Record note of the 22nd Meeting of the National Financial Reporting Authority held on Monday, 22 December 2025

The 22nd Meeting of the National Financial Reporting Authority was held on Monday, 22 December 2025. The meeting was chaired by Shri Nitin Gupta, Chairperson, NFRA. The meeting was attended by:

A. Full-Time Members:

i. Ms Smita Jhingran
ii. Shri P Daniel
iii. Shri Sushil Kumar Jaiswal

B. Part-Time Members:
   i. Shri A M Bajaj, Deputy Comptroller and Auditor General (Commercial and Central Receipt Audit), O/o CAG of India
   ii. Professor R. Narayanaswamy, Ex-Faculty, Finance & Accounting, IIM Bangalore
   iii. Professor Sanjay Kallapur, Professor of Accounting at ISB, Hyderabad
   iv. CA. Charanjot Singh Nanda, President, ICAI
   v. CA. (Dr.) Sanjeev Kumar Singhal, Chairman, ASB, ICAI
   vi. CA. Sripriya Kumar, Chairperson, AASB, ICAI

C. Officials
   i. Ms Vidhu Sood, Secretary, NFRA
   ii. CA Vidhyadhar Kulkarni, Principal Consultant, NFRA
   iii. CA Parminder Kaur, Secretary, ASB, ICAI
   iv. CA Megha Saxena, Secretary, AASB, ICAI

2. The quorum for the meeting of the Authority was met in accordance with para 3 (9) of the National Financial Reporting Authority (Meeting for Transaction of Business) Rules, 2019. Part-Time Members, Shri Balamurugan D, JS, MCA, Shri Jeevan Sonparote, Executive Director, SEBI and Ms Sudha Balakrishnan, Chief Financial Officer, RBI, were granted leave of absence. However, views of Part-Time Member, SEBI, were received by email and presented and considered in the Meeting.

3. At the outset, Secretary, NFRA, welcomed all members to the meeting, and accorded special welcome to the new Executive Body of NFRA.

4. Chairperson, NFRA, welcomed all members to the meeting, with special mention to new Full-time and Part-time members joining the Authority for the first time and to Ms Smita Jhingran, Full-Time Member, for her second term. Chairperson, NFRA, introduced the agenda for the day, deliberations on the new Ind AS 118, *Presentation and Disclosure in Financial Statements*. Chairperson, NFRA, stated that the Government of India has adopted a policy for the adoption of

the best international practices and the benchmarks and in that process, since 2016 a policy of convergence to IFRS has been implemented. Chairperson, NFRA, stated that Ind AS 118 is converged with IFRS 18 *Presentation and Disclosure in Financial Statements,* in respect of which the exposure draft was first issued by IASB in December 2019. Global discussions on the exposure draft of IFRS 18 took place between 2020 to 2022, with the Standard being issued in 2024. In January 2025, ICAI issued the exposure draft for Ind AS 118, and it was put in the public domain for approximately four months. ICAI sent the proposal to NFRA in August 2025. The chairperson appreciated the efforts of ICAI towards all preparatory steps taken in a short period of time. The Chairperson then asked the Secretariat, NFRA, to make a presentation.

5. A presentation on the proposal was made covering key aspects of changes brought in by IFRS 18 as compared to IAS 1 *Presentation on Financial Statements*. The changes were categorised as (a) New requirements, (b) Carry forward of IAS 1 prescriptions with limited text changes, and (c) Requirements of IAS 1 relocated to other IFRS Accounting Standards (IFRSs). Aspects discussed in detail included new requirements covering the role of primary financial statements, a new structure of statement of profit and loss, disclosure of management-defined performance measures, and enhanced requirements for grouping (aggregation and disaggregation) of information. It was highlighted that the changes introduced in IFRS 18 are mainly in respect of one component of primary financial statements, viz. Statement of Profit and Loss. The reason for this was to respond to the concerns and demands of users of the financial statements echoed frequently. It was mentioned that in case of India, there is an additional change i.e., introduction of 'functional' classification of expenses as an option, in addition to classification of expenses by 'nature' in the statement of profit and loss. It was also mentioned that there are consequential amendments to 32 Ind ASs but important changes are primarily in two Ind ASs viz. Ind AS 17, *Statement of Cash Flows*, and Ind AS 107, *Financial Instruments: Disclosures.* Another important change brought in on the lines of IAS 8 was the renaming of Ind AS 8 as Ind AS 8, *Basis for Preparation of Financial Statements,* from the extant title of Ind AS 8,*Accounting Policies, Changes in Accounting Estimates and Errors.* The changes in Ind AS 8 were primarily the relocation of many prescriptions relating to accounting policy matters from Ind AS 1 to Ind AS 8. Consequential changes to other Ind ASs were mainly due to changes in cross-referencing to Ind AS 118 and Ind AS 8.

