

ACCOUNTING, REGULATORY & TAX NEWSLETTER

VOLUME 118

www.bdo.in

November 2026

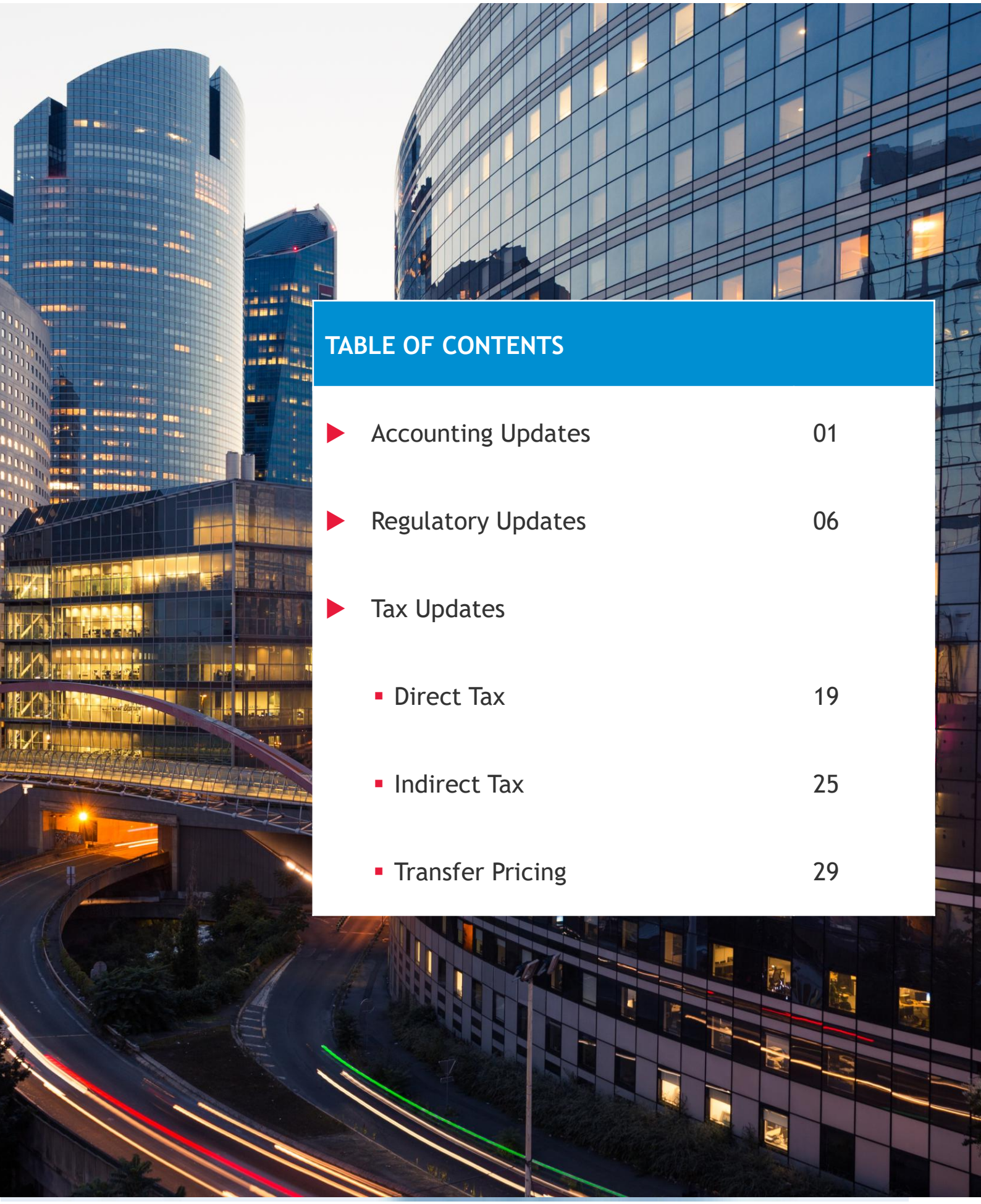


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ACCOUNTING UPDATES

The Institute of Chartered Accountants of India (ICAI):

Classification of certain standalone land parcels held to earn rentals as Right-of-Use Assets under Ind AS 116 vis-à-vis Investment Property under Ind AS 40.

The Company, a joint venture of the Government of India and the Government of NCT of Delhi, holds certain standalone land parcels under perpetual/long-term leases for property development and commercial exploitation as part of its mandated non-fare revenue activities. These land parcels have been leased/licensed to third parties for earning rentals, and the related Right-of-Use (ROU) assets are currently presented within Property, Plant and Equipment (PPE). During the supplementary audit for FY 2024-25, the C&AG provisionally observed that 11 such land parcels should be classified as Investment Property under Ind AS 40, as they are held for earning rentals. The observation was subsequently dropped based on the Company's assurance that the matter would be referred to the ICAI Expert Advisory Committee. The Company contended that these parcels are operationally and economically integrated with the metro network, their commercial potential depends on metro operations and commuter footfall, and therefore their existing classification as ROU assets is appropriate.

The Committee noted that the Company is an intermediate lessor, being a lessee under the head lease and a lessor under the sublease arrangement. Accordingly, the Company should first assess whether the sublease arrangements constitute finance leases or operating leases under Ind AS 116, by reference to the ROU assets arising from the head leases and not the underlying land parcels. Where a sublease is classified as a finance lease, the ROU asset should be derecognised and the net investment in the sublease should be recognised. In such cases, Ind AS 40 would not apply. However, where the sublease is classified as an operating lease, the classification of the ROU asset should be assessed under Ind AS 40 based on whether the property meets the definition of investment property or owner-occupied property.

The Committee further observed that where the Company does not provide any services or provides only insignificant ancillary services to the lessees/licensees, the ROU asset should be classified as Investment Property, provided there is no intention of subsequently using the underlying asset as owner-occupied property, such as for administrative purposes or enhancement of the MRTS project. However, where the Company provides services that are significant to the arrangement as a whole or intends to use the underlying asset for owner-occupied purposes in the future, the ROU asset should not be classified as Investment Property.

The Committee also clarified that paragraph 10 of Ind AS 40, relating to the separate classification of portions of a property, is not relevant in the present case, as the ROU assets constitute separately identifiable units of account. Further, the interdependence of the land parcels with metro operations, their proximity to metro stations, the mandatory nature of property development under the MoHUA mandate, their contribution to project financing, and the fact that real estate constitutes a separate operating segment do not alter the conclusion that rental cash flows arising from subleasing the land parcels are largely independent of other assets held by the Company. The relevant consideration is the extent of services, if any, provided to the lessees/licensees in connection with the arrangements.

Accordingly, the Committee concluded that, subject to the facts and presumptions stated in the opinion, the Company should first assess the nature of the subleases by reference to the ROU assets arising from the head leases in accordance with Ind AS 116. If a sublease is classified as a finance lease, the ROU asset should be derecognised and the net investment in the sublease should be recognised, in which case Ind AS 40 is not applicable. If a sublease is classified as an operating lease, the ROU asset should be classified as Investment Property only if (a) the Company provides no services or services that are insignificant to the arrangement as a whole and (b) there is no intention of subsequently using the underlying asset as owner-occupied property. Otherwise, the ROU asset should not be classified as Investment Property.

Presentation of Unbilled Revenue under Trade Receivables or Other Current Financial Assets.

The Company is engaged in city gas distribution through Compressed Natural Gas (CNG) and Piped Natural Gas (PNG). In the domestic PNG segment, customers are billed based on actual meter readings obtained on a bi-monthly cycle. At each month-end, certain customers remain unbilled because meter readings have not yet been taken. Accordingly, the Company recognises revenue on a provisional basis for gas already supplied, using estimates based on previously billed quantities. Such provisional revenue is reversed in the following month, and actual sales are recognised and invoices raised when meter readings are obtained. The Company classified these amounts as 'Other Current Financial Assets' on the basis that the revenue remained unbilled and the recognised amount was based on estimates. During the audit of accounts for FY 2024-25, the C&AG provisionally observed that such unbilled revenue forms part of trade receivables and should be disclosed accordingly, including the related disclosures prescribed under Schedule III to the Companies Act, 2013.

The Committee presumed that the Company had an unconditional right to consideration for gas already supplied, even if the customer terminated the contract before invoicing. The Committee noted that under Ind AS 115, a contract asset arises when an entity's right to consideration is conditional on something other than the passage of time, whereas a receivable arises when the entity has an unconditional right to consideration and only the passage of time is required before payment becomes due. The Committee further clarified, with reference to paragraph BC325 of IFRS 15, that issuance of an invoice is not a prerequisite for recognising a receivable, as an unconditional right to consideration may arise even before invoicing.

The Committee observed that, in the present case, the Company had already supplied gas to customers up to the reporting date and had satisfied its performance obligation in respect of such supply, with no further performance required. Therefore, the Company had earned the right to consideration for the gas supplied, even though actual meter readings and invoices were pending. Further, the fact that unbilled revenue is estimated based on previous consumption and may be adjusted upon actual meter reading does not, in itself, affect the unconditional nature of the right to consideration, as the uncertainty relates only to determining the amount and not to the Company's performance or entitlement to receive payment.

The Committee also noted that under Division II of Schedule III to the Companies Act, 2013, read with ICAI's Guidance Note on Ind AS Schedule III, trade receivables include amounts due for goods sold or services rendered in the normal course of business where the right to consideration is unconditional. Further, unbilled dues are required to be disclosed separately. The Committee confined its examination to the classification and presentation of unbilled revenue and did not examine other matters, including the measurement or timing of revenue recognition, the appropriateness of meter-reading and billing systems, or specific contractual terms.

Accordingly, the Committee concluded that the unbilled receivables in the present case should be classified as 'Trade Receivables' under 'Financial Assets' within current or non-current assets, depending on the applicable classification criteria. Such unbilled receivables should also be disclosed separately in the financial statements in accordance with the requirements of Schedule III to the Companies Act, 2013.

Accounting treatment of land and building components on purchase of Built-Up commercial space including undivided share in land, where future increase in Floor Area Ratio (FAR) or redevelopment rights are retained by Seller, under Ind AS framework.

The Company acquired built-up commercial office space along with proportionate undivided share (UDS) in land from the Ministry of Housing and Urban Affairs (MoHUA), incurring a total cost of INR 39,512.38 lakh towards acquisition and development. As per the Allotment Letters, future increases in Floor Area Ratio (FAR) and redevelopment rights were retained by the Government of India, while the Company acquired rights over the purchased built-up area. The Company allocated the cost between freehold land and building based on relative fair values determined by an independent registered valuer and depreciated only the building component, treating land as a non-depreciable asset. However, during the supplementary audit for FY 2024-25, the C&AG objected to the treatment, contending that since future FAR and redevelopment rights remained with the Government of India, the entire acquisition cost should have been capitalised as building, resulting in an understatement of depreciation.

The Committee noted that the Agreement to Sale explicitly included the price of the proportionate share in land as part of the total consideration. Further, the Company was responsible for land-related taxes and statutory obligations and had the right to sell or transfer the unit along with its proportionate share in land. Accordingly, the Committee observed that the Company had acquired freehold rights in the built-up area together with a proportionate undivided interest in land and had the ability to control its existing use and obtain the related economic benefits. The Committee also clarified that although the proportionate undivided share in land could be sold or pledged only along

with the built-up area, this did not preclude the Company from obtaining future economic benefits arising from the land. The retention of future FAR and redevelopment rights by the Government of India relates to separate rights concerning potential future development and does not affect the Company's existing control over its share of land and building.

The Committee further observed that under the Conceptual Framework and Ind AS 16, an asset is recognised based on control over an economic resource and satisfaction of the relevant recognition criteria, including the probability of future economic benefits and reliable measurement of cost. Further, paragraphs **43, 44** and 58 of Ind AS 16 require significant components of property, plant and equipment to be accounted for separately, with land and buildings treated as separate assets even when acquired together. Accordingly, where the value of the proportionate share in land is significant, the cost initially recognised should be allocated between land and building on a reasonable and appropriate basis, such as their relative fair values at the acquisition date, considering the restrictions relating to FAR and redevelopment rights.

The Committee also clarified that land having an unlimited useful life should not be depreciated, whereas depreciation should be charged on the building component over its useful life. Further, the Company should disclose the basis of allocation of consideration between land and building, key assumptions used in the allocation and the existence of restrictions on the title of the unit, if any, in accordance with Ind AS 16 and Ind AS 1. Impairment testing should also be carried out in accordance with Ind AS 36, particularly considering any changes in restrictions relating to FAR or redevelopment rights.

The Committee clarified that it had not examined the appropriateness of the valuation performed by the registered valuer, the allocation methodology or assumptions used, or the legal interpretation of the relevant agreements. Its analysis was based on the contractual terms considered in the opinion.

