue without accounting for factors like rebates, advances, and fines can indeed distort the true financial position of cities.

iii. Error of Reporting: Financial Statements Formats

Formats of components of Annual Financial Statements (Income & Expenditure Statement, Receipts, and Payments Account, Balance Sheet, and Cash Flow Statements) are presented in Chapter 31 of the

NMAM in vertical format. However, it has been observed during analysis that some smaller cities are still preparing financial Statements in T-shaped formats, which is not in line with NMAM. (Refer to Figure 1)

The below sample from the Annual Financial Statements of the City of Assam shows that the balance sheet of the city of Assam for the financial year 2020-21 was prepared in a T-shaped format, which is not in line with the guidelines outlined in the NMAM, leading to selective financial reporting. *It is good to observe during analysis that there's a significant parity in the preparation of balance sheets among the selected cities, with only 3 out of 30*

following the T-shaped format, which is not recommended by the NMAM.

iv. Error of Reporting: Non-Disclosure of Code of Accounts

Chapter 4 of NMAM, Codification Structure & Chart of Accounts, specifies codes that municipalities must use while recording transactions, and such code of accounts shall be shown during financial reporting of annual financial statements (Refer Figure 2). However, it has been observed in many cities that financial reporting doesn't disclose these codes, though the format is as per NMAM.

Figure 1: Selective Balance Sheet format of Selected Municipality of Assam: (Not in line with NMAM)

**Nalbari Municipal Board,
Assam
Balance Sheet as on 31st March, 2021**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital Fund		Fixed Assets	10,53,844.00
Opening Balance	7,02,11,147.95	As per Details Annexed	
Add: Excess of Receipt over Expenditure	1,63,57,983.00		
Total Capital Fund	8,65,69,130.95		
Current Liabilities		Current Assets	
Security Deposit	46,30,550.00	Cash-in-Hand	0.00
Add: During the year	6,97,000.00	Cash-at-Bank	8,13,58,236.95
Total Current Liabilities	53,27,550.00	Total Current Assets	8,13,58,236.95
	9,18,96,680.95		9,18,96,680.95

Source: cityfinance.in

Figure 2: Without Code-wise Balance Sheet of the selected Municipality of Assam (Not in line with NMAM)

**Balance Sheet of Digboi Municipal Board
As on 31st March, 2022**

Liabilities	Schedule	Current Year (Rs.) 2021-22	Previous Year (Rs.) 2020-21
RESERVE & SURPLUS			
Municipal (General) Fund	1	11,66,61,453.25	9,37,21,452.86
Earmarked Funds	2	-	-
Reserve & Surplus	3	-	-

Liabilities	Schedule	Current Year (Rs.) 2021-22	Previous Year (Rs.) 2020-21
Total Reserve & Surplus (A)		11,66,61,453.25	9,37,21,452.86
GRANT/CONTRIBUTION FOR SPECIFIC PURPOSE (B)	4	52,51,486.25	52,51,486.25
LOANS			
Secured Loans	5	2,18,869.00	1,71,300.00
Unsecured Loans	6	-	-
Total Loans (C)		2,18,869.00	1,71,300.00
CURRENT LIABILITIES & PROVISIONS (D)			
Deposits received	7	8,11,495.00	11,07,275.09
Deposit works	8	-	-
Other Liabilities	9	14,38,781.00	6,83,940.00
Provisions	10	-	-
Total Current Liabilities & Provisions (D)		22,50,276.00	17,91,215.09
TOTAL LIABILITIES (A+B+C+D)		12,43,82,084.50	10,09,35,454.20

Source: cityfinance.in

The analysis indicates a positive trend, as most of the selected cities disclose codes of account, with only 4 out of 30 cities failing to do so in their financial reporting.

v. Error of Commission: Non-Disclosure of Code 260

Revenue Grants, Contributions, and Subsidies, as per Codes 160

and 260 of the National Municipal Accounts Manual (NMAM), require municipalities to book revenue grants received and expenses incurred out of such grants under these codes. For example, under the Smart City Mission, funds for Administrative and Office Expenses (A&OE) are provided to states/ULBs for the

preparation of Smart City Proposals (SCPs) and Project Management Consultants (PMCs), in addition to capital grants. However, some cities may be incorrectly recording receipts under code 160 without booking the corresponding revenue expenses under code 260, resulting in an overstatement of receipts and an inaccurate surplus position.

Figure 3: Without Code 260 accounting Income and Expenditure of selected Municipality of Uttar Pradesh (Not in line with NMAM)

Nagar Nigam Prayagraj

Provisional Income & Expenditure Statement

For the year ended 31st March 2022

Code No.	Item / Head of Account	Schedule No.	Amount (₹) 2021-22	Amount (₹) 2020-21
INCOME				
I-10	Tax Revenue	I-1	739,101,912.75	684,003,677.84
I-20	Assigned Revenues & Compensation	I-2	-	-
I-30	Rental Income from Municipal Properties	I-3	15,182,346.00	15,571,073.50
I-40	Fees & User Charges	I-4	77,581,400.00	56,081,111.42
I-50	Sale & Hire Charges	I-5	13,321,981.00	6,917,367.00

Code No.	Item / Head of Account	Schedule No.	Amount (₹) 2021-22	Amount (₹) 2020-21
I-60	Revenue Grants, Contributions & Subsidies	I-6	4,052,349,718.00	4,035,151,660.25
I-70	Income from Investments	I-7	9,145,800.00	9,143,924.00
I-71	Interest Earned	I-8	3,696,960.00	4,864,248.00
I-80	Other Income	I-9	104,798,984.86	1,004,424.50
A:	Total – INCOME		5,015,179,102.61	4,812,737,486.51
EXPENDITURE				
2-10	Establishment Expenses	I-10	3,280,182,205.00	2,422,507,636.00
2-20	Administrative Expenses	I-11	53,259,502.00	40,070,307.00
2-30	Operations & Maintenance	I-12	931,128,716.00	1,320,085,778.61
2-40	Interest & Finance Expenses	I-13	115,823.62	200,331.68
2-50	Programme Expenses	I-14	485,636.00	1,157,701.00
2-60	Revenue Grants, Contributions & Subsidies	I-15	–	–
2-70	Provisions & Write off – Property Tax	I-16	–	–
2-80	Miscellaneous Expenses	I-17	284,510.00	14,750,926.00
2-72	Depreciation	B-11	727,726,551.56	716,928,660.00
4-30	Consumption of Stock	B-14	52,928,300.00	16,194,200.01
B:	Total – EXPENDITURE		5,046,111,444.18	4,531,895,540.30

Source: cityfinance.in

3. Suggested Interventions for Transition to Objectivity in Accounting

The NMAM (2004), AMRUT guidelines (2015), and recommendations from various finance commissions in the past all advocated for better accounting and reporting practices. However, the above section analysis reveals that the actual accounting practices in selected cities remain far from achieving objectivity in accounting and reporting, which is essential for a true and fair view of financial statements. It is essential to move beyond selective accounting and reporting by actively implementing the frequent guidelines and recommendations provided by various stakeholders over the past two decades. Strengthening

adherence to standardized practices will enhance transparency and financial discipline. Thus, the time has come for a smooth transition from selective accounting to objective accounting, with cities now assessing capital markets for funds through Municipal Bonds.

- *In summary, among the 30 selected cities, those in Jharkhand demonstrate relatively strong adherence to objective accounting and reporting practices compared to cities in Uttar Pradesh and Assam.*
- *Specifically, cities in Jharkhand appear to excel in implementing standardized accounting practices recommended by the National Municipal Accounts Manual (NMAM).*

Against objective 2, interventions that may be adopted by the Centre, State, or City for objective accounting have been detailed below:

- i. **City Finance Portal Improvement:** The City Finance portal still does not allow municipalities to upload all six mandatory components⁵ as per Chapter 31 of the NMAM. It is therefore suggested that the City Finance Portal develop a Management Information System (MIS) in two parts: one for cities that upload all six components as required by NMAM, and another for cities that do not. This would enable comparisons to be made and highlight which cities require support in the automation of financial reporting.

⁵ Chapter 31 covers key financial statements, including the balance sheet, income and expenditure statement, receipts and payments account, notes to accounts, cash flow statement, and financial indicators



ii. Institutionalise Surveillance

Mechanism: Establishing Project Management Units (PMUs) or Municipal Reform Cells (MRCs) at the National Level dedicated to financial reforms, as seen in cities like Patna Municipal Corporation and Guwahati Municipal Corporation, is a proactive approach for improving financial management practices within municipalities. (Abraham, 2013)

iii. Mandate Certificate Course for Accountants:

The Institute of Chartered Accountants of India (ICAI) and the Comptroller and Auditor General of India (CAG) have developed a certificate course for accountants of municipal bodies to improve the quality of financial management and reporting in municipalities. This course shall be considered to be mandated by States or cities for accountants of ULBs and accountants proposed to be hired in ULBs.

iv. Mandatory Enforcement of Accounting Standards for Local Bodies:

2 ASLBs (ASLB 2 & ASLB 5) out of 31 have been mandated by ICAI to be compiled by members of ICAI while auditing the financial statements of Local Bodies w.e.f. April 1, 2022 (Pankaj Goel, 2023). *It is suggested that just as Accounting Standards are made mandatory for companies through amendments in the Companies Act by the Ministry of Corporate Affairs, a similar approach can be taken at the state level for municipalities to make*

the adoption of Accounting Standards for Local Bodies (ASLBs) mandatory through amendments in relevant State Municipal Acts until NMAM has been amended at National level.

v. Resolving Accounting Staff Shortage Issues:

State-imposed restrictions on recruitment to positions and inadequate staffing levels can hamper the efficiency and effectiveness of financial management in ULBs. For example, in Tamil Nadu, due to a Government Order (GO), no fresh vacancies were created, and only people were appointed on a compassionate basis. Recognizing the staffing shortage, the Asian Development Bank (ADB), under its TNUFIP program, provided an incentive of Rs 5,00,000 per vacancy to be filled in selected ULBs covered, as prespecified in the Facility Administration Manual of Tranche 1, as a performance incentive.⁶ Furthermore, the creation of a Municipal Accounts Service cadre was proposed in one of the reports of the Ministry of Housing and Urban Affairs (MoHUA)⁷, may be adopted by the State.

This study highlights a prime issue regarding selective accounting practices in cities, which are meant to be engines of growth and drivers for effective service delivery. States and cities must take proactive steps toward reforming their financial management practices without waiting for advisories from MoHUA. Chartered Accountant

firms responsible for preparing financial statements for cities should ensure compliance with NMAM and other relevant accounting standards. By implementing these interventions, states and cities can overcome the challenges associated with selective accounting practices and strengthen their financial management systems. This, in turn, will contribute to more efficient resource allocation, improved service delivery, and sustainable urban development.

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6 Tamil Nadu Urban Flagship Investment Program, Project Number: 49107-003

7 Approach towards Establishing Municipal Cadres in India, 2014, MoHUA

Tracking Progress, Inspiring Action: A Decade of the SDGs

As the global community commemorates a decade since the adoption of the 2030 Agenda for Sustainable Development, we find ourselves at a critical juncture in human progress. With only five years remaining to achieve the Sustainable Development Goals (SDGs), the following data provides an overview.

1 NO POVERTY

- 1.1 International poverty ○
- 1.2 National poverty ○
- 1.3 Social protection ○
- 1.4 Access to basic services ●
- 1.5 Resilience to disasters ○
- 1.a Government spending on essential services ●
- 1.b Poverty eradication policies ●

2 ZERO HUNGER

- 2.1 Undernourishment and food security ●
- 2.2 Malnutrition ○
- 2.3 Small-scale food producers ●
- 2.4 Productive and sustainable agriculture ●
- 2.5 Genetic resources for agriculture ●
- 2.a Investment in agriculture ●
- 2.b Agricultural export subsidies ●
- 2.c Food price anomalies ●

3 GOOD HEALTH AND WELL-BEING

- 3.1 Maternal mortality ○
- 3.2 Child mortality ●
- 3.3 Communicable diseases ○
- 3.4 NCD and mental health ●
- 3.5 Substance abuse and treatment ○
- 3.6 Road traffic accidents ○
- 3.7 Sexual and reproductive health ●
- 3.8 Universal health coverage ○
- 3.9 Health impact of pollution ●
- 3.a Tobacco control ●
- 3.b Immunization coverage ●
- 3.c Health workforce ○
- 3.d Management of health risks ●

4 QUALITY EDUCATION

- 4.1 Effective learning outcomes ○
- 4.2 Early childhood education ○
- 4.3 TVET and tertiary education ○
- 4.4 Skills for employment ●
- 4.5 Equal access to education ●
- 4.6 Adult literacy and numeracy ●
- 4.7 Sustainable development education ●
- 4.a Education facilities ○
- 4.b ODA for scholarships ●
- 4.c Qualified teachers ●



5 GENDER EQUALITY

- 5.1 Legal frameworks on gender equality ●
- 5.2 Violence against women and girls ●
- 5.3 Child marriage ●
- 5.4 Unpaid care and domestic work ●
- 5.5 Women in leadership ●
- 5.6 Reproductive health access and rights ●
- 5.a Equal economic rights for women ●
- 5.b Technology for women empowerment ●
- 5.c Gender-responsive budgeting ●

6 CLEAN WATER AND SANITATION

- 6.1 Safe drinking water ●
- 6.2 Access to sanitation and hygiene ●
- 6.3 Water quality ●
- 6.4 Water-use efficiency ●
- 6.5 Transboundary water cooperation ●
- 6.6 Water-related ecosystems ●
- 6.a International cooperation on water and sanitation ●
- 6.b Participatory water and sanitation management ●

7 AFFORDABLE AND CLEAN ENERGY

- 7.1 Access to energy services ●
- 7.2 Share of renewable energy ●
- 7.3 Energy efficiency ●
- 7.a International cooperation on energy ●
- 7.b Investing in energy infrastructure ●

8 DECENT WORK AND ECONOMIC GROWTH

- 8.1 Economic growth ●
- 8.2 Economic productivity ●
- 8.3 Formalization of SMEs ●
- 8.4 Material resource efficiency ●
- 8.5 Full employment and decent work ●
- 8.6 Youth NEET ●
- 8.7 Child and forced labour ●
- 8.8 Labour rights and safe working environment ●
- 8.9 Sustainable tourism ●
- 8.10 Access to financial services ●
- 8.a Aid for Trade ●
- 8.b Strategy for youth employment ●

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

- 9.1 Infrastructure development ●
- 9.2 Sustainable/inclusive industrialization ●
- 9.3 Small-scale industries' access to finance ●
- 9.4 Sustainable and clean industries ●
- 9.5 Research and development ●
- 9.a ODA for infrastructure ●
- 9.b Domestic technology development ●
- 9.c Access to ICT and the Internet ●

10 REDUCED INEQUALITIES

- 10.1 Income growth of bottom 40 per cent ●
- 10.2 Income distribution ●
- 10.3 Eliminate discrimination ●
- 10.4 Fiscal and social protection policies ●
- 10.5 Regulation of financial markets ●
- 10.6 Inclusive global governance ●
- 10.7 Safe migration and mobility ●
- 10.a Special and differential treatment (WTO) ●
- 10.b Resource flows for development ●
- 10.c Remittance costs ●



11 SUSTAINABLE CITIES AND COMMUNITIES 

- 11.1 Housing and basic services ○
- 11.2 Public transport systems ●
- 11.3 Sustainable urbanization ●
- 11.4 Cultural and natural heritage ●
- 11.5 Human and economic losses to disasters ○
- 11.6 Urban air quality and waste management ●
- 11.7 Urban green and public spaces ●
- 11.a Urban planning policies ●
- 11.b Disaster risk management policies ○
- 11.c Sustainable and resilient buildings ●

12 RESPONSIBLE CONSUMPTION AND PRODUCTION 

- 12.1 Programmes on sustainable consumption and production ●
- 12.2 Sustainable use of natural resources ○
- 12.3 Food waste and losses ●
- 12.4 Managing chemicals and wastes ○
- 12.5 Reduction in waste generation ●
- 12.6 Corporate sustainable practices ●
- 12.7 Public procurement practices ●
- 12.8 Sustainable development awareness ●
- 12.a Support for R&D capacity for sustainable development ●
- 12.b Sustainable tourism monitoring ○
- 12.c Fossil fuel subsidies ●

13 CLIMATE ACTION 

- 13.1 Resilience and adaptive capacity ○
- 13.2 Climate change policies ○
- 13.3 Climate change awareness ●
- 13.a UNFCCC commitments ●
- 13.b Climate change planning and management ●

14 LIFE BELOW WATER 

- 14.1 Marine pollution ○
- 14.2 Marine and coastal ecosystems ○
- 14.3 Ocean acidification ●
- 14.4 Sustainable fishing ●
- 14.5 Conservation of coastal and marine areas ○
- 14.6 Fisheries subsidies ●
- 14.7 Marine resources for SIDS and LDCs ●
- 14.a Research capacity and marine technology ●
- 14.b Small-scale artisanal fishing ●
- 14.c Implementing UNCLOS ○

15 LIFE ON LAND 

- 15.1 Terrestrial and freshwater ecosystems ○
- 15.2 Sustainable forests management ○
- 15.3 Desertification and land degradation ●
- 15.4 Conservation of mountain ecosystems ○
- 15.5 Loss of biodiversity ●
- 15.6 Utilization of genetic resources ●
- 15.7 Protected species trafficking ●
- 15.8 Invasive alien species ●
- 15.9 Biodiversity in national and local planning ○
- 15.a Resources for biodiversity and ecosystems ○
- 15.b Resources for forest management ○
- 15.c Protected species trafficking (global) ●



16 PEACE, JUSTICE AND STRONG INSTITUTIONS



16.1	Reduction of violence and related deaths	○
16.2	Human trafficking	●
16.3	Justice for all	○
16.4	Illicit financial and arms flows	●
16.5	Corruption and bribery	●
16.6	Effective institutions	●
16.7	Inclusive decision-making	○
16.8	Inclusive global governance	○
16.9	Legal identity	●
16.10	Public access to information	○
16.a	National human rights institutions	○
16.b	Non-discriminatory laws	●

Legend

●	On track or target met	○	Marginal progress, and significant acceleration needed
○	Moderate progress, but acceleration needed	●	Regression
○	Stagnation	●	Insufficient data

List of acronyms and abbreviations

CSO: Civil society organization

ICT: Information and communications technology

NCD: Non-communicable disease

NEET: Not in employment, education or training

ODA: Official development assistance

R&D: Research and development

SME: Small and medium enterprise

TVET: Technical and vocational education and training

UNCLOS: United Nations Convention on the Law of the Sea

UNFCCC: United Nations Framework Convention on Climate Change

WTO: World Trade Organization

17 PARTNERSHIPS FOR THE GOALS



17.1	Tax and other revenue collection	○
17.2	ODA commitment by developed countries	○
17.3	Additional financial resources for development	○
17.4	Debt sustainability	●
17.5	Investment promotion for LDCs	○
17.6	Access to technology	●
17.7	Transfer of technologies	○
17.8	Use of the Internet	●
17.9	Capacity-building for SDGs	●
17.10	Multilateral trading system (WTO)	●
17.11	Exports of developing countries	○
17.12	Duty-free market access for LDCs	○
17.13	Global macroeconomic stability	○
17.14	Policy coherence for sustainable development	●
17.15	Respect country's policy space	●
17.16	Global partnership for sustainable development	●
17.17	Partnerships (public, private, CSO)	●
17.18	National statistics availability	○
17.19	Statistical capacity	○



For further details, please see the SDG Progress Chart 2025. Technical note at: <https://unstats.un.org/sdgs/report/2025/>

Please refer: The Sustainable Development Goals Report 2025 (United Nations)



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Taxation of Intellectual Property under the Income Tax Regime in India

The taxation of intellectual property (IP) under the Indian Income Tax regime presents a complex and often contradictory landscape. While several provisions aim to recognize and facilitate IP-based income, procedural ambiguity and restrictive eligibility criteria often act as impediments. This article critically evaluates whether or not the current regime fosters IP development. By examining key provisions, judicial interpretations, cross-border taxation, and India's preferential tax initiatives like the patent box regime, the article argues that although India has made incremental progress, still, further impetus is required for IP growth.

impediment? To explore this, the paper evaluates the treatment of IP transactions, cross-border taxation frameworks and preferential tax mechanisms. The presence and growth of intellectual property (IP) is undeniable across various realms—social, cultural and increasingly, economic.¹ Historically, IP (or intellectual capital) was undervalued and excluded from parameters measuring wealth and productivity.² This has changed considerably over the past two decades, with rising academic and commercial interest in IP, driven by the economic growth it catalyses.³ Beyond economic growth, IP has become integral to high-value business transactions, especially in sectors like IT, biotechnology, communications, and pharmaceuticals. Post-TRIPS, the importance of IP in commercial dealings has surged, with companies actively seeking protection through various

forms of IP to secure their innovations.⁴ In fact, for many global enterprises, a significant portion of their market value is now attributed to their IP assets.⁵

IP-based business transactions typically involve licensing, transfers, or self-developed IP activities.⁶ Given the high profitability of IP exploitation, taxing such income under state-provided legal protection appears both logical and necessary.⁷ Globally, including in India, companies are investing significantly in technology-intensive industries that generate valuable IP. A prime example is IBM, which spends billions annually on patents.⁸ Estimates suggest that 62% of a company's total value lies in its intangible assets, underscoring the immense potential for taxation in this domain.⁹

Introduction

The significance of IP in modern economics has transformed taxation policy into a pivotal tool for either enabling or discouraging innovation. This article analyses the Indian income tax regime through this lens: does it act as an impetus for IP development or an

- 1 Abhijeet kumar, A Complete Guide To Valuation Of IP Assets (With discussions on managing, auditing and taxing IPs) 185 (1st ed. 2021).
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- 3 Kumar, *supra* note 1, at 185.
- 4 Mahmoud Abdellatif, *A Comparative Analysis of Income Taxation Issues of Intellectual Property from the Perspective of Developed and Developing Countries*, 6 J. Australian Tax Tchrs. Ass'n 170, 171 (2011).
- 5 Dale S. Meister, *Exploiting Intellectual Property: Revisiting the Investment Business Concept*, 50 Can. Tax J. 1703, 1703 (2002).
- 6 Kumar, *supra* note 1, at 189.
- 7 Kumar, *supra* note 1, at 188.
- 8 IBM, What Will We Make Of This Moment? Annual Report Of IBM 6 (2021).
- 9 Shobhalata Udupudi & Barnik Ghosh, *IPR and Indirect Taxes: A Case Study of India*, 2(4) International Journal of Multidisciplinary Management Studies 49, 49-58 (2012).

Treatment of Intellectual Property under the Income Tax Act 1961: An Overview

To determine whether India's IP tax regime incentivises or obstructs innovation, it is essential to understand how IP is characterised and taxed under the Income Tax Act. This section provides a foundational overview before engaging in deeper analysis of transactional and structural challenges.

The tax net provided under the Income Tax Act, 1961 is quite vast and contains a number of provisions for the taxation of intellectual property assets directly as well as indirectly. Though the Act does not provide for an explicit definition of an 'intellectual property', it lays down that patents, know how, trademarks, copyright, licenses and any other commercial or business related rights of a similar nature constitute intangible assets for the purpose of taxation under the Act.¹⁰

A capital asset as defined by the Act to include property of any kind held by the assessee, which could be tangible or intangible¹¹ and thus by extension,

includes intellectual property within its ambit. Hence, IP is an intangible capital asset for the purpose of the Act. Such assets have been considered to be depreciable assets for the purpose of computation of income. Depreciation usually means loss or decline in value of the asset which occurs gradually over the useful life of a material thing owing to physical wear and tear and decay, which can generally not be restored by current repairs and maintenance.¹²

Despite existing provisions permitting IP taxation in India, awareness among government officials and industry players has been limited.¹³ Clarity emerged only after the Supreme Court ruled that off-the-shelf software qualified as 'goods' under the Andhra Pradesh General Sales Tax Act, making it taxable.¹⁴ However, India still lacks a concrete policy on IP taxation and while several amendments and rules have been introduced, they remain insufficient to address the complexities involved.¹⁵ A key gap lies in the absence of standardized methods for IP valuation, which is essential for fairness in IP taxation.

“The core of the IP taxation debate lies in how IP-generated income is treated when monetised, either directly through commercial use or indirectly via transfers and licensing.”

IP Transactions and Direct Taxation in India

The core of the IP taxation debate lies in how IP-generated income is treated when monetised, either directly through commercial use or indirectly via transfers and licensing. These taxation rules ultimately affect whether IP creation is encouraged or penalised. Income can be generated through both direct and indirect exploitation of IP. Direct exploitation refers to the commercial use of IP by its owner i.e., the individual or entity possessing exclusive legal rights over innovative products or services that function as business identifiers. Indirect exploitation, on the other hand, denotes the mediated use of the IP by third parties pursuant to contractual arrangements with the IP owner. This typically occurs through the transfer or licensing of associated rights. Accordingly, the mode of exploitation determines the taxation treatment of income derived from IP assets under the IT Act.

While various other transactions exist within a typical IP business model, this article focuses on the three most prevalent modes of IP commercialisation—licensing, transfer, and self-developed IP—to evaluate whether the prevailing tax treatment under the Indian law serves as a catalyst or deterrent for IP growth.



10 The Income Tax Act, 1961, § 2(11).

11 The Income Tax Act, 1961, § 2(14).

12 Vinod K. Singhania & Kapil Singhania, *Direct Taxes : Law and Practise* 105 (55th ed. 2015).

13 Kumar, *supra* note 1, at 187.

14 *Tata Consultancy Services v. State of Andhra Pradesh*, AIR 2005 SC 371 (2004) (India).

15 Kumar, *supra* note 1, at 188.

i. Licensing

Licensing of IP is akin to licensing any other business asset and involves two parties: the licensor (IP owner) and the licensee (user). The licensor grants the licensee the right to use the IP in return for consideration, commonly referred to as royalty. The licensee, in turn, uses the licensed IP for their business operations. For the licensor, the royalty constitutes a source of income. A licensing agreement governs the rights granted to the licensee and typically includes provisions on the scope of the license (exclusive, non-exclusive, or sole), payment terms, territorial limitations, sublicensing rights and duration.¹⁶ These terms are critical in determining the tax implications of licensing income.

■ Taxation of Licensing Proceeds

To apply tax provisions appropriately, the income stream must be defined under the IT Act. In the case of licensing, the consideration received i.e. royalty is generally taxable. The IT Act recognises royalty as a form of income, whether received as a lump-sum (potentially chargeable as capital gains) or as a recurring revenue stream, in exchange for licensing or granting usage rights over IP. Section 9 of the Act specifically enumerates taxable transactions involving royalty:

- a) transfer of IP,
- b) imparting of IP-related knowledge, and
- c) use of IP, technical services, or scientific knowledge.

Such royalties are treated as business income under the IT Act, reinforcing the tax base. However, whether this treatment promotes domestic innovation depends on how the provisions balance revenue objectives with R&D incentives.

■ Tax treatment of licensing payments

Under the IT Act, licensing fees are generally treated as revenue expenditure rather than capital expenditure, in alignment with the matching principle of accounting.¹⁷ Sections 30 to 36 enumerate specific deductible expenses, while Section 37 provides general rules for deduction.¹⁸ However, the treatment of royalty payments, especially under exclusive licensing arrangements, can be contentious. In such cases, the transaction may closely resemble a transfer of IP, raising questions about whether the royalty should be classified as revenue or capital expenditure.

Judicial guidance helps clarify such ambiguities. For instance, the Supreme Court of India in **CIT v. IAEC (Pumps) Ltd.**¹⁹ held that a lump-sum royalty payment for an exclusive, renewable ten-year license to use patents in India constituted revenue expenditure. Despite the lump-sum nature of the payment and the exclusivity of the license (which resembled a transfer), the Court emphasised the renewability clause to conclude that the transaction was a license, not a transfer. Hence, the royalty was treated as a recurrent expenditure.

This 1977 ruling continues to hold contemporary relevance as a foundational authority on the tax treatment of royalty payments

“ The IT Act recognises royalty as a form of income, whether received as a lump-sum (potentially chargeable as capital gains) or as a recurring revenue stream, in exchange for licensing or granting usage rights over IP. ”

under licensing arrangements and its principles have informed subsequent judicial decisions in recent cases, for instance, **Maruti Suzuki India Ltd.**²⁰ and **LG Electronics India**²¹. In today's innovation-driven economy, where IP licensing is a common commercial model, the *Pumps* ruling remains a vital precedent in distinguishing between capital and revenue outflows.

ii. Transfer

An IP transfer involves a complete and exclusive transfer of rights to the transferee, allowing them to use, sublicense, or assign the IP without involvement from the original owner. This is analogous to the sale of a capital asset, wherein a one-time consideration is paid to the owner for transferring all rights and interests. Accordingly, income from an IP transfer is taxed similarly to the sale of capital assets, as the consideration does not meet the usual criteria of income, namely periodicity, separability from source and regular inflow.²²

Nonetheless, since IP is considered a depreciable asset in India, gains from its transfer are treated as capital gains arising from the transfer of short-term capital assets. While this may safeguard the tax

16 McGinnes Paul, *Intellectual Property Commercialization: A Business Manager's Companion* 230 (1st ed., 2003).

17 Fairpo Anne, *Taxation of Intellectual Property* 132-133 (2nd ed., 2009).

18 CCH, *India Master Tax Guide (Income Tax & Wealth) 2008/2009* 31 (2nd ed. 2008).

19 *CIT v. IAEC (Pumps) Ltd.* (1977) 110 ITR 353 (Mad) (India).

20 *M/s Maruti Suzuki India Ltd. v. DCIT* (ITA No. 961/Del/2015 & ITA No. 1507/Del/2015).

21 *LG Electronics India Pvt. Ltd. v. ACIT* (ITA Nos. 3612-3613/Del/2017, ITAT Delhi)

22 Holmes Kevin, *The Concept of Income a Multidisciplinary Analysis* 164-166 (1st ed. 2000).



base, it potentially disincentivizes the commercialisation of self-created IP, thereby tilting the framework toward impediment.