6. ICAI's consideration of responses to public consultation was apprised to the Authority. It was seen that the proposed date in the ICAI proposal was for annual reporting periods beginning or after 1.4.2027. This provided adequate preparatory time for the preparers. It was noted that companies would need to restate previous year financials for comparison with current year, once the Ind AS is made applicable. It was also noted that certain changes to formats of financial statements may have to be brought into Schedule III of the Companies Act 2013 by MCA, and by SEBI in its related circulars.

7. On conclusion of the presentation, the Chairperson invited comments from all members, initiating with the President, ICAI to offer his views.

8. President, ICAI, stated that the exposure draft had been open for consultation for over 4 months, given the changes being brought in by the Standard. The President, ICAI, requested Chairman, ASB, to offer his comments.

9. Chairman, ASB, stated that since the IFRS 18 project had been initiated, and over the last few years, a lot of outreach programmes on proposed changes have been conducted by the ICAI. The proposed date has been kept as 1.4.2027, and aligns broadly with the IFRS 18 implementation date, which is for accounting periods beginning 1.1.2027. He also stated that if the Authority decides to recommend the Standard to Central Government, further outreach programmes can be planned and a group can be constituted to suggest the changes to Schedule III of CA 2013. Chairman, ASB, invited Authority Members to also join in conducting the outreach programmes.

10. Shri A M Bajaj, Deputy CAG stated that the presentation had comprehensively covered significant aspects. Convergence with international standards is a norm and should be adhered to. Overall, Deputy CAG concurred with the proposal.

11. Professor Narayanaswamy, in his remarks, welcomed the proposal. He stated that the proposed Standard refines and imparts clarity to presentation of financial statements. Prof Narayanswamy supported and stated that he preferred the presentation based on functional classification of expenses as the primary presentation because it helps assess profitability at different stages of a business, while also acknowledging that nature-wise classification (classifying expenses by nature) is also useful for understanding total costs like salaries. Aspects such as 'Gross profit' should be clearly presented, which is presented internationally, but often missing locally. He also stated that there should also be a clear measure of sustainable or continuing profit that excludes one-time, unusual, or exceptional items (such as goodwill impairment losses), which should be shown separately to improve comparability across years.

12. Professor Narayanswamy expressed apprehension about the inclusion of management-defined performance measures (non-GAAP measures like EBITDA) within financial statements. He stated that MPMs were originally called proforma measures. He stated that while these measures can be useful, they should be kept outside the financial statements and notes and disclosed instead in Management commentary, with reconciliations, if needed. Financial statements should focus solely on accounting measures. He also noted that in the public consultation done by ICAI, despite the prolonged period of consultation, while professionals had responded, there was an apparent lack of input from actual users of financial statements.

13. Regarding changes to Schedule III of Companies Act 2013, Prof Narayanaswamy stated that in his view the Schedule III already provides requisite flexibility to accommodate changes as and when Standards change, and that prescribing changes to format would perhaps not be necessary. He stated that having requirements in two places risks inconsistency and different interpretations.

Legislation should focus on disclosure requirements, while presentation formats should be handled entirely by standards. If Schedule III and the standards are not fully aligned, it will create confusion and practical difficulties for preparers and users. He also suggested issuing practical guidance (outside the standards) to address common classification questions, such as whether an item belongs in cost of sales or research and development. A simple principle is proposed: costs included in inventory valuation should form part of cost of sales, while all other costs should be classified elsewhere. Overall, he stated that in his view the proposed changes were positive.