Accordingly, the Committee concluded that the built-up commercial space along with the proportionate undivided share in land qualifies for recognition as Property, Plant and Equipment under Ind AS 16. The Company should allocate the cost initially recognised between land and building on a reasonable and appropriate basis, such as their relative fair values at the acquisition date, taking into account restrictions on FAR and redevelopment rights. The land component, having an unlimited useful life, should not be depreciated, while depreciation should be charged on the building component. Appropriate disclosures should be made regarding the allocation basis, key assumptions and restrictions on title, if any, in accordance with Ind AS 16 and other applicable standards, such as Ind AS 1, 'Presentation of Financial Statements'.

Draft Amendments to Ind AS 28 Investments in Associates and Joint Ventures

The Accounting Standards Board (ASB) of the ICAI issued the Exposure Draft on Investments in Associates and Joint Ventures - Amendments to Ind AS 28 for public comments, with the last date for comments being 14 November 2026.

REGULATORY UPDATES

National Financial Reporting Authority

Auditor-Audit Committee Interaction Series 6 - Going Concern

NFRA published its Auditor-Audit Committee Interaction Series 6, focusing on Going Concern. This publication highlights responsibilities of management, audit committees, and statutory auditors in assessing an entity's ability to continue as a going concern under the applicable financial reporting framework and SA 570 (Revised).

The publication highlights the potential questions the auditor may expect from the audit committee, including identification and evaluation of events or conditions that may cast significant doubt on an entity's ability to continue as a going concern, assessment of management's assumptions, cash flow projections and mitigating plans, evaluation of financial support arrangements, and determination of the appropriate audit reporting outcome.

The publication also highlights the distinction between the auditor's assessment under SA 570 (Revised) and reporting under Clause 3(xix) of CARO 2020.

Reserve Bank of India (RBI)

Reserve Bank of India (Commercial Banks - Forthcoming Instructions) Amendment Directions, 2026

RBI issued the Commercial Banks – Forthcoming Instructions Amendment Directions, 2026, introducing the Standardised approach for Counterparty Credit Risk (SA-CCR) in line with Basel standards, effective from 1 April 2027. Key highlights include:

- Mandatory application on a consolidated group-wide basis to banks with international presence or derivative outstanding book value of INR 25,000 crore or more.
- Replacement of the Current Exposure Method (CEM) with SA-CCR for eligible banks, while other banks may continue with CEM or voluntarily adopt SA-CCR.
- Exposure calculation based on Replacement Cost (RC), Potential Future Exposure (PFE) and an alpha factor of 1.4.
- Detailed requirements for netting, collateral recognition, margined and unmargined transactions, CCP exposures and client-cleared transactions.



Section 42(1) of the Reserve Bank of India Act, 1934 - Change in Daily Minimum Cash Reserve Maintenance Requirement

RBI increased the minimum daily Cash Reserve Ratio (CRR) maintenance requirement for scheduled banks from 90% to 99% of the prescribed CRR, effective from the reporting fortnight beginning 16 October 2026.

Banks must maintain at least 99% of the required CRR on each day of the reporting fortnight, while ensuring that the average daily CRR maintained is not below the prescribed requirement.

Reserve Bank of India (Commercial Banks – Forthcoming Instructions) Second Amendment Directions, 2026

RBI amended the Commercial Banks – Forthcoming Instructions Directions, 2025, relating to minimum capital requirements for operational risk. The amendments shall come into effect from 1 April 2027. Key highlights include:

- Clarifies the classification of income, expenses and balance-sheet items under the Interest, Leases and Dividend Component (ILDC), Services Component (SC), and Financial Component (FC).
- Requires 10 years of high-quality annual operational risk loss data; banks with at least five years of such data may use the available data when first calculating Internal Loss Multiplier (ILM).
- Prescribes operational loss calculation based on whether the asset is repaired, replaced or disposed of.
- Clarifies the indicative mapping of Business Indicator items to financial statement schedules and requires banks to follow the prescribed operational risk classification rules.

Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Eleventh Amendment Directions, 2026

RBI amended the Commercial Banks – Prudential Norms on Capital Adequacy, Directions, 2025 to align the leverage ratio framework with the Basel Committee's Leverage Ratio 2017 Standard. The amendments will be effective from 1 April 2027. Key highlights include:

- 4% for Domestic Systemically Important Banks (D-SIBs) and 3.5% for other banks. Indian branches of Global Systemically Important Banks (G-SIBs) must maintain 3.5% plus the applicable leverage ratio buffer.
- Revised methodologies for on-balance-sheet exposures, derivative exposures under current exposure method (CEM) and standardised approach for counterparty credit risk (SA-CCR), Securities Financing Transactions (SFTs), and off-balance-sheet exposures.
- Banks must make enhanced quarterly disclosures and reporting through new LR1 and LR2 templates.

Securities and Exchange Board of India (SEBI)

Introduction of Credit Risk-o-Meter as an additional disclosure mechanism for debt securities

SEBI issued a circular introducing a mandatory colour-coded "Credit Risk-o-Meter" for listed and proposed-to-be-listed debt securities to help investors assess credit risk before investing. Key highlights include:

- Mandatory disclosure in offer documents, abridged prospectuses, private placement memorandums, advertisements, and the web/mobile platforms of Online Bond Platform Providers (OBPPs).
- Mapping of credit ratings to six colour-coded risk levels, ranging from lowest credit risk (AAA) to high to very high risk of default (B to D).
- Disclosure of the credit rating agency, actual credit rating and, for unsecured instruments, a prominent bold red "unsecured" label. Where multiple ratings exist, the lowest rating shall be reflected.
- OBPPs must update the Credit Risk-o-Meter within 24 hours of receiving rating-change intimation from NSDL/CDSL, maintain audit trails and prohibit manual overrides.
- Prescribed disclaimers must be displayed, including additional risk disclosures for unsecured perpetual bonds such as AT1 bonds.

The provisions of the circular came into force after 45 days from the date of issuance.

SEBI (Infrastructure Investment Trusts) Regulations, 2014 ("InvIT Regulations"); SEBI (Real Estate Investment Trusts) Regulations, 2014 ("REIT Regulations"); SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations") and SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations")

SEBI notified amendments to regulatory frameworks pertaining to the SEBI (Infrastructure Investment Trusts) Regulations, 2014 ("InvIT Regulations"), SEBI (Real Estate Investment Trusts) Regulations, 2014 ("REIT Regulations"), SEBI (Alternative Investment Funds) Regulations, 2012 ("AIF Regulations") and the SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). Key highlights include:

- **InvIT and REIT Regulations-** Permitted issuance of Depository Receipts against InvIT and REIT units, revised specified unitholder approval requirements to at least 75% of votes cast (excluding related-party votes, where applicable), and introduced exit rights for dissenting unitholders where the requisite approval is not obtained for sponsor exits in multi-sponsor trusts. For REITs, the amendments also broadened the definition of eligible common infrastructure and removed a specific provision permitting investment in companies exclusively holding common infrastructure.

- **AIF Regulations -** Expanded accredited investor eligibility by introducing securities market exposure as an additional criterion and permitting accreditation through specified SEBI-regulated entities. Revised the dispute resolution framework for investor–AIF/manager disputes and prohibited charging managers' dispute-related losses and expenses to AIF assets.
- **LODR Regulations -** Amended Regulation 62A to mandate listed entities whose non-convertible debt securities are listed on or after the amendment's publication date to list all subsequent issuances of non-convertible debt securities on stock exchanges. The amendment also omitted sub-regulations 62A(2) and 62A(3).

Consultation Paper on Recommendations of the Working Group for review of SEBI LODR Regulations, 2015 - Review of Framework for Monitoring and Disclosure of Utilisation of Issue Proceeds

SEBI issued a consultation paper seeking public comments on the recommendations of the Working Group constituted to review the SEBI (LODR) Regulations, 2015, in relation to the framework for monitoring and disclosure of utilisation of issue proceeds.

Key proposals include strengthening the monitoring mechanism through direct submission of monitoring agency reports to stock exchanges, actions against listed entities in cases of non-cooperation, mandatory appointment of monitoring agencies for all issuances irrespective of issue size (excluding Offer for Sale), harmonisation of ICDR and LODR provisions with respect to monitoring and disclosure of utilisation of issue proceeds, enhanced disclosure requirements, and introduction of a separate regulation governing monitoring agency reports.

Public comments on the consultation paper were invited until 3 November 2026.

Consultation Paper on Recommendations pursuant to Review of provisions of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 related to Initial Public Offer by Small and Medium Enterprises

SEBI has issued a consultation paper proposing a comprehensive review of the Small and Medium Enterprises ("SME") IPO framework under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. The proposals aim to align the SME framework with evolving market dynamics, reduce regulatory burdens, strengthen investor protection, and improve capital market access for SMEs.

Key proposals include replacing the existing paid-up capital-based eligibility criteria with a market capitalisation-based framework, revising operating profitability and business track record requirements, introducing an alternative IPO route for issuers not meeting profitability thresholds subject to higher QIB participation, rationalising lock-in mechanism, easing underwriting and market-making requirements, reducing the minimum IPO application size to INR 1 lakh, revising offer for sale norms, and alignment with mainboard framework and rationalisation of compliance.

Public comments on the proposals were invited until 4 November 2026.

Compilation of Informal Guidance relating to SEBI (PIT) Regulations, 2015 for the period October 2015-September 2026

SEBI issued informal guidance under the SEBI (Informal Guidance) Scheme, 2025 by way of no-action letters and interpretive letters, providing interpretations of specific provisions administered by SEBI in the context of proposed transactions in securities or specific factual situations.

To enable users to access all informal guidance relating to the SEBI (Prohibition of Insider Trading) Regulations, 2015 at one place, SEBI has published a compilation consolidating all informal guidance issued during the period October 2015 to September 2026. The compilation provides details of the queries raised, SEBI's interpretations, relevant provisions of the PIT Regulations and links to the respective informal guidance, with a view to providing ease of reference.

Ministry of Cooperation Central Registrar of Cooperative Societies Audit & Compliance Division

Multi-State Co-operative Societies (Auditor's Report) Order, 2026 (MSCARO, 2026)

The Central Government has issued Multi-State Co-operative Societies (Auditor's Report) Order, 2026 (MSCARO, 2026). Every Multi-State Co-operative Society shall, in addition to its audited financial statements, get its accounts/activities audited and submit the duly signed and verified audit report in Form X, along with the audited financial statements, to the Central Registrar under Section 120 of the Multi-State Co-operative Societies Act, 2002.

In the FY 2027-28, the provisions of this Order shall apply to every Multi-State Co-operative Society having in the FY 2026-27:

- Gross Receipts exceeding INR 1,000 crore or
- Aggregate of deposits and borrowings at any time during the year exceeding INR 1,000 crore or
- Loans & advances at any time during the year exceeding INR 1,000 crore.

The provisions of this Order shall apply in FY 2028-29 and every year thereafter to every Multi-State Co-operative Society having in the immediately preceding FY:

- Gross Receipts exceeding INR 50 crore or
- Aggregate of deposits and borrowings at any time during the year exceeding INR 50 crore or
- Loans & advances at any time during the year exceeding INR 50 crore.



REGULATORY UPDATES



Reserve Bank of India (RBI)

Notification dated 1 October 2026: Reserve Bank of India (Commercial Banks - Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026[1]

RBI has issued the Commercial Banks - Acquisition and Holding of Shares or Voting Rights Amendment Directions, 2026 on 1 October 2026. The Amendment Directions come into effect from 1 October 2026. Key highlights include:

- The portfolio manager is not deemed to acquire the shares indirectly where the client is the registered owner with voting entitlement, the manager gives only non-binding advice, and any voting by the manager is under the client's specific mandate.
- A "qualifying person" is a qualifying mutual fund, insurance company or pension fund that does not belong to the promoter group of the investee banking company. A "qualifying person with one-time approval" is a qualifying person that has obtained one-time approval under paragraph 14 but does not currently hold a major shareholding in the investee banking company.
- The RBI may, at its discretion and on an application through PRAVAAH, grant one-time approval to qualifying persons, individually or collectively, for subsequent acquisitions of major shareholding up to 10% of the paid-up share capital or voting rights of a banking company. The application is made through PRAVAAH with the Form A declaration, and a bank may apply on behalf of a qualifying person belonging to its promoter group or group of the bank. The banking company must furnish its comments in Form A1, as per paragraph 10. The approval is subject to its specified conditions and other applicable provisions and may be revoked for non-compliance or if the qualifying person or any associated person is found not "fit and proper". The 10% limit is computed on an aggregate basis per paragraph 4(2), and a bank may apply on behalf of a qualifying person belonging to its promoter group or group of the bank. The requirement for prior approval for the initial acquisition of major shareholding continues.
- After the initial acquisition of major shareholding, major shareholders with one-time approval and qualifying persons with one-time approval must report any decrease below, or increase above, 5% of aggregate holding to the RBI and the banking company within three working days of the event.