■ Taxing the consideration received against transfer

The transfer of an IP asset triggers capital gains taxation, akin to the sale of tangible or intangible property. A capital gain (or loss) arises from the difference between the sale consideration and the cost base of the asset. As per George O. May, capital gains represent profits realised outside the ordinary course of business, exceeding the original cost of the asset sold.²³ While taxation of capital gains is relatively straightforward for depreciable assets used in business, it becomes more complex for non-depreciable assets or for transactions outside the regular business context.²⁴ Nonetheless, since IP is considered a depreciable asset in India, gains from its outright disposal are treated as capital gains

arising from the transfer of short-term capital assets, a measure that helps protect the tax base but may inadvertently discourage transfer of self-developed IP to third parties or spin-off entities.²⁵ A careful balance must therefore be struck between tax revenue protection and mobility of IP assets.

■ Taxing the Acquired IP

From the transferee's perspective, acquiring IP is akin to acquiring a capital asset, whereby exclusive rights are secured through a lump-sum consideration and additional incidental costs. The total cost forms the acquisition cost, and since the benefits of IP materialise over time, the IT Act allows for depreciation. Depreciation applies to both tangible and intangible assets, which are grouped into Blocks of Assets (BOA).²⁶ Intangible IP assets fall under a dedicated BOA, whose total value, known as the Written Down Value (WDV), is adjusted annually. The WDV

increases with new acquisitions and decreases with disposals, and depreciation is applied to the net WDV at prescribed rates. Under Rule 5 of the Income Tax Rules, intangible assets are depreciated at 25% of the WDV.

Interestingly, Indian courts have, in recent years, continued to permit the immediate depreciation of lump-sum payments made in connection with IP transfers. For instance, in **Hilton Roulunds Ltd. v. CIT**²⁷, a one-time lump-sum payment for exclusive use of the "Hilton" trademark was treated as revenue expenditure since no ownership was transferred and the licence was not perpetual. Similarly, in a 2022 ruling by the Delhi Bench of the Income Tax Appellate Tribunal (ITAT)²⁸, royalty and lump-sum payments made for temporary use of technical know-how were held to be revenue in nature, as no enduring asset was created in favour of the licensee.

iii. Taxation of Self Developed IP

The tax treatment of self-developed IP primarily concerns how expenses incurred during its development are classified under the income tax regime. Developing a new IP asset involves multiple stages, each with distinct tax implications, particularly for R&D, marketing, and registration costs.²⁹ These expenses may either be expensed immediately (typically R&D costs) or capitalised and depreciated over time (common for trademarks). The cost base becomes relevant when the asset is later transferred. Advertising and non-R&D expenses are generally treated

23 Kumar, *supra* note 1 at 193.

24 Mahmoud Abdellatif, *A Comparative Analysis of Income Taxation Issues of Intellectual Property from the Perspective of Developed and Developing Countries*, 6(1) Journal of the Australian Tax Teachers Association 170, 182-183 (2011).

25 The Income Tax Act, 1961, § 9.

26 The Income Tax Act, 1961, § 35.

27 412 ITR 436 (Delhi) (HC).

28 Nefab India Pvt Ltd. v DCIT [TS-320-ITAT-2022(DEL)] (Delhi Trib.).

29 Nina J Crimm, *A Tax Proposal to Promote Pharmaceutical Research, to Encourage Conventional Prescription Drug Innovation and Improvement and to Reduce Product Liability Claims*, 29 Wake Forest Law Review 1007, 1017-1019 (1994).

like other tangible or intangible expenditures.

The IT Act provides specific deductions for R&D, whether current or capital in nature. Expenditures on scientific equipment and IP used in R&D are fully deductible in the year of acquisition, whereas land and buildings are excluded per Section 35(2)(i). This precludes claiming depreciation under Section 32. Moreover, distinguishing between capital and revenue expenses can be challenging. Tax authorities often classify certain expenditures as capital, while companies may prefer to treat them as current, leading to frequent disputes that are assessed case-by-case.

Double Taxation Avoidance Agreements (DTAAs)

Cross-border IP transactions raise unique challenges and DTAAs form a key element in evaluating whether India facilitates such exchanges efficiently. This section assesses whether these treaties simplify IP monetisation for global firms or unintentionally complicate tax compliance. Double Taxation Avoidance Agreements (DTAAs), also known as tax treaties, aim to promote international trade and investment by preventing dual taxation.³⁰ Double taxation arises when the same income is taxed by two jurisdictions. It typically affects individuals or entities residing in one country (such as India) but earning income in another (such as the US). DTAAs ensure that such income is taxed only once, either by assigning taxing rights to one country or by splitting them between both countries.³¹

In India, Section 90 of the Income Tax Act empowers the government to enter into DTAAs. Where a DTAA exists, the provision that is more beneficial



to the taxpayer, whether from the Act or the DTAA, will prevail. This is particularly relevant to non-residents whose tax liability under the Indian law may change if a DTAA offers more favorable terms. For example, Section 9 of the IT Act offers certain tax reliefs to non-residents. DTAAs typically cover various types of income such as dividends, interest, royalties, and fees for technical services. The taxation of royalties, in particular, remains a significant issue under DTAAs, often guided by either the United Nations Model or the OECD Model. These models provide frameworks to allocate taxing rights and define terms like “royalty” or “technical services.”

Despite their objectives, DTAAs often become grounds for disputes due to differing interpretations of income classification, contract structures, and legal definitions between countries, especially when the countries follow different legal systems (common law vs. civil law). Taxpayers seek to minimize their liability, while tax authorities aim to protect revenue, resulting in conflicting interests. With the rise of

digital technologies and intellectual property transactions, these disputes have become more complex.

India has signed DTAAs with over 173 countries, including comprehensive treaties with the US, the UK and Canada to name a few. Some of them offer concessional tax rates. However, having a DTAA does not mean a non-resident Indian (NRI) is exempt from tax obligations altogether. Instead, it helps manage their tax liabilities by preventing excessive taxation in both countries, while also reducing instances of tax evasion.³² DTAAs thus promote transparency and certainty for cross-border transactions.

Judicial pronouncements have further shaped the interpretation of DTAAs. In a 2017 case, the Bangalore Bench of the ITAT criticized both Google India and Google Ireland for attempting to misuse the India-Ireland DTAA to avoid taxes entirely, an act deemed impermissible under the law.³³ A landmark judgement of the Supreme Court of India in **Engineering Analysis Centre of Excellence Pvt.**

30 Ann-Marie Schrie Pinkney, *Taxation of the Digital Economy: The Challenges of Distinguishing Business Income from Royalty*, 10 QMLJ 157, 158 (2019).

31 Dennis I. Meyer, *Taxation of Intellectual Property: Foreign Aspects*, 38 Tax Executive 127, 136 (1986).

32 *How NRIs Can Claim Benefits Under DTAA*, Cleartax (Mar. 07, 202 11:46 AM), <https://cleartax.in/s/how-nris-can-claim-benefits-under-dtaa>.

33 *M/S Google India Private Limited v. Dy DIT [2017] ITA 950 BANG 2017 (India)*.



Ltd. v. CIT & Ors.³⁴ clarified that payments made by Indian companies to foreign software suppliers for off-the-shelf software do not constitute “royalty” under most DTAAAs. This ruling distinguished between mere software purchase and the right to use or exploit underlying intellectual property, offering critical clarity on the tax treatment of software-related transactions. In today’s globalized economy, DTAAAs offer a stable and predictable tax environment for multinational corporations looking to invest or expand operations in India.

In a significant 2025 judgment that clarifies the tax treatment of digital services, the Delhi High Court in **Commissioner of Income Tax v. Amazon Web Service**³⁵, has held that payments made by Snapdeal Pvt. Ltd. to Amazon Web Services Inc. (AWS) for cloud computing services do not constitute “royalty” or “fees for included services” (FIS) under Article 12 of the India–United States DTAA. This judgment underscores the critical distinction between access to digital infrastructure and ownership of intellectual property, reinforcing that not all cross-border digital payments involve taxable IP use under the Indian tax law.

Preferential IP Tax Regimes of India

This section critically assesses India’s preferential tax policies like the patent box regime, evaluating whether their design and implementation serve as genuine incentives for IP development or create more procedural barriers. Preferential tax regimes (PTRs) are special fiscal policies offering reduced tax rates and simplified compliance to promote specific economic activities or benefit targeted groups.³⁶ In the context of IP, preferential IP Tax Regimes allow income from IP exploitation to be taxed at a rate lower than the standard statutory rate.³⁷ Many countries have adopted such regimes to retain IP income and encourage indigenous R&D. However, due to concerns about misuse, the OECD’s Base Erosion and Profit Shifting (BEPS) Action Plan 5 introduced the ‘nexus approach’, requiring a clear link between the IP-related income and the R&D activities conducted in the granting jurisdiction. India, along with 19 other countries, endorsed this principle, which discourages mere legal ownership of IP in low-tax jurisdictions without actual R&D activity.³⁸

India introduced its patent box regime via Section 115BBF of the IT Act

through the Finance Act, 2016. This move has marked a significant policy shift towards incentivising innovation via a concessional tax regime for royalty income derived from patents. However, the regime’s limited applicability which is restricted to Indian-resident patentees and patents developed in India (at least 75% of the expenditure must have been incurred in India), has constrained its impact. These rigid conditions, while intended to prevent abuse, have inadvertently reduced the attractiveness of the regime, particularly when compared to more flexible international patent boxes. As a result, its potential to act as a meaningful tax incentive for IP creation and commercialisation remains underutilised, raising concerns about whether India’s tax policy truly fosters an innovation-driven economy.

Conclusion

A critical evaluation of India’s taxation framework for IP reveals that on one hand, the inclusion of IP as depreciable assets, concessional rates under Section 115BBF, and tax treaty networks indicate India’s intention to align with global best practices; however, on the other, there is an absence of detailed valuation norms and clarity in the treatment of self-developed IP coupled with the withdrawal of weighted deductions for R&D and restrictive clauses in preferential tax regimes. To reposition India as a global innovation hub, the tax regime must further evolve toward clarity, inclusiveness, and effective implementation to be an active policy lever in promoting intellectual property.

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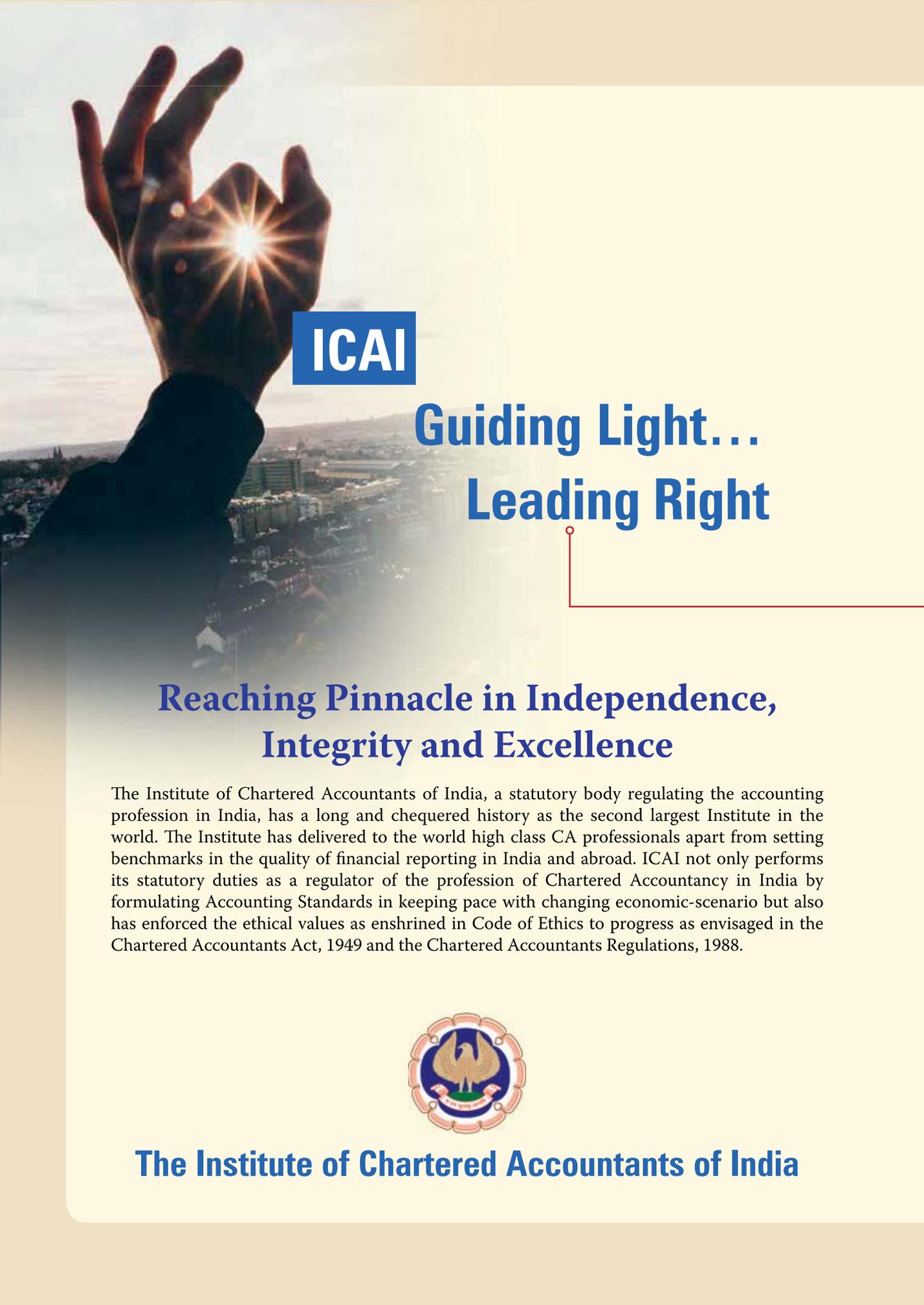
34 AIRONLINE 2021 SC 102; (2021) 432 I.T.R. 471 (SC).

35 2025: DHC:4622-DB

36 Marco Marchese, *Preferential tax regimes for MSMEs: Operational aspects, impact evidence and policy implications* 9 (ILO Working Paper 33, 2021).

37 OECD, G20 Inclusive Framework on BEPS: Progress Report July 2018 - May 2019 10 (2019).

38 Id.



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Bridging Eras: A Comparative Insight into the making of the Income-Tax Acts of 1961 and 2025

Last year, in the Union Budget 2024–25, the Hon'ble Finance Minister announced a comprehensive review of the Income-tax Act, 1961. The stated objective is to make the Act concise, lucid, easy to read, and understand. The expected outcome is a reduction of disputes and litigation, thereby providing tax certainty to the taxpayers. The review exercise was proposed to be completed in six months.

Sticking to its timeline with precision — a rarity in large-scale legislative overhauls, the Income-tax Bill, 2025, was tabled in Parliament on 13th February 2025, simplifying the language and structure of the Income-tax Act, 1961. The Bill was referred to the Select Committee for examination. Following a series of stakeholder consultations, including detailed consultation with ICAI, the Select Committee presented its report in the Lok Sabha on 21st July, 2025. As per the PIB Press Release posted on 21st August, 2025, almost all of the recommendations of the Select Committee were accepted by the Government. In addition, since there were other changes in drafting, alignment of phrases, and cross-referencing to be incorporated based on suggestions received, the Government withdrew the Income-tax Bill, 2025, as reported by the Select Committee. Thereafter, the Income-tax (No. 2) Bill, 2025 was introduced, considered and passed by the Lok Sabha on 11th August, 2025 and returned by the Rajya Sabha on 12th August, 2025. After receipt of the Hon'ble President of India's assent on 21st August 2025, the Income-tax Act, 2025, has been notified in the Official Gazette.

The three core principles of the simplification exercise undertaken while drafting the 2025 Act were:

1. Textual and structural simplification for improved clarity and coherence.
2. No major tax policy changes to ensure continuity and certainty.
3. No modifications of tax rates, preserving predictability for taxpayers.

Whether the expected outcome, i.e., reduction of disputes and litigation, thereby providing tax certainty to the tax payers, can be achieved, given the possibilities of a new wave of legal disputes triggered by changes in statutory terminology, like substitution of “notwithstanding

anything contained” with “Irrespective of anything contained” and consolidation of provisions in the Bill, remains to be seen.

The intent of the formulation of the Income-tax Act, 2025, vis-à-vis the Direct Taxes Code

In this context, it would be interesting to note the profound shift in the objective of the Income-tax Act, 2025, vis-à-vis the Direct Taxes Code, which was slated for introduction in the decade following the turn of the century but ultimately did not see the light of day.

The Direct Taxes Code Bill, 2010, was introduced in the Lok Sabha on 30th August, 2010, exactly a decade and

a half back. Shri Pranab Mukherjee, the then Union Finance Minister, in his Budget Speech - Union Budget 2011-12, stated, “*The introduction of the Direct Taxes Code (DTC) and the proposed Goods and Services Tax (GST) will mark a watershed.*”

A reading of Paras 1.7 and 2.1 of the Discussion Paper released along with the Direct Taxes Code for public feedback in August 2009 would throw light on the objective of the Direct Taxes Code -

“1.7 *The Code is not an attempt to amend the Income Tax Act, 1961; nor is it an attempt to “improve” upon the present Act. In drafting the Code, the Central Board of Direct Taxes (the Board) has, to the extent possible, started on a clean drafting slate. Some assumptions which*

have held the ground for many years have been discarded. Principles that have gained international acceptance have been adopted. The best practices in the world have been studied and incorporated. Tax policies that would promote growth with equity have been reflected in the new provisions. Hence, while reading the Code, it would be advisable to do so without any preconceived notions and, as far as possible, without comparing the provisions with the corresponding provisions of the Income Tax Act, 1961.”

“2.1 The Code seeks to consolidate and amend the law relating to all direct taxes, that is, income-tax, dividend distribution tax, fringe benefit tax and wealth-tax so as to establish an economically efficient, effective and equitable direct tax system which will facilitate voluntary compliance and help increase the tax-GDP ratio.”

Considering the objective of the Income-tax Act, 2025, to simplify the Income-tax Act, 1961, there is a dramatic departure in the intent and purpose of the Income-tax Act, 2025, vis-à-vis the Direct Taxes Code. Further, with the abolition of the wealth-tax from A.Y.2016-17, fringe benefit tax from A.Y. 2010- 11, and dividend distribution tax in respect of dividends declared, distributed, or paid on or after 1-4-2020, there is no requirement of consolidation of direct tax laws at this point in time.

The Direct Taxes Code Bill, 2010, was referred to the Standing Committee on Finance on 9th September, 2010, for examination, and the Standing Committee presented its report in the Lok Sabha in March, 2012. After the introduction of the Direct Taxes

Code Bill, 2010, annual amendments were simultaneously effected in the Income-tax Act, 1961, and the Wealth-tax Act, 1957, through Finance Acts, 2011, 2012, and 2013, in line with the policy changes proposed in the Code. Since introducing these changes into the Direct Taxes Code Bill, 2010 would necessitate numerous official modifications, potentially rendering the Bill overly complex and making the legislative process unnecessarily burdensome, it was therefore decided to draft a new Direct Taxes Code that would incorporate all the proposed amendments and be introduced as a fresh Bill. Accordingly, the Direct Taxes Code Bill, 2013, was prepared.

The year 2014 marked the onset of a new political chapter in India, and by 2015, the proposed Direct Taxes Code was formally shelved, signalling the end of a six-year-long push for a new direct tax legislation. Para 129 of the Budget Speech of 2015-16 by the then Union Finance Minister, Shri Arun Jaitley, highlighted the thought process of the new Government - *“Enactment of a Direct Taxes Code (DTC) has been under discussion for quite some time. Most of the provisions of the DTC have already been included in the Income-tax Act. Among the very few aspects of DTC which were left out, we have addressed some of the issues in the present Budget. Further, the jurisprudence under the Income-tax Act is well evolved. Considering all these aspects, there is no great merit in going ahead with the Direct Tax Code as it exists today.”*

It is noteworthy that in the intervening period and over the years, the features which were proposed in the Direct

“In the Income-tax Act, 2025, the 100-year-old concepts of “previous year” and “assessment year” have been replaced with “Tax Year” and “Financial Year succeeding the relevant tax year”. ”

Taxes Code have been incorporated in the Income-tax Act, 1961 itself, for example, introduction of investment-linked tax deduction and phasing out of profit-linked tax incentives, the concept of “place of effective management” (POEM) for determination of residence of companies, introduction of advance pricing agreements for international transactions, application of transfer pricing principles to transactions involving non-cooperative jurisdictions (notified jurisdictional areas), and introduction of General Anti Avoidance Rules (GAAR).

Purpose behind Evolution of Income-tax Legislation – Transition from 1922 Act to 1961 Act & from 1961 Act to 2025 Act

It would be interesting to go back 67 years in time and take a look at the Twelfth Report (Income-tax Act, 1922) of the Law Commission of India issued in 1958, which was instrumental in shaping the Income-tax Act, 1961. The Government had entrusted the task of revising the Indian Income-tax Act, 1922, to the Law Commission of India so as to make its provisions more intelligible without affecting its basic tax structure. The Commission acknowledged that the task was difficult, citing the observation of the Codification Committee in England, *“to expect from us a codification of the law of income-tax which the layman could easily read and understand was a vain hope, which only the uninstructed could cherish”*. The Commission mentioned that while it is possible to make the provisions of the Act more logical and clearer without affecting the tax





structure, it is certainly not possible to make the Act simpler without encroaching upon at least the “*fringe and verge of the tax structure*”.

A comparison of how the objective of simplification was sought to be achieved then, during the formulation of the Income-tax Act, 1961, and how it has been addressed now in the drafting of the Income-tax Act, 2025, is given below –

1. Rearrangement and re-grouping of the sections of the Income-tax Act

- While both the 1961 Act and the 2025 Act have tried to reorganise sections logically, the criticism in the 1922 Act was the lack of coherent arrangement of related provisions, which made the law cumbersome for the taxpayers and administrators. Therefore, while drafting the 1961 Act, the provisions were reorganised and grouped together in related chapters to address this concern. For instance, all provisions concerning income-tax authorities were grouped under Chapter XIII (comprising of sections 116 to 138); the provisions relating to Appeals and Revision were placed in Chapter XX (comprising of sections 246 to 269); and the provisions relating to incomes not included in total income were placed in a separate Chapter III (comprising of sections 10 to 13) of the Income-tax Act, 1961. The purpose of this restructuring was to improve the Act’s clarity and ease of use. The Income-tax Act, 1961, had

298 sections and 5 Schedules at the time of its enactment.

The 2025 Act has done a structural rationalisation through tabular presentations for enhanced readability and removed obsolete and redundant provisions, reducing the length by nearly half. For example, the provisions relating to charitable trusts spread across different Chapters of the Income-tax Act, 1961, have been consolidated in a single chapter in the 2025 Act. Shifting provisions from sections to related Schedules in the 2025 is also in line with the objective of simplification. The Income-tax Act, 2025, notified in the Official Gazette, has 536 sections and 16 Schedules.

2. Splitting up of sections vs. Consolidation of sections

- While framing the Income-tax Act, 1961, the sections in the 1922 Act, which ran into pages, were split up into independent sections for simplification, for example, provisions relating to capital gains, Income-tax authorities, and

advance tax. Conversely, while drafting the Income-tax Act, 2025, many sections in the 1961 Act have been consolidated for reducing fragmentation, for example, provisions relating to TDS, TCS, presumptive income provisions of residents, and presumptive income provisions of non-residents. Interestingly, these are two diametrically opposite methods adopted for achieving the same objective of simplification.

3. Conversion of provisos into sub-sections and clauses

- It may be noted that even after the exercise of conversion of provisos in the 1922 Act into independent provisions while framing the Income-tax Act, 1961 reducing the number of provisos by more than 50% to around 90 in the 1961 Act at the time of its enactment, around 1100 plus provisos have been added thereafter in the last 65 years in the 1961 Act, which have once again been converted into sub-sections and clauses in the 2025 Act.

It would be interesting to wait and watch how long the 2025 Act can stay free of provisos.

4. Simplification of language

- In drafting the Income-tax Acts of 1961 and 2025, new expressions were coined to simplify and replace lengthy phrases.

To illustrate with an example, in the 1961 Act, the new expression “representative assessee” was coined to cover all cases where a person is made responsible in the assessment of the income of another person as



a trustee, guardian, Court of Wards, receiver, agent of a non-resident or otherwise.

A parallel example in the 2025 Act is the use of the phrase “competent authority” in sections 377 and 378 pertaining to revision of orders. “Competent Authority” has been defined to mean the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner. Thereafter, the words “Competent Authority” have been used in these sections. Another example is defining “Specified Banking and Online Mode” in section 66 to mean a transaction by an account payee cheque or an account payee bank draft or use of the electronic clearing system through a bank account or through such other electronic mode, as may be prescribed. Accordingly, “specified banking and online Mode” has been used in the relevant provisions relating to Profits and gains of business or profession.

Further, in the 2025 Act, references to sub-sections and clauses have also been simplified. For example, referring to section 246(1) (a), instead of clause (a) of sub-section (1) of section 246. Also, amounts have been referred to in figures rather than words. Like the quantum of penalty is mentioned as “Rs.500000” instead of “a sum of five lakh rupees”. All these changes have contributed to reducing the word count in the 2025 Act and enhancing its readability.

5. Substantive changes in the Act

– In the 1961 Act, the substantive changes include the incorporation of provisions for the treatment of cash credits and unexplained investments in sections 68 and 69, respectively, to ensure that such incomes were adequately taxed and to prevent tax evasion. Another change was the removal of the provisions taxing remittances of past years’ income on the reasoning that such provisions were counterproductive and discouraged repatriation of capital. This change was made to align the tax provision with the broader objective of encouraging investment and economic growth.

In the 2025 Act, the objective was to simplify the language and structure of the law to make it concise, lucid, easy to read, and understand. Accordingly, the provisions in this Act are in line with the said objective. The only significant substantive change is the expansion of search and seizure provisions to include cases where the competent authority, in consequence of information in his possession, has reason to believe that a person to whom summons or notice is issued or might be issued, would not produce information in electronic form or on a computer system, which will be useful for, or relevant to, any proceedings under the Act. This provision allows the authorised officer to inspect any information, electronic records, and communication available

“ While there was a dire need to simplify the tax structure while drafting the Income-tax Act, 1961, such a need did not arise now in the context of the Income-tax Act, 2025, as recent years have already seen substantial rationalisation of tax slabs and rates across various categories of taxpayers. ”

on computer systems, including e-mails, social media etc.

6. “Previous Year” & “Assessment Year” vis-à-vis “Tax Year” and “Financial Year succeeding the relevant tax year”-

The 1922 Act did not define “assessment year”, though the concept of assessment year was there in the said Act and the definition of “Previous year” in the said Act also contained reference to assessment year. Accordingly, since the expression had been used by decisions of courts and was well-understood as meaning the financial year for which the assessment is being made, the definition of ‘assessment year’ was inserted while formulating the Income-tax Act, 1961.

However, in the Income-tax Act, 2025, the 100-year-old concepts of “previous year” and “assessment year” have been replaced with “Tax Year” and “Financial Year succeeding the relevant tax year”. The stated reason for the same is that the use of the terms ‘previous year’ and ‘assessment year’ was creating confusion in the minds of the taxpayers, as they represented two different financial years. In effect, the long-standing concepts of “previous year” and “assessment year,” dating back to the 1922 Act, have now been substituted with “tax year,” reportedly to mitigate



confusion stemming from their representation of two different financial years.

7. Examination of other tax laws – The provisions of the Estate Duty Act, the Wealth Tax Act, and the Gift Tax Act were examined, and the same were leveraged in framing the proposals of the Income-tax Act, 1961.

With the repeal of the Estate Duty Act and the Gift Tax Act in the years 1985 and 1998, respectively, and the abolition of wealth tax from A.Y.2016-17, multiplicity of direct tax legislations was not a concern that required to be addressed while drafting the Income-tax Act, 2025. However, given its cross-references and reliance on key definitions from the Income-tax Act, 1961, it is imperative that the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, is revised in tandem with the Income-tax Act, 2025.

Simplification in tax structure – Not a mandate while drafting the 1961 Act and the 2025 Act

In its 1958 report, the Law Commission had pointed out that meaningful simplification of income-tax law is not possible without a fundamental simplification of the overall tax structure, and expressed a wish that the Indian Legislature would simplify the tax structure following the good practices of other progressive countries. To better grasp the context of this observation, it is

essential to revisit the tax structure as it stood in 1961, especially for individuals and HUFs –

Categories		Basic Exemption Limit	First slab with a rate 3%
1.	Unmarried individuals and married individuals and HUFs with total income exceeding Rs. 20,000	Rs.1,000	Rs.4,000
2.	Married individuals with a total income not exceeding Rs. 20,000 with no child wholly or mainly dependent on him HUFs with total income not exceeding Rs. 20,000 having no minor co-parcener	Rs.3,000	Rs.2,000
3.	Married individuals with a total income not exceeding Rs. 20,000 with one child wholly or mainly dependent on him HUFs with total income not exceeding Rs.20,000 having one minor co-parcener	Rs.3,300	Rs.1,700
4.	Married individuals with total income not exceeding Rs.20,000 with more than one child wholly or mainly dependent on him HUFs with total income not exceeding Rs.20,000 having more than one minor co-parcener	Rs.3,600	Rs.1,400

The differences between these 4 categories were in the basic exemption limit and the first slab where the income-tax rate was 3%. Thereafter, there were four slabs of Rs. 2,500 with rates of 6%, 9%, 11% and 14%, respectively, which are common for all the categories. This was followed by a slab of Rs. 5,000 was subject to a rate

of 18%. The highest rate of 25% was attracted on total income exceeding Rs. 20,000.

Surcharge was leviable on income tax if the total income exceeded Rs. 7,500. The higher threshold exemption of Rs. 15,000 for the levy of surcharge on HUFs was linked to the number of members entitled to claim partition. Further, deeming to be entitled to claim partition was different for a HUF under Mitakshara Law and Dayabhaga Law.

In addition to this, for individuals and HUFs having total income above Rs. 20,000, super-tax was levied which again increased in slabs with the increase in total income, ranging from 5% to 45%. Super-tax was an additional duty of income-tax levied under section 95 of the said Act as it stood at that point in time. The maximum rate of super-tax was 45% on total income exceeding





Rs. 70,000. Again, a surcharge was imposed on super-tax also.