14. Ms Smita Jhingran agreed that international practice generally use of the functional classification as the primary format, with nature-wise classification provided only as supplementary disclosure. She said that the key issue that emerged from preceding discussion was whether companies should be given an option between functional and nature-wise classification of expenses, or whether functional classification should be mandated. However, to recommend only one mode of classification by the Authority may constitute a major carve out from IFRS 18, and a carve out was not envisaged and being proposed at this stage.

15. Professor Narayanaswamy stated that in his view most companies may not adopt functional classification, as in India, classification by nature has been the norm all along. Drawing a parallel with cash flow statements, he stated that although the direct method is clearer and easier to understand, almost all companies choose the indirect method when given an option, simply because it is more convenient and avoids change. He stated that since companies currently use classification by nature, they may choose to retain the same.

16. It was clarified that the Standard is allowing choice rather than mandating a single presentation format. Comparability can be achieved within industries without a one-size-fits-all approach. Management is best placed to decide which format improves comparability for their business and peers. Currently, all entities have a single format, the nature-of-expenses approach, which often leads companies to provide alternative performance measures and additional disclosures to meet investor needs. If only functional classification were mandated, some industries—especially service-oriented ones—might still find classification by nature more meaningful for investors. With different Industries having different economic realities, a single mandatory format could perhaps be problematic. Allowing both functional and nature-wise classifications, therefore, would help entities present information that best reflects their business model and enhances comparability within their specific industry.

17. It was discussed that both the options may be provided, giving companies time to adapt, and then reviewing the outcome after one or two years. During this period, the regulator or standard-setting body could conduct a focused study—particularly on listed companies—to assess how widely functional classification is adopted in practice. Based on this evidence, it could be later reconsidered whether alternative requirements are needed.

18. Ms Smita Jhingran, Fulltime member, noted that prescribing formats under

Schedule III falls within the domain of the MCA. Any recommendations would need to remain aligned with the law and accounting standards, ideally moving together. Chairman, ASB, also stated that it was important to recommend that changes may be needed to Schedule III of Companies Act 2013.

19. Professor Kallapur stated that he was in favour of the proposal. He was also strongly in favour of providing options for both functional classification and classification by nature. It was good that a choice had been given in the Standard. He stated that the market should be allowed to respond to the optional framework, after which behaviour can be studied. If practices become inconsistent or a matter of concern, regulatory intervention could be considered later; if things work smoothly, no further action may be needed. Professor Kallapur also noted that the users of financial statements have not actively provided feedback. He, however, emphasized that standard-setting bodies cannot do the work of users—they can only set the framework. He also stated that the Standard appropriately concerns itself with a limited subset of MPMs, namely those that are a subtotal of income and expenses. These are provided for adequately.

20. Professor Kallapur raised a practical concern about the effective date of Ind AS 118. While India typically uses April 1 as the fiscal year start, some subsidiaries or holding companies of foreign entities have January-December accounting year. If the standard applies strictly from April 1, 2027, without permitting early adoption like the IFRS 18 does, those companies will face misalignment with their parent companies, which are required to adopt IFRS 18 from January 1, 2027. He stated that for most Indian companies, the start date is fine, but this discrepancy needs consideration for multinational subsidiaries.

21. Chairperson, AASB, stated that both functional and nature-wise classification options may be retained. She stated that adoption is likely to be smooth because larger companies, especially those under industry standards frameworks often set the trend; once the first few companies adopt a format, the rest tend to follow, as seen in past disclosures and audit practices. She stated that Schedule III provides requirements beyond accounting standards, ensuring consistent presentation of key information (and improving discipline in financial reporting. Regarding start dates, the standard generally applies from April 1, consistent with India’s fiscal year, but adoption from January 1, 2027, could be allowed for subsidiaries of foreign companies to avoid misalignment with parent company reporting periods.