Notification dated 1 October 2026: Reserve Bank of India (Small Finance Banks - Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026[2]

RBI has issued the Small Finance Banks - Acquisition and Holding of Shares or Voting Rights Amendment Directions, 2026 on 1 October 2026. The Amendment Directions come into effect from 1 October 2026. Key highlights include:

- The portfolio manager is not deemed to acquire the shares indirectly where the client is the registered owner with voting entitlement, the manager gives only non-binding advice, and any voting by the manager is under the client's specific mandate.
- A "qualifying person" is a qualifying mutual fund, insurance company or pension fund that does not belong to the promoter group of the investee banking company. A "qualifying person with one-time approval" is a qualifying person that has obtained one-time approval under paragraph 14 but does not currently hold a major shareholding in the investee banking company.

[1] RBI/2026-27/275 DOR.HOL.REC.No.235/16.13.100/2026-27
[2] RBI/2026-27/276 DOR.HOL.REC.No.236/16.13.100/2026-27

- The RBI may, at its discretion and on an application through PRAVAAH, grant one-time approval to qualifying persons, individually or collectively, for subsequent acquisitions of major shareholding up to 10% of the paid-up share capital or voting rights of a banking company. The application is made through PRAVAAH with the Form A declaration, and a bank may apply on behalf of a qualifying person belonging to its promoter group or group of the bank. The banking company must furnish its comments in Form A1, as per paragraph 10. The approval is subject to its specified conditions and other applicable provisions and may be revoked for non-compliance or if the qualifying person or any associated person is found not "fit and proper". The 10% limit is computed on an aggregate basis per paragraph 4(2), and a bank may apply on behalf of a qualifying person belonging to its promoter group or group of the bank. The requirement for prior approval for the initial acquisition of major shareholding continues.
- After the initial acquisition of major shareholding, major shareholders with one-time approval and qualifying persons with one-time approval must report any decrease below, or increase above, 5% of aggregate holding to the RBI and the banking company within three working days of the event.

Notification dated 1 October 2026: Reserve Bank of India (Payments Banks - Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026[3]

RBI has issued the Payment Banks - Acquisition and Holding of Shares or Voting Rights Amendment Directions, 2026 on 1 October 2026. The Amendment Directions come into effect from 1 October 2026. Key highlights include:

- The portfolio manager is not deemed to acquire the shares indirectly where the client is the registered owner with voting entitlement, the manager gives only non-binding advice, and any voting by the manager is under the client's specific mandate.
- A "qualifying person" is a qualifying mutual fund, insurance company or pension fund that does not belong to the promoter group of the investee banking company. A "qualifying person with one-time approval" is a qualifying person that has obtained one-time approval under paragraph 14 but does not currently hold a major shareholding in the investee banking company.
- The RBI may, at its discretion and on an application through PRAVAAH, grant one-time approval to qualifying persons, individually or collectively, for subsequent acquisitions of major shareholding up to 10% of the paid-up share capital or voting rights of a banking company. The application is made through PRAVAAH with the Form A declaration, and a bank may apply on behalf of a qualifying person belonging to its promoter group or group of the bank. The banking company must furnish its comments in Form A1, as per paragraph 10. The approval is subject to its specified conditions and other applicable provisions and may be revoked for non-compliance or if the qualifying person or any associated person is found not "fit and proper". The 10% limit is computed on an aggregate basis per paragraph 4(2), and a bank may apply on behalf of a qualifying person belonging to its promoter group or group of the bank. The requirement for prior approval for the initial acquisition of major shareholding continues.
- After the initial acquisition of major shareholding, major shareholders with one-time approval and qualifying persons with one-time approval must report any decrease below, or increase above, 5% of aggregate holding to the RBI and the banking company within three working days of the event.

Notification dated 1 October 2026: Reserve Bank of India (Local Area Banks - Acquisition and Holding of Shares or Voting Rights) Amendment Directions, 2026[4]

RBI has issued the Local Area Banks - Acquisition and Holding of Shares or Voting Rights Amendment Directions, 2026 on 1 October 2026. The Amendment Directions come into effect from 1 October 2026. Key highlights include:

- The portfolio manager is not deemed to acquire the shares indirectly where the client is the registered owner with voting entitlement, the manager gives only non-binding advice, and any voting by the manager is under the client's specific mandate.
- A "qualifying person" is a qualifying mutual fund, insurance company or pension fund that does not belong to the promoter group of the investee banking company. A "qualifying person with one-time approval" is a qualifying person that has obtained one-time approval under paragraph 14 but does not currently hold a major shareholding in the investee banking company.
- The RBI may, at its discretion and on an application through PRAVAAH, grant one-time approval to qualifying persons, individually or collectively, for subsequent acquisitions of major shareholding up to 10% of the paid-up share capital or voting rights of a banking company. The application is made through PRAVAAH with the Form A declaration, and a bank may apply on behalf of a qualifying person belonging to its promoter group or group of the bank. The banking company must furnish its comments in Form A1, as per paragraph 10. The approval is subject to its specified conditions and other applicable provisions and may be revoked for non-compliance or if the qualifying person or any associated person is found not "fit and proper". The 10% limit is computed on an aggregate basis per paragraph 4(2), and a bank may apply on behalf of a qualifying person belonging to its promoter group or group of the bank. The requirement for prior approval for the initial acquisition of major shareholding continues.
- After the initial acquisition of major shareholding, major shareholders with one-time approval and qualifying persons with one-time approval must report any decrease below, or increase above, 5% of aggregate holding to the RBI and the banking company within three working days of the event.

[3] RBI/2026-27/277 DOR.HOL.REC.No.237/16.13.100/2026-27
[4] RBI/2026-27/278 DOR.HOL.REC.No.238/16.13.100/2026-27

Notification dated 7 October 2026: Direction - Reserve Bank of India (Commercial Banks – Forthcoming Instructions) Amendment Directions, 2026[5]

RBI has issued the Commercial Banks – Forthcoming Instructions Amendment Directions, 2026 on 7 October 2026, introducing the Standardised Approach for Counterparty Credit Risk (SA-CCR) to measure the risk that the other party to a derivative transaction defaults before settlement. The Directions come into effect from 1 April 2027. Key highlights include:

- Standardised Approach for Counterparty Credit Risk ("SA-CCR") replaces the Current Exposure Method ("CEM"), which was followed earlier. SA-CCR guidelines first issued in 2016 had not been brought into force, and the framework now has a fixed implementation date of 1 April 2027.
- SA-CCR is mandatory, on a consolidated group-wide basis, for banks with an international presence or derivatives outstanding book value of INR 25,000 crore or more. Other banks may continue with CEM or voluntarily adopt SA-CCR.
- Exposure is calculated as an alpha factor of 1.4 multiplied by the sum of Replacement Cost ("RC"), being the loss if the counterparty defaulted today, and Potential Future Exposure ("PFE"), being the extent to which that loss could grow. PFE is computed by asset class, and margined and unmargined transactions are treated separately.
- Netting is recognised only where arrangements are legally enforceable and supported by written legal reviews, and cross-product netting is not recognised. An incurred Credit Valuation Adjustment ("CVA") loss reduces the exposure amount, but not the CVA risk capital requirement. The framework covers derivatives in both the banking and trading books.
- Trade exposures to qualifying central counterparties ("CCPs") carry a 2% risk weight, while default fund exposures to non-qualifying CCPs attract a 1250% risk weight. Banks must stress-test and periodically report their CCP exposures.
- Banks must make Pillar 3 disclosures on counterparty credit risk through prescribed templates.

Notification dated 7 October 2026: Direction - Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Twelfth Amendment Directions, 2026[6]

RBI has issued the Commercial Banks – Prudential Norms on Capital Adequacy Twelfth Amendment Directions, 2026 on 7 October 2026, with immediate effect. Following a review of the requirements on legal opinion for clearing member banks and on valuation adjustments for incurred CVA losses, RBI has amended the Capital Adequacy Directions, 2025 to align them with international standards. Key updates include:

- A risk weight of 2% applies to a bank's trade exposure to a qualifying central counterparty ("QCCP") in respect of Over the Counter ("OTC") derivatives, exchange-traded derivatives and securities financing transactions, where the bank acts as a clearing member for its own purposes.
- The 2% risk weight also applies where the bank offers clearing services to clients and must compensate them for losses if the QCCP defaults. Earlier, a clearing member that was not required to compensate its clients did not have to hold capital for this exposure, provided it had an independent legal opinion. This exemption is no longer retained.
- When working out exposure at default ("EAD"), a bank can reduce the exposure by an incurred Credit valuation adjustment ("CVA") loss, meaning a write-down already recorded for the counterparty's credit risk. The amount must be the one recorded in the bank's financial statements. It cannot be adjusted for debit valuation adjustments already deducted from capital.
- This EAD reduction does not apply to the CVA risk capital requirement. Banks must maintain documentation of the incurred write-down and reconcile it to their financial statements. The earlier sub-paragraphs (c), (d) and (e) of paragraph 213(2)(iv), which prescribed the formula for calculating incurred CVA losses, have been deleted.

Circular dated 7 October 2026: Liquidity Adjustment Facility - Change in Rates[7]

The RBI, pursuant to the Monetary Policy Statement dated 7 October 2026, has revised the policy repo rate under the Liquidity Adjustment Facility ("LAF") upwards by 25 basis points from 5.25% to 5.50%, with immediate effect. Consequently, the Standing Deposit Facility ("SDF") rate and Marginal Standing Facility ("MSF") rate have also been revised as follows:

1. Policy Repo Rate: Increased from 5.25% to 5.50%.
2. Standing Deposit Facility Rate: Revised from 5.00% to 5.25%.
3. Marginal Standing Facility Rate: Revised from 5.50% to 5.75%.

All other terms and conditions of the existing LAF Scheme remain unchanged.

Circular dated 7 October 2026: Penal Interest on Shortfall in CRR and SLR Requirements – Change in Bank Rate[8]

The RBI has revised the Bank Rate upwards by 25 basis points from 5.50% to 5.75%, with immediate effect, pursuant to the Monetary Policy Statement dated 7 October 2026. Consequently, the penal interest rates applicable to banks in case of shortfall in Cash Reserve Ratio ("CRR") and Statutory Liquidity Ratio ("SLR") requirements, which are linked to the Bank Rate, have also been revised as follows:

1. Penal interest rate: Bank Rate plus 3.0 percentage points, revised from 8.50% to 8.75%.
2. Penal interest rate: Bank Rate plus 5.0 percentage points, revised from 10.50% to 10.75%.

The revised penal interest rates shall apply with immediate effect, while the applicable rate will depend on the duration of the shortfall in reserve requirements.

[5] RBI/2026-27/284 DOR.MRG.REC.240/00-00-001/2026-27
[6] RBI/2026-27/286, DOR.MRG.REC.No.242/00-00-001/2026-27
[7] RBI/2026-27/282 FMOD.MAOG.No.154/01.01.001/2026-27
[8] RBI/2026-27/283 DoR.RET.REC.239/12.01.001/2026-27

Notification dated 7 October 2026: Direction - In connection with the Fifth Amendment to the Prudential Norms on Capital Adequacy for All India Financial Institutions (AIFIs).

The Reserve Bank of India, vide its notification dated 7 October 2026, issued the Reserve Bank of India (All India Financial Institutions (AIFIs) – Prudential Norms on Capital Adequacy) Fifth Amendment Directions, 2026 ("the Amendment Directions"), amending the existing Prudential Norms on Capital Adequacy Directions, 2025, to align the regulatory framework with international standards.

RBI amended paragraph 77(6)(i)(a) of the capital adequacy directions for All India Financial Institutions (AIFIs).

1. A 2% risk weight applies to an AIFI clearing member's own trade exposure to a qualifying central counterparty (QCCP) for over-the-counter derivatives, exchange-traded derivatives and securities financing transactions.
2. For client clearing, the same weight applies to the AIFI's trade exposure to the QCCP where it must reimburse client losses following the QCCP's default.

These Amendment Directions came into effect from the date of issuance, i.e., 7 October 2026.

Notification dated 7 October 2026: Direction-Credit Valuation Adjustment ("CVA") Framework for Commercial Banks

RBI has issued the Commercial Banks – Credit Valuation Adjustment Framework Directions, 2026 on 7 October 2026, setting out how banks must calculate capital for Credit Valuation Adjustment (CVA) risk, being the risk of losses on derivatives from changes in counterparty credit spreads and other market factors. The Directions come into effect from 1 April 2027. Key highlights include:

1. Banks must calculate CVA capital for all derivatives in both the banking and trading books, including overseas branches. Derivatives transacted directly with qualifying central counterparties (QCCPs), certain other specified transactions and securities financing transactions are excluded.
2. The Basic Approach (BA-CVA) is the default method, in a reduced or full version. The full version recognises eligible CVA hedges, namely single-name and index credit default swaps, while the reduced version does not. Banks using the full version must also compute the reduced version.
3. Banks whose aggregate notional amount of non-centrally cleared derivatives, on a consolidated group-wide basis, is INR 10 lakh crore or less may instead set CVA capital at 100% of their counterparty credit risk capital requirement, without recognising hedges. RBI may not permit this option where CVA risk materially contributes to a bank's overall risk.
4. Capital is computed using supervisory risk weights based on the counterparty's sector and credit quality (investment grade or otherwise), exposure at default, and effective maturity with a one-year floor. Risk-weighted assets for CVA risk are the capital charge multiplied by 12.5.
5. Banks must make Pillar 3 disclosures on CVA risk through Table CVAA (annual) and Templates CVA1 and CVA2 (semi-annual).