A key point to consider is that, during that period when no online filing of returns or the Annual Information Statement (AIS) existed, verifying the basis on which individuals claimed higher exemptions, such as marital status or number of children, and whether or not they are wholly or mainly dependent on the individual, would have been inherently time consuming and reliance would have to be placed on the documentary proof submitted. Also, examining documentary evidence for Hindu Undivided Families (HUFs), whether governed by Mitakshara or Dayabhaga law, the number of minor coparceners and the members eligible to claim partition, solely to verify if the correct basic exemption limit for income-tax and correct threshold for surcharge, as the case may be, was applied, would have been a labour-intensive and challenging task. In retrospect, a question arises as to whether the time and effort invested were worth the outcome.

Thus, at that time, the tax structure was notably convoluted, characterized by multiple classifications of individuals and Hindu Undivided Families (HUFs), varying basic exemption limits, diverse income-tax slabs and rates, and layered surcharges. Additionally, a super-tax was imposed on individuals and HUFs with total income exceeding Rs. 20,000, which also attracted a surcharge.

Subsequently, the super tax was removed with effect from 1-4-1965, and the rates of super tax were integrated with the rates of income tax in the rate schedule of income tax laid down in the Finance Act, 1965. Accordingly, the highest rate of income-tax was 65% for total income exceeding Rs. 70,000. The years 1971-1974 witnessed the highest rates of tax with the highest slab personal income-tax rate at 85% for total income exceeding Rs. 2 lakh. This was to be increased by a surcharge@10% where total income does not exceed Rs. 15,000 and surcharge@15% in other cases. From A.Y. 1976-77, the maximum personal tax rate was brought down to 70% for total income exceeding Rs. 70,000, with a surcharge@10% of income-tax.

Now, standing in 2025, it would be fitting to commend the Government for its sustained efforts over the years in streamlining the nation's tax structure and moderating the tax rates. Individuals and HUFs are not divided into categories based on any criteria for the applicability of tax rates. The

higher basic exemption for senior citizens and super senior citizens is also only in cases where the individual opts out of the default tax regime and pays tax as per the regular provisions of the Act. As per the data shared by the Income-tax Department in August 2024, 72% of the taxpayers paid tax under the default tax regime for A.Y. 2024-25, which is expected to go up to 95% by A.Y. 2026-27, with further rationalisation of tax slabs and rates under the default tax regime. There is no categorisation of individuals and HUFs based on any criteria under the default tax regime.

The rates of taxes are now moderate, with the maximum rate of tax being 30% for individuals/HUFs/AOPs/BOIs (highest slab rate), domestic companies and firms (flat rate). Of course, surcharge on income tax is levied beyond a particular threshold, which is once again progressive and increases in slabs with the increase in total income of the taxpayer. The exception is in case of undisclosed income, assets, expenditure, etc., where the rate of tax is 78% (including surcharge and cess) to deter tax evasion.

With simplified tax regimes offering concessional tax rates for different taxpayer categories and presumptive schemes benefiting small enterprises and professionals, the present tax framework reflects a high degree of rationalization.

Thus, while there was a dire need to simplify the tax structure while drafting the Income-tax Act, 1961, such a need did not arise now in the context of the Income-tax Act, 2025,





as recent years have already seen substantial rationalisation of tax slabs and rates across various categories of taxpayers.

Income-tax Act, 2025 – Last Mile Revisions before Roll Out

Reverting to the Income-tax Act, 2025, the new legislation is, undoubtedly, a comprehensive simplification initiative designed to make the law easier to understand.

This is the first time that so many sections have been consolidated and presented in tabular form in an Act. Tabular form of presentation minimises the use of long sentences and enhances readability. However, so far, tables were more used in the Explanatory Memorandum to the Finance Bill or the Circular explaining the provisions of the Finance Act for illustrating the rationale of a change and were not used in the main Act itself. The lawmakers deserve appreciation for taking the risk and deviating from established drafting norms. However, numbering of tables and incorporating cross-references would have made the exercise complete and served the intended purpose of ease of comprehension. Assigning numbers to tables would enhance ease of reference, while incorporating cross-references would facilitate a more comprehensive understanding of the provision. For example, all the TDS provisions in the Income-tax Act, 1961, have been consolidated in one single section, namely, section 393 of the Income-tax

Act, 2025, and presented in the form of a table. However, to have a complete understanding of a TDS provision, say, relating to commission or brokerage, Sl. No.1 in the table in section 393(1) has to be read with the exemption provided in Sl. No.1 in the table in section 393(4) and the meaning of “commission and brokerage” in section 402(7). Columns can be inserted in the table in section 393(1) to give reference to Sl. No. of exemptions contained in the table in section 393(4) and the meaning of the term in section 402. This would provide a holistic understanding of the provision.

Also, further consolidation of provisions is possible; for example, provisions relating to penalties can be consolidated into one section and presented in a table. Other such provisions, which can be presented in a table, are the prosecution provisions, fees, and provisions relating to the set-off of losses.

While the rates of income tax have been rationalised over the years, however, as far as rates of TDS are concerned, there are still six rates of TDS and differential threshold limits for different payments. There are examples of overlapping, which continue in the 2025 Act, and this is one of the reasons for litigation. Streamlining the rates and raising threshold limits would promote easier compliance. Introducing two or three uniform TDS rates along with standardized threshold limits could significantly reduce disputes, as it would minimize the likelihood of applying incorrect rates.

The phrase ‘Notwithstanding anything contained in ‘ in the Income-tax Act, 1961, has been the subject of extensive legal interpretation, and its meaning is judicially settled. Its replacement with ‘Irrespective of anything contained in’ or ‘Irrespective of anything contrary’ in the 2025 Act, solely for the sake of linguistic simplicity, risks triggering new rounds of litigation over whether the latter conveys the same legal effect as the former.

Though the Income-tax Act, 2025 has not made significant policy-level changes, it is hoped that the Finance Bill, 2026 will incorporate certain substantive changes in law required to facilitate the ease of doing business in India and improve India’s ranking in the Global map. For example, it is imperative to align the prosecution provisions of the Income-tax Act with the broader decriminalisation objectives of the Jan Vishwas Act. Equally essential is the rationalisation of penal provisions to reduce litigation. With the Rules remaining to be formulated and Forms to be developed, it is essential that the overarching goal of simplification remains a guiding principle throughout this process.

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Intricacies in Taxation of Employees on Income from ESOPs

Employee Stock Options ('ESOPs', 'Stock Options') have always proved to be a very effective tool for rewarding performance and ensuring the retention of employees. The trend of allotting ESOPs to its skilled work force, which initially started in the technology sector, has slowly spread across industries. These employees are subject to taxation on such ESOPs at the time of exercise as well as whenever they decide to sell these shares. Let us look at some key considerations as well as controversies associated with ESOP taxation. Recently, the Madras High Court, in *Nishithkumar*

Mukeshkumar Mehta v. Deputy Commissioner of Income Tax, examined the tax treatment of discretionary compensation received by an employee due to a reduction in the value of contractual rights associated with ESOPs. The court analyzed whether such compensation should be taxed as a perquisite under the Income-Tax Act.¹ This has brought controversies regarding ESOP on the forefront again.

A recent trend in multinational companies is to reward employees for their performance by allotment of ESOPs of some of its foreign group company listed on stock exchanges of developed economies. These stocks have higher potential of huge leaps in their valuation or market price leading to substantial wealth creation for the concerned employees. Such transactions expose these employees to complex cross-border tax implications and possible tax disputes.

Key Terms associated with Stock Options:

- **Grant Date** – The date of agreement whereby the employer agrees to provide certain stock-based incentive payments to its employees.
- **Vesting Date** – The date on which the employee becomes entitled to acquire shares after the fulfilment of pre-decided terms and conditions.
- **Exercise Date** – The date on which the employee exercises his right to buy the stock options.

- **Exercise Price** – The price at which the employee exercises the option, which is usually less than the prevailing Fair Market Value of the stock.
- **Acquisition FMV** – This is the Fair Market Value of the share prevailing in the market as on the exercise date of options usually in the case of listed securities.
- **Subscription FMV** – This is the estimated Fair Value of the stock agreed between the employer and employee at the time of granting of options itself. This is considered as a base price on which a pre-decided discounting factor is applied to arrive at the actual exercise price of the stock for the employee.

Types of ESOPs:

- a) **Employee Stock Option Purchase Plan (ESPP)** – This involves allowing the eligible employees to purchase equity shares of the employer or its group company at a pre-agreed price. This price is usually arrived at using a Discounting Rate applied on the Subscription FMV.

- b) **Restricted Stock Units (RSU)** – This refers to stocks which are directly allotted to employees without any consideration for achievement of certain performance targets or milestones.

Stages of Taxation

Employee Stock Options are taxed at two stages:

1. **At the time of exercise – As a perquisite under Income from Salaries**

Whenever the employee exercises the option of buying the stock options, the difference between the Acquisition FMV and the exercise price is liable to be taxed in his hands as perquisite under Salary Income u/s 17(2) of the Income Tax Act 1961 and subject to withholding of TDS by the Company.

2. **At the time of sale of employee – As Capital gains**

The profit earned by the employee when he actually sells these stocks is taxed as Capital gains. Since the

¹ W.P.No.26506 of 2023 & WMP Nos.25911 & 25912 of 2023 dated 31.07.2024

employee has already paid the tax on the difference between the concessional purchase cost and the acquisition FMV as on exercise date as perquisites at the time of exercise of options, the acquisition FMV is now eligible to be claimed as cost of acquisition of those ESOPs at the time of actual sale of shares.

From FY 2020-21 (AY 2021-22) onwards, eligible start-ups as defined u/s 80IAC of the Income Tax Act 1961 are allowed to defer the TDS deduction on perquisite income of the employees that accrues on exercise of ESOPs till the earliest of the following 3 dates:

- Expiry of five years from the year of allotment of ESOPs
- Date of sale of the ESOPs by the employee
- Date of termination of employment

Impact of Residential Status

The determination of residential status of the Company issuing ESOPs and its recipient as per provisions of Section 6 of the Income Tax Act 1961 is the fundamental stage of determining the taxation impact of ESOPs in the hands of the employee. Section 9 of the Income Tax Act 1961 lays down that any income which accrues or arises, whether directly or indirectly, from any source within India or through or from any property or asset in India is deemed to accrue and arise in India. Similarly, it is a globally accepted tax principal that a tax resident of a country is liable to pay tax on his global income in that country.

The residential status check is needed every time an income accrual occurs. The income accrual and taxation thereof at both the stages is mutually exclusive and independent. It is pertinent to note that this table only gives a broad guideline on taxability from the residential status perspective and is the starting point of any analysis. It is extremely important to look at all the prevailing facts and circumstances and evaluate other relevant factors like the place of rendering employment services, changes in residential status or the place of employment during the time from vesting till exercise of options and effects of the applicable tax treaties before arriving at any decisive conclusion.

Issues in Cross Border ESOPs

a) When do benefits accrue to employees?

In cases of secondment or deputation of foreign employees of Multinational Companies to their Indian counterparts for specified durations, the employees may face complex tax situations wherein they exercise their stock options while working in India, but they may be the employees of a Foreign Company and also tax residents of foreign countries. In several instances, it has been held by Indian judicial authorities that where the foreign employee is employed in India only for a certain part of the vesting period of the stock options, he is liable to be taxed only on

the proportionate fraction of the perquisite income in India. This is in line with the OECD Model Tax Convention which states that where a stock option is derived from employment exercised in more than one country, the portion of the benefit derived from employment in each individual country should be determined based on the number of days during which employment has been exercised in a country to the total number of days of employment from which the stock option income is derived.

However, there have also been conflicting decisions² where a contrary view has been taken and the entire income taxed in India if the said employee was an Indian tax-resident at the time of exercise of options.

b) Whether ESOPs of an Indian Company granted to foreign employee are taxable in India?

If the employee has not rendered any services in India during the vesting and exercise period, it is possible to argue that the said income is not taxable in India since it has not accrued or arisen in India. But some litigation is also seen in such scenarios. For instance, in the case of *Unnikrishnan V S vs. Income Tax Officer*³, the Mumbai ITAT has given an interesting ruling that, for determining the taxability of ESOPs as perquisites under Salary Income, it is important to determine the place where employment services

Type of Company issuing ESOPs	Residential Status of Employee during vesting and exercise	Taxability of Perquisites under Income from Salary	Residential Status of Employee at the time of sale of shares	Taxability of profit under Income from Capital gains
Indian Company	Resident	Taxable	Resident	Taxable
	RNOR*/ NR**	Taxable	RNOR/ NR	Taxable
Foreign Company	Resident	Taxable	Resident	Taxable
	RNOR/NR	Not taxable	RNOR/NR	Not Taxable

*Resident but not ordinarily resident

**Non resident

² Discussed later in this article.

³ ITA No. 781/Mum/2022 (A.Y. 2018-19), 13 January 2023

were rendered and that the actual geographical location of the employee when the options were granted is not material. Even if the individual was a non-resident when he exercised the Stock Option, if the benefit arose as a result of employment services rendered earlier in India, the income would still be liable to be taxed in India.

c) Funding of tax liability

At the time of exercise of options, the Company provides its employees with 2 options – (a) to arrange funds for payment of tax liability on the perquisites income or (b) to sell a part of the allotted shares upfront, from which the said TDS is recovered and the net number of shares received by the employee.

Option (a) entails making a foreign remittance involving more time, paperwork and also the possibility of TCS on this remittance if the amount exceeds Rs. 7,00,000/-.

In this case, the following 2 points need to be remembered:

- 1) While calculating income from perquisites, the gross number of shares will have to be considered.
- 2) The sale of a part of the entitled number of shares for the payment of



TDS liability, in itself, constitutes a capital gain transaction since there is a transfer of capital asset. However, in this peculiar case, since the date and price of acquisition and sale is the same, the taxable capital gain works out to be Nil. But as a matter of abundant caution, it is advisable to disclose this transaction as short-term capital gain while filing of income tax return. The acquisition FMV can be shown as both the sale consideration and purchase cost of such shares.

Illustration of ESOPs Taxation

An Employee 'M' of ABC Ltd., an unlisted Indian company, exercises the option under an ESPP to buy 100 shares of the Company at a discount of 20% on a Subscription FMV of

Rs. 50/- per share. He is also eligible for 20 free Restricted Stock units on the same exercise date i.e. 31/01/2021. The FMV, as on exercise date, comes to Rs. 55/- per share. 'M' sells 70 ESPP shares and 15 RSU shares as on 03/06/2022 for Rs. 80/- each and balance 30 ESPP shares and 5 RSU shares as on 20/11/2024 for Rs. 90/- each.

Calculation of Perquisite Income:

a) ESPP Perquisite

Purchase price = Subscription FMV
Rs. 50 * 80% = Rs. 40/- per share

Actual FMV as on exercise date =
Rs. 55/- per share

Perquisite Value = 100 shares * Rs. (55-40) = Rs. 1,500/-

Taxability of Capital Gains on ESOPs

Nature of ESOP issuing Company	Whether shares listed on recognized stock exchange in India	Whether sale of ESOPs subject to STT	Threshold Holding period for Capital Gain to be Long Term	Applicable Tax Rate – Short Term Cap gain	Applicable Tax Rate – Long Term Cap gain
Indian	Listed	Yes	12 Months	15% if sold till 22.07.2024 and 20% thereafter. (Section 111A)	10% if sold till 22.07.2024 and 12.50% thereafter. (No Indexation and basic exemption limit of Rs 1.25 lakhs eligible) – Section 112A
Indian	Unlisted	No	24 Months	Applicable Slab Rates	20% with indexation If sold till 22.07.2024 and 12.50% thereafter
Foreign	Not Applicable	No	24 Months	Applicable Slab Rates	20% with Indexation if sold till 22.07.2024 and 12.50% thereafter

b) RSU Perquisite

Purchase price = Nil

Actual FMV = Rs. 55/- per share

Perquisite value = 20 shares

* Rs. (55-0) = Rs 1,100/-

Total Salary Income (perquisites) =
Rs. 2,600/-

Calculation of Capital gains –

As on 03/06/2022 – Period of Holding is 488 days which is less than 24 months so capital gain will get classified as Short-Term Capital Gains and taxed at applicable slab rates.

Sale value = Rs. 80 per share *
(70+15) shares = Rs. 6,800/-

Cost of acquisition = Rs. 55/- per share * 85 shares = Rs. 4,675/-

Short Term Gain = Rs. 2,125/-

As on 20/11/2024 – Period of Holding comes to 1389 days which is more than 24 months so gain will get classified as Long-term Cap gain and taxed @ 12.5% without indexation benefits.

Sale value = Rs. 90 per share *
(30+5) shares = Rs. 3,150/-

Cost of acquisition = Rs. 55/- per share * 35 shares = Rs. 1,925/-

Long Term Gain = Rs. 1,225/-

Compliance Checklist for Income Tax Return Filing of such Employees**A) Documents to be procured:**

1. Form 16 along with supporting annexures and Form 12BA.
2. Annual statement of Dividend income earned on Employee stocks.
3. Capital gain reports with information about date-wise allotments done, acquisition FMVs as on exercise date relevant for claiming as cost of acquisition, share sale contract notes etc. from online portals of large institutional intermediaries managing the ESOPs.



4. Tax deduction/withholding certificates in foreign countries.

B) Action Points while filing tax returns -

1. In cases of foreign ESOPs, all monetary values quoted in foreign currency terms need to be converted into Indian Rupees as per the provisions of Rule 115 of Income Tax Rules which specifies the relevant date for which conversion rate is to be adopted for each head of income.
2. In case of ESOPs issued by Foreign Companies or where recipient employee is a non-resident, it is always advisable to check the relevant country's Tax Treaty (DTAA) with India to confirm whether any relief from taxation is available to the taxpayer in case of any kind of ESOP income like perquisites, capital gains or dividend by sourcing the treaty. Similarly, in instances of double taxation, the resident employee becomes eligible to claim a tax relief for the said double tax paid as per Section 90 read with Rule 128 of the Income Tax Act. He has to file Form 67 before filing his Income Tax Return to be able to take the relief claim in the return.
3. In case the ESOPs are of foreign companies, the tax-payer

employee is expected to provide a reconciliation of the number of shares held at the beginning and end of the year, along with details of subscriptions/purchase made during the year and sale, if any, in the Foreign Assets Schedule of the Income Tax Return.

4. Wherever applicable, the Schedules related to disclosure about Shareholding in Unlisted Shares as well as the schedule 'ESOP' (applicable in cases of deferment of tax on perquisite income from eligible start-up) in the Income Tax Return will also have to be filled in with requisite details.
5. Furnishing wrong particulars or non-disclosure of information mentioned in point numbers 2 and 3 above may have serious consequences, not only under Income Tax Act 1961 but also under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

Recent Controversies in Taxation of ESOPs for Employees**1. FMV in case of lock-in period – RAVI KUMAR SINHA Vs CIT⁴ on 14.08.2024- Delhi High Court**

The assessee had been allotted 11,50,500 shares @ Rs. 15/- per share by its employer company

⁴ ITA 281/2008, ITA 770/2008



under an ESPP scheme and these shares were subject to a stipulated lock-in period. The employer Company had obtained an independent valuation report, whereby the FMV of these shares was determined to be Rs. 22.50/- per share and the difference of Rs. 7.5/- treated as perquisites and taxed as Salary Income, and TDS deducted thereon by the employer. The assessee contended in his tax return that since the shares were not marketable due to lock-in, the FMV of the shares could not exceed the face value of the shares. The Assessing Officer, on the contrary, taxed the difference between the exchange quoted price of the Company's share of Rs. 49.45/- and Rs. 10.5/- paid by the employee (out of Rs. 15/- per share) as perquisites. The High Court observed that during the lock-in period, custody of the shares remained with the issuing Trust and it was duly intimated to the Stock Exchange about the non-transferability of shares. The shares were earmarked as non-transferable

and could not be hypothecated or pledged by the employee, and in cases of resignation were supposed to be retransferred back to the Company. Hence, it was held that the FMV of the shares could not possibly exceed the face value of the shares. i.e. Rs. 15/- per share.

2. Taxation of one-time compensation for loss of value of options

The assessee, an employee of Flipkart India, had been granted ESOPs of Flipkart Pvt. Ltd. (Ultimate Holding Company in Singapore) with a vesting period spread over 4 years. The Singapore Company announced disinvestment of its subsidiary company due to which its stock market value fell substantially. The Management decided to pay a one-time compensation of USD 43.67 per option held by all the ESOP holders as on a particular date towards loss in value of options after due withholding tax and included it under Salary Income. It was contended by the assessee that the said amount is receipt towards

a capital asset being the ESOPs. The payment was made voluntarily by the Company and there was no contractual obligation on them to pay any compensation. Since the employee still held the ESOPs and there was no sale, relinquishment or transfer in any other way of the underlying capital asset, this was a capital receipt and not taxable. The Revenue contended that the said payment arose principally out of the employment contract and qualified to be taxed as perquisite. The Madras High Court and Delhi High Court in the cases of Nishithkumar Mukeshkumar Mehta vs DCIT⁵ on 31.07.2024 and Sanjay Baweja vs DCIT⁶ on 30.5.2024 respectively have given contradictory decisions on the said issue wherein the Madras HC has ruled in favour of the Revenue while the Delhi one in favour of the assessee making it a matter of debate.

Conclusion

The taxation of ESOPs, especially cross border ones, are prone to litigation due to globally mobile employees, complex stock option structures and the multi-country presence of employer companies. Both employers and employees must take cognizance of the various tax issues and grey areas at the time of offering and accepting any form of ESOP. As practicing professionals, we can definitely contribute by giving our clients proper guidance and advice in this regard to ensure tax efficacy and legal compliance to avoid financial hardship in the years to come.

Reference

- *Income Tax Act 1961*

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⁵ W.P.No.26506 of 2023 & WMP Nos.25911 & 25912 of 2023

⁶ W.P.(C) 11155/2023



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Relief for Income Taxpayers: Tax Credit Allowed for TCS paid on Foreign Remittances

The Income Tax Rules have been amended by way of two separate notifications issued by the Central Board of Direct Taxes (CBDT) vide CBDT Notification No. 112/2024 dated 15.10.2024 & vide CBDT Notification No. 114/2024 dated 16.10.2024 about new relief for income taxpayers on Tax Collected at Source (TCS). The first notification introduces Form 12BAA, allowing employees to declare their income from other sources to their employer so that TDS on all

sources of income can be deducted at a single point. Further, the second notification permits TCS Credit on the purchase of goods, foreign remittances for education, travel abroad, etc., to a person other than the collectee. Notably, TCS credit even of minors can now be claimed if the minor's income is clubbed with the parents.

This article highlights the amendments to the Income-tax Rules, 1962, with illustrations to suggest how a salaried individual should plan their discharge of income tax liability with efficient fund management.

Background and Introduction

An income tax assessee who purchases a motor vehicle exceeding Rs. 10 lakhs during a financial year and pays Tax Collected at Sources (TCS) @ 1% u/s 206C(1F) was not eligible to claim TCS credit for the same until Assessment Year 2024-25, i.e., before this amendment takes effect.

Example 1: A person purchases a car from a showroom valued at Rs. 11 lakhs, then an amount of Rs. 11,000 (i.e., TCS @1%) is collected and deposited by the showroom as TCS. So, the total amount to be collected from the buyer is Rs. 11,11,000/- (Rs. 11,00,000 + Rs. 11,000). Earlier, the TCS of Rs. 11,000/- was not eligible for credit or refund. However, under the recent amendment, this TCS will be adjusted against his income tax liability, like TDS credit.

In another instance, if a person undertakes foreign remittances under the Liberalised Remittances Scheme (LRS) for education, travel, or medical

purposes during a financial year and paid TCS u/s 206C(1G), they were not eligible to claim TCS credit for the same until Assessment Year 2024-25, i.e., before the amendment took effect.

Example 2: An employee's minor child is pursuing education in the USA, and to meet his expenses, a remittance of Rs. 30,00,000/- was made under the LRS. Accordingly, the total amount collected from the remitter (employee) was Rs. 31,50,000/- (Rs. 30,00,000 + Rs. 1,50,000). Earlier, the 5% TCS of Rs. 1,50,000/- was not eligible for credit or refund to the employee. However, under the recent amendment, this TCS can now be adjusted against the employee's income tax liability, like TDS credit.

Enabling Single-Point TDS Deduction on All Sources of Income through the Introduction of Form 12BAA

Generally, Form 12BB (as per Rule 26C of the Income Tax Rules) is submitted by the employee to the employer, providing a statement of investments

and claims made during the financial year. Employers typically deduct TDS from salary as per the declaration given by the employee, considering investments and expenses eligible for tax deductions. They do not adjust the taxes paid / TDS deducted by the employee against other sources of income. Consequently, employees, while furnishing Income Tax Return, often face difficulties in the computation of tax liability on income from other sources, such as house rent income, set-off of loss from house property, capital gains, interest income, etc.

In many cases, assesses end up in excess tax payments, initially through TDS deduction, and later through payment of Self-Assessment Tax. The refund is then claimed at the time of filing the income tax return, resulting in unnecessary blocking of funds. There has been a long-standing demand from employees to synergize all sources of income and all taxes paid at one place at the end of the financial year, and not to wait for the due date of filing of return. The Honorable Finance Minister

assured in Budget 2024 to tackle the issue of their commitment to better tax transparency and ease of taxes.

CBDT has introduced Form 12BAA vide Notification No. 112/2024 on October 15, 2024, to address the above issue. It also allows a different person to claim credit for TCS instead of the individual who made the payment while incurring specific expenses. This amendment aims to assist taxpayers in reducing their income tax liability by allowing them to claim the TCS credit, rather than the person who originally deposited the money in the treasury. These amendments underscore the government's commitment to improve tax compliance and simplify the tax reporting process for individuals, tax authority, and corporates.

This new Form 12BAA is to be furnished by employees to the employer to report the tax deductions from all sources, such as fixed deposits, insurance commissions, dividends from equity shares, or tax collected at source on the purchase of a car or foreign remittances. Additionally, employees are required to disclose all the details of income or losses derived or incurred from other sources or under the head "Income from House Property" in this form. This move aims to streamline TDS computation under section 192, allowing for more accurate tax calculations and clarity on tax obligations.

Allowance of TCS Credit to Income Taxpayers on Purchase of Car, Foreign Remittances, and Other Transactions

As per the PIB press release dated October 16, 2024, "Further, sub-section (4) of Section 206C of the Act was amended vide FA (No. 2) to allow the credit of TCS to a person other than the collectee—such as a parent in the case of a minor collectee—when the minor's income is clubbed with that of the parent. Accordingly, Vide CBDT Notification No. 114/2024 dated 16.10.2024 Rule 37-I of the Rules has been amended to allow credit of tax

collected at Source to a person other than the collectee, in whose hands the income of the collectee is assessable."

This shift in the person's entitlement from collectee to the actual consumer is clearly illustrated in the following two scenarios:

Scenario I – A Ltd. purchases goods of Rs. 10 Crores from B Ltd. As per Section 206C, A Ltd. collects TCS and deposits it with the government within the prescribed due date. Subsequently, A Ltd. is entitled to claim credit for the TCS against its income tax liability.
Scenario II – Mr. A purchases a car from Mr. B Ltd. for Rs 11 lakhs, and B Ltd. collects TCS from Mr. A and deposits it to the government treasury, but here, instead of the TCS collectee, i.e., B Ltd., Mr. A is entitled to take the TCS credit in his Income Tax liability.

Extract of Press Release on the Amendments

The extract of the Press Release issued by PIB is given below: -

“ In many cases, assesses end up in excess tax payments, initially through TDS deduction, and later through payment of Self-Assessment Tax. The refund is then claimed at the time of filing the income tax return, resulting in unnecessary blocking of funds. ”

Rule 26B of Income Tax

Rule 26B has been revised to guide taxpayers on reporting income outside of salary, TDS, and TCS via Form 12BAA. This change enhances transparency and ensures that all income types are adequately documented and reported. The extract provisions as amended are given in the next page.

CBDT Notifies Amendments in Income-tax Rules for Ease in Claiming Credit for TCS Collected/TDS Deducted for Salaried Employees and Enabling claiming TCS Credit of Minors in the Hands of Parents

Posted On: 17 OCT 2024 2:55PM by PIB Delhi

“Central Board of Direct Taxes (CBDT) has notified amendments in income-tax rules for ease in claiming credit for TCS collected/TDS deducted for salaried employees and enabling claiming TCS credit of minors in the hands of parents. Sub-section (2B) of Section 192 of the Income-tax Act, 1961 ('the Act') was amended vide the Finance (No. 2) Act, 2024 (FA (No. 2)) to include any tax deducted or collected at source under the provisions of Chapter XVII-B or Chapter XVII-BB, as applicable, for the purpose of making tax deductions in the case of salaried employees.

Vide CBDT Notification No. 112/2024 dated 15.10.2024, the Income-tax Rules, 1962 ('the Rules') have been amended, introducing Form No. 12BAA as the prescribed statement of particulars required under sub-section (2B) of Section 192 of the Act. Employees must provide these particulars to their employers, who are responsible for making payments under sub-section (1) of Section 192. The employer, in turn, shall deduct TDS on salary after taking into account the furnished particulars.

Further, sub-section (4) of Section 206C of the Act was amended vide FA (No. 2) to allow the credit of TCS to a person other than the collectee—such as a parent in the case of a minor collectee—when the minor's income is clubbed with that of the parent. Accordingly Vide CBDT Notification No. 114/2024 dated 16.10.2024 Rule 37-I of the Rules has been amended to allow credit of tax collected at Source to a person other than the collectee, in whose hands the income of the collectee is assessable.”

“26B. Statement of particulars of income under heads of income other than “Salaries” or details of tax deducted at source or tax collected at source.— The assessee may submit to the person responsible for making payment under sub-section (1) of section 192, the details of -- (a) any income chargeable under any head of income other than ‘Salaries’ received in the same financial year; or (b) any tax deducted at source or tax collected at source under the provisions of Part B or Part BB of Chapter XVII, for the same financial year; or (c) loss, if any, under the head “Income from house property” in the same financial year, in Form No. 12BAA, for the purpose of computing the tax deduction at source under sub-section (1) of section 192.”