22. SEBI’s views regarding the agenda item were presented to the Authority.

a. Regarding **Presentation of Expenses and Comparability across listed entities in a particular Industry, SEBI had stated that the** requirements in para B80(a) to (d)[1] of Ind AS 118,with the disclosure obligations under Ind AS 118, sufficiently address concerns relating to comparability of reporting. SEBI agreed with this assessment, subject to entities clearly disclosing the basis applied in selecting the presentation of operating expenses.

b. **Regarding Consequential Amendments**: SEBI concurred that revisions to Schedule III and SEBI's reporting formats will be necessary for consistent implementation of the new presentation requirements and will undertake the required review.

c. **Regarding Implementation Timelines:** SEBI noted the proposed effective date of **1 April 2027**.

d. **Regarding Management-defined Performance Measures (MPMs)**: SEBI was of the view that Ind AS 118 may also articulate principles governing the selection of MPMs, to avoid undue subjectivity. SEBI suggested that MPMs should:
   - represent key aspects of financial performance monitored internally;
   - be measurable and capable of reliable determination;
   - not exclude recurring items without adequate justification;
   - be applied consistently unless a change improves relevance; and
   - be aligned, where practicable, with industry practices.

SEBI stated that such principles would enhance discipline and comparability across entities.

23. Regarding para 23 (d) above, it was clarified that the Standard covered the MPM requirements in detail in paragraphs 117-125, and B113 to B142. The requirements clarified that MPMs disclosed needs to represent a key aspect of the financial statement as a whole (para 119). The requirements also clarified what are MPMs and more importantly, what is not an MPM. Paragraph B 127 clarifies that Management's use of subtotal to assess and monitor an aspect of financial performance of an entity as a whole *demonstrates that the sub total communicates Management's view* of an aspect of financial performance of the entity as a whole. If a Management uses a sub-total internally but not in an entity's public communication, then that the sub-total does not mean the definition of an MPM. Therefore, the MPMs disclosed would go through the test of internal use. That the MPM should be measurable and capable of reliable determination is covered in the detailed requirements of para 123, B134 and B135. Regarding consistency in use and explanations in case of any change, addition or cessation, requirements are detailed in para 124. Similarly, the requirements to provide explanations if there is a change in any recurring item are provided in para B139.

24. Chairperson, AASB, stated that given the extensive requirements in the Standards to clarify the position of MPMs, any further concerns can be handled by an industry-level guidance document (perhaps by SEBI-Industry Standard Forum), or during outreach programmes, etc, which could clearly outline any additional disclosure expectations for listed companies.

25. It was further discussed that the Standard actually streamlines presentation of MPMs, in a single note, and augurs for more transparency and discipline in its reporting. This acts as a check on random or misleading information presented

during investor calls or press releases. Such reporting is done today as well, and auditor's obligations towards such other information are already part of SA 720.

26. Shri S.K. Jaiswal, Full-time Member, NFRA, stated that he was in agreement with the proposed Standard. He stated that he was also of the view that the effective date may take into account the concern of the subsidiaries that follow the calendar year for the preparation of financial statements.

27. Shri P Daniel, Full-time Member, NFRA, stated that the discussion had yielded significant points and the effective date of 1.4.27 may suffice to be specified.

28. In conclusion, Chairperson, NFRA, thanked all the Members for the in-depth discussions. Chairperson, NFRA, stated that the meeting had successfully concluded in proposing a significant change in financial reporting, as is proposed by Ind AS 118.

29. At the close of the meeting, the following were the decision points:

a. The Authority decided to recommend the ICAI proposal to NFRA on Ind AS 118, which was reviewed by NFRA, to the Central Government for consideration of notification. It was decided that the only change with regard to the ICAI proposal in respect of Ind AS would need to be with respect to the effective date. It was decided that Ind AS 118 would be recommended to be applicable for financial statements for annual reporting period beginning or after 1.04.2027. In respect of those companies that prepare financial statements on calendar year basis, it would be recommended that such companies have early adoption of Ind AS 118 for annual reporting periods beginning or after 01.01.2027. The latter was necessary for subsidiaries of foreign companies to avoid misalignment with parent company's annual reporting periods which would be following IFRS 18 prescription of 01.01.2027.
b. The Authority decided to suggest to Ministry of Corporate Affairs to consider any required changes in Schedule III of Companies Act 2013.
c. The Authority decided to suggest to SEBI to consider any changes to its circulars or guidance that may be required to be carried out by SEBI, in consonance with the notification of Ind AS 118, as and when required.

The meeting ended with a vote of thanks.

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Secretary, NFRA

[1] Criteria for selection of option (i) Main driver or component of profitability of the entity, (ii) Entity's internal MIS reporting, (iii) Standard industry practice, (iv) No arbitrary allocation of expenses to functions