Notification dated 10 October 2026 - RBI/2026-27/291 A.P. (DIR Series) Circular No. 25 - RBI steps in to ease pressure on rupee

The RBI has introduced measures to curb speculative activity in the foreign exchange derivatives market and ease pressure on the Indian Rupee. Key measures include reducing the permissible limit for foreign exchange derivative positions without underlying exposure from USD 100 million to USD 5 million, restricting rebooking of cancelled INR-linked derivative contracts and strengthening compliance requirements for hedging transactions.

Further, Authorised Dealers (ADs) are prohibited from permitting the rebooking of cancelled INR-linked derivative contracts, although rollover of contracts upon maturity continues to be permitted, subject to applicable regulations.

The revised USD 5 million limit also extends to positions in exchange-traded INR currency derivatives across recognised stock exchanges

Notification dated 10 October 2026 -RBI/2026-27/292 A.P (DIR series) Circular No. 26 - RBI steps in to ease pressure on rupee

Banks must now park 20% of the rupee value of large dollar-buying hedges with the RBI, in cash, for as long as the contract runs.

On 10 October 2026, the RBI introduced a Foreign Exchange Risk Reserve (FERR) for Authorised Dealers (ADs). It covers rupee-linked forex derivatives with customers where the notional value exceeds USD 2 million, the purpose is hedging a current account transaction (an import payment, for example), and the customer is buying foreign currency against the rupee.

The AD deposits 20% of the rupee equivalent of the contract's notional amount with the RBI, in cash. The deposit is maintained daily until the contract ends. Splitting a hedge into smaller contracts to stay under the threshold is prohibited. ADs must report their FERR position daily through the RBI's CIMS portal.



Notification No. RBI/2024-25/134 dated 28 March 2025 in connection with instructions on Special Clearing Operations on 31 March 2025

Department of Government and Bank Accounts ("DGBA") issued a circular on 17 March 2025 to all the agency banks on Annual Closing of Government Accounts.

According to that Special clearing will be conducted for collection of Government cheques on 31 March 2025 for which RBI will issue necessary instructions.

Instructions issued by RBI:

Normal clearing timings under Cheque Truncation System ("CTS") as applicable to any working "Monday" shall be followed on 31 March 2025. Further, to facilitate accounting of all the Government transactions for FY 24-25, it has been decided to conduct Special Clearing under CTS exclusively for Government Cheques on 31 March 2025.

Timings:

Presentation Session: 17:00 to 17:30

Return Session: 19:00 to 19:30

All the member banks of CTS are required to keep their inward clearing processing infrastructure open during these hours and maintain sufficient balance in their clearing settlement account to meet settlement obligations

It is mandatory for all banks to participate in the special clearing operations

Notification No. RBI/2024-25/130 dated 24 March 2025 in connection with Review of Priority Sector Lending (PSL) Target – Urban Co-operative Banks (UCBs)

The Reserve Bank of India has revised the Priority Sector Lending ("PSL") target for Urban Co-operative Banks ("UCBs") following a review.

As per the earlier circulars, UCBs were required to meet an overall PSL target of 75% of Adjusted Net Bank Credit ("ANBC") or Credit Equivalent of Off-Balance Sheet Exposure ("CEOBSE") by FY2025-26, with interim targets of 60% for FY2023-24 and 65% for FY2024-25. However, starting FY2024-25, the overall PSL target for UCBs has been revised to 60% of ANBC or CEOBSE, whichever is higher. The other provisions from the circular dated 8 June 2023, remain unchanged, and this new instruction supersedes the relevant guidelines previously outlined.



Notification No. RBI/2024-25/132 dated 25 March 2025 in relation to Amendment in Gold Monetization Scheme ("GMS"), 2015

The Government of India, through a press release dated 25 March 2025, has announced the discontinuation of the Medium Term and Long Term Government Deposit ("MLTGD") components of the GMS, effective from 26 March 2025.

As a result, gold deposits for the MLTGD component, tendered at the designated Collection and Purity Testing Centres ("CPTC"), GMS Mobilisation, Collection & Testing Agents ("GMCTA"), or designated bank branches, will no longer be accepted after 25 March 2025.

However, banks may, at their discretion, continue to offer Short Term Bank Deposits ("STBD") under the GMS. Gold deposits mobilised under the MLTGD component until 25 March 2025 will remain valid and continue until redemption, in accordance with existing guidelines.

Further, RBI has amended the Master Direction dated 22 October 2015 and Frequently Asked Questions, are also being updated.

This circular is applicable to all Scheduled Commercial Banks, excluding Regional Rural Banks w.e.f. 26 March 2025

Circular NB.DoS.Pol.HO/2533/J-1/2019-20 dated 12 December 2019 in connection to Amortisation of additional pension liability - Implementation of Pension Scheme in Regional Rural Banks with effect from 1 November 1993 - Prudential Regulatory Treatment

Regional Rural Banks (RRBs) were initially permitted to amortise their pension liabilities arising from the RRB (Employee) Pension Scheme 2018 over a period of five years, beginning with the financial year ending 31 March 2019.

However, in light of the challenges associated with absorbing the increased liability in a single financial year, a revised approach has been adopted. RRBs are now required to implement the pension scheme w.r.e.f 1 November 1993. The following course of action may be taken:

1. The liability associated with the pension scheme shall be fully recognised in accordance with the accounting standards.
2. If the expenditure arising from the pension revision is not fully charged to the Profit and Loss Account in FY 2024-25, it may be amortised over a period of five years, starting from FY 2024-25. However, a minimum of 20% of the total pension liability must be recognised as an expense in each year.
3. RRBs are required to disclose the accounting policy adopted in the 'Notes to Accounts' section of their financial statements, including the amount of unamortised expenditure. Furthermore, RRBs must also disclose the impact on net profit that would occur if the unamortised expenditure were fully recognised in the Profit and Loss Account.
4. Pension related to unamortised expenditure will not be reduced from Teir 1 Capital of the RRBs

This circular is applicable to all RRBs w.e.f FY 2024-25

Notification No. RBI/2026-26/279 dated 1 October 2026 in connection to online submission of Form A2 - Removal of limits on amount of remittance

RBI, through its notification no. RBI/2026-27/279 (A.P. (DIR Series) Circular No. 23) dated 1 October 2026, has revised the approval framework for internal guidelines relating to online submission of Form A2 and other related documents for outward foreign exchange remittances. Previously, such internal guidelines required approval of the Board.

Now, Authorised Dealers (AD Category I banks and AD Category II entities) may obtain approval from:

- The Board; or
- A board committee or management committee to which powers have been delegated by the Board.

The circular provides greater operational flexibility in approving internal guidelines for facilitating outward forex remittances through online or physical submission of Form A2 and related documents. All other provisions of A.P. (DIR Series) Circular No. 12 dated 3 July 2024 remain unchanged.

Notification No. RBI/2026-27/280 dated 1 October 2026 in connection with Non-Resident Deposits - Comprehensive Single Return (NRD-CSR) (R012): Submission under CIMS Sankalan Portal

RBI, through its notification no. RBI/2026-27/280 (A.P. (DIR Series) Circular No. 24) dated 1 October 2026, has streamlined the reporting framework for Non-Resident Deposits - Comprehensive Single Return (NRD-CSR). Previously, banks were required to submit the monthly NRD-CSR return through the XBRL platform in terms of A.P. (DIR Series) Circular No. 19 dated 7 August 2013.

Now, NRD-CSR reporting has been migrated to the Centralised Information Management System (CIMS) Sankalan Portal (Return Code: R012), and the reporting formats have been rationalised for submission of consolidated bank-wise data.

The NRD-CSR return may be submitted through any of the following channels:

- System-to-system integration between the bank's ADF server and RBI's CIMS server.
- File upload through the CIMS Data Collection Portal.
- Screen-based web form submission through the CIMS Data Collection Portal.

Further, RBI has provided the following reporting options for banks:

- Preparation and submission of data through the prescribed excel-based return template available on the CIMS Sankalan Portal.
- Preparation and upload of XML files based on RBI-prescribed taxonomy for file upload or system-to-system reporting.

The circular supersedes A.P. (DIR Series) Circular No.19 dated 7 August 2013. Banks are required to submit the monthly NRD-CSR return on or before the 10th day of the month following the reporting month. The revised reporting formats, maturity codes, record types and validation checks have also been prescribed by RBI to facilitate uniform reporting under the CIMS framework.

Notification No. RBI/2026-27/287 DOR.MRG.REC.No.243/00-00-001/2026-27 dated 7 October 2026 in connection with Small Finance Banks – Prudential Norms on Capital Adequacy

The Reserve Bank of India (RBI), vide its Sixth Amendment Directions dated 7 October 2026, has amended the existing capital adequacy guidelines applicable to Small Finance Banks (SFBs) relating to risk weight requirements for banks acting as clearing members of Qualified Central Counterparties (QCCPs) wherein the objective is to align the existing RBI guidelines with international standards.

In this regard, the amendment prescribes a risk weight of 2% on a bank's trade exposures to a QCCP arising from Over-the-Counter (OTC) derivatives, exchange-traded derivatives and Securities Financing Transactions (SFTs), where the bank acts as a clearing member for its own purposes and when they provide clearing services to clients, subject to the contractual obligation to reimburse clients for any losses arising from such transactions in the event of a default by the QCCP.

The aforesaid amendment has been made under the powers conferred upon the RBI under Section 35A of the Banking Regulation Act, 1949, and has come into effect immediately.

RBI A.P. (DIR Series) Circular No. RBI/2026-27/291 dated 10 October 2026 in connection with Risk Management and Inter-Bank dealings

The RBI has issued a circular introducing stricter norms for foreign exchange derivative contracts involving the INR according to which now rebooking of cancelled derivative contracts, whether deliverable or non-deliverable, shall not be allowed by the authorised dealer. However, rollover of foreign exchange derivative contracts on maturity is still permitted.

Further, there has been a sharp cut in the limit for positions without the requirement to establish the existence of underlying exposure. Two existing facilities have been cut from USD 100 million to USD 5 million each. The first allows users to hedge contracted exposure across all ADs without establishing the existence of underlying exposure. The second allows users to take long or short positions across all INR currency pairs, combined across all Recognized Stock Exchanges, without establishing an underlying exposure.

Further, at the time of offering a foreign exchange derivative contract involving INR to hedge a contracted exposure, ADs must now obtain and retain an undertaking from the user that the same exposure has not been hedged with another AD. If the exposure is being hedged in parts with multiple ADs, the undertaking must state the amounts already booked elsewhere. It can be taken as part of the deal confirmation and is in addition to other documents ADs may already require. It means that now ADs are responsible for ensuring compliance, including verifying the existence of underlying exposure, and must retain the supporting documents for at least two years.

This direction shall come into force with immediate effect.

Circular A.P. (DIR Series) No. 28/2026-27 (RBI/FED/2026-27/298) dated 23 October 2026 in connection with Delegation of Compounding of certain Contraventions under FEMA, 1999 to Regional Offices of the Reserve Bank

RBI, through its Circular A.P. (DIR Series) No. 28/2026-27 dated 23 October 2026, has delegated the compounding of certain contraventions under the Foreign Exchange Management Act, 1999 ("FEMA") relating to Overseas Investments, Borrowing & Lending, and Guarantees to specified Regional Offices of RBI. Earlier, applications for these categories were received at the Central Office of RBI, while certain foreign investment contraventions were already being handled by Regional Offices. The move aims to improve customer service, reduce processing time and decentralise FEMA compounding administration.

Routing of Applications – Overseas Investment

Applications will be routed to the Regional Office based on the first two letters of the Unique Identification Number ("UIN") allotted to the foreign entity, overseas joint venture or overseas wholly owned subsidiary:

- **Ahmedabad:** AH
- **Bengaluru:** BG
- **Mumbai:** BL, BY and PJ
- **Kolkata:** BN, CA, GA and GH
- **New Delhi:** CG, JM, JR, KA, ND, PT and WR
- **Hyderabad:** HY
- **Chennai:** KO and MA

Routing of Applications – Borrowing, Lending and Guarantees

Applications will be submitted to the Regional Office having jurisdiction over the registered office of the Indian company / entity, or the place of domicile of the applicant, as per Part C of Annexure I to the Master Directions on compounding.

However, where the lending or guarantee is towards a foreign entity in which the applicant has made an overseas investment, the application shall follow the overseas investment routing (i.e. based on mentioned UIN above) and not the registered office.

Matters retained with the Central Office

The following will continue to be handled by the Cell for Effective implementation of FEMA ("CEFA"), Foreign Exchange Department, Central Office, Mumbai:

- Overseas investment contraventions where no UIN has been allotted.