Form 12BAA Format

Employees must furnish the following information:

(a) Details of Other Tax Deducted at Source,

Section under which tax deducted at source	Name of Deductor	Address of Deductor	TAN of Deductor	Amount of tax deducted (Rs)	Amount of income received/ credited (Rs)	Any other relevant details
A	B	C	D	E	F	G

(b) Details of Other Tax Collected at Source

Section under which tax collected at source	Name of Deductor	Address of Deductor	TAN of Deductor	Amount of tax deducted (Rs)	Any other relevant details
A	B	C	D	E	F

Source: www.incometaxindia.gov.in

Illustration

A brief illustration of 5 cases is produced below for a clear understanding of an income tax assessee under the new regime of the Income Tax Act:

Illustration : 1	Condition :- (i) Income from Salary (ii) Income from other sources on which TDS short deducted by Banking company / not applicable (iii) TCS paid on own Car purchase for Rs. 11 lakhs (iv) TCS paid on Rs 8 lakhs for Minor Child Overseas Education Remittances (Assumptions :- Form 12BAA NOT applicable and TCS Credit NOT allowed as in old provisions)	
A.	Assessment Year 2025-26 (FY 2024-25) Computation of Income of Salaried person, Income Tax payable thereon and mode of Payment of Taxes	Amount in INR
(i)	Income from Salary : Gross Salary Rs. 1 lakh per month Less : Standard Deduction Taxable Income from Salary	1,200,000 -75,000 1,125,000
(ii)	Income from Other Sources : Annual House Rent received Interest from Fixed Deposits Taxable Income from other sources	180,000 200,000 380,000 1,505,000
(iii)	Gross Total Income Income Tax Liability TDS on salary deducted (salary income only considering Form 12BB) TDS on Residential House Rent deducted by Individual TDS on Interest Income from Fixed Deposits @10% deducted	147,160 71,500 Nil 20,000
B.	Merits Self Assessment Tax payable for FY 2024-25	55,660

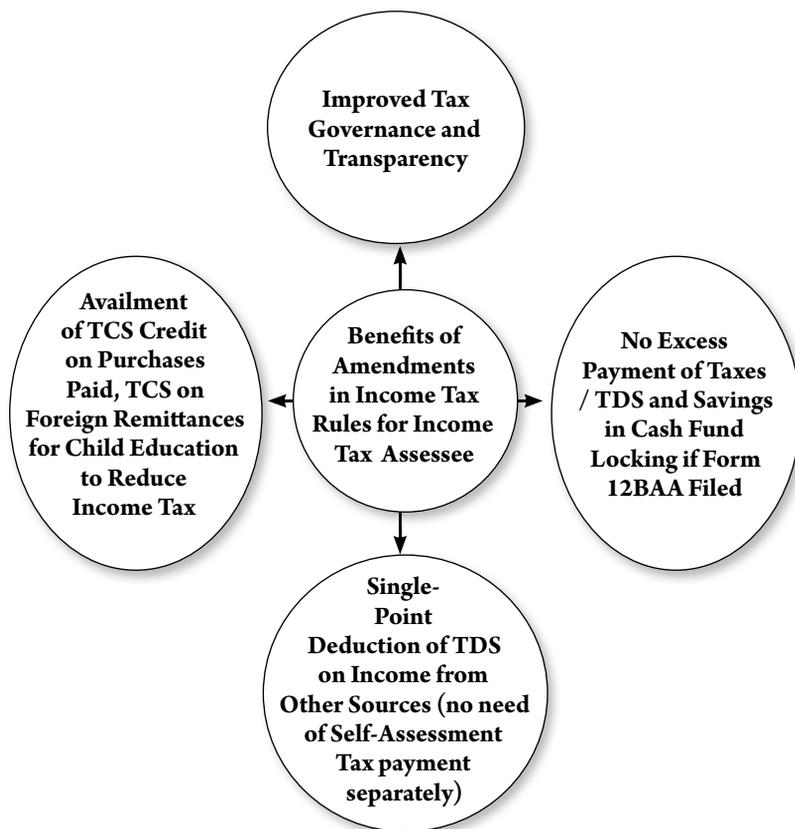
Illustration: 2	Condition:- (i) Income from Salary (ii) Income from other sources on which TDS short deducted / not applicable (Assumptions:- Form 12BAA applicable as IT Rules amended w.e.f. 15.10.2024)	
Assessment Year 2025-26 (FY 2024-25)		
A.	Computation of Income of Salaried person, Income Tax payable thereon and mode of Payment of Taxes	Amount in INR
(i)	Income from Salary : Gross Salary Rs. 1 lakh per month Less : Standard Deduction Taxable Income from Salary	12,00,000 -75,000 11,25,000
(ii)	Income from Other Sources : Annual House Rent received Interest from Fixed Deposits Taxable Income from other sources Gross Total Income	1,80,000 2,00,000 3,80,000 15,05,000
(iii)	Income Tax Liability TDS deducted by employer considering Form 12BAA declaration TDS on Interest @10% deducted	1,47,160 1,27,160 20,000
B.	Merits Saving in Self Assessment Tax payable for FY 2024-25	 55,660

Illustration: 3	Condition:- (i) Income from Salary (ii) Set off of Loss under House property declaration (Assumptions:- Form 12BAA submission for Loss Set off under Income from House property)	
Assessment Year 2025-26 (FY 2024-25)		
A.	Computation of Income of Salaried person, Income Tax payable thereon and mode of Payment of Taxes	Amount in INR
(i)	Income from Salary : Gross Salary Rs. 1 lakh per month Less : Standard Deduction Taxable Income from Salary	12,00,000 -75,000 11,25,000
(ii)	Income from Other Sources : Loss under House Property-Set off Taxable Income from other sources Gross Total Income	-2,00,000 -2,00,000 9,25,000 44,200
(iii)	Income Tax Liability TDS deducted by employer considering Form 12BAA declaration	44,200 Nil
B.	Merits Savings in TDS and Income Tax liability attributable to Form 12BAA submission for Loss Set off reasons i.e. Tax savings on Rs 2,00,000	 27,300

Note: This TDS / Tax liability saving of Rs. 27,300/- can be read with Illustration 4 as mentioned below.

Illustration: 4	Condition:- (i) Income from salary (ii) TCS paid on own Car purchase for Rs. 11 lakhs (Assumptions:- TCS Credit allowed u/s 206C(1F) and Form 12BAA applicable as amended)	
	Assessment Year 2025-26 (FY 2024-25)	
A.	Computation of Income of Salaried person, Income Tax payable thereon and mode of Payment of Taxes	Amount in INR
(i)	Income from Salary : Gross Salary Rs. 1 lakh per month Less : Standard Deduction Taxable Income from Salary	12,00,000 -75,000 11,25,000
(ii)	Income from Other Sources : Taxable Income from other sources Gross Total Income	 - 11,25,000
(iii)	Income Tax Liability TDS deducted by employer considering Form 12BAA declaration TCS u/s 206C on Car purchase @1%	71,500 60,500 11,000
B.	Merits Savings in TDS and Income Tax liability due to availment of TCS credit	 11,000

Illustration: 5	Condition:- (i) Income from Salary (ii) TCS paid u/s 206C(IG) on minor Child Overseas Education expenses remittances Rs. 8 lakhs (Assumptions:- Form 12BAA applicable and TCS Credit Allowed u/s 206C (1G) as amended)	
	Assessment Year 2025-26 (FY 2024-25)	
A.	Computation of Income of Salaried person, Income Tax payable thereon and mode of Payment of Taxes	Amount in INR
(i)	Income from Salary : Gross Salary Rs. 1 lakh per month Less : Standard Deduction Taxable Income from Salary	12,00,000 -75,000 11,25,000
(ii)	Income from Other Sources : Taxable Income from other sources Gross Total Income	 - 11,25,000
(iii)	Income Tax Liability TDS deducted by employer considering Form 12BAA declaration TCS u/s 206C(IG) on Remittance for Minor Overseas Education @5%	71,500 31,500 40,000
B.	Merits Savings in TDS and Income Tax liability due to availment of TCS credit u/s 206C(IG) in the hands of parent	 40,000



Important Insights on CBDT's New TCS Framework

The changes introduced by the Central Board of Direct Taxes (CBDT) have brought significant relief for income taxpayers, particularly in the context of claiming Tax Collected at Source (TCS). With the issuance of CBDT Notification No. 112/2024 dated October 15, 2024, and Notification No. 114/2024 dated October 16, 2024, the applicability of amendments has been brought into immediate effect. As a result, it can be interpreted that TCS collected on or after October 15, 2024, is eligible to be claimed by the assessee.

The primary objective of these amendments is to simplify the process of claiming TCS credit, particularly for individuals who incur substantial TCS through foreign remittances. The initiative aims to promote awareness among taxpayers about the tax benefits available to them and encourage timely and accurate filing of income tax returns.

Importantly, there is no requirement for a separate TCS certificate like Form 16A for claiming such credits. The TCS credits will now be auto-populated in the relevant fields of the Income Tax Return (ITR) through details reflected in Form 26AS, thereby reducing administrative burdens and paperwork for taxpayers.

In line with these developments, employers are also expected to comply with revised reporting requirements. Form 24Q, the quarterly TDS return related to salaries, has been amended to include a new column that captures the amount reported under Section 192(2B) — specifically, other tax deducted or tax collected at source.

Another significant aspect of the amendment concerns the claim of TCS credit in cases involving minors. Effective from January 1, 2025, as per the Union Budget 2024, the rules have been amended to allow TCS credit to be claimed by a parent if the income of the minor is clubbed with the parent's income. This enables parents to claim

TCS on taxable investment income, such as interest earned on fixed deposits held in the minor's name, while the tax liability is borne by the parent.

Further, Form 12BAA has been introduced as a vital tool for both employees and employers. This form enables employees to furnish complete details of their income, including from other sources, to their employer. In turn, this facilitates accurate deduction of tax at source (TDS) under Section 192. Timely and correct submission of Form 12BAA ensures that TDS is computed considering all sources of income, preventing excess deduction and aiding in efficient cash flow management.

Conclusion

The amendment to allow TCS Credit to salaried assesses along with Form 12BAA enables employees to disclose all sources of income to the employer in one place, which will not only facilitate better accuracy in TDS computation and enhance the clarity of tax obligations for taxpayers but will also provide a cash surplus in the hands of the salaried person. Tax Collected at Source is shown in Form 26AS as a tax credit and can be claimed while an employee files an income tax return hassle-free and without further tax demand or refund.

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Revolutionizing Internal Audits: The AI Transformation

This article delves into the use of Artificial Intelligence (AI) in internal audits and how it is altering traditional auditing processes by increasing efficiency, accuracy, and risk management. AI tools such as machine learning and natural language processing assist auditors in analysing big datasets, detecting abnormalities, and predicting potential hazards. This will increase fraud detection and continuous monitoring, but can also save money and time.

Despite implementation hurdles like a significant initial investment and talent gaps, AI's ability to transform internal auditing is apparent. As AI advances, its position in audit tasks becomes important.

AI's Role in Streamlining Audit Process

1. Internal auditing is evolving by increasing efficiency and precision through Artificial Intelligence (AI). Traditional audit practices often require a substantial amount of manual labour for tasks like data collection, processing, and report creation. AI technologies are streamlining these operations, allowing auditors to focus more on high-value activities and strategic decision-making.

■ Automating Routine Tasks

One of the obvious effects of AI on internal audit is the automation of everyday processes. AI-powered solutions can handle repetitive tasks and time-consuming jobs like data entry, document verification, and transaction matching. AI algorithms can automatically evaluate thousands of financial transactions in order to detect anomalies or unexpected trends. This speeds up the auditing process and also lowers the possibility of human error, resulting in more dependable results.

■ Enhancing Data Analysis

AI excels at analysing massive amount of data quickly and

reliably. Traditional audits frequently use sample approaches since it is impractical to review every transaction. With the help of AI, Auditors can analyse a vast amount of datasets, delivering a more complete picture of the financial situation. Machine learning algorithms can uncover the patterns and trends that may be overlooked by manual research, providing in-depth insight into an organization's financial health and risk profile.

■ Improving Anomaly Detection

An important part of internal audits is detecting anomalies and

irregularities. AI can improve this capability by using advanced algorithms to detect these deviations from predicted patterns.

AI systems can detect strange spending patterns, fraudulent transactions, and anomalies in financial reporting in real-time anomaly identification, which will allow auditors to quickly analyse the potential concerns and resolve them before they become major problems.

■ Facilitating Continuous Auditing

AI facilitates continuous auditing by allowing real-time monitoring



Fig. 1: Role of AI in streamlining the audit process

of transactions and controls. Unlike traditional audits, which occur on a regular basis, continuous auditing provides for an ongoing examination of financial processes and controls. AI systems monitor and analyse transactions as they occur, offering real-time input on compliance and risk management. This proactive approach enables organizations to address concerns rapidly and maintain strong internal controls.

■ Enhancing Predictive Analytics

Predictive analytics is another area where AI is having a significant impact. AI can forecast potential hazards and future trends by analysing previous data using advanced algorithms. For example, AI can analyse previous audit data to identify areas of elevated risk or probable fraud. This foresight enables organizations to implement preventive actions and make educated risk management and resource allocation decisions.

■ Reducing Audit Time and Costs

AI-driven efficiency reduces audit time and expenses. Automated processes can decrease the need for manual intervention, allowing audits to be performed faster. Furthermore, AI's capacity to analyse massive datasets and detect abnormalities saves auditors time on data analysis and investigation. This saves an organisation's money because the auditing process requires fewer resources.

■ Enhancing Auditor Expertise

While AI automates basic operations, it also enhances auditor knowledge by delivering advanced analytical tools and insights. Auditors can use AI-generated reports and visualizations to better analyse financial data. This improved awareness facilitates more informed decision-making and strategic planning for the organisations. AI techniques can also help auditors to find opportunities for improvement in

internal controls and processes, in the future, increasing overall company efficiency and advancement.

■ Supporting Compliance and Reporting

AI helps to ensure compliance with regulatory requirements and reporting standards. AI systems can automatically evaluate transactions and financial statements to ensure regulatory conformance, lowering the risk of non-compliance. AI can develop accurate and complete audit reports, speeding up the reporting process and ensuring that all the necessary information is incorporated.

Key Benefits: Accuracy, Efficiency, and Cost Reduction

Integrating Artificial Intelligence (AI) into internal auditing systems provides dramatic benefits that are altering financial oversight. One of the most striking benefits is increased accuracy. AI's capacity to process massive amounts of data with precision considerably improves audit accuracy.

Unlike traditional approaches, which rely on manual data entry and analysis that is susceptible to human mistakes, AI algorithms handle complex calculations and data comparisons flawlessly. For example, AI-powered technologies rigorously verify each transaction against predefined criteria and historical data, ensuring that discrepancies are correctly recognized and rectified. Machine learning models improve their accuracy over

“ In addition to accuracy, AI greatly enhances the efficiency of internal audits. AI solutions streamline and speed up routine and repetitive tasks, including data collection, transaction matching, and report preparation. ”

time by learning from previous data, recognizing anomalies and inconsistencies that would otherwise go undiscovered.

In addition to accuracy, AI greatly enhances the efficiency of internal audits. AI solutions streamline and speed up routine and repetitive tasks, including data collection, transaction matching, and report preparation. This increased productivity enables auditors to focus on more strategic responsibilities, such as results analysis and risk assessment, rather than laborious data processing. As a result, the total performance of the audit function improves, resulting in better organizational outcomes.

Cost saving is another key advantage of AI in internal auditing. Traditional audits frequently require substantial manual labour, data processing, and report creation, all of which contribute to high expenses. Organizations can save time and resources by using AI to complete these tasks. AI systems handle



Fig2: Benefits of adopting AI



massive amounts of data processing and anomaly detection, which would otherwise necessitate a huge number of auditors spending long hours. This reduction in manual work and accompanying human costs leads to significant savings. Furthermore, increased accuracy in AI systems minimizes the risk of costly errors and compliance difficulties, which contributes to cost savings.

AI also allows for real-time monitoring and reporting, increasing the timeliness of audit results. While traditional audits are conducted on a regular basis, AI-powered systems continuously monitor financial activities and controls. This real-time capability enables organisations to resolve issues as they develop, rather than waiting for the next audit cycle to reveal them. Immediate insights into possible concerns enable management to make informed judgments and take corrective action quickly, hence

increasing overall risk management and financial control.

Furthermore, AI's predictive analytics skills help to improve risk management. By evaluating previous data and recognizing patterns, AI can foresee potential problems and provide preventive steps. This proactive approach enables organisations to eliminate risks before they arise, thereby improving financial stability and compliance. AI's advanced analytical capabilities provide deeper insights into financial data and audit outcomes, allowing auditors and management to better grasp complicated data. These insights help to improve decision-making, identify areas for improvement, and optimize procedures, ultimately improving internal controls.

Challenges in Adopting AI for Audits

Incorporating Artificial Intelligence (AI) into internal audits has numerous

“One of the biggest challenges in adopting AI for internal audits is the high upfront investment required.”

advantages, but it also poses certain problems that organisations must solve. These hurdles include initial investment and technology adaptation, the requirement for specialized skill sets, and concerns about data privacy and ethics.

■ Initial Investment and Technology Adaptation

One of the biggest challenges in adopting AI for internal audits is the high upfront investment required. Implementing AI solutions incurs costs not just for purchasing and integrating new software, but also for modernizing current IT infrastructure. To properly support AI applications, organizations may need to invest in high-performance computer systems as well as secure data storage solutions.

Furthermore, upgrading existing audit processes to include AI technologies can be difficult and time-consuming. Traditional audit procedures may need to be redesigned to fully utilize AI capabilities. This adaptation process entails integrating AI tools into existing systems, assuring interoperability, and aligning AI functionality with specific audit requirements. Transition is tough, as organisations handle the twin responsibilities of sustaining current procedures and integrating new technologies.

■ Skillset Requirements and Training

Another key difficulty is the demand for specialized skills and training. AI technologies require a different set of abilities than traditional auditing tools. Auditors must learn to use AI technologies, comprehend their functionality, and interpret AI-generated

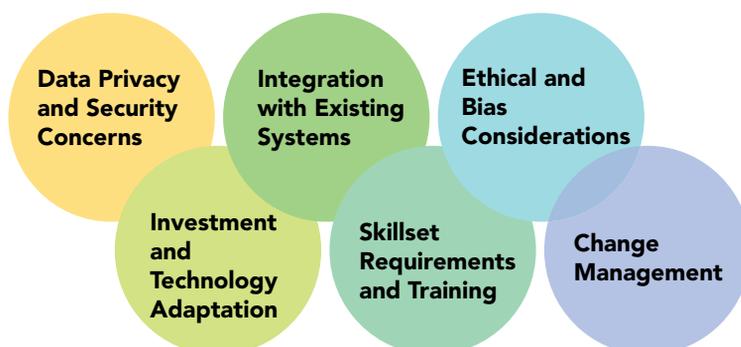


Fig 3: Challenges in Adopting AI for Audits

outcomes. This transformation needs training and upskilling for audit professionals who may not be familiar with AI technologies.

Organizations may need to invest in training programs or hire new employees with AI and data analytics skills. This necessity for specialized abilities may result in a skills gap, as there may be a limited pool of individuals who have both audit experience and AI expertise. Bridging this gap is critical to ensuring that AI tools are used properly and that the audit team can leverage AI.

■ **Data Privacy and Security Concerns**

Data privacy and security are essential considerations when using AI for auditing. AI systems frequently require access to enormous amounts of sensitive financial data to perform properly. This material must be handled with extreme caution to avoid unauthorized access and potential breaches. Organizations must ensure that AI technologies comply with data protection rules and have adequate security measures in place.

Furthermore, the deployment of AI creates issues with data ownership and governance. Organizations must develop clear standards for determining who has access to AI-generated insights and how this data is managed and shared. Maintaining trust and compliance requires ensuring that AI tools do not mistakenly divulge sensitive information or jeopardize data integrity.

■ **Integration with Existing Systems**

Integrating AI tools into existing audit systems and processes might be difficult. Organizations may have legacy systems that are incompatible with modern AI technology and must be modified or replaced. This integration procedure entails ensuring that AI tools work seamlessly with existing systems and that data flows freely across them.

“The emphasis on ethical AI and transparency will increase as AI gets more integrated into internal auditing.”

Furthermore, the introduction of AI must be properly controlled to avoid interfering with ongoing audit processes. Organizations must plan and execute the integration process in such a way that downtime is minimized,

and audit operations continue uninterrupted. Effective project management and coordination are required to overcome integration problems and ensure a successful AI deployment.

■ **Ethical and Bias Considerations**

Artificial intelligence systems are not immune to ethical challenges and prejudices. AI algorithms are developed using historical data, which may contain inherent biases. If not addressed, these biases can skew audit results and lead to unfair or incorrect conclusions.

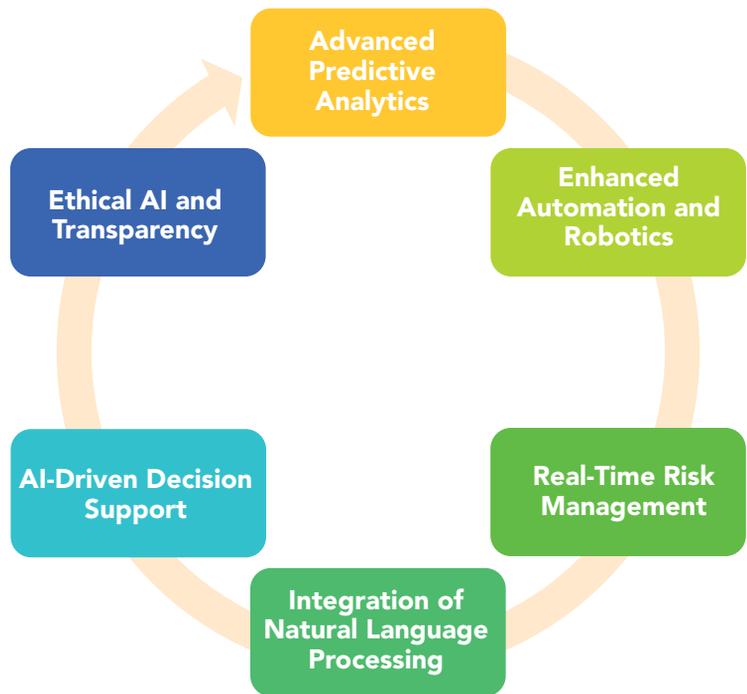


Fig 4: Future Trends of AI in the Profession

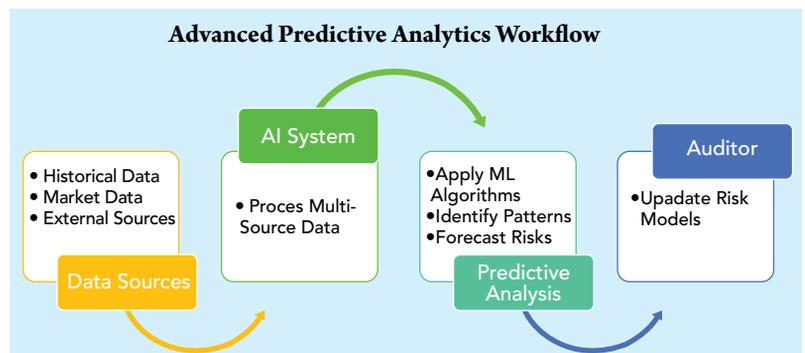


Fig. 5: Predictive Analytics Workflow

Organizations must ensure that AI tools are built and tested to reduce bias and ethical problems.

Creating visible and explainable AI models is critical for resolving ethical concerns. Auditors and stakeholders must understand how AI algorithms generate judgments and guarantee that they are based on fair and reliable data. Establishing ethical rules and constantly monitoring AI systems for bias are critical practices for ensuring audit process integrity.

■ Change Management

Adopting AI in internal audits entails managing organizational change. Employees may be resistant to new technology because they are afraid of losing their jobs or changing their work patterns. Effective change management tactics are required to address these issues and highlight their benefits, to ensure a smooth transition in the new audit procedures.

Future Trends: Predictive Analytics and Beyond

The future of internal auditing is being impacted by breakthroughs in Artificial Intelligence (AI), particularly predictive analytics. As AI technologies advance, they have the potential to transform auditing by providing deeper insights, greater risk management, and enhanced decision-making capabilities. Here are some of the important trends and innovations influencing the future of internal audits beyond predictive analytics.

■ Advanced Predictive Analytics

Predictive analytics has already begun to revolutionize internal audits by generating forecasts based on past data. Moving forward, advances in AI will improve predictive skills, allowing auditors to foresee possible concerns with higher precision. Predictive analytics, which uses powerful machine learning algorithms, will allow organisations to

recognize developing hazards, fraud tendencies, and financial irregularities before they become major problems.

These advanced prediction models will be able to analyse complicated information from many sources, such as financial transactions, market movements, and external data, in order to offer more nuanced results. As predictive analytics advances, auditors will be able to proactively manage risks and optimize audit procedures based on projected situations.

■ Real-Time Risk Management

Real-time risk management is gaining grip, thanks to AI's capacity to process and analyse data instantly. Future internal audits will rely on continuous monitoring technologies that provide real-time information on financial activity and controls. This change will allow organisations to detect and respond to threats as they arise, rather than waiting for periodic audits to reveal problems.

AI-powered dashboards and analytics tools will enable real-time risk management by providing live updates on key performance indicators, compliance measurements, and risk factors. This immediate access to audit-related data will improve decision-making and allow for faster corrective measures, resulting in better overall risk management and organizational agility.

■ Enhanced Automation and Robotics

Internal audits are becoming more efficient, thanks to robotic process automation (RPA) and AI-powered automation. Aside from automating basic processes, future developments will include the integration of more advanced automation technology capable of handling difficult audit functions. For example, AI-powered robotic auditors could undertake extensive transaction analysis, compliance



Fig 6: Real-time risk management flow

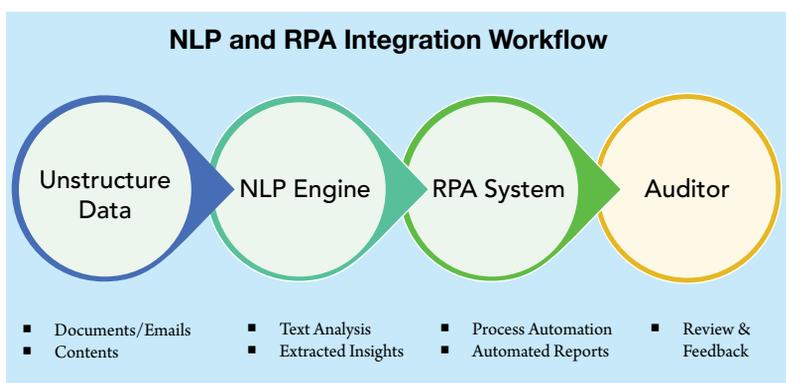


Fig 7: NLP and RPA Integration Workflow

checks, and exceptional reporting with little human involvement.

Advanced automation solutions will reduce auditors' manual effort, allowing them to focus on high-value tasks like strategic analysis and risk assessment. As automation technology advances, it will become more flexible and scalable, allowing organisations to tailor their audit procedures to the changing needs and surroundings.

■ **Integration of Natural Language Processing (NLP)**

Natural Language Processing (NLP) is developing as a significant trend in the future of internal auditing. NLP technology enables AI systems to understand and interpret human language, which can be used for a range of audit activities.

For example, NLP can be used to analyse and extract information from unstructured data sources such as emails, papers, and contracts. These skills will help auditors evaluate and assess qualitative data, detect compliance concerns, and identify potential risks. NLP tools will allow for more efficient and thorough audits by processing massive amounts

of textual data and offering actionable insights based on language patterns and content analysis.

■ **AI-Driven Decision Support**

AI's involvement in decision support is growing, with future trends focusing on giving auditors smart tools to help them make decisions. AI-powered decision support systems will provide data-driven recommendations and scenarios based on a thorough review of audit data. These methods will assist auditors in evaluating alternative courses of action, assessing probable results, and making informed conclusions.

Organizations that include AI-driven decision assistance in audit processes will benefit from improved strategic planning, risk mitigation, and resource allocation. This will result in more effective audit outcomes and improve the capacity to manage complicated financial settings.

■ **Ethical AI and Transparency**

The emphasis on ethical AI and transparency will increase as AI gets more integrated into internal



auditing. To ensure that AI systems are built and implemented in accordance with fairness, accountability, and transparency principles. Future developments will stress the creation of explainable AI models, which will allow auditors to understand how AI-driven decisions are made and guarantee that they adhere to ethical norms.

Organizations need to develop rules for the ethical use of AI in auditing, such as how to combat biases, ensure data privacy, and preserve the integrity of audit results. As AI technologies evolve, preserving transparency and ethical norms will be critical to fostering confidence and ensuring that AI's role in auditing is both effective and responsible.

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Ethical AI and Decision Support System

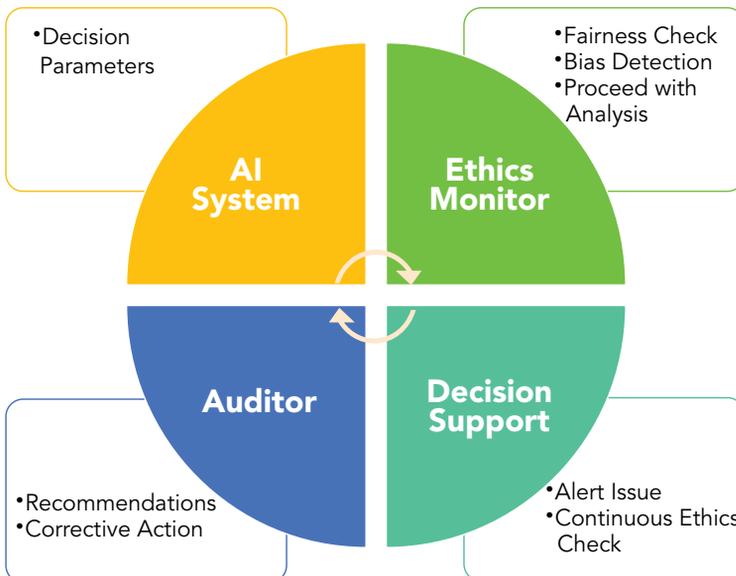


Fig. 8: Ethical AI and Decision Support System



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Contemporary Structure of Fixed Monthly Expenses

The article attempts to deal with the dilemma of an investor who is facing the challenge of choosing a product among various available asset classes that provides monthly return on his investments (which is, say, approximately equal to his fixed monthly lump sum amount of household expenses) in addition to capital appreciation of his investments. The author has made an endeavour to compare the age-old practice of building rental income from buying and leasing real estate properties versus investment in structured products in the equity market, which yield fixed monthly income along with a gradual increase in the underlying corpus.