Applications involving multiple categories of transactions whose compounding has been delegated to different Regional Offices, which shall be filed as a single application.

Securities and Exchange Board of India (SEBI)

Circular dated 28 March 2025: Intraday Monitoring of Position Limits for Index Derivatives

SEBI issued a Master Circular on 30 December 2024 with regards to Intraday Monitoring of Position Limits for Index Derivatives.

However, various concerns were raised by Industry Associations pertaining to the readiness of systems at the end of stock brokers and their clients to monitor existing position limits intraday for index derivatives.

Therefore, to address these concerns SEBI has issued the following clarifications:

- *From 1 April 2025, exchanges shall continue monitoring position limits for index derivatives intraday in line with earlier instructions.*
- ***However, there shall be no penalty for breach of existing position limits intraday and such intraday breaches shall not be considered as violations, until any further directions.***
- *Further, Exchanges shall prepare a joint SOP intimating market participants regarding modalities of monitoring existing notional position limits intraday and intimate such breaches to clients / trading members for their risk monitoring.*

Circular No. SEBI/HO/CFD/DCR1/CIR/P/ 2025/0034 dated 20 March 2025 in connection with Online Filing System for reports filed under Regulation 10(7) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

As per Regulation 10(7) of SEBI's Takeover Regulations, acquirers are required to submit a report, along with supporting documents and a non-refundable fee, for certain exempted acquisitions. Currently, these reports are submitted via email to SEBI. To streamline operations, SEBI has introduced an online filing system through the SEBI Intermediary Portal (SI Portal).

In the first phase, online submissions will be allowed for reports related to acquisitions resulting from inter se transfer of shares among the following qualifying persons:

i. immediate relatives - Rule 10(1)(a)(i)

ii. Persons identified as promoters in the shareholder pattern filed by the Target Company, in accordance with listing regulations (Rule 10(1)(a)(ii))

For now, both email and SI Portal submissions will be accepted, but from 15 May 2025, only online submissions via the SI Portal will be allowed.

Fee payments for these reports will only be processed through the SI Portal, and SEBI's e-services payment link will no longer be available.

This circular shall come into effect from 20 March 2025.

Notification No. SEBI/HO/CFD/PoD-1/P/CIR/2025/33 dated 19 March 2025 in connection with Framework on Social Stock Exchange ("SSE")

SEBI, through its circular SEBI/HO/CFD/PoD-1/P/CIR/2022/120 dated 19 September 2022, introduced a detailed framework for the Social Stock Exchange (SSE) to provide a platform for social enterprises and non-profit organisations to raise funds for social causes.

Zero Coupon Zero Principal (ZCZP) instruments are financial instruments designed for non-profit organisations (NPOs) to raise funds, where neither interest (coupon) nor the principal amount is repaid to the investor. Contributions made through subscribing to ZCZP are eligible for deduction u/s 80G of the Income-tax Act, 1961.

This framework was amended on 28 December 2023 vide circular SEBI/HO/CFD/PoD-1/P/CIR/2023/196). The amendment addresses the minimum application size for subscribing to Zero Coupon Zero Principal (ZCZP) Instruments under the SSE framework. Initially, the minimum subscription size was set at INR 10,000.

Following recommendations from the SSE Advisory Committee and public feedback, SEBI has further reduced the minimum subscription size set to INR 1,000. This revision aims to encourage greater participation from retail investors and smaller entities in the social finance ecosystem, making impact investments more accessible.

The change is effective immediately.

Notification No. SEBI/LAD-NRO/GN/2025/236 dated 20 March 2025 in connection with Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2025.

The Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2025, amend the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999, with the goal of introducing new provisions to strengthen the framework around credit rating agencies. A new Chapter IIA has been inserted, which outlines the recognition of an eligible credit rating agency as a "Past Risk and Return Verification Agency."

This new provision, under Regulation 12A, allows credit rating agencies to undertake the activity of verifying past risks and returns, but only with prior approval from the SEBI Board. The activity must be carried out in accordance with terms and conditions specified by the Board. Furthermore, the Past Risk and Return Verification Agency is required to partner with a recognised stock exchange to establish a "Past Risk and Return Verification Agency Data Centre," again subject to the terms and conditions set by the SEBI Board. This amendment aims to enhance transparency and accountability in the functioning of credit rating agencies and their involvement in risk and return verification processes.

The regulations will come into force once they are published in the Official Gazette.

Notification No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/35 dated 20 March 2025 in connection with the disclosure of holding specified securities in a dematerialised format.

Based on representations received, SEBI is partially modifying the shareholding pattern under Annexure 2 of the section II-A to the circular SEBI/HO/CFD/PoD2/CIR/P/0155 as under. The Modifications include:

1. Table I-IV of the shareholding pattern has been amended as under:
    i. Disclosure of details of Non-Disposal Undertaking ('NDU'), Other encumbrances, and total number of shares pledged or otherwise encumbered including NDU; ii. Clarification on underlying outstanding convertible securities includes ESOPs, i.e., the existing header of column X of table I;
    iii. Additional column to capture the details of total number of shares on fully diluted basis (including warrants, ESOP, Convertible Securities etc.)

Stock Exchanges are advised to notify all the listed companies, disseminate the same on their website and make amendments to the relevant byelaws, rules and regulations.

Additionally, depositories are directed to update their systems to capture the necessary changes.

This circular shall come into force with effect from the quarter ending 30 June 2025.

Notification No. SEBI/LAD-NRO/GN/2025/238 dated 20 March 2025 in connection with the Securities Contracts (regulation) (Stock Exchanges and Clearing Corporations) (Second Amendment) Regulations, 2025

SEBI vide the notification has interested Regulation 38B to the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 :-

"**Verification of risk-return metrics**:*38B. Notwithstanding anything contained in these regulations, the activity of a Past Risk and Return Verification Agency Data Centre as referred to in sub-regulation (2) of Regulation 12A of the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999, may be carried out by a recognised stock exchange, with the approval of the Board, on such terms and conditions as may be specified by the Board."*

This amendment shall come into effect on the date of their publication in the Official Gazette.



Circular No. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/36 dated 21 March 2025 in connection with Alignment of interest of the Designated Employees of the Asset Management Company (AMC) with the interest of the unitholders

SEBI, vide the aforementioned notification aimed at facilitating ease of doing business by revising the framework that aligns the interests of designated employees of Asset Management Companies (AMCs) with those of mutual fund unitholders. These changes are effective from 1 April 2025

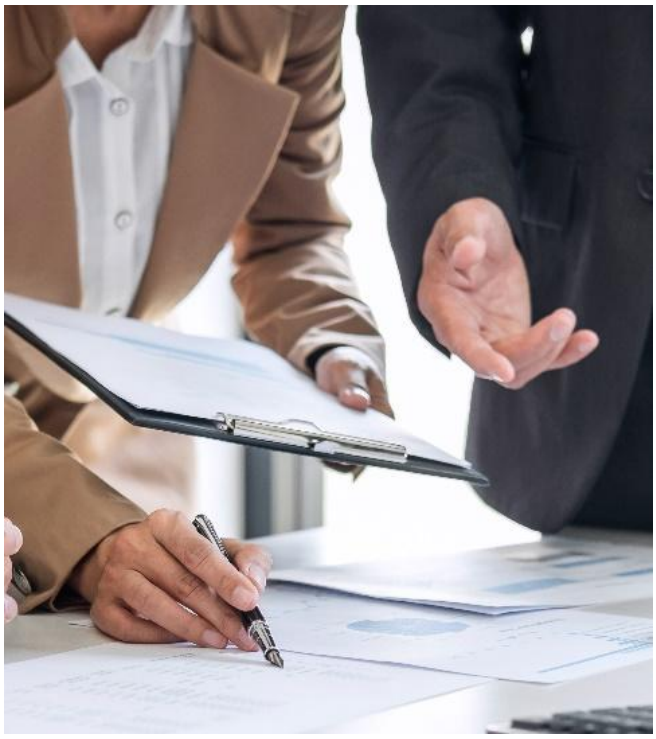
Designated AMC employees are now required to invest a percentage of their gross annual compensation (after tax and statutory deductions) into mutual fund schemes they oversee. The investment percentages are structured based on salary brackets

AMCs can choose between two options for calculating these investments, with Option A excluding ESOPs and Option B including them. Employees without ESOPs in their compensation fall under Option A

Employees are classified into two categories, each with specific investment slab applications

- Category A: Includes CEO, CIO, fund managers, investment research team, dealers, CRO, compliance officer and investment committee members
- Category B: Includes direct reportees to the CEO (excluding personal assistant/ secretary and Category A employees), CISO, COO, sales head, investor relations officer, and heads of non-investment and risk departments

For comprehensive details, please refer to Circular No. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2025/36.



Circular No. SEBI/HO/OIAE/OIAE_IAD-3/P/CIR/2025/3 dated 19 March 2025 in connection with Harnessing DigiLocker as a Digital Public Infrastructure for reducing Unclaimed Assets in the Indian Securities Market

SEBI has mandated the inclusion of Mutual Fund (MF) and demat account statements in DigiLocker, allowing individuals to access their financial holdings in one secure location. AMCs, RTAs, and Recognized Depositories must register with DigiLocker for investors to retrieve their holding, transaction statements, and Consolidated Account Statements (CAS). Users can also opt to auto-fetch their CAS annually on January 1.

KRAs must notify DigiLocker of investor deaths to ensure data protection, facilitating quick asset transmission to nominees. SEBI urges investors to register for DigiLocker and assign nominees. In case of death, nominees will be notified and can access the financial documents to initiate asset transfer.

This initiative aims to reduce unclaimed assets by ensuring that financial documents are easily traceable and transferable after an investor's death.

Notification No. SEBI/HO/AFD/AFD-POD-1/P/CIR/2025/29 dated 3 March 2025 in connection to Relaxation in timeline for reporting of differential rights issued by AIFs

The AIF Regulations were amended and notified on 18 November 2024 to ensure pro-rata and pari-passu rights for investors in a scheme of an AIF. Subsequently, SEBI's circular dated 13 December 2024, provided a framework for differential rights that AIFs may offer to select investors without affecting the rights of other investors.

A one-time reporting requirement was mandated for AIFs whose Private Placement Memorandums were filed with SEBI on or after 1 March 2020, and issued differential rights not meeting the implementation standards be 28 February 2025. This due date has been extended to 31 March 2025. This extension aims to facilitate compliance while ensuring investor protection and market regulation.

This Circular shall come into force immediately.

Circular dated 28 March 2025 in connection to Extension of timelines w.r.t. Adoption and Implementation of Cybersecurity and Cyber Resilience Framework (“CSCRF”) for SEBI Regulated Entities (“REs”), (“the circular”)

This Circular extends the compliance timelines for the adoption and implementation of the CSCRF for REs from 1 April 2025 by three months, until 30 June 2025.

This extension applies to all REs except Market Infrastructure Institutions (MIIs), KYC Registration Agencies (KRAs), and Qualified Registrars to an Issue and Share Transfer Agents (“QRTAs”).

Stock exchanges are directed to notify this circular to their members/ participants and disseminate the same on their websites.

This circular is applicable, with immediate effect.

Circular No. HO/17/11/24(7)2026-DDHS-POD1/I/23122/2026 dated 7 October 2026 in connection with exemption from the requirement of mandatory merchant banker appointment for debt issued through private placement by certain listed issuers

SEBI has issued a circular relaxing the mandatory requirement of appointing merchant banker under clause 1.3 of Chapter V of the NCS Master Circular (15 October 2025), wherein the issuer of debt securities or non-convertible redeemable preference shares (face value INR 10,000) on a private placement basis had to appoint at least one merchant banker. The aim is to enhance ease of debt issuance and widen retail access to high-rated securities.

Accordingly, issuer may now skip to appoint a merchant banker subject to fulfilment of certain conditions:

- It is registered or regulated by SEBI, RBI, IRDAI or PFRDA.
- It has been listed on any of the recognised stock exchange for at least one year with no pending fines or penalties for non-compliance of provisions of SEBI (LODR) Regulations, 2015 and subject to confirmation by the stock exchange of the same.
- It has not made any default in the last three financial years, including current year in respect of redemption, repayment or payment of interest/dividend on any debt securities, non-convertible redeemable preference shares, securitised debt instruments, commercial paper, deposits or loans supported by certification from statutory auditors to be submitted with recognised stock certifying the above condition.
- Further, the debt security shall be senior and secured by a first or pari passu charge on identifiable assets of the issuer. However, in case of Central Public Sector Enterprises, PSUs and statutory bodies, debt security can be secured or unsecured.
- The debt security must be rated AA- or above on the date of private placement, considering the lowest rating if there are multiple ratings.

Stock exchanges will prescribe disclosure formats/submissions to be made by the issuer for the compliance of above conditions.

All other provisions of Chapter V remain unchanged.

The provisions of this circular shall come into force with immediate effect.

Circular No. HO/17/11/22(1)2026-DDHS-POD1/I/23092/2026 dated 7 October 2026 in connection with introduction of credit risk-o-meter as an additional disclosure mechanism for debt securities

SEBI has introduced a colour-coded “Credit Risk-o-Meter” as a mandatory component, to assist investor in assessing credit risk prior to investing, to be disclosed in the offer document, abridged prospectus, private placement memorandum, all advertisements of issuers and Online Bond Platform Providers (OBPPs), and web and mobile platforms of OBPPs.

A new Chapter II-C is inserted in the Master Circular for issue and listing of non-convertible securities, securitised debt instruments, security receipts, municipal debt securities and commercial paper dated 15 October 2025 along with insertion of and the meter becomes clause 14 in Annexure-XXIB under Chapter XXI of NCS Master circular dated 15 October 2025, i.e. minimum disclosure requirements for each security offered on online board platform which includes name of the issuer, security name and ISIN.

The circular comes into force after 45 days from issuance, i.e. around 21 November 2026 and all other provisions remain unchanged.

The Credit Risk-o-Meter must be presented in a pictorial format using prescribed colour codes and must clearly indicate that it represents only the credit risk associated with the debt security.

SEBI has mapped the existing credit rating symbols (AAA to D, and A1+ to D for short-term debt instruments rating) to six colour-coded risk levels, running from “lowest credit risk” (green) to “high to very high risk of default” (red).

Below the Credit risk-o-meter, issuers and OBPPs shall disclose the following

- Name of credit rating agency (‘CRAs’)
- Actual credit rating of the respective debt security in text format
- For unsecured debt instruments, the word "UNSECURED" must be displayed in bold red text.

Where there are ratings from multiple CRAs for a debt security, the meter shall reflect the lowest rating and all the other ratings must be disclosed alongside the meter. Where the CRA has flagged “Issuer is Not Cooperating”, the arrow must point towards the INC segment along with INC status mentioned in the textual disclosure below the meter.

SEBI has prescribed the following disclaimer in Offer Documents, Abridged Prospectuses, PPMs and OBPP websites/mobile applications:

- "The Credit risk-o-meter is based on evaluation of the credit risk of the issuer and does not constitute investment advice or a recommendation to invest. Investments in debt securities are also subject to market and liquidity risks."

“The Credit Risk-o-Meter is based on evaluation of the credit risk of the issuer and does not reflect the unique structural risks associated with Unsecured Perpetual Bonds (such as AT1 Bonds). These instruments may carry the risk of total loss of invested capital. Investors are advised to read the Information Memorandum/Private placement Memorandum carefully before investing." - for unsecured perpetual bonds (such as AT1 bonds)

OBPPs have additional obligations to:

- Update and communicate changes in the Credit Risk-o-Meter within 24 hours of receiving intimation from NSDL/CDSL;

- Display the meter prominently on the Bond Listing and Bond Details page, before investment action buttons;
- Display the Credit Risk-o-Meter in all advertisements explicitly referring to the credit rating of the debt security;
- Provide a QR code enabling investors to access the colour-coded Credit Risk-o-Meter on the issuer's/OBPP's website;
- Provide appropriate visualisation for Web and Mobile interfaces.

Further, OBPPs to comply with the following requirements:

- credit rating information must be sourced exclusively from credit ratings assigned by SEBI-registered CRAs.
- shall maintain automated systems to update the Credit Risk-o-Meter within 24 hours of receiving intimation of rating changes from NSDL/CDSL, following the corresponding update of the ISIN database;
- shall ensure strict prohibition on manual overrides of credit risk-o-meter classifications;
- shall maintain audit trails of all credit risk-o-meter updates and rating changes.

Circular No. HO/17/11/24(8)2026-DDHS-POD1/I/23125/2026 dated 7 October 2026 in connection with review of International Securities Identification Number (ISIN) provisions for debt securities issued on private placement basis

In order to enhance ease of fund raising and asset liability management by issuers, SEBI has issued a circular to increase the maximum number of ISINs maturing in a financial year for debt securities issued on private placement basis.

Accordingly, now as per para 1.1, 1.2 and 1.3 of the NCS Master Circular, maximum seventeen ISINs maturing per financial year shall be allowed for issuer of debt securities, plus six additional ISINs for capital gains tax debt securities issued by authorised issuers under section 54EC of the Income Tax Act, 1961 on private placement basis.

The 17 ISINs are split as follows:

- **up to twelve ISINs:** for plain vanilla debt securities where issuer can issue both secured and unsecured securities count within this limit. Once the aggregate amount across these 12 ISINs maturing in a year reaches INR 15,000 crore, then for each additional INR 3,000 crore one additional ISIN may be permitted to mature in same financial year.
- **up to five ISINs:** for structured debt securities, market-linked debt securities, floating rate bonds ('FRBs'), zero coupon bonds ('ZCBs') and debt capital instruments (Tier II bonds).
  - Further, existing ISINs pertaining to FRB, ZCB and debt capital instruments (Tier II bonds) issued before this circular, which are outstanding and scheduled to mature in any subsequent financial year, shall be grandfathered.
  - However, if aggregated ISINs to be matured is equal to or exceeds five, then issuer shall not issue any new ISINs under this sub-clause for that specific year till the time number of ISINs falls below 5.

Further, ISINs for structured, market-linked debt securities, FRBs, ZCBs, Debt capital instruments (Tier II bonds) shall be up to twelve in a financial year.

ISINs pertaining to Government of India serviced/Extra budgetary resources bonds and environment, social and governance debt securities shall be excluded from the above limits.

The circular is effective immediately, and the rest of Chapter VIII is unchanged.

Notification dated 12 October, 2026 - SEBI/LAD-DOP/2026/329 - SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2026

SEBI has amended Regulation 62A of the LODR Regulations. A listed entity whose non-convertible debt securities are listed on or after the publication date (which is 14 October, 2026) of the Third Amendment Regulations, 2026, must list all non-convertible debt securities it issues after the date of that listing on the stock exchange(s).

Regulation 62A (1) has been substituted, and sub-regulations (2) and (3) have been omitted. The earlier text was spread across several sub-regulations. The new rule is a single, short obligation.

The first listing of NCDs triggers a continuing obligation to list all subsequent issuances, restricting issuers from privately placing future NCDs without listing them. This enhances transparency, disclosure and investor protection.

Consultation Paper dated 22 October 2026 on Review of Regulation 38(2) of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2018 ("SECC Regulations") and Regulation 7(c)(i) of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 2018 ("D&P Regulations") for providing an automatic approval route for investment in related activities by Market Infrastructure Institutions ("MIIs")

Under Regulation 38(2) of SECC Regulations and Regulation 7(c)(i) of D&P Regulations an MII is prohibited from carrying on any activity whether involving deployment of funds or otherwise without prior approval of the SEBI except for board-approved treasury investments.

SEBI has proposed introducing an automatic approval route for Stock Exchanges and Depositories (**excluding Clearing Corporations**) to undertake specified activities and investments without obtaining prior SEBI approval which are as follows:

- Route A: activities related or incidental to the activity of the MII in the securities market where
  a. The activity is undertaken pursuant to directions of SEBI; or
  b. The activity involves a transfer of shares of a company held by the MII or by a subsidiary of the MII, to the MII or to another subsidiary of the MII; or

c. The activity involves deployment of funds by an operating subsidiary of the MII and such deployment is made exclusively from funds generated from the subsidiary's own operations

- Route B: An activity that is similar in function to an activity carried on by the MII and is undertaken through an investee company regulated by another financial sector regulator in India.

Provided, SEBI has previously approved such activity and the activity remains the same, notwithstanding that such activity is not an activity in the securities market.

The key points to be noted are as under:

- Investments under this route are capped at the lower of 5% of the MII's net worth or the regulatory minimum net worth.
- Post-investment net worth to remain at least 1.5 times the minimum net worth prescribed by the Board.
- Sharing of logo, brand name, if any, shall be at arm's length pricing or as approved by board.
- An appropriate resource sharing agreement to be undertaken if there is any sharing of resources.
- Board approval, conflict-of-interest controls, fit-and-proper requirements and Board-approved SOPs.
- Half-yearly reporting its governing board.
- Activities outside the prescribed framework to continue to require prior SEBI approval.

The proposal aims to reduce regulatory burden and improve ease of doing business by permitting activities that are related or incidental to the core functions of MIIs, subject to prescribed financial limits and governance safeguards.

Public comments are invited until **12 November 2026**.

Circular No. HO/38/11/(9)2026-MIRSD-POD/I/24272/2026 dated 23 October 2026 in connection with relaxation of record-keeping requirements for Research Analysts ("RAs") and Research Entities ("REs") in respect of interactions with institutional investor clients

Regulation 25(1)(vii) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014 (RA Regulations) mandates RAs and REs to maintain records of communication, including call recordings. The SEBI Master Circular for Research Analysts dated 6 February 2026, provides a consolidation of the directions/ instructions applicable on RAs/ REs

Based on the representations from market participants SEBI has relaxed the record-keeping requirements for RAs and REs by exempting them from the mandatory maintenance of call recordings for interactions with institutional investor clients.

However, RAs/REs must continue to maintain records of client interactions through legally verifiable means. The amendment aims to enhance ease of doing business while preserving investor protection and grievance redressal mechanisms.

The key changes are as under:

- Exemption from mandatory maintenance of call recordings for interactions with institutional investor clients.
- Records of client interactions to be maintained through legally verifiable means such as emails, SMSs, written records or call recordings (where applicable).
- Records to be maintained from the first interaction until completion of services.
- Minimum retention period of five years.

The revised provisions will come into effect from **8 November 2026**.

Circular No. HO/(201)2026-DDHS-POD1/I/24467/2026 dated 27 October 2026 in connection with Extension of timeline for compliance with terms and conditions by Debenture Trustees ("DTs") for carrying out activities outside the purview of SEBI

SEBI has extended the compliance deadline for DTs by six months, from 27 October 2026 to 27 April 2027, for transferring activities outside SEBI's regulatory purview into Separate Business Units ("SBUs"), as required under Regulation 9C of the SEBI (Debenture Trustees) Regulations, 1993.

The extension follows concerns raised by the industry regarding operational challenges in complying with the SBU requirement. SEBI has also constituted an Expert Working Group ("EWG") to review the regulatory framework, including the SBU requirements.

The key changes are as under:

- Timeline for compliance extended by six months.
- Earlier deadline: 27 October 2026.
- Revised deadline: **27 April 2027.**

All other provisions of SEBI's circular dated 25 November 2025 remain unchanged.

The extension provides DTs with additional time for compliance and facilitates smoother implementation of the SBU framework.



Circular No. HO/19/34/14(10)2026-AFD-POD3/I/24814/2026 dated 30 October 2026 in connection with Rationalisation of periodicity of KYC review for Foreign Portfolio Investors ("FPIs")

SEBI, through its Circular dated 30 October 2026, has relaxed the KYC review requirements for FPIs, with a view to reducing the compliance burden and promoting ease of doing business. The circular amends the Master Circular for FPIs, Designated Depository Participants ("DDPs") and Eligible Foreign Investors dated 30 May 2024.

Revised periodicity of KYC review

- Registered Category I and regulated Category II FPIs will undergo KYC review once every 8 years, while other Category I and Category II FPIs will be reviewed once every 2 years. Previously, reviews were required at intervals of one or three years, depending on the jurisdiction, category and regulatory status of the FPI.
- The applicable cycle continues to depend on the category of the FPI, its regulated status and the risk classification of its jurisdiction.
- Existing KYC review provisions for FPIs investing only in Government Securities ("GS-FPIs") and SWAGAT-FI FPIs remain unchanged. For GS-FPIs, review continues as per the periodicity applicable to their bank accounts, as prescribed by the Reserve Bank of India; for SWAGAT-FI FPIs, it remains 10 years.

Continuance of registration

- The requirement to submit a no-change declaration, or to intimate changes in previously submitted information, at the time of continuance of registration has been removed.
- FPIs are required to pay the applicable continuation fee to their DDP at least 15 days before the expiry of the validity of their registration.