What is 'your' ninja technique to structure a secured flow of fixed monthly expenses? This is a million-dollar question, especially for the mid-life age group of people who are fortunate enough to have accumulated some wealth. The so-called intellectual

cult of human beings around us, belonging to old-school thought, often counsels us and fosters their earned wisdom by advocating for building rental income for a secure livelihood as a prescription to our retirement planning. However, a closer examination of this widely accepted wisdom reveals a

contrasting reality. When this notion is critically assessed against the harsh truths of contemporary life and evaluated using various parameters, its limitations become evident. To facilitate further, the article has outlined a few such yardsticks in Matrix-1, intended as a reference for readers to explore independently.

Matrix-1: Illustrative list of dark side of reality associated with investment in real estate properties to build rental income to secure monthly household expenses:

As per the statistical data, the average RoI (Return-on-Investment) on residential properties is merely 3% p.a. pre-tax [reduced to 2.37% post-tax (considering the highest tax bracket of an individual and zero surcharge and 4% cess)]. This rate goes up to a mere 6% p.a. pre-tax [reduced to 4.74% post-tax (considering the highest tax bracket of an individual and zero surcharge and 4% cess)] in case of commercial properties.

There is an exorbitant amount of stamp duty and registration charges payable on the purchase of real estate properties. These stamp duty and registration charges are in the range of say 6%-8% payable on the published circle rate or the actual sale consideration price, whichever is higher. These charges vary from state to state (as real estate property is a state subject and every state government decides and periodically tunes the applicable circle rate and stamp duty rate, and registration charges rate).

The instrument of lease (lease deed) is also compulsory, and required to be registered at the office of Sub-Registrar (in case the lease tenure is more than 11 months) and the applicable stamp duty and registration charges are payable based on various factors including the tenure of lease, nature of entity of landlord and tenant, annual escalation in rent, security deposit amount, etc.

The rented assets remain in physical possession of third-party tenants all the time, which may cause fear psychosis in the mind of the landlord, and sometimes it results in the unpleasant circumstances of trespassing and encroachment of the properties by the tenant.

The ownership title of the assets may not be free from all defects. The latent and inherent defect in ownership title, if any, travels from seller to buyer even after payment of the entire sale consideration and registration of title documents at the office of Sub-Registrar after capturing photographs and thumb impressions of the parties in the presence of witnesses.

These assets are not liquid. Sometimes, it takes more than 6 months time (or even more) to translate a real estate asset into a liquid asset, owing to various challenges in terms of finding suitable buyer, absence of established and regulated marketplace for price discovery, time period spent by buyer to pay the agreed sale consideration, time consumed in due diligence by the buyer or the lender bank of the buyer.

Sometimes, the lender banks are not comfortable extending easy and instant loans against these assets, citing various reasons (excuses) of a complete chain of documents depicting ownership title, location of property, nature and character of assets, possession, physical conditions, difference in prevailing circle rate vs. actual market rate, etc. Thus, the owner may be deprived of liquidity to cater to some emergency requirement or to fetch leverage to meet his business or other pressing needs/circumstances.

The physical and tangible built-up assets are subject to depreciation and wear and tear over a period of time. It needs regular expenses for upkeep and maintenance. It also needs expenses every 5 to 10 years for repairs, renovations, and facelifts.

The annual municipal taxes and insurance expenses are also required to be paid on real estate properties for the sake of statutory compliance and safeguard against the potential threat of physical damage to the properties. The municipal taxes are as high as 20% of annual rental in case of certain states in India.

There is a hefty amount of brokerage (ranging from 0.50% to even 5% of the consideration) payable at the time of both purchase and sale of the assets.

There is a threat of tenants vacating the premises, and the assets may remain vacant and unrented, yielding no monthly income at all. For example, the recently developed culture of WFH (Work-From-Home) in the post-COVID era has indeed caused downsizing the office areas by top-notch IT companies. Additionally, in case of change of tenants, the additional expenses of buffing of the premises and brokerage to the property dealer are also incurred, in addition to the statutory compliance of police verification of the new tenant.

The inherent nature of the real estate assets is such that it cannot be split into small units and we need to deal with the whole property at a time, e.g. if someone owns one flat worth Rs. 10 crores he cannot sell 25% or say 50% of the flat to meet some immediate needs, if any. Similarly, if he has Rs. 2 crores available for top-up/ addition, he cannot invest it in the same flat, and instead, he will have to look for purchase of some additional property.

Surprisingly, a huge amount of stamp duty, as high as the quantum of amount which is payable in case of actual sale to a third party, is also payable (in a few states in India), to record a gift of the property, even if the property is gifted to a person in blood relation.

Needless to say, there is some element of trauma associated with safekeeping the original title documents of the properties.

As the rental income is subject to GST levy (over the given threshold limit), the landlord has to additionally fulfil the requirement of obtaining GST Registration and monthly/quarterly compliance of the taxation formalities including raising tax invoices, filing of GST returns, collection of GST amount from the tenant, and finally remittance of GST amount to govt. These compliances are to be done every month before their respective due dates to avoid the levy of interest and penalty.

In stark contrast, if we fetch the view of new age Gen-Y sharks, who have already built the corpus pool and sculpted their retirement pension planning at a young age vis-à-vis the Old-Money genre of population who are scripting their annuity scheme at the age of 50+, the difference between their respective story writing is quite evident. The newer generation

believes that “the life should be plain, simple and uncomplicated” and in the same wave length they are adopting the cruising tool of autopilot mode which offers pre-defined constant stream of cash flow crediting in their bank account on 1st day of every month without indulging in any requirement to chase-up the remitter and at the same time the said model



Matrix-2: Illustrative list of Income Tax incidences of a few scenarios in case of investment in structured products in equity market:

S. No.	Particulars	Scenario-1 [Amt in Rs.]	Scenario-2 [Amt in Rs.]	Scenario-3 [Amt in Rs.]	Scenario-4 [Amt in Rs.]
A	Principal Corpus of investment	1,00,00,000	50,00,000	5,00,00,000	10,00,00,000
B	Fixed Monthly withdrawal from Corpus [commencing after 12 months of investment date]	1,00,000	50,000	5,00,000	10,00,000
C=B*12	Fixed Annual withdrawal from Corpus for 12 months	12,00,000	6,00,000	60,00,000	1,20,00,000
D	Annual Amount of LTCG (Long Term Capital Gain) Tax payable [including applicable surcharge and cess]* during first year of withdrawal**	11,262	Nil	1,21,311	2,58,872
E=D/12	Monthly expense of LTCG Tax	939	Nil	10,110	21,573
F	Principal Corpus at the end of 10 years after consistent annual withdrawal†	1,96,47,027	98,23,514	9,82,35,135	19,64,70,270

#Assuming conservative CAGR of 14% (which is even less than the historical rate of CAGR achieved by equity market since its birth). It is, however, subject to market risks.

##Nonetheless, the annual amount of LTCG tax expense will tend to increase in subsequent years owing to the fact that the component of income comprising monthly withdrawals in subsequent years will gradually increase.

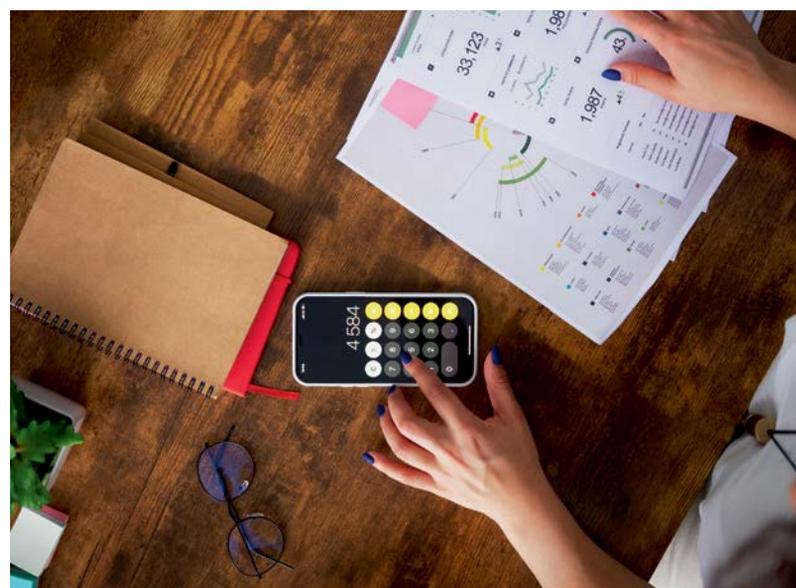
is tax efficient, online, automated, transparent, liquid and hassle free. Does it sound too good to be true? Calm down, it is not some fiction, and indeed it is happening in real life itself, and the smart species of mankind is deploying this toolkit.

This gadget is not some form of rocket science and instead it is a paradigm shift available in the form of plain vanilla structured investment product in equity market in India itself which

ensures steady streak of constant amount of cash flow every month, e.g. Rs. 1 lakh crediting to your bank account on 1st day of every month at the expense of say Rs. 939 (may be read as say Rs. 1000) of income tax, against one-time lump sum investment of Rs. 1 crore. Interestingly, the amount of income tax will be zero in case the desired monthly inflow of Rs. 1 lakh is bifurcated equally in two accounts, say husband and wife (thanks to the Union Budget of the previous fiscal

year). Nonetheless, the amount of income tax will be higher in case the monthly target requirement is, say, Rs. 5 lakhs or Rs. 10 lakhs (please refer to the Matrix-2 above for a few cases of tax incidences) as the annual exemption of Rs. 1.25 lakhs ceded by the previous year's Union Budget remains fixed.

Conclusion: Considering the listed pros and cons of investments in both options of asset classes, a critical assessment can be done by each investor in their own personal cases, amidst the facts and circumstances as applicable in their respective cases. Nonetheless, the readers are advised to personalise and structure their own investments and portfolios in consultation with their long associated Chartered Accountant and SEBI-registered investment advisors only, to rule out any dent or disastrous advice by the mushrooming and newly developed breed of influencers who are not authorised by the market regulators.



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REITs and InvITs: Unlocking Real Estate and Infrastructure Wealth Creation

Imagine tapping into miles of toll roads, the towering presence of office skyscrapers, or the quiet reliability of power grids, all without the headaches of direct ownership. Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) are your keys to this realm, blending the liquidity of stocks with the

enduring value of tangible assets. These dynamic vehicles have surged in prominence, offering sophisticated investors a potent mix of yield, diversification, and resilience. In this exploration, we dive deep into their mechanics, historical roots, tax advantages under India's Taxation framework, and strategic edge, especially in emerging markets, arming you with the insights to navigate this compelling landscape with confidence.

A Brief History of REITs and InvITs

The Rise of REITs

Born in the U.S. with the Real Estate Investment Trust Act of 1960, REITs were crafted to democratize real estate, letting everyday investors access income-generating properties. President Eisenhower's vision unleashed a wave of growth, with the U.S. REIT market swelling to over \$1.4 trillion by April 2025 (Source: Nareit, 2025¹). From humble beginnings, REITs spread globally, adapting to local needs and fuelling commercial expansion. For example: Singapore pioneered in Asia with CapitaLand in 2000.

India joined the REIT journey in 2014, when the Securities and Exchange Board of India (SEBI) introduced the REIT Regulations. The first Indian REIT i.e., the Embassy Office Parks REIT was launched in 2019, setting a precedent for institutional-grade real estate investment through capital markets.

The Emergence of InvITs

InvITs, a newer innovation, took shape in the 2000s to channel capital into infrastructure. Canada's early forays with pipeline and energy trusts paved the way, but India took a major step in 2014, when SEBI introduced the InvIT Regulations to attract private investments into infrastructure. The landmark came in 2017, with the launch of India's first InvIT, IndiGrid, focused on power transmission. This marked a turning point, unlocking investor access to toll roads, telecom towers, and energy assets. (Source: IndiGrid Annual Report, 2023²). Today, InvITs in India stand as vital channels for monetizing public infrastructure and funding future development. Today, both vehicles stand as pillars of modern portfolio strategy.

The Mechanics of REITs

Structure and Functionality

REITs pool capital to own and manage income-producing real estate, such

as sky scraping office towers, bustling retail hubs, or cutting-edge data centres. Listed on stock exchanges, they merge the liquidity of equities with the steady returns of property. The utmost unique trait about them? REITs must distribute at least 90% of taxable income as dividends, ensuring reliable cash flows and often sidestepping corporate tax, a boon for yield-friendly investors.

Classification of REITs

- **Equity REITs:** These trusts invest directly in physical properties, generating revenue through rents and, potentially, capital appreciation. They dominate the REIT market due to their tangible asset base.
- **Mortgage REITs (mREITs):** These focus on real estate financing, investing in mortgages or mortgage-backed securities. Their income derives from interest payments, exposing the investors to credit and interest rate risks.

1 REIT Industry Financial Snapshot | Monthly REIT Data

2 Annual-Report-2023-24.pdf

- **Hybrid REITs:** Combining elements of equity and mortgage REITs, these trusts diversify across property ownership and debt instruments.
- **Sector-Specific REITs:** These target niche markets, such as logistics warehouses, healthcare facilities, or data centres, capitalizing on secular trends like e-commerce or digital transformation.

Small and Medium REITs (SM REITs)

Introduced in India by SEBI in 2024, Small and Medium REITs (SM REITs) aim to broaden access to fractional real estate ownership by focusing on smaller, often underutilized properties like warehouses, commercial offices, or retail spaces in Tier-2 and Tier-3 cities.

Unlike traditional REITs, which require assets worth at least ₹500 crore, SM REITs have a lower asset threshold, ranging from ₹50 crore to ₹500 crore. This enables smaller developers and investors to participate in the REIT ecosystem.

SM REITs maintain the same regulatory rigor as larger REITs, including mandatory listing and 90% income distribution, but offer higher growth potential due to their focus on emerging markets and underserved asset classes.

“ Unlike traditional REITs, which require assets worth at least ₹500 crore, SM REITs have a lower asset threshold, ranging from ₹50 crore to ₹500 crore. This enables smaller developers and investors to participate in the REIT ecosystem. ”

Investment Merits

- **Steady Yields:** Mandatory dividend pay-outs provide predictable income streams, catering to a set of investors prioritizing cash flow.
- **Diversification Power:** REITs exhibit low correlation with traditional equities and bonds, enhancing risk-adjusted returns.
- **Liquid Access:** Unlike direct real estate investments, listed REITs offer daily liquidity, enabling tactical portfolio adjustments.
- **Professional Oversight:** Managed by specialized teams, REITs mitigate the operational complexities of property management.

- **Inflation Shield:** Rental income often adjusts with inflation, preserving purchasing power over time.
- **Tax Efficiency:** Favourable tax treatment on distributed income enhances net returns for investors.

Risk Considerations

- **Interest Rate Sensitivity:** Rising interest rates increase borrowing costs and may reduce dividend yields' relative attractiveness compared to fixed-income alternatives.
- **Market Volatility:** As publicly traded securities, REITs are subject to equity market fluctuations, which may not always align with underlying property values.
- **Sectoral Vulnerabilities:** REITs concentrated in specific sectors (e.g., retail or hospitality) face risks tied to economic cycles or consumer behaviour shifts.
- **Leverage Risks:** Many REITs employ leverage to enhance returns, amplifying losses in adverse market conditions.

The Mechanics of InvITs Structure and Functionality

InvITs echo REITs but target infrastructure i.e., toll roads, power lines, or renewable plants. Pooling investor funds, they manage these giants, earning via fees, tariffs, or contracts. Listed and liquid, they too channel 90% of income into dividends, harnessing infrastructure's steady pulse for the investors.

Investment Merits

- **Stable Cash Flows:** Infrastructure assets often operate under long-term contracts or regulated pricing, ensuring predictable revenue streams.
- **Economic Resilience:** Infrastructure's essential nature provides relative immunity to economic downturns, enhancing portfolio stability.



- **Unique Exposure:** InvITs offer exposure to a distinct asset class, reducing correlation with equities, bonds, and real estate.
- **Growth Catalyst:** By monetizing operational assets, InvITs enable developers to fund new projects, supporting economic growth.
- **Tax Efficiency:** Favourable tax treatment on distributed income enhances net returns for investors.

Risk Considerations

- **Regulatory Exposure:** Changes in government policies or tariff regulations can materially impact revenue.
- **Operational Risks:** Infrastructure projects are susceptible to delays, cost overruns, or performance issues, affecting cash flows.
- **Rate Sensitivity:** Rising rates can increase financing costs and compress valuations, particularly for leveraged InvITs.
- **Macroeconomic Dependence:** Demand for infrastructure services (e.g., toll collections) may decline during economic slowdowns.

Formation of REITs and InvITs

How a REIT is Formed

Forming a REIT in India involves a structured process governed by SEBI (REIT) Regulations, 2014, as amended:

1. **Sponsor Setup:** A sponsor (or sponsor group) initiates the REIT, typically a real estate developer or financial institution with a strong track record. The sponsor must have a net worth of at least ₹100 crore and a minimum of five years of experience in real estate or fund management.
2. **Trust Creation:** The REIT is established as a trust under the Indian Trusts Act, 1882, with a trust deed registered with a sub-registrar. The trustee, an independent entity approved by SEBI, oversees compliance and protects unitholder interests.

“ Institutional investors, such as pension funds and sovereign wealth funds, value REITs and InvITs for their yield stability and long-term capital appreciation potential. ”

3. **Asset Transfer:** The sponsor transfers income-generating real estate assets (e.g., commercial properties) to a Special Purpose Vehicle (SPV), a company or LLP held by the REIT. The SPV must hold assets worth at least ₹500 crore (or ₹50 crore for SM REITs).
4. **Manager Appointment:** A SEBI-registered REIT manager, with a net worth of ₹10 crore, is appointed to manage operations, leasing, and strategy. The manager must have at least two key personnel with five years of relevant experience.
5. **SEBI Registration and IPO:** The REIT files a draft offer document with SEBI and the stock exchange, detailing assets, financials, and risks. Upon approval, the REIT launches an Initial Public Offering (IPO) to raise funds from investors, issuing

units that are listed on exchanges like BSE or NSE.

6. **Operational Compliance:** Post-listing, the REIT must distribute 90% of its net distributable cash flows, adhere to leverage limits (up to 49% of asset value), and provide regular disclosures to unitholders.

How an InvIT is Formed

The formation of an InvIT follows a similar framework under SEBI (InvIT) Regulations, 2014:

1. **Sponsor Setup:** The sponsor, typically an infrastructure developer or financial entity, must have a net worth of ₹100 crore and a proven track record in infrastructure or fund management.
2. **Trust Creation:** The InvIT is set up as a trust under the Indian Trusts Act, 1882, with a SEBI-approved trustee to safeguard investor interests.
3. **Asset Transfer:** Operational infrastructure assets (e.g., toll roads, power plants) are transferred to SPVs held by the InvIT. The assets must generate stable cash flows, with a minimum value of ₹500 crore for public InvITs.
4. **Manager Appointment:** An investment manager with a net



worth of ₹10 crore and experienced personnel is appointed to oversee asset management, contracts, and operations.

5. SEBI Registration and IPO:

The InvIT submits a draft offer document to SEBI, outlining assets, cash flows, and risks. After approval, it raises funds through an IPO or private placement (for private InvITs) and lists units on stock exchanges.

6. Operational Compliance:

The InvIT must distribute 90% of net cash flows, maintain leverage below 70% of asset value, and comply with SEBI's reporting and governance norms.

Minimum Ticket Size for Sponsors

- **REITs:** The sponsor must hold at least 25% of the REIT's units at inception, reduced to 15% after three years. With a minimum REIT asset size of ₹500 crore (or ₹50 crore for SM REITs), the sponsor's initial investment (ticket size) typically ranges from ₹125 crore to ₹250 crore for standard REITs, or ₹12.5 crore to ₹25 crore for SM REITs, depending on the asset valuation and capital structure.

- **InvITs:** The sponsor must hold at least 25% of the InvIT's units initially, with a minimum 15% post-listing for three years. For a public InvIT with a minimum asset size of ₹500 crore, the sponsor's ticket size is approximately ₹125 crore to ₹250 crore, based on the InvIT's capital raise and asset portfolio.

Tax Benefits Under the Indian Income Tax Act

In India, REITs and InvITs shine with tax benefits, carved out in the Income Tax Act, 1961:

- **Dividend Exemption:** Dividends from REITs and InvITs are tax-free in investors' hands if the trust pays no tax on that income (Section 10(23FD)), provided the trust distributes 90% of net income, removing entity-level tax.
- **Capital Gains Clarity:** Long-term gains (held over 12 months) from listed units enjoy a 10% tax rate above a Rs. 1 lakh exemption (Section 112A), while short-term gains face 15% (Section 111A).
- **Interest and Rental Pass-Through:** Interest or rent from underlying assets flows to unitholders, taxed at their slab

“REITs and InvITs aren't just investments; they're gateways to wealth, blending liquidity, diversification, and expert care.”

rates, while trusts sidestep double taxation.

- **SPV Advantage:** Special Purpose Vehicles under REITs/InvITs get tax relief on dividends or interest paid to the trust, streamlining returns (Finance Act, 2020³).

REITs and InvITs in Emerging Markets

In lands of rapid urban sprawl and infrastructure growth, REITs and InvITs beckon private capital. India, Singapore, and Brazil lead with tight rules, blending growth with guardrails.

The Indian Paradigm REITs in India

India's REITs, such as the Embassy Office Parks, Mindspace, or Brookfield, zero in on premium offices in Bengaluru, Mumbai, and NCR, riding IT and finance booms. Drivers? Urban surge, SEBI's transparent rules, and global funds eyeing India's ascent (source: CBRE India Market Report⁴).

InvITs in India

IndiGrid and IRB InvIT power India's grid and roads, unlocking value via the National Monetization Pipeline. A \$1.5 trillion infra push by 2030 fuels growth, backed by stable contracts and policy zest (source: National Infrastructure Pipeline, 2021⁵).

Challenges in Emerging Markets

- **Regulatory Evolution:** Developing regulatory frameworks



3 UPDATE: Tax implications on INVITs, REITs and its Unitholders under Finance Act 2020 | India Corporate Law

4 India's Office Sector Expected To Maintain Strong Growth Momentum In 2025: Report

5 Press Release: Press Information Bureau

may lack the stability of mature markets, creating uncertainty.

- **Market Liquidity:** Thin trading volumes in some markets can limit the liquidity of listed trusts.
- **Investor Sophistication:** Limited awareness among retail investors may hinder broad adoption at the nascent stage.

Comparative Analysis: REITs vs. InvITs

While REITs and InvITs do have certain similarities, it is their distinction with respect to the distinct asset classes and risk-return profiles that cater to different investment objectives:

REITs are suited for investors seeking exposure to real estate market dynamics, while InvITs appeal to those



the operational burdens of direct ownership.

Future Trajectory

Globally, REIT and InvIT markets are poised for growth, driven by structural

through 2027 (source: JLL Global Data Center Outlook, January 2025⁷), whereas InvITs are expected to ride the green wave, with renewable assets soaring as decarbonization accelerates across the globe.

Dimension	REITs	InvITs
Asset Focus	Commercial and residential real estate	Infrastructure (roads, power, telecom)
Revenue Model	Rents, property appreciation	Tolls, tariffs, contractual payments
Risk Drivers	Real estate cycles, tenant risks	Regulatory changes, project execution
Investment Horizon	Medium to long-term	Long-term
Yield Characteristics	Cyclical, tied to property markets	Stable, tied to contracts

Conclusion

REITs and InvITs aren't just investments; they're gateways to wealth, blending liquidity, diversification, and expert care. In India and beyond, they channel capital to real estate and infra, fuelling much growth in the infra sectors.

As the financial markets evolve, REITs and InvITs will likely play an increasingly central role in portfolio strategies. Investors must continue to exercise due diligence, balancing their yield potential against market, regulatory, and operational risks. For those seeking to diversify beyond traditional assets, REITs and InvITs offer a forward-looking opportunity, for your portfolio's next leap.

prioritizing stable, long-term yields from infrastructure.

Strategic Role in Portfolio Construction

Why embrace REITs and InvITs? Their intersection with stocks, bonds, and commodities slashes the volatility, while inflation-linked rents and tariffs shield the gains. Institutional investors, such as pension funds and sovereign wealth funds, value REITs and InvITs for their yield stability and long-term capital appreciation potential. For retail investors with a high-risk tolerance, these trusts offer accessible exposure to alternative assets without

trends and policy support. In developed markets, REITs are a mature asset class, with the U.S. REIT market valued at over \$1.4 trillion in 2025 (source: Nareit, 2024⁶). Emerging markets, however, offer untapped potential, as governments leverage these trusts to fund urbanization and infrastructure development, unlocking value in their areas.

Technological and sustainability trends are reshaping the investment landscape. Data centre REITs, sustained by demand for cloud computing and AI infrastructure, are projected to grow at a CAGR of 15%

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6 REIT Industry Financial Snapshot | Monthly REIT Data

7 Global data center demand surges despite supply and power constraints



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Digital Financing: Evolution and Impact

Digital financing has revolutionized financial services, providing unparalleled convenience, cost efficiency, and security. Key components include online banking, mobile payments, peer-to-peer lending, and blockchain technology. Benefits such as enhanced accessibility and financial inclusion are countered by challenges like cybersecurity threats and regulatory compliance. Case studies of M-Pesa, Ant Financial, and Wise highlight real-world impacts. Future advancements in AI, machine learning, and blockchain promise further innovation. By

addressing challenges and leveraging opportunities, digital financing will continue to shape the global financial landscape, empowering individuals and businesses to manage their finances more effectively.

Digital financing has radically transformed the manner employers and individuals can conduct their financial operations through the present years. The financial service sector has been transformed by the shift to digital, which has moved everything from mobile banking and video interactions to online investment platforms and beyond. In this piece, we dig deep into digital finance, its advantages, disadvantages, and what the future holds.

Digital Financing

Meaning: Digital financing or digital financial services are the foundation of the digital economy, enabling and empowering individuals through their relationship with financial service providers. Key areas include the use of online banking, mobile payments, peer-to-peer lending, digital wallets, and blockchain transactions. Each of these facets has been an integral part of moulding the financial system that we know today. Online banking has become the bedrock of digital banking, enabling users to do all of their banking work through computers and mobiles. This includes checking account balances, transferring funds, paying bills and even applying for

loans. Due to its ease and convenience, online banking has become the choice of many people.

One of the key trends linked with smartphones is the rise of mobile payment services which allow users to pay with a tap of their phone, offering the same level of security as a chip card. These services are based on near-field communication (NFC) technology to enable contactless payments, which have seen a surge in demand, especially during the COVID-19 pandemic.

Additionally, platforms like LendingClub and Prosper have democratized credit through peer-to-peer (P2P) lending, enabling individuals to lend directly to one another without the need for traditional financial intermediary. This gives more access to competitive interest rates and allows for others to take advantage of it who may not qualify for traditional bank loans.

Digital wallets have become essential in the digital finance ecosystem, helping users to store money digitally and make online payments, which include features like transferring money to friends and family or paying for any service. However, there is lot

more to digital wallets, including the ability to store cryptocurrencies or use loyalty points.

Blockchain is a new form of technology designed to keep information secure and public for the future. Many applications, such as Bitcoin or Ethereum, are built on this technology. These platforms involve mining activities, which consume a significant amount of electricity just like games.

Benefits of Digital Financing

1. Convenience and Accessibility

One of the major advantages of digital finance is its easy accessibility. Customers can manage their accounts, make payments, and even apply for a loan from the comfort of their homes, 24/7. This level of convenience was once unimaginable. For instance, online banking allows users to check their account balance and transaction history without going to the bank. With mobile payment applications, users pay for groceries, coffee, or even split restaurant bills with friends instantly. Moreover, digital financing services are designed to be user-friendly. They often

come with intuitive interfaces and comprehensive customer support to assist users in navigating through various features. For example, many online banking platforms provide virtual assistants or chatbots that can answer queries, guide users through processes, and even help troubleshoot issues.

2. Cost Efficiency

People who belong to the “needs more cheese in sandwiches” club often don’t know how it tastes until they try it. Similarly, many digital financial services come with lower fees compared to traditional banking methods. With less physical infrastructure and manual processing, digital finance leads to massive cost savings, which then leads to less painful charges for customers. For example, strictly online banks like Ally Bank and Chime tend to offer better rates on their savings account deposits and charge less fees, as they don’t incur costs from branch locations. Moreover, utmost care is undertaken to decrease the use of paper money transactions by using e-statements, online bill payments, and digital receipts, providing an environmental friendly alternative as part of the green financing trend.

3. Enhanced Security

The safety and security of digital financing transactions are ensured through advanced encryption and authentication technologies. Blockchain, in particular, ensures a high level of security, trust, and transparency. Each transaction is encrypted and added to the previous one which makes it virtually impossible for anyone to alter or tamper with. Moreover, with most digital finance products, multi-factor authentication is used, which means two or more verification factors must be provided by the user when accessing applications. This includes something they know (a password), something they have

“ There is a pressing need to develop effective regulatory strategies targeting the new digital finance markets, as these markets are constantly growing, and consumers need to be defended from unfair actions. ”

(a fingerprint), or something sent to them (an ultra-short time code on their mobile).

4. Speed and Efficiency

Digital transactions are processed much quicker compared to traditional modes. Be it fund transfer, paying bills, or investing in stock, every digital platform provides real-time processing advantages. For example, mobile banking apps have an option for instant account-to-account transfer. Stock trading can be done online with real-time buying or selling of stocks to grab the profit-making opportunity. Automated processes in digital finances also remove the possibility of human error, as is the case with ACH (Automated Clearing House) transfers. This form of money transfer ensures that customers

get their payroll and bill payments processed correctly and on time, every time.

5. Financial Inclusion

Financial inclusion is one of the key areas where digital financing plays a vital role, as it can provide financial services in areas where physical access is difficult. Digi-banks and payment apps can deliver financial services to people in the hinterland without the need to create complicated and costly Branch and transaction networks. For instance, mobile money service called M-Pesa in Kenya has helped millions of financially excluded individuals gain access to the financial system to conduct financial activities such as money transfer, savings, and micro-credit.

Digital financing also has a positive impact in enhancing the SMEs in the market by providing easier access to credit and other related financial facilities. Instead of approaching banks, where they are less likely to be granted credit, SMEs can borrow money online or even raise funds through crowdfunding. This type of financial inclusion encourages and promotes entrepreneurship and economic development, especially in the most capable yet vulnerable countries across the globe.