The provisions of this circular shall come into force with effect from **1 December 2026.**

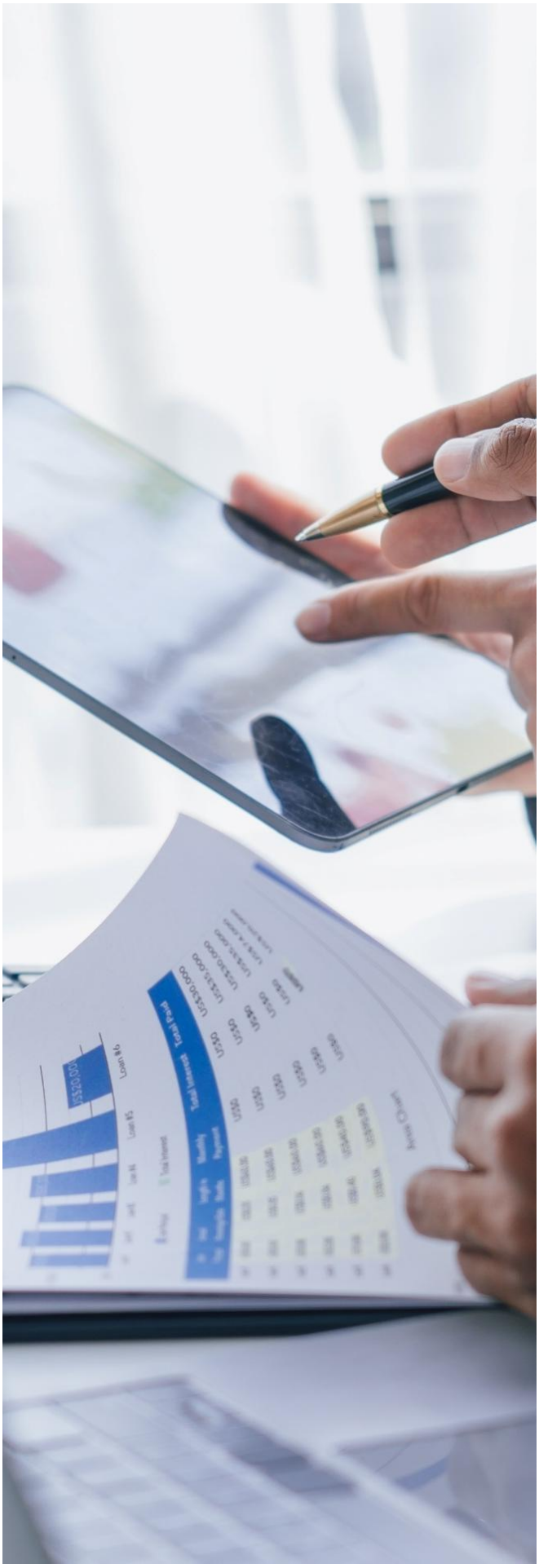
Ministry of Corporate Affairs (MCA)

General Circular No. 06/2026 (F.No. Policy-17/52/2020-CL-V) dated 27 October 2026 in connection with Relaxation of additional fees and extension of time for filing CRA-4 (Cost Audit Report in XBRL format)

MCA, through its General Circular No. 06/2026 dated 27 October 2026, has provided relief to companies by extending the timeline for filing Form CRA-4 (Cost Audit Report in XBRL format) for the financial year 2025-26. The relaxation has been granted in response to representations received from stakeholders seeking additional time for compliance.

Key features of the relaxation

- Form CRA-4 for FY 2025-26 filed up to 31 December 2026 will not attract any additional filing fees, irrespective of the original due date.
- Filings made after 31 December 2026 will be subject to normal and additional fees as prescribed under the Companies (Registration Offices and Fees) Rules, 2014.
- Such fees will be calculated from the date on which the filing was actually due under Rule 6(6) of the Companies (Cost Records and Audit) Rules, 2014, and not from 31 December 2026.





DIRECT TAX

Circulars / Notifications / Release

Ministry of Law and Justice notifies rules on qualification, selection and service conditions of members of tribunals, including the Income Tax Appellate Tribunal

The Ministry of Law and Justice has notified the National Tribunals Commission and Qualification, Selection, and Conditions of Service of Chairperson and Members of Tribunals Rules, 2026. These Rules are framed under the Tribunals Reforms Act, 2026.

These Rules specify terms and conditions of holding office of chairperson and members of the National Tribunals Commission and set qualifications for the members of the tribunals including the Income Tax Appellate Tribunal ("Tax Tribunal"), the Customs, Excise and Service Tax Appellate Tribunal, the National Company Law Appellate Tribunal and the Securities Appellate Tribunal. These Rules also provide qualifications for appointing the Chairperson and members of the Tribunal, the procedure for resignation or removal of Chairperson or Members of the Tribunals, and the manner of conducting inquiry.

[G.S.R. 856(E), F.No. J-18/75/2026-Judicial/E.198117, dated 30 September 2026]

Central Board of Direct Taxes notifies revised form for seeking waiver of penalty under Section 440(2) of the Income-tax Act, 2025

The Central Board of Direct Taxes ("CBDT") has notified the Income-tax (Sixth Amendment) Rules, 2026. The key changes are as follows:

- Rule 231 of the Income-tax Rules, 2026 ("IT Rules 2026") now covers waiver of penalty, in addition to immunity from imposition.
- The existing Form No. 161 has been substituted with a new form to cover waiver of penalty.

[Notification No. 134/2026, G.S.R. 871(E), F. No. 370142/33/2026-TPL, dated 8 October 2026]

Central Board of Direct Taxes notifies Form No. 173A for claiming exemption on interest and capital gains from Government securities

The Income-tax (Amendment) Ordinance, 2026 inserted Sl. Nos. 13D and 13E in the Table to Schedule IV of IT Act 2025 with effect from 1 April 2026. Sl. No. 13D exempts interest on Government securities, and capital gains on their sale, exchange or transfer, earned by a foreign institutional investor ("FII"). Sl. No. 13E extends the exemption to the Bank for International Settlements ('BIS'). In both cases, exemptions are subject to furnishing prescribed information.

The CBDT has notified the Income-tax (Seventh Amendment) Rules, 2026 to insert Rule 281A in the IT Rules 2026. Rule 281A requires a taxpayer claiming exemption under Sl. Nos. 13D and 13E to furnish the details of exempt income claimed on Government securities in the newly inserted Form No. 173A.

[Notification No. 137/2026, F.No. 370142/35/2026-TPL, dated 19 October 2026]

JUDICIAL UPDATES

Apex Court held that a power subsidy linked to actual electricity charges after commencement of production is a revenue receipt, applying the 'purpose test'

The taxpayer is an Indian company engaged in the business of manufacturing potassium chlorate. The Government of Pondicherry ran a power subsidy scheme to foster industrial growth in the Union Territory and pursuant to the same, was granted subsidy at the rate of 33.33% of the actual energy charges for the first 3 years, 20% for the 4th year and 10% for the 5th year. For Fiscal Year ("FY") 1996-97, the taxpayer treated the subsidy received by it as a capital receipt not liable to tax.

During tax proceedings, the tax officer treated the subsidy as a revenue receipt as it was given for revenue expenditure, relying on the Apex Court ruling in Sahney Steel[1]. The First Appellate Authority ("FAA") upheld this treatment, as the subsidy reduced the taxpayer's power cost. The Tax Tribunal also held that the subsidy was assistance for running the business and not for creating any capital asset. The Madras High Court affirmed the order of the Tax Tribunal. Aggrieved, the taxpayer preferred an appeal before the Apex Court.

The Apex Court, while ruling in favour of the tax authorities, made the following key observations:

- The character of a subsidy depends on its purpose. This is the 'purpose test' laid down in Sahney Steel (supra) and affirmed in Ponni Sugars[2]. The timing, source and form of the subsidy are not decisive. A subsidy to run the business more profitably is revenue and subsidy to set up a new unit or substantially expand an existing one is capital.
- The purpose must be found from the scheme as a whole and not merely from a general policy statement. A scheme that aims to promote industry, jobs or backward areas does not by itself make the subsidy capital.
- Here, the subsidy was a benefit as a specified percentage of actual energy charges and was available for a limited period from the start of production. It directly reduced the electricity cost of manufacturing and was not required to be used for plant, factory, loan repayment or any capital asset.
- The taxpayer relied on the scheme's broad object of fostering industrial growth. One general object clause cannot be read in isolation from the operative terms.
- The subsidy may leave more funds with the taxpayer. However, this does not change its revenue character, as the Government did not intend to contribute to the taxpayer's capital structure.

Accordingly, the Apex Court held that the power subsidy is an operational subsidy and a taxable revenue receipt.

[Mepco Industries Ltd. v. CIT, Madurai - Civil Appeal No. 8694 of 2012, order dated 7 October 2026 (SC)]

Delhi ITAT held that gains on buy-back of shares by an Indian subsidiary from its Dutch holding company are not taxable in India

The taxpayer ("H Co") is a company incorporated in the Netherlands and a tax resident of the Netherlands holding valid TRC. It held 99.9% of the shares of an Indian company ("S Co"). The rest of S Co's shares are held by H Co's own subsidiaries.

During FY 2019-20, S Co bought back about INR 9.29mn of its shares from H Co at the face value of INR 10 per share. H Co's cost of these shares was also INR 10 per share. Accordingly, H Co claimed that no capital gain arose as S Co paid back exactly what it had received on issue and no buy-back tax was payable by S Co'

The tax officer held that the buy-back increased the value of the remaining shares held by H Co and taxed the appreciation in value of remaining shares as accrued consideration subject to capital gains. Alternatively, the tax officer held that capital gains were to be computed by applying provisions of Section 46A r.w. Section 50CA of the Income-tax Act, 1961 ("the Act") and substituted fair market value ("FMV") of the shares as full value of consideration in place of actual buy-back price. Both methods led to an addition of about INR 2,771.59mn. The tax officer also denied treaty relief, holding that a buy-back is not a corporate reorganisation. The Dispute Resolution Panel upheld the draft order.

Aggrieved, the H Co. appealed before the Delhi Bench of Tax Tribunal.

The Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

- There is no provision that can bring to tax a mere appreciation in value of shares/capital asset. Unrealised gains cannot be taxed on notional basis without actual transfer/alienation/disposal of capital asset.
- As per Section 10(34A) of the Act, purchase of own shares by a company is exempt from tax. The tax authorities did not rebut H Co's claim that a shareholder's income on a buy-back is exempt under domestic law.
- As per scheme of buyback tax, there is no mechanism to substitute the consideration payable by the company buying back the shares with the FMV of shares.
- The tax authorities also did not contradict H Co's claim that a transfer of a capital asset by a company to its wholly owned Indian subsidiary is exempt from capital gains tax under the Act.
- Article 13(5) of the treaty provides that gains from alienation of shares of Indian company by Dutch resident are taxable in Netherlands only.
- A co-ordinate bench has already held that a buy-back of shares by an Indian company from its Dutch parent is a transfer within the same corporate group[3] and it qualifies as a corporate reorganisation under Article 13(5) of the Double Taxation Avoidance Agreement

[1] Sahney Steel and Press Works Ltd. v. CIT [1997] 228 ITR 253 (SC)
[2] CIT v. Ponni Sugars and Chemicals Ltd. [2008] 9 SCC 337 (SC)
[3] Huntsman Investment (Netherlands) BV v. ADIT [2026] 184 taxmann.com 602 (Delhi - Trib.)

("tax treaty") between India and Netherlands. Even if the gains on the buy-back are taxable in India, by virtue of Article 13(5) of India-Netherlands tax treaty, no tax could be levied.

Accordingly, the Tax Tribunal held that the gains arising to H Co on the buy-back of shares by S Co are not taxable in India.

[Perfetti Van Melle Holding B.V. v. ACIT, IT - ITA No. 1804/Del/2023, order dated 7 October 2026 (Delhi ITAT)]

Madras High Court held that the clean slate principle under insolvency law does not wipe out tax dues arising during the insolvency process, and the insolvency tribunal cannot decide the merits of tax assessments

The taxpayers are Indian companies engaged in diverse businesses such as liquor manufacturing, pharmaceuticals, healthcare and coke production. Each taxpayer went through the corporate insolvency resolution process ("CIRP") under the Insolvency and Bankruptcy Code, 2016 ("IBC"). Certain entities exited through a resolution plan approved by the National Company Law Tribunal ('NCLT') while the others exited through liquidation, a sale as a going concern, or a scheme of compromise.

After initiation of CIRP, the income-tax authorities started reassessment, penalty and rectification proceedings for years both before and during CIRP. In some cases, the resolution professional had not even filed income-tax returns during CIRP.

The taxpayers contended that once the NCLT approves a resolution plan, all dues not included in it stand extinguished under the 'clean slate' principle. They argued this covers dues up to the date of plan approval. The tax authorities argued that the principle covers only dues that arose before CIRP began whereas the *amicus curiae* ("friend of court") took the view that pre-CIRP dues are wiped out, but taxes arising during CIRP does not. Aggrieved, the taxpayers filed writ petitions before the Madras High Court.

The High Court, while ruling in favour of the tax authorities, made the following key observations:

Re. Whether the clean slate principle covers tax dues arising during CIRP

- The clean slate principle protects a successful resolution applicant from surprise claims for past liabilities. Without it, bidders would stay away and the object of IBC would fail.
- The Apex Court rulings applying the principle[4] dealt only with dues relating to the period before CIRP. Since dues arising during CIRP were never before the Apex Court, no binding precedent exists and the High Court is free to decide this issue.
- IBC itself requires compliance with tax laws during CIRP. The interim resolution professional must comply with every law in force on behalf of the company, including tax laws.
- Creditors can lodge claims only as on the insolvency commencement date. Tax dues arising later in CIRP could never be lodged. The law does not compel a person to do the impossible. Therefore, these dues were never meant to be part of the claims process.
- A resolution plan is prepared on the basis of the information memorandum, which is issued early in CIRP. But this does not excuse the resolution applicant from its own due diligence. A resolution applicant cannot ignore unpaid taxes during CIRP and later call them a surprise claim.
- Extending the principle to GST would let a company keep tax collected from customers instead of paying it to the Government. The Supreme Court has held such retention to be a fraud on the Constitution[5]. It would also treat a compliant company and a defaulting company alike. Such a reading would breach the equality guarantee under Article 14 of the Constitution of India.
- The power to tax is an attribute of sovereignty[6]. Any limit on it must be express. No provision in the Constitution, or IBC bars recovery of tax arising during CIRP. Courts cannot create such a bar by interpretation just because it may help the object of IBC.