Challenges and Considerations

While digital financing offers numerous benefits, it also presents challenges that need to be addressed:

1. Cybersecurity Threats

The high utilization rate of connective technology implies that digital platforms are vulnerable to attack by cyber-thugs. To safeguard institutions and individuals, continuous education on cybersecurity and significant investments in protection are paramount. For instance, financial firms have no option but to develop a robust cybersecurity strategy to mitigate the possibilities of data leakage, identity theft, or fraud. Security reviews, fresh scans, and penetration testing are considered indispensable measures within a modern cybersecurity plan.

Furthermore, it should be noted that users must be introduced to activities, behaviors, and practices that should be performed or avoided in cyberspace. This includes educating the public on phishing scams, use of strong and distinct passwords, and avoid posting sensitive information about the self on the internet. Banks and other financial establishments may periodically arrange or popularize cybersecurity information sessions and offer literature for their consumers.

2. Regulatory Compliance

There is a pressing need to develop effective regulatory strategies targeting the new digital finance markets, as these markets are constantly growing, and consumers need to be defended from unfair actions. Regulating emerging technologies remains a key concern for policymakers, as they must balance innovation with necessary oversight. For instance, the GDPR protects the rights of data subjects across the European Union, and this disrupts how digital financing platforms use customer data.

In the United States, the Consumer Financial Protection Bureau has been assigned with different responsibilities of service delivery and control in digital finance with a special emphasis on issues of fair lending, and disclosure. It can also be highlighted that compliance requirements are critical when seeking to sustain the trust of clients and investors in the online financial services field. Thus, when analyzing these factors, it is necessary to take into account the appearance of excessively restrictive elements that can hinder new product and service offers while ensuring adequate protection of consumer interests.

3. Digital Literacy

The growth of digital financing can only occur if a user has a general understanding of how these services function. It becomes important to carry out awareness programs to ensure users are

knowledgeable enough to make the right choices. Some of the common initiatives that have been taken by financial institutions and government agencies include involvement in digital literacy programs, workshops, and the provision of resources.

Digital literacy programs, which are generally targeted at the population, provide instructions on how to conduct banking operations, make payments using cashless means and utilize other forms of digital financial services and products properly and securely. They also reach and educate users on personal finance issues like budgeting, saving, investing, and other aspects of money management.

Case Studies in Digital Financing

To further understand the impact and applications of digital financing, let's explore a few real-world case studies:

1. M-Pesa in Kenya

In 2007, Safaricom introduced M-Pesa which is one of the most thriving mobile money services around the globe. Through their mobile phones, users can transfer, withdraw, deposit, and pay for goods and services. Millions of Kenyans have had access to financial services due to increased financial inclusion brought about by M-Pesa.

Simplicity and accessibility made M-Pesa successful. The service does not require users to have a bank account—just a mobile phone is enough. Small business owners, who are called M-PESA agents, make it possible for people to put in or take out cash. This agent network is found in remote areas where traditional banking infrastructure is unavailable.

2. Ant Financial in China

Alipay is run by Ant Financial, an affiliate of Alibaba Group, and is the world's largest online and mobile



payment platform with around 110 million European stores and over a billion active Alipay users. Alipay was originally a digital wallet for online shopping but quickly expanded into providing a range of financial services. The company now provides an array of services which includes mobile payments, wealth management, insurance, and microloans.

Alipay's success is driven by its seamless integration with Alibaba's e-commerce platform, its extensive merchant network, and its commitment to innovation. For example, Alipay's "Smile to Pay" service uses facial recognition technology to enable secure and convenient payments. Users simply smile at a camera to complete a transaction, eliminating the need for cash or cards.

3. TransferWise (now Wise) in the UK

TransferWise, now known as Wise, is a fintech company that is disrupting the traditional remittance industry by providing low-cost, transparent international money transfers. Founded in 2011, Wise offers a platform allowing users to send money abroad at mid-market exchange rates, and with very low transparent fees.

Wise's innovative approach to international money transfers involves matching currency transfers between users in different countries. For example, if someone in the UK wants to send money to the US, Wise matches this transfer with someone in the US who wants to send money to the UK. By avoiding the traditional banking network, Wise reduces costs and speeds up the transfer process.

Wise's transparency and customer-centric approach have earned it a loyal user-base. The platform provides real-time exchange rate information, detailed fee breakdowns, and estimated delivery time, allowing users to

make informed decisions. Wise's success demonstrates the potential of digital financing to disrupt traditional financial services and offer better value to consumers.

The Synergistic Relationship Between Digital Finance & Fintech

The world of finance has undergone a significant transformation in recent years, driven by the advent of digital technologies and the emergence of fintech. Digital finance and fintech are two interconnected concepts that have revolutionized the way financial services are delivered, consumed, and managed. Before we deep dive into the relationship between the two, let us first look into what is contained in Fintech.

What is Fintech?

Fintech, short for financial technology, refers to the intersection of finance and technology. It involves the use of software, algorithms, and digital platforms to deliver financial services and products. Fintech companies leverage technology to develop innovative solutions, improve existing financial products, and disrupt traditional financial business models.

Relationship Between Digital Finance and Fintech

- **Interdependence:** Digital Finance relies on fintech innovations to

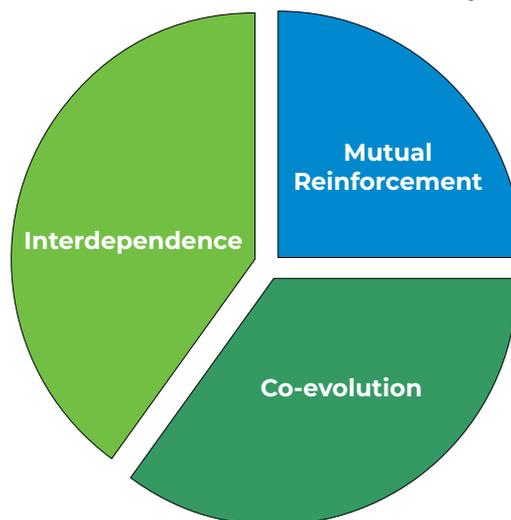
“ Digital finance and fintech are two interconnected concepts that have revolutionized the way financial services are delivered, consumed, and managed. ”

improve financial services, while fintech companies depend on digital finance infrastructure to deliver their solutions.

- **Mutual Reinforcement:** Advances in digital finance enable fintech companies to develop more sophisticated solutions, which in turn drive further innovation in digital finance.
- **Co-evolution:** Digital finance and fintech are evolving together, with each influencing the development of the other.

Vulnerabilities, Threats, and Risks in Digital Finance: Navigating the Cybersecurity Landscape

The rapid growth of digital finance has significantly evolved, expanding to encompass the consumption, delivery and management of financial services. While digital finance offers numerous benefits, including increased efficiency,



convenience and accessibility, it also introduces a unique set of vulnerabilities, threats, and risks.

Vulnerabilities in Digital Finance

- **Outdated software and systems:** Failure to update software and systems can leave them exposed to known vulnerabilities.
- **Poor password management:** Weak passwords or inadequate password policies can compromise account security.
- **Insecure data storage:** Sensitive data stored in plaintext or without proper encryption can be easily accessed by unauthorised parties.
- **Insufficient network securities:** Unsecured networks can allow attackers to intercept sensitive data or gain unauthorised access to systems.

Threats to Digital Finance

- **Phishing and Social Engineering:** Attacks that trick users into revealing sensitive information or performing certain actions.
- **Malware and Ransomware:** Malicious software that can compromise systems, steal data, or demand payment.
- **Denial of service (DoS) and Distributed Denial of Service (DDoS):** Attacks that overwhelm systems, making them unavailable to users.
- **Advanced Persistent Threats (APTs):** Sophisticated, targeted attacks that aim to steal sensitive data or disrupt operations.

Risks in Digital Finance

Some common risks include:

1. Financial loss
2. Data Breaches
3. Reputation damage
4. Regulatory non-compliance

5. System downtime

To navigate the cybersecurity landscape of digital finance, organizations must implement robust security measures to mitigate and manage vulnerabilities, threats and risks. Some strategies include:

1. Implementing robust security protocols like encryption, firewalls, and secure coding practices.
2. Conducting regular security audits and testing.
3. Providing employee training and awareness.
4. Implementing IRPs.
5. Updating regulatory requirements.

The Future of Digital Financing

The future of digital financing looks promising, with ongoing advancements in technology driving further innovation. Artificial intelligence (AI) and machine learning (ML) are set to enhance personalized financial services, while blockchain technology will continue to improve security and transparency.

1. Artificial Intelligence and Machine Learning

AI and ML are poised to revolutionize digital financing by enabling more personalized and efficient financial services. AI-powered chatbots and virtual assistants can provide personalized financial advice, answer customer queries, and assist with transactions. For example, Bank of America's Erica is an AI-driven virtual assistant that helps customers manage their finances, track spending, and find ways to save money.

ML algorithms can analyze vast amounts of data to identify patterns and make predictions. This capability is particularly useful in credit scoring, fraud detection, and investment

“Blockchain technology continues to evolve, offering new possibilities for digital financing. Beyond it is being used to develop decentralized finance (DeFi) applications that operate without intermediaries. DeFi platforms use smart contracts to automate financial transactions, such as lending, borrowing, and trading”

management. For instance, ML-based credit scoring models can assess creditworthiness more accurately by considering a wider range of data points, such as transaction history, social media activity, and online behavior.

In investment management, robo-advisors use AI and ML to create and manage personalized investment portfolios. These platforms consider factors such as risk tolerance, financial goals, and market conditions to optimize investment strategies. Robo-advisors offer a cost-effective and accessible alternative to traditional financial advisors, making investment services available to a broader audience.

2. Blockchain and Decentralized Finance (DeFi)

Blockchain technology continues to evolve, offering new possibilities for digital financing. Beyond it is being used to develop decentralized finance (DeFi) applications that operate without intermediaries. DeFi platforms use smart contracts to automate financial transactions, such as lending, borrowing, and trading, on a decentralized network.

DeFi has the potential to democratize access to financial services by removing barriers and reducing costs. For example, platforms like Compound and Aave allow users to lend and borrow cryptocurrencies without relying on traditional banks. These platforms offer attractive interest rates and greater transparency, as all transactions are recorded on a public blockchain.

Moreover, blockchain technology is being explored for various other applications, such as supply chain finance, identity verification, and cross-border payments.

3. Regulatory Technology (RegTech)

As the digital finance landscape evolves, regulatory technology (RegTech) is emerging as a key enabler of compliance and risk management. RegTech solutions use advanced technologies, such as AI, ML, and blockchain, to streamline regulatory processes, enhance data analysis, and ensure compliance with regulatory requirements.

For example, AI-powered Reg-Tech platforms can automate the monitoring and reporting of financial transactions to detect suspicious activities and ensure compliance with anti-money laundering (AML) and know-your-customer (KYC) regulations. Blockchain-based Reg-Tech solutions offer immutable and transparent records, making it easier to track and verify compliance-related data.

Reg-Tech not only reduces the burden of regulatory compliance but also enhances the overall security and integrity of digital financial services. As regulatory frameworks continue to evolve, Reg-Tech will play a critical role in helping financial institutions navigate the complexities of compliance and risk management.

“Reg-Tech not only reduces the burden of regulatory compliance but also enhances the overall security and integrity of digital financial services.”

Unlocking the Future: Scope of Professional Opportunities for CAs in Digital Finance

With the speedy and magnanimous evolution of digital finance, the role of CAs has expanded beyond traditional accounting and auditing. Digital finance has created a plethora of opportunities for CAs to leverage their skills, expertise, and knowledge to drive innovation, growth, and success. Digital finance encompasses a broad range of financial services, including online banking, mobile payments, digital wallets, and investment platforms. This new frontier requires professionals who can navigate the complex intersection of finance, technology, and regulation. Chartered Accountants with their unique blend of financial expertise, analytical skills, and business acumen, are well-positioned to capitalize on these opportunities.

Emerging roles of CAs in Digital Finance

- **Digital Financial Reporting Specialist:** CAs can leverage their expertise in financial reporting to develop and implement digital financial reporting solutions.
- **Financial Data Analyst:** CAs can analyse and interpret complex financial data to perform decision-making and drive growth.
- **Digital Audit and Assurance Specialist**
- **Fintech Consultant:** CAs can advise Fintech companies on financial regulations compliance and risk management.

- **Blockchain and Virtual Asset Specialist**
- **Regulatory Compliance Specialist**

The scope of opportunities for Chartered Accountants in digital financing is vast and exciting. As digital finance continues to evolve, CAs can leverage their skills, expertise, and knowledge to drive innovation and growth. By developing key skills, exploring emerging roles, and navigating career pathways, CAs can unlock the future of digital finance and achieve their full potential. The time for Chartered Accountants to embrace digital finance is now, the future of finance depends on it.

Conclusion

Digital financing has undoubtedly transformed the financial landscape, offering numerous benefits such as convenience, cost efficiency, enhanced security, speed, and financial inclusion. However, it also presents challenges, including cybersecurity threats, regulatory compliance, and the need for digital literacy.

As technology continues to advance, the future of digital financing looks promising. Artificial intelligence, machine learning, blockchain, and Reg-Tech are set to drive further innovation, making financial services more personalized, secure, and accessible. By addressing the challenges and leveraging the opportunities, digital financing will continue to shape the global financial landscape, empowering individuals and businesses to manage their finances more effectively.

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Effective Time Management for Chartered Accountants Working in Industry for a Better Work-Life Harmony

Time management is a fundamental skill for Chartered Accountants (CAs) working in industry. Their roles often involve long hours, tight deadlines, and complex tasks that can lead to stress and burnout. Effective time management not only enhances professional productivity but also fosters a harmonious work-life integration. This article discusses various strategies for optimizing time, including prioritization, delegation,

and the use of technology. Additionally, it highlights the importance of personal well-being and mental health in achieving work-life harmony. By adopting these strategies to manage time effectively, CAs can not only elevate their professional performance but also cultivate a fulfilling, balanced life.

The role of a Chartered Accountant (CA) in industry is both demanding and rewarding. As guardians of financial integrity, their responsibilities include managing audits, regulatory compliance, financial planning, and strategic decision-making. Given the pressures of monthly closings, tax filings, and stakeholder demands, many CAs in industry struggle with work-life balance. The rise of remote working, however, presents an opportunity to rethink how time can be managed effectively, ensuring that career ambitions align with personal well-being.

In this article, we explore the importance of time management for CAs working in industry and provide actionable tips for balancing work and life. We will examine the challenges CAs face, the impact of poor time management, and practical techniques to enhance efficiency while maintaining personal well-being.

The Importance of Time Management for Chartered Accountants

Time management for CAs in industry is not merely about organizing work

tasks; it is about maximizing efficiency, reducing stress, and ensuring long-term career sustainability. As the financial backbone of organizations, CAs are entrusted with complex responsibilities, often under tight deadlines. The failure to manage time effectively can result in:

Consequences of Poor Time Management

- **Compromised professional reputation:** Missing deadlines or delivering substandard work can erode trust and damage career prospects.
- **Missed deadlines and costly errors:** Timeliness and accuracy are crucial. Errors or delays can lead to financial penalties, audits, and reputational damage.
- **Increased stress and burnout:** Inefficiency often results in longer working hours, which negatively impact mental health.
- **Poor work-life balance:** Without clear boundaries, personal relationships and health deteriorate, leading to long-term dissatisfaction.

Benefits of Effective Time Management

- **Enhanced productivity:** Streamlined processes allow CAs to focus on high-value tasks.
- **Better career progression:** Efficient time management demonstrates leadership potential and reliability.
- **Improved health and relationships:** With better planning, CAs can devote quality time to family and personal goals.
- **Organizational benefits:** Effective time management by CAs positively impacts the entire organization, ensuring compliance, reducing financial risks, and fostering a culture of accountability.

By embracing effective time management, CAs can experience improved productivity, job satisfaction, and better health—ultimately leading to a more balanced and fulfilling life.

Understanding Work-Life Harmony

Work-life harmony is often misunderstood as simply achieving

an equal balance between work and personal life. However, true work-life harmony for CAs is about creating a dynamic integration where professional responsibilities align seamlessly with personal well-being. Achieving harmony involves:

Elements of Work-Life Harmony:

- **Flexibility in task allocation:** Ensuring critical work hours are protected while accommodating personal responsibilities.
- **Self-awareness:** Understanding personal limits and recognizing signs of overwork to maintain health.
- **Adaptability:** Embracing changes in priorities as they arise without compromising core values.
- **Continuous alignment:** Periodic reflection on whether current practices align with both professional goals and personal values helps maintain long-term harmony.

This requires a mindset shift from viewing work and life as competing domains to recognizing them as interconnected elements of a fulfilling existence. Harmony is achieved by proactively adjusting priorities to meet the needs of both areas.

Unlike traditional “work-life balance,” which seeks equal partitioning of time between work and life, work-life harmony is about finding a rhythm that supports both domains effectively.

Challenges Chartered Accountants Face in Time Management

Chartered Accountants face unique challenges in their time management practices, stemming from the nature of their roles and the demands of working in industry.

- **High Workload and Tight Deadlines:** Many CAs work under immense pressure, particularly during month-end closings, quarterly financial reporting, and

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tax filing periods. During these high-pressure times, it's common for CAs to work extended hours, which can disrupt their personal life. For example, during tax season, a CA may have to prepare several tax returns while ensuring compliance with the latest regulatory changes. The workload increases significantly, leading to stressful and long hours.

- **Expanding Scope of Responsibilities:** As businesses grow more complex, CAs are increasingly called upon to play strategic roles beyond traditional accounting. They may contribute to mergers, acquisitions, and strategic financial planning, adding layers of complexity to their workload.
- **Frequent Interruptions and Multitasking:** CAs often face constant interruptions in the workplace, whether from colleagues seeking approval, meetings that run overtime, or urgent requests from management. Multitasking—while seemingly efficient—can be counterproductive as it divides focus and leads to mistakes. For instance, while preparing a financial statement, answering emails or attending a conference call can divert attention, resulting in errors that could have been avoided with undistracted focus.
- **Complexity of Roles and Responsibilities:** A CA working in

industry is responsible for a range of tasks, from managing internal audits and regulatory filings to making strategic financial decisions. Juggling these various tasks can be overwhelming, especially when conflicting priorities arise.

- **Technological Overload:** While technology helps streamline financial processes, it can also become a source of distraction. Constant emails, instant messages, and social media notifications can fragment a CA's focus, reducing productivity. In addition, reliance on multiple systems can lead to time spent navigating different platforms, which can be inefficient if not managed properly.
- **Global Collaboration Challenges:** In multinational organizations, CAs often collaborate with teams across different time zones. Coordinating schedules for meetings or project deadlines can disrupt personal time and lead to irregular work hours.

Effective Time Management Strategies for Chartered Accountants

Adopting the right time management strategies is key to overcoming these challenges. Here are several proven techniques to improve time management for CAs in industry:

1. Prioritization and Planning

Effective time management begins with prioritization. Not all tasks are created equal, and knowing how to prioritize is crucial.

- **Daily Planning:** Start each day by listing the three most important tasks to complete. This creates a sense of focus and ensures that critical items get addressed first.
- **Weekly Reviews:** Conducting a weekly review to assess ongoing projects and deadlines can help CAs anticipate and allocate time for critical tasks.
- **Dynamic priority systems:** Employ software that adjusts task



priorities based on deadlines and dependencies in real-time.

- **The Eisenhower Matrix:** A powerful tool for prioritization, this method divides tasks into four categories:
 - **Urgent and Important:** Tasks that need to be done immediately.
 - **Important, Not Urgent:** Tasks that should be scheduled for later.
 - **Urgent, Not Important:** Tasks that can be delegated.
 - **Not Urgent, Not Important:** Tasks that can be eliminated.

2. Delegation and Empowering Teams

CAs should recognize that they don't need to do everything themselves. Delegating tasks, such as routine audits or data entry, to junior staff or outsourced partners allows them to focus on high-value activities.

- **Delegation Training:** Investing in training for team members to handle routine tasks efficiently can free up significant time for senior CAs.
- **Train for Excellence:** Invest in team training to build trust in their ability to handle delegated responsibilities.

- **Performance feedback loops:** Regular reviews of delegated work with constructive feedback improve team efficiency and maintain quality standards.
- **Creating Accountability:** Establishing clear accountability frameworks ensures that delegated tasks are completed accurately and on time.

3. Setting Boundaries and Managing Expectations

Setting clear boundaries between work and personal life is essential.

- **Work Hours:** Communicate clear working hours to colleagues, and resist the temptation to work outside of these hours unless absolutely necessary.
- **Saying No:** Learning to say “no” or negotiating deadlines can also be a valuable skill. When overwhelmed with tasks, it is better to acknowledge capacity limits than risk sacrificing quality or health.
- **Establish Clear Availability:** Use tools like calendar blocks to communicate work hours.
- **Boundary reinforcements:** Periodically re-communicating boundaries ensures they are respected by colleagues and clients.

“CAs should recognize that they don't need to do everything themselves. Delegating tasks, such as routine audits or data entry, to junior staff or outsourced partners allows them to focus on high-value activities.”

4. Leveraging Technology and Automation

Technology should be used to save time, not create distractions.

- **Task Management Tools:** Applications like Asana, Trello, or Monday.com can help organize tasks, assign responsibilities, and set deadlines.
- **Automation:** Automating repetitive tasks such as data entry, report generation, and notifications can save significant time. Software like Excel macros or Enterprise Resource Planning (ERP) systems can automate these tasks efficiently.
- **Adopt AI-Powered Tools:** Utilize AI for financial forecasting, error detection, and automating repetitive tasks.
- **Streamline Communication:** Consolidate platforms for email, messaging, and task management to reduce complexity.
- **Data Visualization Tools:** Software like Power BI or Tableau can streamline reporting, allowing quicker insights and decision-making.

5. Time Blocking

Time blocking is a strategy where specific hours of the day are allocated to particular tasks or activities.

- **Focus Blocks:** Designate uninterrupted time to focus solely on high-priority tasks.
- **Meeting Blocks:** Group meetings together in specific blocks during

the day to minimize disruption to focused work.

- **Focus-enhancing environments:** Invest in tools like noise-canceling headphones or quiet workspaces to maximize the benefits of time blocking.

6. Managing Meetings Effectively

Meetings are often the biggest time sink. CAs should manage meetings efficiently by:

- Setting clear agendas for every meeting.
- Keeping meetings brief and to the point.
- Limiting attendance to key participants to ensure that time is spent productively.

7. Minimizing Distractions

Distractions, both internal and external, can derail productivity.

- **Use “Do Not Disturb” Modes:** On emails and messaging apps, activating “Do Not Disturb” modes can help maintain focus.
- **Workspace Organization:** A clutter-free workspace encourages concentration. It is essential to create an environment conducive to productivity.

8. Developing Contingency Plans

Unforeseen challenges are inevitable. Creating contingency plans for common disruptions, such as system failures or unexpected audits, can reduce downtime and maintain efficiency.

Promoting Work-Life Harmony

1. Flexible Work Arrangements

Promoting flexible work options, such as remote work or flexible hours, is essential for enhancing work-life harmony. This flexibility can reduce commuting time, improve focus, and allow CAs to manage family responsibilities more effectively.

- **Hybrid models:** Tailoring work schedules that balance on-site collaboration with remote

efficiency ensures flexibility without sacrificing team dynamics.

2. Personal Development and Well-Being

Investing in personal health and development is vital for long-term career success.

- **Physical Fitness:** Regular exercise improves concentration, reduces stress, and enhances overall well-being.
- **Mental Health:** Practicing mindfulness, meditation, or seeking professional therapy when needed can help manage work-related stress.
- **Holistic wellness programs:** Organizations can introduce initiatives like yoga, meditation, or fitness challenges tailored for accounting professionals.
- **Professional Therapy:** Address stress proactively through counseling or coaching.
- **Continuous Learning:** Enrolling in courses or attending seminars helps CAs stay current in their field, fostering confidence and career growth.

3. Building Supportive Networks

Creating a robust network of colleagues, mentors, and family members is crucial for balancing career pressures.

- **Mentorship:** Having a mentor to guide through complex career decisions can ease the burden of uncertainty.
- **Supportive Family:** Having open communication with family members about work demands can lead to better understanding and fewer personal conflicts.
- **Peer forums:** Joining industry groups or CA associations fosters professional growth and provides a platform for shared challenges.

Measuring Success in Work-Life Harmony

Success in work-life harmony can be assessed by evaluating:

- **Professional Metrics:** These include the ability to meet deadlines, accuracy in financial reporting, and the quality of work.
- **Personal Metrics:** Indicators like physical health, relationship satisfaction, and mental well-being are essential to gauge work-life harmony.
- **Holistic KPIs:** Develop key performance indicators (KPIs) that measure not just deadlines and deliverables but also employee well-being, turnover rates, and feedback scores.

Conclusion

Effective time management is indispensable for chartered accountants striving to excel professionally while maintaining a fulfilling personal life. By adopting proven strategies, leveraging technology, and fostering a culture of efficiency, CAs can achieve work-life harmony. This approach not only enhances individual well-being but also contributes to organizational success, making time management a cornerstone of sustainable professional excellence.

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Q Can a Chartered Accountant in practice pay to any person any share, commission or brokerage in the fees or profits of his professional business?

No, Clause (2) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice from paying or allowing any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of the deceased partner or a member of any other professional body or with such other persons having such qualifications as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Q Can a Chartered Accountant in practice share his fees with the Government in respect of Government Audit?

The Institute came across certain Circulars/Orders issued by the Registrar of various State Co-operative Societies wherein it has been mentioned that certain amount of audit fee is payable to the concerned State Govt. and the Auditor has to deposit a percentage of his audit fee in the State Treasury by a prescribed challan within a prescribed time of the receipt of Audit fee.

In view of the above, the Council considered the issue and while noting that the Government is asking auditors to deposit such percentage of their audit fee for recovering the administrative and other expenses incurred in the process, the Council decided that as such there is no bar in the Code of Ethics to accept such assignment wherein a percentage of professional fees is deducted by the Government to meet the administrative and other expenditure.

Q Is it permissible for an Auditor to sign the Audit Report of any assessee if there is any audit fee pending for previous years on the date of signing audit report?

As per paragraph 410.7 A1 of the Volume-I of Code of Ethics, a self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

As per paragraph 410.7 A2 of the Volume-I of Code of Ethics, examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

As per paragraph R410.8 of the Volume-I of Code of Ethics, when a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

There is, however, no bar in signing the financial statements in these circumstances.

Q Whether member in practice is permitted to respond to announcement for empanelment for allotment of audit and other professional work and quote fees on enquiries being received?

It has been clarified by the Council under proviso (ii) to clause (6) of the Part-I of the first schedule to the Chartered Accountants Act, 1949 that if announcements are made for empanelment by the Government, Corporations, Courts, Cooperative Societies, Banks and other similar institutions, the members may respond to such announcements provided the existence of panel is within their knowledge. The Council has further clarified that the quotations of fees can be sent, if enquiries are received by the members in this regard. Attention is also invited to Council Guidelines dated 7th April 2016, which are appearing at Appendix "J" of Volume-II of Code of Ethics.

Q Whether a Chartered Accountant or a Firm of Chartered Accountants can charge or offer to charge professional fees based on a percentage of turnovers?

No, in terms of Clause (10) of Part-I of First Schedule to the Chartered Accountants Act, 1949, it is not permitted to a Chartered Accountant or a firm of Chartered Accountant to charge fees on a percentage of turnover, except in the circumstances provided under Regulation 192 of the CA Regulations, 1988.

“192. Restriction on fees

No Chartered Accountant in practice shall charge or offer to charge, accept or offer to accept, in respect of any professional work, fees which are based on a percentage of profits, or which are contingent upon the findings, or results of such work:

Provided that:

- (a) in the case of a receiver or a liquidator, the fees may be based on a percentage of the realization or disbursement of the assets;
- (b) in the case of an auditor or a co-operative society, the fees may be based on a percentage of the paid up capital or the working capital or the gross or net income or profits; and
- (c) in the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of the property valued.
- (d) in the case of certain management consultancy services as may be decided by the resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;
- (e) in the case of certain fund raising services, the fees may be based on a percentage of the fund raised;
- (f) in the case of debt recovery services, the fees may be based on a percentage of the debt recovered;
- (g) in the case of services related to cost optimisation, the fees may be based on a percentage of the benefit derived; and
- (h) any other service or audit as may be decided by the Council.

Q Whether a member in practice can become Financial Advisor and receive fees/commission from Financial Institutions such as Mutual Funds, Insurance Companies, NBFCs?

No, it is not permissible for a member in practice to become Financial Advisor and receive fees/commission from Financial Institutions.

Q Can a member 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 in practice will be held liable for failing to keep moneys of his client in a separate banking account or to use such moneys for purposes other than they are intended for?

Yes, as per Clause (10) 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 keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or uses such moneys for purposes other than they are intended for.

Q Can a Chartered Accountant receive his professional fees in advance, partly or in full?

Yes, as such, there is no bar in the Act or in the CA Regulations, as well as Code of Ethics, in taking the fees in advance.

Q Whether a Professional Accountant in Public Practice may pay or receive a referral fees or commission?

As per Paragraph 2.14.1.3(ii) under Clause (3) of Part-I of First schedule to the Chartered Accountants Act, 1949, appearing in Volume-II of Code of Ethics, it is not prohibited for a member in practice to charge Referral Fees, being the fees obtained by a member in practice from another member in practice in relation to referring a client to him.

The above should be read with the applicable provisions mentioned in Paragraph 330.5 A1 and A2 of Volume-I of Code of Ethics, which provide that a self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a professional accountant pays or receives a referral fee relating to a client.

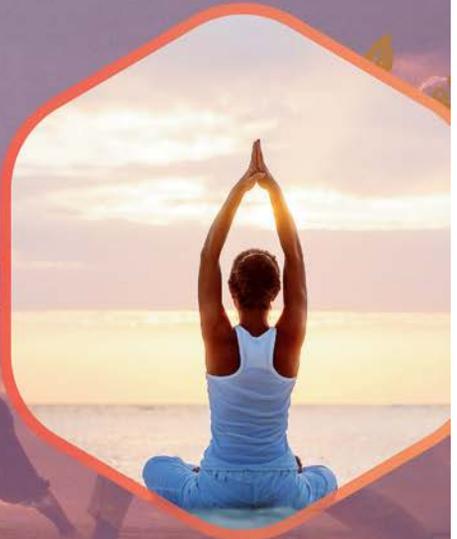
Examples of actions that might be safeguards to address such a self-interest threat include disclosing to clients any referral fees paid to, or received from, another professional accountant for recommending services might address a self-interest threat.



The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

COMMITTEE ON PROMOTING WORK LIFE BALANCE, ICAI



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Recognition of liability towards planned expenditure committed for Stage-II Forest Clearance and Environmental Management Plan under Environmental Clearance of Bauxite Mine received from MoEF&CC, under Ind AS framework.

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is a public sector enterprise under the administrative control of Ministry of Mines, Government of India (GoI) and is engaged in mining of bauxite, manufacturing of alumina and aluminium, generation of power at captive power plant for use in smelter, and selling of alumina and aluminium both in domestic and international markets. Besides, the Company is also engaged in generation of wind power with setting up of wind power plants at distinct locations in the Country. The Company has the following production units:

- (i) Fully mechanised Open Cast Bauxite Mine having excavation capacity of 75 lakh tonnes per annum (p.a.) for production of bauxite
- (ii) Alumina Refinery having production capacity of 22.75 lakh tonnes p.a.
- (iii) Captive Power Plant having power generation capacity of 1200 MW
- (iv) Aluminium Smelter Plant of 4.60 lakh tonnes capacity p.a.
- (v) Coal Mines for supply of coal to Captive Power Plant

In addition, there are 4 Wind Power Plants of 198 MW located in various states.

2. Mines Division, which is located uphill, serves feed-stock to the Alumina Refinery located 16 Km downhill. Apart from domestic and export sale of alumina, Refinery provides alumina through specially designed rail wagons to Smelter Plant which is about 600 Km away. For production of 1 Metric Tonne (MT) of aluminium at Smelter, about 14,000 Kilowatt-hour (KWH) of power is required, which is met by Captive Power Plant situated at 4 Km away from the Smelter Plant. Calcined alumina and thermal power are two important inputs for producing aluminium. The production process starting from Bauxite Mines to Alumina Refinery to Aluminium Smelter and Captive Power Plant is fully integrated. Sale of alumina and aluminium is the main source of revenue for the Company. Its product profile includes hydrate, calcined alumina, ingots, billets, wire rod and rolled products.

3. The querist has informed that the Company has been allotted a new bauxite mine to securitise bauxite for its Alumina Refinery. The Company has obtained statutory clearances e.g. Stage-I and Stage-II forest clearance from Forest Conservation Division of the Ministry of Environment, Forest and Climate Change (MoEF&CC) for operation of new bauxite mine. Environmental Clearance (EC) has also been obtained from the Impact Assessment Division of MoEF&CC with certain conditions to monitor and control the impact of pollution around the mining area. These statutory clearances are mandatory before entering into mining lease agreements.

Sequence of various statutory clearances of opening of mine is as under:

- (i) Forest Clearance -Stage-I
- (ii) Forest Clearance - Stage-II
- (iii) Environmental Clearance
- (iv) Mining Lease Agreement
- (v) Consent to opening of mines
- (vi) Operationalisation of mines

4. *Accounting followed by the Company for planned expenditure committed while obtaining forest clearance of Bauxite Mine:*

The MoEF&CC granted Stage-1 forest clearance on 10.01.23 for non-forestry use of forest land of 697.979 hectare (ha) under the Forest (Conservation) Act, 1980. The clearance by MoEF&CC was subject to fulfilment of certain conditions prior to handing over of forest land to the Company. These conditions are to be complied with prior to grant of Stage-II clearance and approval by the MoEF&CC.

The Company has complied with the conditions like compensatory afforestation, net present value of the forest land being diverted for non-forestry use, gap planting and soil & moisture conservation etc. and deposited the specified amounts (₹ 262.12 crores) as demanded by Forest Department in the respective heads for carrying out those activities. The amount so deposited was recognised by the Company as 'Intangible Assets under development' as per its accounting policy.

5. There are some other conditions to undertake various activities of revenue nature in the mining lease area. Details of such conditions are as follows:

Sl No.	Condition No.	Details of conditions	Amount estimated by the Authority (₹ Cr)
1	4(i)	Mitigative measures to minimise soil erosion and choking of streams	0.32
2	4(ii)	Planting of drought hardy species and sowing seeds	0.80
3	4(iii)	Construction of check dams, retention/toe walls to arrest sliding down of the excavated materials	0.96

Sl No.	Condition No.	Details of conditions	Amount estimated by the Authority (₹ Cr)
4	4(iv)	Stabilise the overburden dumps by appropriate grading and benching	3.37
5	4(v)	Top soil management plan	1.26
6	6	Desilting of village tanks and water bodies	0.06
7	7(iii)	Development of green belt and dense canopy in safety zone area	3.12
		Total	9.89

The Company has provided an undertaking to carry out those activities of revenue nature in due course of operation of mine. Based on such compliances, the Company obtained Stage-II forest clearances of the Bauxite Mines on 26.07.23 for non-forestry use of the land. Since the execution of mining lease agreement and mine opening permission was not obtained, the Company has not recognised these commitments as liability towards such expenditure on reporting date. The Company is of the view that *obligating event for recognising such liability and corresponding asset is the execution of mining lease which was not completed till the approval of financial statements of the Company for financial year (F.Y.) 2023-24* and accordingly, liability has not been recognised for such commitment of ₹ 9.89 crores on 31-03-24. (Emphasis supplied by the querist.)

6. *Accounting followed by the Company for Committed Expenditure on Environmental Management Plan (EMP) for Operation of Bauxite Mine:*

The MoEF&CC has granted Environment Clearance (EC) on 30.06.23 for operation of bauxite mine under the provision of Environment Impact Assessment (EIA) notification 2006.

The said EC has been granted subject to compliance of some specific conditions mentioned at 'Clause xvii of EC: Details of EMP'

The proposed plan for procuring equipment and execution of related works for efficient control and monitoring of pollution under EMP are:

SI No.	Activities	Details	Amount in ₹/Cr
1	Air Pollution Control	Water Sprayer - Stationary and Mobile	10
2	Water Pollution Control	Sewerage Treatment Plant, Garland Drains, Retaining Wall, Check Dams, Storm Water Drains, Rain Water Harvesting	30
3	Noise Pollution Control	Acoustics Enclosure, etc.	5
4	Pollution Monitoring	Laboratory Testing Equipment, High Volume Air Sampler, Respirable Dust Sampler, Micrometeorological Station, etc.	20
5	Safety & Health	Fire Fighting Equipment (Portable and Fixed), Personal Protective Equipment, etc.	15
6	Greenbelt	Afforestation and Reclamation, lawns	30
7	Miscellaneous Items	Street Lighting etc.	10
	Total		120

Clause xix of EC states that “The Project Proponent should adopt the proper mitigation measures as proposed under Environmental Management Plan (EMP) with budgetary provision of ₹120.0 Cr. The adoption of mitigation measures and monitoring of the same as proposed in the EMP shall be done under the supervision of the qualified environmental personnel. The implementation status of the same shall be submitted to the Ministry’s Integrated Regional Office.”

All the above-mentioned equipments/works are to be procured and installed / executed (with budgetary provision of ₹ 120 crores) during the operation of mine around the project areas to control and monitor the pollution as per the condition of EC. The Company is also required to incur recurring expenditure of around ₹ 12 crores every year for maintenance of these equipments for efficient control and monitoring of pollution.

The Company has not recognised any liability towards commitment for such planned capital expenditure of ₹ 120 crores in the books as on 31-03-24 as obligation for carrying out such activities has not occurred on the reporting date. It may be noted that such activities can only be implemented after due commencement of operation of mine. Hence, the Company shall recognise corresponding assets and liabilities on implementation of EMP as and when procurement of equipment/execution of works starts during the operation of mine.

The Company is of the view that obligating event for recognising such liability and corresponding asset is the implementation of EMP upon procurement of equipment/execution of works.

Auditor’s observation:

7. During supplementary audit of accounts for the financial year (F.Y.) 2023-24 by the office of the Comptroller and Auditor General of India, audit had issued the following observations for not recognising the liabilities and its corresponding assets on the reporting date:

(i) *Accounting of Expenditure on Statutory Clearance (required for Stage II forest clearance)*

The undertaking given by the Company to MoEF&CC to undertake certain activities which were preconditions for obtaining Stage-II clearance of the mining area constitutes a present obligation resulting from a past event (the Stage-I and Stage-II forest clearances) as per Indian Accounting Standard (Ind AS) 37, ‘Provisions, Contingent Liabilities and Contingent Assets’. It is also probable that an outflow of resources will be required to settle this obligation, and a reliable estimate of ₹ 9.89 crores is available. Non-provision of the same has resulted in understatement of other current liabilities as well as capital work-in-progress (CWIP) by ₹ 9.89 crores.

(ii) *Accounting of Expenditure on Environmental Management Plan (required for Environment Clearance)*

The requirement to adopt mitigation measures as proposed under Environmental Management Plan with a budgetary provision of ₹ 120 crores constitutes a present obligation resulting from the Environmental Clearance granted by the MoEF&CC as the Company

has to incur expenditure of ₹ 120 crores on procuring the equipment for efficient control and monitoring of pollution. It is probable that an outflow of resources (₹ 120 crores) will be required to settle this obligation. Hence, a suitable liability is required to be recorded in the accounts on the reporting date. Non-provision of the same has resulted in understatement of other current liabilities as well as CWIP by ₹ 120 crores.

8. Views of the Management:

(i) *Accounting of Expenditure on Statutory Clearance (required for Stage II forest clearance)*

Though the Company has provided an undertaking to carry out the specified activities for ₹ 9.89 crores for obtaining Stage-II forest clearances of the mine, the obligating event for recognising such liabilities and its corresponding asset is the execution of mining lease with the local authority for use of the land for mining operation. Accordingly, liabilities towards such activities will be recognised on execution of mining lease which was not executed on the reporting date.

(ii) *Accounting of Expenditure on Environmental Management Plan (required for Environment Clearance)*

Implementation of EMP as per the environmental clearance received from MoEF&CC will start after commencement of mining operation. For implementation of EMP, the Company has to procure and install various equipments and undertake certain works as mentioned in EC for efficient control and monitoring of pollution caused due to excavation of bauxite from the mine. All such expenditures shall be capitalised under the respective Tangible Assets under PPE depending upon their nature. Therefore, obligating event in the extant case is the procurement of pollution control equipment and execution of various works under implementation of EMP which is yet to be started. Accordingly, such commitment given by the Company while obtaining EC is in the nature of capital commitment (that will result into tangible assets in future i.e. upon operationalisation of mine) which requires disclosure till its execution. Hence, the Company has not recognised any liability towards such expenditure in the books of account on the reporting date.

(Emphasis supplied by the querist.)

B. Query

9. On the basis of above, the querist has sought the opinion of the Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India (ICAI) in respect of the following:

- (i) Whether the approach followed by the Company to recognise liabilities and corresponding assets arising out of the undertaking given to MoEF&CC for specified activities while obtaining Stage-II forest clearances of the mine is correct and in line with applicable Ind AS.
 - a. If answer to the above is affirmative, the Company would practice the same for all mines in future.
 - b. Else, what will be the timing of recognising such commitment in the books?
- (ii) Whether the practice followed by the Company of recognising the liability on procurement of pollution control equipment or on execution of works approved under Environmental Management Plan is in line with the applicable Ind AS.
 - a. If answer to the above is affirmative, the Company would practice the same for all mines in future.
 - b. Else, what will be timing of recognising such commitment in the books of account?
 - c. Will it be appropriate to recognise liability for such commitment on the date of receipt of EC with corresponding asset without any physical possession/progress of the work?

C. Points considered by the Committee

10. The Committee notes that the basic issue raised by the querist relates to timing of recognition of provision/liability towards planned expenditure committed for obtaining Stage-II Forest Clearance and towards Environmental Management Plan for obtaining Environmental Clearance (EC) of Bauxite Mines allotted by the MoEF&CC, under Ind AS framework. 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 for specified amounts deposited with Forest Department for Stage I forest clearance and its recognition as 'Intangible Assets under development', measurement of provision (if any), accounting for recurring expenditure of around ₹ 12 crores required to be incurred every year for maintenance of the equipment for efficient control and monitoring of pollution, revenue recognition for domestic and export sale of alumina, accounting for captive

consumption of alumina and thermal power, accounting for expenses to be undertaken during the operationalisation of mine, classification of asset under which EMP and other expenses are to be capitalised, disclosure requirements under Schedule III to the Companies Act 2013, etc. Further, the Committee has expressed its opinion purely from the accounting perspective and not from the perspective of legal interpretation of mining lease agreements, the Forest (Conservation) Act, 1980, EIA notification 2006, various orders/communications from State forest headquarters/MoEF&CC, 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.

11. At the outset, the Committee notes from the facts supplied that the Company has already made a deposit of Rs. 262.12 crores prior to handing over the forest land as part of Stage I forest clearance and has made certain commitments for fulfilment of certain other conditions for obtaining Stage II clearance, which as per the querist require certain activities to be undertaken in the mining lease area and the financial impact of these activities is estimated to be of Rs. 9.89 crores. Similarly, the Company has obtained EC from the MoEF&CC for operation of bauxite mines subject to certain conditions to be complied by the Company requiring procurement/installation of certain equipments and execution of certain works during operations of mines, financial impact of which is estimated to be of Rs. 120 crores. The issue that has been raised is whether a provision is required to be recognised for these conditions to be fulfilled, viz., activities/works to be undertaken or equipments to be procured/installed for which the Company has already given an undertaking or commitment to the MoEF&CC as part of obtaining clearances. The Committee also notes from the orders/communications of these clearances that if these conditions are not fulfilled, it will result in withdrawal of these clearances; and will amount to violation of Forest (Conservation) Act and Environment (Protection) Act and attract actions thereunder. In the above context, the Committee wishes to point out that the Committee while expressing its opinion has laid down the general principles to be followed while recognising the provision/liability for these conditions and has not examined the creation of provision in respect of expenditure to be incurred for each of the individual conditions to be fulfilled or activities to be undertaken in this regard or any other conditions that may be made subject to while granting the permissions/clearances for bauxite mining. The general principles laid down in this opinion may have to be considered separately for each of these conditions. Further, the Committee also wishes to mention that the Committee's opinion is based on the specific facts provided to it considering the specific terms contained in the various orders/communications from State forest headquarters/MoEF&CC and thus should not be generalised to other facts and situations (other mines).

12. With regard to the issue raised, the Committee notes the following requirements of Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets', notified under the Companies (Indian Accounting Standards) Rules, 2015 and Accompanying Guidance for International Accounting Standard (IAS) 37 (corresponding to Ind AS 37), issued by the International Accounting Standards Board (IASB):

Ind AS 37

"A provision is a liability of uncertain timing or amount.

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A legal obligation is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);**
- (b) legislation; or**
- (c) other operation of law."**

"14 A provision shall be recognised when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;**
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and**
- (c) a reliable estimate can be made of the amount of the obligation.**

If these conditions are not met, no provision shall be recognised.

Present obligation

15 In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period."

"Past event

17 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

- (a) where the settlement of the obligation can be enforced by law; or**

- (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.
- 18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity's balance sheet are those that exist at the end of the reporting period.
- 19 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised."
- "23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86)."

Accompanying Guidance for IAS 37

"Example 2B Contaminated land and constructive obligation

An entity in the oil industry causes contamination and operates in a country where there is no environmental legislation. However, the entity has a widely published

environmental policy in which it undertakes to clean up all contamination that it causes. The entity has a record of honouring this published policy.

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land, which gives rise to a constructive obligation because the conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up contamination.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the costs of cleanup (see paragraphs 10 (the definition of a constructive obligation), 14 and 17)."

The Committee notes from the above that in the extant case, the obligation towards fulfilling conditions for getting forest and environment clearance emanates from the relevant orders of the forest department/MoEF&CC under the relevant Forest (Conservation) Act and Environment (Protection) Act and therefore, the obligation can be considered as a legal obligation. The next question to consider is whether that obligation satisfies the criteria for recognising a provision. In this regard, the Committee notes that paragraph 14 of Ind AS 37 requires an entity to recognise a provision only when all of the following three conditions are met:

- (i) the entity has a present obligation (legal or constructive) as a result of a past event;
- (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.

One of the essential criteria for recognising a provision is that the entity has a present obligation as a result of a past event. The Committee notes that the enactment of a law is not sufficient to give rise to an entity's present legal obligation; an entity has a present obligation only when the event to which the law applies has occurred. For example, as illustrated in Illustrative Example 2B of IAS 37, an entity with a widely published environmental policy of cleaning up land it contaminates incurs a present obligation only when it contaminates land—publishing the policy is necessary but not sufficient to give the entity a present obligation.

The Committee further notes that while explaining the requirement for a present obligation, paragraph 18 of Ind AS 37 inter alia states that "no provision is recognised for costs that need to be incurred to operate in the future" and paragraph 19 of Ind AS 37 inter alia states that "it is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions".

13. Applying these paragraphs in the extant case, the Committee is of the view that:

- (a) an obligation is not a present obligation as a result of a past event when the entity makes commitments prior to or as part of obtaining clearances. Making a commitment is not the event that creates a present obligation. The events that create a present obligation are the events to which these commitments apply and those events have not occurred at the time the Company makes its commitments. The costs that the Company will incur to fulfil these commitments in subsequent years are costs that it will need to incur to operate in the future—the obligations for those costs do not exist independently of the Company's future actions.
- (b) the Company will, at some future date, have a liability to pay for resources it buys to carry out those future operations—for example, to pay for new plant or equipment—but only when it receives those resources in an exchange transaction.
- (c) only when the Company has undertaken the activities, such as, contaminating soil or forest land or disturbing wild life or flora and fauna or causing air or water pollution through entering the forest land and commencement of mining operations that the Company has committed to rectify/mitigate or prevent though fulfilling the specified conditions, it will have a present obligation to fulfil these conditions. The Company will have that present obligation only if and when it has undertaken these activities of entering the forest land and commencement of mining operations in subsequent years.

Thus, the Committee is of the view that the date or point when the Company will incur a present obligation is a matter of judgement, which the Company should exercise itself in

its specific facts and circumstances, and considering various factors, including, specific condition(s) which the Company has to fulfil and the mitigating/controlling measure(s) which the Company has to undertake, etc., as discussed above.

Further, with regard to other conditions of recognising provisions, the Committee notes that settling the aforesaid obligation will require an outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made in the extant case; and therefore, the Company should recognise a provision for such obligation as and when it incurs the present obligation, as discussed above.

D. Opinion

14. On the basis of above and subject to paragraphs 10 and 11 above, the Committee is of the following opinion on the issues raised in paragraph 9 above:

- (i) and (ii) The Company should not recognise a provision when it makes the commitment as part of the undertaking given by the Company to undertake certain activities which were pre-conditions for / prior to obtaining the clearances (Stage II forest and environment clearances). At that time, there is no present obligation as a result of a past event and therefore, apparently there is no requirement of recognising any corresponding asset. The date or point when the Company will incur a present obligation is a matter of judgement, which the Company should exercise itself in its specific facts and circumstances, and considering various factors, including, specific condition(s) which the Company has to fulfil and the mitigating/controlling measure(s) which the Company has to undertake, etc., as discussed in paragraph 13 above. The Company should recognise a provision only when it incurs/has the present obligation, as discussed above.

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 7 th January, 2025. 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: http://115.248.235.50/Index.aspx .
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 July - August 2025 for the reference of Faculty/Students & Members of the Institute.

1. Accountancy

Ind AS and the Indian Banking Sector: A Comprehensive Journey Through Transparency and Transformation by Chetan Saraogi. *Banking Finance, July 2025, pp. 38-43.*

2. Audit

Study of Mediating and Moderating Effects on the Relationship Between Audit Quality and Integrated Reporting Quality Among Jordanian Firms by Malik Abu Afifa, Isam Saleh, and Rahaf Abu Al-Nadi. *Asian Review of Accounting, Vol. 33, No. 2, 2025, pp. 223-249.*

3. Economics

Circular Migrant Workers and Housing in Indian Cities: A View from Ahmedabad by Renu Desai. *Vikalpa: The Journal for Decision Makers, April-June 2025, pp. 166-180.*

Digital Developmentalism and Street Vending: Redefining Obligations Between the State and the Informal Economy by Pariroo Rattan. *Economic & Political Weekly, July 19, 2025, pp. 66-72.*

The impact of customer concentration on the provision of reverse trade credit by Yuhan Li and Mengjie Zhang. *Asian Review of Accounting, Vol. 33, No. 2, 2025, pp. 291-319.*

Role of Banks in Tackling Climate Change by Ujjwal Kant. *Banking Finance, July 2025, pp. 23-25.*

4. Education

Disability and Personhood in Higher Education Institutions in India: A Sociological Study on Perceptions of Students with Disabilities by Chandri Raghava Reddy, B Kirthi Sri, N Neeraja, S Gopikarani, S Senbaga Priya, and U K Sanchana. *University News, August 04-10, 2025, Vol. 63, No. 31, pp. 9-17.*

5. Law

Impact of Interaction Between Religion and Legal Environment on Expense Misclassification and Real Activities: International Evidence by Eric Owusu Boahen and Emmanuel Constantine Mamatzakis. *Asian Review of Accounting, Vol. 33, No. 2, 2025, pp. 250-290.*

6. Management

Corporate Governance, Firm Risk and Firm Performance: The Moderating Role of Group Affiliation by Ratish Kumar Jha, Niva Kalita and Reshma Kumari Tiwari. *Asian Review of Accounting, Vol. 33, No. 2, 2025, pp. 320-340.*

Indian's Asset Management Landscape: The Path to Financial Empowerment by Ritesh Kumar Binani. *Banking Finance, July 2025, pp. 44-49.*

Understanding Choices and Decision-Making: Dependent Spouses in International Migration by Tasha Agarwal. *Vikalpa: The Journal for Decision Makers, April-June 2025, pp. 123-130.*

7. Taxation and Finance

Correlation Between Indirect Taxes and Contractual Clauses by Naresh Thacker. *BCAJ, August 2025.*

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

6119 Required Full/Part time CAs as Partners/Retainers, Semi-Qualified, Article Asstts. for Delhi-NCR, Jammu & Kashmir. Contact 9205136037; E-mail: kkg200317@gmail.com

6120 45 years old CA firm requires practising CAs only as a full time Partner purely on revenue sharing basis (No fixed remuneration) for Mumbai, Bhopal, Chennai, Hyderabad, Indore, Ahmedabad, Gandhinagar, Surat, Siliguri, Darjeeling, Guwahati, Agartala, Chandigarh, and Portblair. Write: bwaho2005@gmail.com

6121 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 bانبhattacal@gmail.com

6122 A 40-year-old firm having HO in Pune, invites proposals for merger from sole proprietorship or partnership firms. Mail with a brief profile to cafirmpune@gmail.com

6123 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



LEGAL Decisions



DIRECT TAXES INCOME TAX

LD/74/22 ITAT Bangalore: ITA No 644/Bang/2025 KIA Corporation C/o KIA India Pvt. Ltd. vs The Asst. Commissioner of Income Tax 30th June 2025

ITAT held that guarantee fees received by KIA Corporation from its Indian subsidiary to be not taxable in India by virtue of Article 22 of India-Korea DTAA; Corporate-guarantee was given to enable Indian company to obtain a loan from a bank; Revenue held the same to be taxable income under Section 5(2) and Section 9(1)(i); As per ITAT, Revenue did not bring any material on record to establish that the transaction constituted business profits or interest income and residual clause of Article 22 squarely applied to the assessee.

LD/74/23 Telangana High Court: I.T.T.A. Nos. 142 of 2008 M/s. Prasad Film Laboratories Pvt. Ltd. vs The Asst. Commissioner of Income Tax 24th June 2025

High Court (HC) set aside ITAT order noting that the payments made in the usual course of business by the Assessee to its parent company would not tantamount to 'Deemed Dividend'; Tribunal had remanded the matter back to the AO as it was of the opinion that the AO was required to compute accumulated profit on each date whenever the payment was made; HC placed reliance on Punjab and Haryana HC decision in Amrik Singh wherein it was held that the money transferred in the normal course of business, as a matter of fact of business expediency, would not amount to deemed dividend; CBDT Circular No. 19 of 2017 dated June 12, 2017 also referred to by the HC.

LD/74/24 Madras High Court: WP Nos. 22402 of 2025 TVS Credit Services Limited vs The Dy. Commissioner of Income Tax 24th June 2025

High Court (HC) set aside the notices under Section 148A issued by the Jurisdictional Assessment Officer (JAO) instead of Faceless Assessment Officer (FAO) for violating the faceless scheme

notified under Section 151A; Reliance placed on Bombay HC judgment in Hexaware Technologies; Revenue's SLP against the Hexaware Technologies ruling is pending before the SC, however notes that there is no stay yet; HC noted the liberty to apply to the Court in case the Revenue succeeds before the SC, for revival of these petitions.

LD/74/25 Gujarat High Court: Special Civil Application 2843 of 2023 Saroj Predhiman Kaw vs The Dy. Commissioner of Income Tax 23rd June 2025

High Court quashed notices issued u/s 148A(b) and 148 for AY 16-17 noting that notice dated 15.07.2022 was time barred; HC noted that only one day time was left for the issuance of the notice u/s 148 after granting 14 days' time to the assessee from the decision of Union of India vs Ashish Agarwal, as per which the deadline for issuance of the notice u/s 148 would be 12.6.2022, whereas notice was issued on 15.07.2022; Apex Court ruling in Rajeev Bansal also referred to.

LD/74/26 Chhattisgarh High Court: TAXC No. 47 of 2022 The Prin. Commissioner of Income Tax vs Vimla Infrastructure (India) Pvt. Ltd. 23rd June 2025

High Court (HC) upheld ITAT order setting aside the Revision order u/s 263 noting that assessment order was neither erroneous nor prejudicial to the interest of revenue; ITAT had noted that the AO had conducted due diligence and applied his mind before passing the assessment order and that the PCIT did not carry out any independent enquiry; PCIT invoked revisionary jurisdiction on the ground that the AO had failed to properly examine the allowability of deduction u/s 80IA(4) and donation claimed u/s 80G.

LD/74/27 ITAT Mumbai: ITA No. 6018/Mum/2024 Jackie Mahesh Vora vs The Asst. Commissioner of Income Tax 20th June 2025

ITAT upheld CIT(A) order confirming the addition made on account of disallowance of loan interest expenditure under Section 57(iii); AO had noted that Assessee had lent money to family concerns at lower rate of interest (8.50%) than the loans to third parties, which resulted into a loss and thus restricted the deduction of interest paid (12%); ITAT noted that assessee grossly failed in justifying the lower rate of interest charged from the related parties; ITAT ruled in favour of Revenue.

LD/74/28 ITAT Mumbai: ITA No 5749/Mum/2024 Dhruv Sanjay Gupta vs The Jt. Commissioner of Income Tax 20th June 2025

ITAT held that amount received by the Assessee on occasion of marriage gifts even though credited subsequently, are exempt; The expression 'on the occasion of marriage' does not mandate receiving

of gift on the day of marriage only; Relation between the gift and the marriage is important and not the timing of the said gift; AO did not bring any cogent material on record to disprove the documents and explanations furnished by Assessee to substantiate the identity and creditworthiness of the donors.

LD/74/29 ITAT Delhi: ITA No. 4713/DEL/2019 Weir Mineral (India) Pvt. Ltd. vs The Dy. Commissioner of Income Tax 06th June 2025

Assessee did not recognize the royalty as its income and in pursuance to AS-9 (Revenue recognition) had deferred the recognition; Further assessee provisionally booked it in subsequent AY and consequently wrote-off entire amount as irrecoverable in AY 2018-19; Revenue added the irrecoverable royalty as income noting that Assessee has claimed TDS in the relevant AY indicating accrual of income; TDS of 7.98 lac to be considered as income u/s 198; Deduction of tax at source by the deductor does not confer a right of income upon the deductee, as per ITAT.

LD/74/30 Karnataka High Court: ITA No. 571 of 2017 Himalaya Drug Company Pvt. Ltd. vs The Dy. Commissioner of Income Tax 04th June 2025

High Court (HC) quashed the assessment order passed beyond one month from the end of the

month of receipt of DRP directions, referring to Section 144C(13); Draft assessment order was passed under Section 144C(1) on March 27, 2015, against which objections were filed by the assessee, and directions on were issued by DRP on December 17, 2015, which were communicated to the AO on December 29, 2015; AO was required to pass the order on or before January 31, 2016, however the same was passed on February 18, 2016; ITAT's reliance on Telangana HC judgment in Rapiscan Systems, distinguished.

LD/74/31 ITAT Mumbai: ITA No. 1386/MUM/2025 Dhanaji Budhaji & Co. vs The Income Tax Officer 27th May 2025

ITAT deleted addition u/s 68 w.r.t. cash deposited during demonetisation period, in absence of independent investigation of facts; AO did not independently examine stock register, sales and purchases register, etc.; Assessee deposited ₹80 lakh during the demonetization period, out of which 50% was duly declared under PMGKY; Revenue did not dispute the cash deposits but merely disputed cash sales ratio in comparison with preceding years; Ad-hoc addition by generating a formula of abnormal cash sales without bringing any adverse evidence on record was not justified.

1
What term describes the practice where companies exaggerate or falsely claim their products, services, or policies are environmentally friendly to mislead consumers and investors?

2
What is the classification system that defines which economic activities can be considered environmentally sustainable, helping investors and policymakers direct funds toward green projects?

3
What tradable certificate or permit allows its holder to emit a certain amount of carbon dioxide or equivalent greenhouse gases, typically one metric ton per credit, and can be bought or sold in carbon markets?

4
What is the practice called where companies assign a monetary value to their carbon emissions, using it as a tool for decision-making, risk management, and driving low-carbon investments?

5
Which financial instrument, similar to a regular bond, is issued to raise funds exclusively for projects that promote environmental sustainability and climate benefits?

Answer
AUGUST
2025

1. Revaluation Account
2. Realization Account
3. Treasury Bills
4. Zero Coupon Bond
5. Debentures

RACK
the Brain



DISCIPLINARY CASE

Issuance of inflated financial statements without verifying authenticity – Placing reliance on unverifiable documents and failure to produce audit evidence – Certification of inflated purchases without proper verification – Lack of due diligence– Respondent held guilty of professional and other misconduct under Clause (7) of Part I of Second Schedule and Clause (2) of Part IV of First Schedule to the Chartered Accountants Act, 1949.

Held:

The Respondent was held guilty of professional and other misconduct for certifying inflated and falsified financial statements of a fictitious firm, which were used to obtain ₹4 crore credit facility from the bank. Despite serious discrepancies and allegations of fabrication, the Respondent failed to produce audit working papers or verification records and did not appear before the Committee to explain the audit procedures adopted. The Respondent also assisted in filing two years' income tax returns of the firm's proprietor, despite knowing he was not an assessee, thereby facilitating the sanction of the loan. Furthermore, the Respondent certified purchases amounting to ₹20.67 crore for FY 2011-12, whereas actual payments through banking channels amounted to only ₹5.47 crore – a variance of 74% – for which no reconciliation or supporting evidence was furnished. Although the Respondent submitted that he relied on VAT records, partnership deed, and client representations, he failed to provide any corroborative documents during the proceedings. Considering these facts and given that the Respondent's certifications played a role in the fraudulent loan sanction, the Committee concluded that he failed to exercise due diligence and professional care. He was therefore held guilty of professional misconduct under Clause (7) of Part I of the Second Schedule and Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

PR/274/2015/DD-294/2015/DC/751/2018

Certification of Form 23AC without mandatory attachments – Failure to exercise due diligence while e-filing – Reliance placed on office assistant without verification – Procedural lapse admitted but rectified later – Respondent held guilty of professional misconduct under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

Held:

In this case, the Respondent was found guilty of professional misconduct for certifying Form 23AC for the financial year ended 31.03.2013, stating that all required attachments had been verified and attached. However, the said filing was found to be incomplete as it did not include the Director's Report or the Auditor's Report, except for the annexure, thereby rendering the certification false and misleading. The Respondent admitted during the hearing that it was an inadvertent and unintentional error on his part, caused due to reliance on his office assistant who scanned and filed only the Balance Sheet. It was further submitted that the Respondent was not the statutory auditor of the Company and had filed the form at the request of a friend on the last date of filing. The defect was later rectified by filing an addendum in Form 67 on 31.10.2014, including the missing documents, which was before the date of complaint filed by the Complainant Department. While the Committee noted that the procedural lapse was rectified, but the Respondent had wrongly certified the form without exercising due care and diligence. The Respondent, by relying solely on his assistant without verifying the attachments himself, failed to discharge his professional responsibilities with the level of care expected under the Code of Ethics. Accordingly, the Committee found the Respondent guilty of professional misconduct under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

PR-85/15-DD/251/2016/DC/760/2018

CORRIGENDUM

In the August 2025 issue of *The Chartered Accountant Journal*, on page 128, in the feature "Know Your Ethics", the fourth question was incorrectly printed.

It should correctly read as:

"Whether the office of a Chartered Accountant is permitted to go in for ISO certification or other similar certifications?"

The error is regretted.



Research Committee
The Institute of Chartered Accountants of India
 (Set up by an Act of Parliament)



ICAI AWARDS for Excellence in Financial Reporting 2024-25

Unique opportunity for enterprises to participate in the most prestigious awards

Last date of receipt of entries
15th October, 2025



AWARD CATEGORIES



One Gold Shield in each category for the best entry.



One Silver Shield in each category for the next best entry.

OBJECTIVE

- To recognise and encourage excellence in preparation and presentation of financial information.

PROCESS FOR DECIDING AWARDEES

Selection of awardees in specified categories are made through a robust three tier process:

- Review by Technical Reviewers & Head Technical Reviewers
- Review of short-listed Annual Reports by Shield Panel and
- Selection by External Jury consisting of representatives from regulatory bodies, professionals, academicians etc

PROCEDURE FOR PARTICIPATION

- There is no fee for participation in the competition.
- Annual Report relating to the financial year ending on any day between April 1, 2024 and March 31, 2025 (both days inclusive) is eligible for participation in this competition.
- Decisions of the Panel of Judges in all the matters relating to the Competition will be final.
- ICAI reserves the right to withdraw any award at any time without giving any reasons
- Fill in the Entry Form and submit requisite documents at <https://bit.ly/eifricai2025> on or before **15th October, 2025** with an intimation by research@icai.in regarding submission of entry form.
- Send the two hardcopies of the enclosures to Secretary, Research Committee



Link to apply:
<https://bit.ly/eifricai2025>

AWARD CATEGORIES FOR THE YEAR 2024-25

Category I	Public Sector Banks
Category II	Private Sector Banks (including Foreign Banks)
Category III	Life Insurance
Category IV	Non-Life Insurance
Category V	Financial Services Sector (including NBFC Other than Banking and Insurance)
Category VI	Manufacturing and Trading Sector (including entities engaged in processing, mining, plantations, oil and gas enterprises) (Turnover equal to 5000 crores or more)
Category VII	Manufacturing and Trading Sector (including entities engaged in processing, mining, plantations, oil and gas enterprises) (Turnover less than 5000 crores)
Category VIII	Service Sector (other than financial services sector)
Category IX	Infrastructure and Construction Sector
Category X	Not-for-Profit Sector
Category XI	Public Sector Entities
Category XII	Co-operative Banks

Note: The documents submitted by the entities for the competition will not be utilized for any other purpose.

ICAI reserves the right to withdraw any award at any time without giving any reasons.

For further information please write to:
 Secretary, Research Committee
 The Institute of Chartered Accountants of India
 ICAI Bhawan, Post Box No. 7100
 Indraprastha Marg, New Delhi – 110 002
 Tel: 011-30110435
 Email: research@icai.in | website: www.icai.org

ANNOUNCEMENT

FOR INFORMATION OF MEMBERS AND STUDENTS

Heading	Decision of the 442 nd Council Meeting			
<p>Requirement of OTP validation of all partners in cases of 'Ask for Correction' in SSP Portal</p>	<p>The Council approved the proposed changes in the OTP validation process for applications marked as 'Ask for Correction' in the SSP Portal as under:</p>			
	<p>Nature of Activities (Form 18)</p>	<p>Initial submission</p>	<p>Current OTP validation for subsequent submission if application sent for "Ask for Correction"</p>	<p>New OTP validation for subsequent submission if application sent for "Ask for Correction"</p>
	<p>Firm Constitution</p>	<p>All Partners</p>	<p>All Partners</p>	<p>Head In-charge</p>
	<p>Admission / Retirement of Partners - Reconstitution</p>	<p>All Partners</p>	<p>All Partners</p>	<p>Head In-charge and the partner leaving or joining as the case may be</p>
	<p>Change in Head In charge</p>	<p>All Partners</p>	<p>All Partners</p>	<p>Head In-charge</p>
	<p>The Council also decided on the following system enhancements and procedural safeguards:</p> <ol style="list-style-type: none"> 1. A declaration be submitted affirming that the resubmission is limited to the discrepancies flagged by the system. 2. A checkbox mechanism be introduced in the SSP Portal to restrict user edits only to the relevant sections. 3. An authorization clause be incorporated at the initial stage of resubmission, confirming that partner(s) have consented to the limited corrections. 			
<p>Review of continuation/discontinuation of Condonation facility for New Firm Constitution (Form 18)</p>	<p>The Council decided as under:</p> <p>(i) Constitution of Proprietor/Partnership Firm: No condonation under Regulation 190(4) be permitted for constitution of Proprietorship or Partnership firms. Filing of Form 18 must strictly adhere to the 30-day period from the date of firm name approval, as stipulated in the approval letter. Any application beyond this period shall not be entertained.</p> <p>(ii) Constitution of LLP: Constitution of LLPs be permitted within 90 days from the date of approval received from the ROC. Condonation under Regulation 190(4) be allowed only for delays exceeding 90 days from the date of incorporation as per ROC-issued Form 16/Form 19, and subject to a maximum delay period of two years from the ROC approval date.</p>			
<p>Review of decision regarding Condonation fee under Regulation 65 for delay in submission of Form 112 for pursuing other courses taken by the Council.</p>	<p>The Council reviewed its decision taken at its 382nd meeting held in March–April 2019, which mandated the levy of a condonation fee and a two-year delay in granting membership under Regulation 65 for delayed submission of Form 112 for pursuing other courses and decided to withdraw the same.</p> <p>The Council decided that in future, the cases of delayed submission of Form 112 shall be dealt with under Regulation 66 on case-to-case basis.</p>			

M&SS Directorate

Invitation for Empanelment of Faculty for the Classroom (Physical)/ Virtual Certificate Course on Business Consulting Skills

The Professional Skills Enrichment Committee (PSEC) of ICAI is pleased to announce the launch of the Certificate Course on Business Consulting Skills, a forward-looking initiative aimed at equipping professionals with strategic insights, analytical acumen, and transformative consulting capabilities, required to navigate the evolving global business environment.

To deliver this meticulously designed course, we are seeking to empanel accomplished faculty members with distinguished expertise, rich practical experience, and a passion for mentoring aspiring professionals.

We cordially invite academicians, industry practitioners, and subject matter experts to associate with us as faculty for this prestigious program.

Empanelled faculty members will be entrusted with:

- Delivering high-impact sessions to participants
- Enhancing the curriculum with practical insights
- Mentoring participants through real-world consulting scenarios
- Enrich skills and knowledge of the participants to analyze business problems, develop strategic solutions, and manage consulting projects
- Practical Exposure to the participants through case studies

Eligibility Criteria:

- Significant professional or academic experience in business consulting or related fields
 - Proven ability to engage and inspire professional learners
 - Strong communication, facilitation, and analytical skills
 - In-depth theoretical and practical knowledge in the course curriculum methodology of teaching
- Apart from the comprehensive theoretical aspects, participants will be engaged through case studies.

Commitment for the Virtual/Physical Session

Minimum 3 Hours

Honorarium

Selected faculty members shall receive an honorarium as a token of appreciation for their valuable contribution towards professional development.

Syllabus of the Certificate Course

Syllabus of the Certificate Course is available at <https://resource.cdn.icai.org/87461psec-aps1915.pdf>

How to Apply

Interested experts are requested to share their detailed profile, LinkedIn profile (if available), videos of the sessions already conducted & all other credentials highlighting relevant experience with Dr. Sambit Kumar Mishra, Secretary, Professional Skills Enrichment Committee (PSEC), ICAI.

E-mail: sambit.mishra@icai.in; psec@icai.in; Telephone: 0120-3045994/0120-3045910

Deadline: 31st October 2025

If you are passionate about inspiring professionals and shaping the future of business consulting in India, we would be delighted to consider your empanelment.

Let us work together to nurture our new generation of consulting professionals who can drive innovation, growth, and sustainability across industries.

Profession in Headlines...

FINANCIAL EXPRESS

Read to Lead

Ad guidelines for CAs under revision: ICAI president



● CHARANJOT SINGH NANDA, ICAI PRESIDENT

'Advertising guidelines for CAs under revision'

As a self-regulatory body, the Institute of Chartered Accountants of India (ICAI) holds a dominant role in regulating accountants and auditors under the National Financial Reporting Authority (NFRA) laws established. With the government now pushing to hold India's year-end 'Big Four firms' the ICAI is stepping up its efforts to support this vision. In an interview with Mans Kanubh, ICAI president Charanjot Singh Nanda discusses the ongoing regulatory reforms, the need to scale up Indian audit firms, and the proposed revisions to advertising guidelines for chartered accountants. Excerpt:

Big Four? We are positioning CA firms to evolve into credible and independent institutions. We're spearheading structural and strategic reforms to strengthen the professional ecosystem. The ICAI merger & Demerger of CA Firms Guidelines mark a significant milestone in this direction—introducing provisions such as legal heir nomination for succession planning, thereby fostering continuity and long-term vision within firms. We're also developing new models to streamline processes and spur growth. The recently notified ICAI (Aggregation of LPA) Guidelines promote firm consolidation, collaborative practice, and resource pooling to enhance

scalability. In addition, the draft guidelines on overseas networks—currently in the public domain for comments—aim to facilitate global collaboration. Through these reforms, we are creating a regulatory ecosystem that enables consolidation and collaboration, both domestically and globally, while upholding ethical governance and professional independence. What are the key enabling provisions in the networking guidelines that will help Indian CA firms grow in size? Under the 2021 guidelines for networking of Indian CA firms, firms can collaborate through three distinct models: the alliance model, the network model, and the lead firm model. Each model is designed to enhance operational scale, promote shared practices, and leverage knowledge integration. These frameworks allow regulated collaboration while letting firms retain their individual legal identity. Across all models, key enablers include resource sharing, joint branding, professional independence, and flexibility in engagement. Internationally, the draft guidelines on overseas networks reflect our approach to fostering global integration without compromising the integrity of domestic professional standards. We understand that global integration is vital in today's interconnected environment, and the framework allows Indian CA firms to associate with overseas networks or entities through a regulated structure in line with the CA Act and the Code of Ethics. It is possible to be part of a larger network if foreign firms aren't allowed to hold stakes in domestic firms? Yes, CA firms can be part of global networks through associations that comply with our regulatory framework and uphold the principles of professional independence and compliance. The draft overseas network guidelines provide a clear mechanism for such affiliation, enabling Indian firms to collaborate with international networks while continuing to operate strictly within the scope of the CA Act. ICAI is considering allowing CAs to advertise. What's the status of this proposal? The Council of ICAI has the authority to formulate advertising guidelines for our members. In fact, guidelines were issued in 2008, which already permit CAs and CA firms to advertise, subject to certain conditions. However, in light of recent developments in the profession, it is necessary to revise and modernize these guidelines. The updated version will address current needs while being sensitive to professional ethics. In July, we constituted a group to look into this matter, and the revised guidelines will go through due process. For full interview, go to www.financialpress.com

What are the key enabling provisions in the networking guidelines that will help Indian CA firms grow in size? Under the 2021 guidelines for networking of Indian CA firms, firms can collaborate through three distinct models: the alliance model, the network model, and the lead firm model. Each model is designed to enhance operational scale, promote shared practices, and leverage knowledge integration. These frameworks allow regulated collaboration while letting firms retain their individual legal identity. Across all models, key enablers include resource sharing, joint branding, professional independence, and flexibility in engagement. Internationally, the draft guidelines on overseas networks reflect our approach to fostering global integration without compromising the integrity of domestic professional standards. We understand that global integration is vital in today's interconnected environment, and the framework allows Indian CA firms to associate with overseas networks or entities through a regulated structure in line with the CA Act and the Code of Ethics. It is possible to be part of a larger network if foreign firms aren't allowed to hold stakes in domestic firms? Yes, CA firms can be part of global networks through associations that comply with our regulatory framework and uphold the principles of professional independence and compliance. The draft overseas network guidelines provide a clear mechanism for such affiliation, enabling Indian firms to collaborate with international networks while continuing to operate strictly within the scope of the CA Act. ICAI is considering allowing CAs to advertise. What's the status of this proposal? The Council of ICAI has the authority to formulate advertising guidelines for our members. In fact, guidelines were issued in 2008, which already permit CAs and CA firms to advertise, subject to certain conditions. However, in light of recent developments in the profession, it is necessary to revise and modernize these guidelines. The updated version will address current needs while being sensitive to professional ethics. In July, we constituted a group to look into this matter, and the revised guidelines will go through due process. For full interview, go to www.financialpress.com



THE UPDATED VERSION ALIGNS WITH CURRENT DEMANDS AND ETHICAL PRACTICE

BusinessLine

ICAI, IAGES tie up for gold accreditation framework

New Delhi: The Institute of Chartered Accountants of India (ICAI) has inked an MoU with the Indian Association of Gold Excellence and Standards (IAGES) to implement an accreditation framework for value chain partners in the gold industry. A MoU was exchanged between Charanjot Singh Nanda, President, ICAI and Kaushlendra Sinha, CEO, IAGES in the presence of Minister of Law and Justice Arjun Ram Meghwal. ANI

Greater Kashmir

Indian Chartered Accountants' meet in Pahalgam brings message of trust: Omar Abdullah



GN News Service Pahalgam, Aug 12

Chief Minister Omar Abdullah today interacted with members of the Institute of Chartered Accountants of India (ICAI) during the 44th Council Meeting, being held at the picturesque tourist destination of Pahalgam. As many as 130 members of ICAI, including their families, are attending the four-day meeting. Speaking on the occasion, the Chief Minister expressed his gratitude to ICAI for choosing Pahalgam as the venue for such a landmark event and reposing trust in the J&K Government after the unfortunate and tragic incident at Baisaran in April this year. "Your presence here is not just symbolic; it is a true morale booster for all of us in Jammu and Kashmir," the Chief Minister said. Adding that, "It reflects your belief in this place, its resilience, and its future. The fact that you have come here with your families sends a powerful message of confidence and support." The Chief Minister highlighted the long-standing contribution of ICAI to nation-building and acknowledged the organisation's global presence. He emphasised the importance of collaboration between ICAI and the J&K Government in promoting good governance, transparency, conflict-resolution, and improved accounting systems at grassroots levels, including panchayats, urban local bodies, and smart cities. "Governments must make the best

- **Event Overview:** 44th Council Meeting of ICAI held in Pahalgam with 130 members attending. Message of Trust: CM Omar Abdullah appreciates ICAI for choosing J&K despite recent tensions.
- **Morale Boost:** Presence of ICAI members recognised as a sign of confidence in J&K's resilience.
- **Governance Collaboration:** Emphasis on ICAI assisting in transparency and improved governance.
- **Pahalgam's Resilience:** Town successfully hosted Amarnath Yatra post-tragedy, showcasing recovery.
- **Tourism Invitation:** CM invites ICAI members to explore more attractions in J&K.
- **MSME Report Released:** Launch of report on enhancing MSME revenues in J&K.
- **ICAI President's Remarks:** Appreciation for CM's attendance, encouragement for economic contributions.

Reflecting on the resilience of Pahalgam, Chief Minister Omar Abdullah noted that despite the tragic events earlier this year, the town successfully hosted the Amarnath Yatra, which saw over four lakh pilgrims. "Your visit here so soon after those difficult times is both encouraging and humbling," he added. The Chief Minister invited ICAI members to visit Jammu and Kashmir again and explore its many attractions beyond Pahalgam, including Gulmarg, Sonamarg, and Srinagar. Quoting a Kashmiri saying, "Vande Chale, Sheen Gal'e Bheiyi Eyi Bahar" (The winter will pass, the snow will melt, and spring will come again), the Chief Minister said, "Your presence here is a testament to the fact that spring always returns. I thank you for being part of that renewal for us and invite you to visit us time and again." The Chief Minister also released Report on "From Policy to Profits: Amplifying MSME Revenues in Jammu and Kashmir Through Targeted Government Initiatives." Advisor to Chief Minister, Nasir Aslam Wani was also present on the occasion. Speaking on the occasion, President ICAI, Charanjot Singh Nanda appreciated Chief Minister for his time to attend the ICAI event. "Your presence has indeed given us a morale boost," said President ICAI. He encouraged the members as to contribute in all capacities to ensure economic growth of J&K and handholding students from J&K under various initiatives of the ICAI.

BusinessLine

SEBI chief says forensic grit crucial to tackle market frauds early and effectively

Ashata Gode Mumbai

Auditors must show the courage to ask difficult questions and resist walking away at the first sign of resistance if India is to combat financial fraud effectively, said Securities and Exchange Board of India (SEBI) Chairman Tuhin Kant Pandey on Friday. Speaking at the 'Future Proof Forensics 2025' event organised by Institute of Chartered Accountants of India (ICAI), Pandey urged the audit fraternity to abandon passive approaches and

play an active role in safeguarding market integrity. He also emphasised on tools and frameworks being developed for early detection of frauds. The ICAI is developing a robust framework to prevent financial fraud in the securities markets, Pandey said. The ICAI is also training SEBI officials in forensic investigation and fraud risk mitigation techniques. FORENSIC TOOLS Forensic accounting, he added, must evolve from being a post-fraud tool to a proactive one. "The future of financial governance will be determined by our collective

ability to anticipate risks and detect anomalies early on. As custodians of this trust, we must safeguard market integrity, the foundation that fuels investor participation and sustains capital formation," Pandey said. He gave examples of how some listed firms routed funds through subsidiaries or used circular transactions with name-lending entities to siphon off shareholder money. Preferential allotment proceeds were also misappropriated in some cases, with statutory auditors and board members failing to sound alarms. "SEBI has used forensic audits to

uncover financial frauds. The ingenious modus operandi used to perpetrate these frauds have ranged from simple diversion of shareholder funds to the use of complex structures and transactions to circumvent regulatory safeguards," Pandey said. "These cases suggest that some key managerial personnel, statutory auditors, audit committee members and board directors may only be following a tick-box approach to compliance," he said. The negative impact of such financial frauds on the securities market is tremendous, he added.

नवभारत आईसीएआई का फ्यूचर प्रूफ फॉरेंसिक्स कार्यक्रम

प्रशिक्षण से लेखा परीक्षकों बनाया जाएगा सशक्त



■ मुंबई (सं). इंस्टीट्यूट ऑफ चार्टर्ड अकाउंटेंट्स ऑफ इंडिया (आईसीएआई) ने मुंबई में दो दिवसीय प्रमुख कार्यक्रम 'फ्यूचर प्रूफ फॉरेंसिक्स 2025: पार्टनरिंग फॉर रिसिलिएंट फाइनेंस' का उद्घाटन किया. इस कार्यक्रम का उद्देश्य अग्रणी विशेषज्ञों, नियामकों, वित्तीय संस्थानों और उद्योग से जुड़े हितधारकों को एक मंच पर लाना है, ताकि फॉरेंसिक अकाउंटिंग, वित्तीय घोषाधर्मी की पहचान और डिजिटल लचीलेपन के क्षेत्र में उभरते रुझानों, चुनौतियों और तकनीकों प्रगति पर विचार-विमर्श किया जा सके. कार्यक्रम आईसीएआई के डिजिटल अकाउंटिंग एंड

एयरोस बोर्ड (डीएएबी) द्वारा आयोजित किया गया था. कार्यक्रम में आरबीआई, सेबी, सीएनडी, आईबीए, एनबीएफसी और एआरसी सहित प्रमुख संस्थानों ने भाग लिया. उद्घाटन सेबी के अध्यक्ष तुलिन कांत पांडेय और भारत के उप-निस्त्रिक एवं महालेखा परीक्षक आनंद मोहन बजाज ने किया. इस अवसर पर आईसीएआई के अध्यक्ष सीए चरणजोत सिंह नंदा, उपाध्यक्ष प्रसन्न कुमार डी, डिजिटल अकाउंटिंग एंड डिजिटल लचीलेपन के क्षेत्र में उभरते रुझानों, चुनौतियों और तकनीकों प्रगति पर विचार-विमर्श किया जा सके. कार्यक्रम आईसीएआई के डिजिटल अकाउंटिंग एंड

Ahmedabad Mirror

ICAI restricts individual tax audits by CAs to 60 annually

Move to help strengthen regulatory framework: ICAI president

#NEW DELHI

ICAI President Charanjot Singh Nanda on Wednesday said capping the number of tax audits that can be done by an individual chartered accountant to 60 annually will help strengthen the regulatory framework and enhance focus on auditing work.

The ICAI has notified the norms



and these will come into effect from April 1 next year. The limit of 60 will be the aggregate limit in respect of all tax audits signed by a member (CA), both in his individual capacity and as a partner of a firm(s). Further, a partner of a firm cannot sign any tax audit report on behalf of any other partner. **PTI**



THE TIMES OF INDIA

ICAI works on early warning mechanism

New Delhi: The Institute of Chartered Accountants of India (ICAI) is working with regulators to develop an early-warning mechanism to prevent scams and frauds before they occur with an initial focus on listed companies, a senior executive of ICAI said on Wednesday.

Charanjot Singh Nanda, president of ICAI, told reporters that key stakeholders, including Sebi, NSE, BSE, the Intelligence Bureau (IB), and RBI will participate in the initiative. The move follows several instances of auditor lapses and financial fraud in the country in recent months, such as those linked to IndusInd Bank and Gensol.

Separately, ICAI has issued guidelines, capping the number of tax audits a partner at an accounting firm can take up in a year at 60. **TNN**

The Daily Guardian

ICAI signs strategic MoUs with IVCA and NSE IX

TOD NETWORK
NEW DELHI

The Institute of Chartered Accountants of India (ICAI), the world's largest accounting body, has signed landmark Memorandum of Understanding (MoUs) with the Indian Venture and Alternate Capital Association (IVCA) and NSE IFSC Limited (NSE IX) to advance investor education and professional development in India's financial markets. The strategic partnerships were formalised in the presence of senior officials from all three organisations, marking a significant step towards strengthening India's alternative capital markets ecosystem and enhancing its global financial integration. The MoU with IVCA, the apex industry body representing India's alternative capital sector, focuses on several key areas of cooperation. The partnership will



establish joint expert groups on alternative capital issues and work towards standardising financial reporting frameworks through industry-led consultation. CA. Ashley Menezes, Chairperson of IVCA, emphasised the collaboration's significance: "This MoU reflects our collective intent to deepen governance standards, enhance financial disclosures, and promote sustainable investing in India's growing capital market landscape." Rajat Tandon, President of IVCA, highlighted the long-term vision: "At IVCA, we believe meaningful change begins with meaningful collaboration."



THE ECONOMIC TIMES

STANDARDS TO HELP ASSESS IT-RELATED RISKS

'New Audit Rules for Digi-first Cos Soon'

To apply to audits of cos in other sectors too

Bankinkar Pattanayak

New Delhi: The Institute of Chartered Accountants of India (ICAI) will soon firm up new Information Systems Audit Standards for improving the audit quality of entities such as startups, fintech firms, and e-commerce companies that have technology at the core of their operations, said its president Charanjot Singh Nanda.

These standards will enable chartered accountants (CAs) in assessing IT-related risks, including cyber security threats, data breaches, and system failures while auditing these firms and recommend mitigation measures, Nanda told ET. To be sure, these standards will also apply to financial audits of companies in other sectors, given the fast-growing adoption of technology in every facet of modern businesses. "With businesses relying heavily on digital platforms, ERPs and cloud systems, traditional financial auditing is no longer sufficient," said another person privy to the details.

So, the new standards will also provide "a structured approach for evaluating the integrity, confidentiality and availability of IT systems", the person said.

Various laws and regulations such as the Digital Personal Data Protection Act in India or GDPR globally mandate IT audits and data protection compliance. So, ICAI plans to equip CAs through these standards to also guide organisations in meeting their various tech-related compliance obligations, said the person.

These norms will focus on effective financial reporting, fraud detection and prevention, and robust governance frameworks, among others.

These will eventually enable CAs to offer value-added services and expand their professional expertise on system audits, IT governance assessments, cyber security reviews and ERP implementation audits.

India's startup ecosystem has exploded in recent years. The fintech sector is also growing rapidly.

WESTERN TIMES

ICAI sets up centre for alternate dispute resolution mechanism

(Agency) New Delhi: Chartered accountants' apex body ICAI is setting up the ICAI International ADR Centre to promote and institutionalise alternate dispute resolution mechanisms in the country. The setting up of the centre marks ICAI's strategic entry into the crucial domain of Alternate Dispute Resolution (ADR), which plays a significant role at the intersection of commercial, legal, and economic interests of the nation. The centre, set up as a Section 8 company, will strengthen the ecosystem for commercial dispute resolution by offering a transparent and technology-enabled mechanism.

ET THE ECONOMIC TIMES

UK Trade Deal to Benefit 1000s of CAs, Firms: ICAI President

New Delhi: The India-UK FTA is expected to significantly boost the flow of high-value professional services work into India, benefiting thousands of chartered accountant firms and professionals. Institute of Chartered Accountants of India (ICAI) president Charanjot Singh

Nanda said on Friday.

"By actively engaging with the commerce and industry ministry, the ICAI ensured liberal market access and the inclusion of a reciprocity clause protecting the use of the 'chartered accountant' title," Nanda said. India would benefit from the FTA due to its cost advantage, skilled workforce and reputation, he added. — **Our Bureau**



**CHARTERED ACCOUNTANTS'
BENEVOLENT FUND [CABF]**



Join Hands to strengthen CABF: Special Drive

The Chartered Accountants' Benevolent Fund (CABF) was established in December, 1962 with the main objective to provide financial assistance for maintenance, and other similar purposes to needy members of the Institute, their wives, widows, children and dependent parent(s).

During the Financial Year 2024-25, CABF has given assistance of Rs. 2.54 Crore to 145 beneficiaries. The available funds with CABF is not sufficient to continue to support all the beneficiaries. To meet the demand, Management Committee of CABF desires to augment funds through a "SPECIAL DRIVE". The contributions can be made by ICAI Members and CA Firms.

All Contributions of more than Rs.10,000 will receive congratulatory letter from the President, ICAI.

Category of Contribution	Shield Award	Presentation of Shield	Acknowledgement/ Recognition
Rs. 1 Lakh and above	Bronze plated Shield	Regional Council/Branch Chairman at major members seminar/conference at branch/region.	To be published in ICAI Journal, Regional Newsletter and branch newsletter.
Rs. 5 Lakh and above	Silver plated Shield	Regional Council/Branch Chairman at mega members seminar/conference at branch/region.	To be published in ICAI Journal, Regional Newsletter and branch newsletter.
Rs. 11 Lakh and above	Gold plated Shield	President/Vice President at Regional conference.	To be published in ICAI Journal, Regional Newsletter and branch newsletters with photograph.
Rs. 25 Lakh and above	Special Gold-plated Shield	President/Vice President at International conference.	To be published in ICAI Journal, Regional Newsletter and branch newsletters with photograph.
Rs. 51 Lakh and above	Platinum plated Shield	President/Vice President at International conference.	To be published in ICAI Journal, Regional Newsletter and branch newsletters with photograph.

The Contribution is eligible for tax exemption under Section 80G of the Income Tax Act

Link for Contribution as Life Member:
<https://cabf.icai.org/lifeMember>

Link for Voluntary Contribution:
<https://cabf.icai.org/voluntaryMember>

Contribution can also be made by scanning the QR code or directly through NEFT/RTGS

Name of A/C : Chartered Accountants Benevolent Fund



Name of Bank & Branch : Axis Bank Ltd., Swasthya Vihar Branch

A/C No. : 913010046844303

IFS code : UTIB0000055

CABF – A WAY TO SUPPORT PEERS IN DISTRESS

cabf.icai.org



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