Re. Whether the NCLT can decide disputes on tax assessments

- The NCLT can check whether a resolution plan makes enough provision for tax dues arising during CIRP and complies with tax laws. However, it cannot decide whether a tax assessment is correct on merits. A tax assessment is a public law decision and does not arise out of or relate to the insolvency process[7].
- If both the NCLT and the tax forums could examine the same assessment, they could pass conflicting orders leading to administrative chaos.

Re. Issues left open and remand

- Some issues were raised for the first time before the High Court. These include whether the clean slate principle bars reassessment of years before CIRP, and whether tax dues during CIRP are CIRP costs covered by the plan. The tax authorities were ordered to examine them.
- In most cases, the resolution plan or scheme was not placed before the tax authorities or the High Court.

The High Court held that the clean slate principle does not extend to tax dues arising during CIRP. It also held that the NCLT has no power to decide the merits of tax assessments. The High Court set aside the impugned orders and sent the matters back to the tax authorities with a direction to pass fresh orders after examining the terms of each resolution plan and whether the taxes form part of CIRP costs.

[Aqua Terra Coke and Energy Ltd. v. ITO - W.P. No. 22505 of 2024 and connected petitions, order dated 24 February 2026 (Madras HC)]

[4] Ghanashyam Mishra and Sons (P.) Ltd. v. Edelweiss Asset Reconstruction Co. Ltd. [2021] 126 taxmann.com 132 (SC), Committee of Creditors of Essar Steel India Ltd. v. Satish Kumar Gupta [2019] 111 taxmann.com 234 (SC) and Arun Kumar Jagatramka v. Jindal Steel and Power Ltd. [2021] 125 taxmann.com 244 (SC)
[5] Jindal Stainless Ltd. v. State of Haryana [2016] 75 taxmann.com 137 (SC)
[6] Jindal Stainless Ltd. v. State of Haryana [2016] 75 taxmann.com 137 (SC)
[7] Embassy Property Development (P.) Ltd. v. State of Karnataka [2019] 112 taxmann.com and Gujarat Urja Vikas Nigam Ltd. v. Amit Gupta [2021] 125 taxmann.com 150 (SC)

Mumbai ITAT held that consideration for assignment of Indian trademarks is capital gains taxable only in Switzerland and not royalty under the India-Switzerland tax treaty

The taxpayer is a company incorporated in Switzerland, engaged in the pharmaceutical business. During FY 2019-20, it assigned its registered Indian trademarks for its drug brands to different Indian pharmaceutical companies for a lump sum consideration. The taxpayer claimed this was outright sale and consideration received is not taxable in India under Article 13(6) of the India- Switzerland tax treaty.

During tax proceedings, the tax officer held that the taxpayer had not proved the trademarks were capital assets, as no cost was recorded in its books. It also examined the restrictions in the deeds on territory, products, trade dress and brand protection outside India and treated as royalty under the domestic law and Article 12 of the India-Switzerland tax treaty. The Dispute Resolution Panel ("DRP") upheld tax officer's order. Aggrieved, the taxpayer appealed before the Mumbai Bench of Tax Tribunal.

The Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

- Article 13(6) of India-Switzerland tax treaty contains a residuary clause covering taxation of gains on alienation of properties not covered by any other clauses. The Intangible trademark rights would fall under this clause and gains on their transfer would be taxable only in Switzerland (state in which the alienator is resident).
- The description of an instrument as an assignment or sale is not conclusive by itself. Equally, existence of contractual restrictions does not establish that the transaction is a licence. The deed must be read as a whole to ascertain rights retained and rights transferred.
- Royalty under the treaty covers payment for the use of, or the right to use, a trademark. The Protocol to the treaty treats gains from alienation of such property separately and taxes them as royalty only where payment depends on profits, productivity or use.
- The current deed transferred all rights, title and embedded goodwill in the Indian trademarks to the buyer forever. It barred the taxpayer from any further use or claim in India.
- In determining whether the transfer is absolute, the relevant enquiry is whether the assignor has divested itself of ownership of the property forming the subject matter of the sale, rather than whether it has transferred every corresponding right held anywhere in the world.
- The property sold was the Indian rights. Retaining rights outside India cannot be equated with retention of rights sold in India. The agreement expressly extinguishes assignors' ownership and its further use within assigned territory.
- The Trademarks Registry now records the buyer as proprietor. A word mark can itself be owned and assigned under trademark law. The fixed consideration is not linked to the buyer's turnover, profits or use, so the Protocol exception does not apply
- Self-generated trademarks are property even if no cost is recorded in the books. OECD Commentary on Article 12 also separates transfer of full ownership from payment for use or right of use of property.
- The wider domestic law definition of royalty cannot override the treaty. Further, as no PE or other specific rule was shown, the gains fall under Article 13(6) and are taxable only in Switzerland.

The Tax Tribunal accordingly held that the consideration is for alienation of the trademarks and not royalty and deleted the addition.

[Novartis AG v. ACIT (IT) - ITA No. 1027/Mum/2023, order dated 12 October 2026 (Mumbai ITAT)]

Bombay High Court held that a proportionate rights issue below fair market value is not taxable as receipt of property for inadequate consideration

The taxpayer is an Indian company. During FY 2019-20, it subscribed to rights shares of a listed telecom company at INR 12.50 per share. Its assessment for that year was completed in June 2024, after directions of the DRP.

Section 56(2)(x) of the Act, inter alia, provides that in case of receipt of specified property for a consideration lower than its FMV, the difference between FMV and the consideration amount would be taxed as income of the recipient. In March 2026, the tax officer initiated re-assessment proceedings related to the rights shares on the ground that the fair market value of the shares on the allotment date was INR 13.925 per share as against the subscription rate of INR 12.50 and hence, the difference of INR 3,290.4mn on right shares subscription should be taxed as income in terms of Section 56(2)(x) of the Act. Aggrieved, the taxpayer filed a writ petition before the Bombay High Court.

The High Court, while ruling in favour of the taxpayer, made the following key observations relating to applicability of Section 56(2)(x) in case of issue of right shares:

- The issue cannot be settled by comparing FMV and subscription price alone. The legal nature and effect of allotment should also be considered. The Apex Court[8] and the Gujarat High Court[9] have distinguished creation of shares upon allotment and transfer of shares already in existence. The shares issued pursuant to rights issue come into existence only on allotment. This cannot be equated with pre-existing shares received from another person.
- The rights shares were offered to all existing shareholders in proportion to their holdings. A rights issue also affects the value of existing shares. Therefore, a lower issue price does not by itself give an economic benefit. Tax Tribunal rulings[10] support the view that every subscription below market value cannot be treated as a taxable benefit.
- The law prescribes separate rules relating to cost of acquisition of rights shares, bonus shares and renounced rights. These must be read harmoniously with the provisions of Section 56(2)(x).

[8] Khoday Distilleries Ltd. v. CIT [2008] 307 ITR 312 (SC)
[9] PCIT v. Jigar Jashwantlal Shah [2024] 460 ITR 628 (Gujarat HC)
[10] Sudhir Menon HUF v. ACIT [2014] 148 ITD 260 (Mumbai ITAT) and ACIT v. Subodh Menon [2019] 103 taxmann.com 15 (Mumbai ITAT)

- The provision is an anti-abuse measure. The tax authorities has not identified any acquisition of existing shares and or any disproportionate benefit accruing to the taxpayer.

The High Court held that the difference between the subscription price and the FMV of the rights equity shares proportionately allotted to the taxpayer cannot be taxed.

[Grasim Industries Limited v. DCIT - Writ Petition No. 4298 of 2026, order dated 22 October 2026 (Bombay HC)]

Apex Court held that failure to issue a notice under Section 143(2) vitiates reassessment proceedings and cannot be cured under Section 292BB, even where the taxpayer has participated in the proceedings

The taxpayers, an Indian company engaged in the mining business and an individual, had filed their returns of income, and the tax officer had completed regular assessments for various FYs between 2007-08 and 2010-11. The tax officer later reopened these assessments and issued notices under Section 148 of the Act, requiring the taxpayers to file returns.

In response, the company asked the tax officer to treat its original return as the return filed in response to the notice. The individual refiled the same original return. The tax officer did not issue a notice under Section 143(2) of the Act ("scrutiny notice"). Instead, the tax officer issued notices under Section 142(1) of the Act seeking documents and stock information and also passed the reassessment orders.

Before the FAA, the taxpayers argued that the absence of a scrutiny notice under Section 143(2) vitiated the proceedings. The FAA rejected this plea, holding that the taxpayers had taken part in the proceedings and so could not raise this point at the appellate stage. The Tax Tribunal set aside the reassessment orders for want of a scrutiny notice. The High Court upheld the orders of the Tax Tribunal.

Aggrieved, the tax authorities preferred an appeal before the Apex Court. The tax authorities relied on Section 292BB of the Act, which deems a notice to be validly served where the taxpayer has taken part in the proceedings.

The Apex Court, while ruling in favour of the taxpayers, made the following key observations:

- Section 143(2) of the Act mandates issue of notice for the purpose of commencing tax proceedings.
- Such notice provides a chance to produce evidence in support of its return. In the case of Hotel Blue Moon[11], the Apex Court held that failure to issue this notice is not a curable procedural irregularity. The notice is a basic precondition (sine qua non) for a reassessment under Section 147 of the Act.
- Section 292BB of the Act provides for circumstances when the notice is deemed to be valid and creates a deeming fiction only about the service of a notice. It bars a taxpayer from objecting that a notice was not served, was served late or was served improperly. The fiction applies only where the tax authorities claim that the notice was issued. It cannot apply where the tax authorities admit that no notice was issued at all.
- The tax officer cannot complete a reassessment unless a scrutiny notice is issued. The taxpayer's participation in the proceedings does not give the tax officer jurisdiction. In Laxman Das Khandelwal[12], the Apex Court held that Section 292BB of the Act cures defects in the service of a notice but does not save a complete absence of notice.
- Where the taxpayer chooses to rely on its original return in response to notice for reopening assessment, the tax authorities must still issue a scrutiny notice. The tax officer can make an assessment under Section 143(3) of the Act only after hearing evidence in response to that notice.
- A letter issued under Section 142(1) of the Act during the reassessment, asking the taxpayer to explain the grounds for reassessment, does not meet the requirements of a scrutiny notice. The scrutiny notice is a precondition for starting the proceedings. A letter issued after the proceedings begin cannot fill this gap or validate proceedings that are legally non-existent.

The Apex Court accordingly held that the failure to issue a scrutiny notice vitiates the reassessment. Section 292BB of the Act, the taxpayer's request to treat its original return as the return filed, or a letter under Section 142(1) of the Act cannot cure this defect.

[PCIT v. Orissa Mining Corporation Ltd. - Civil Appeal arising out of Special Leave Petition (C) No. 14546 of 2023, order dated 28 October 2026 (SC)]

Delhi Tax Tribunal held that every Mauritius entity without employees or an independently leased office need not be a conduit and Article 27A of India-Mauritius tax treaty does not apply automatically

The taxpayer is a company incorporated in Mauritius engaged in the business of running a collective investment scheme which invests in Indian equity, debt and mutual funds. It holds a Global Business Licence ("GBL") issued by the Financial Services Commission, Mauritius ("FSC") and a valid tax residency certificate ("TRC"). It is registered with the Securities and Exchange Board of India ("SEBI") as a Category I Foreign Portfolio Investor. Its investment activities were managed by its related Singapore entity under an investment management agreement.

For FY 2022-23, the taxpayer earned capital gains on redemption of units of equity-oriented mutual funds. It reported these gains in its return of income and claimed them to be exempt under Article 13(4) of the India-Mauritius tax treaty.

Further the FSC revoked the licence of the taxpayer's controlling shareholder with effect from 13 April 2022. This shareholder was also the sole management shareholder and beneficial owner of the taxpayer. The taxpayer had 6 months to replace this entity, but it could do so only on 11 April 2023. SEBI initiated proceedings against the taxpayer for not meeting the 'fit and proper' criteria. The taxpayer settled these proceedings by paying a monetary penalty.

[11] ACIT v. Hotel Blue Moon [2010] 321 ITR 362 (SC)
[12] CIT v. Laxman Das Khandelwal [2019] 417 ITR 325 (SC)

The tax authorities, following the directions of DRP, rejected the claim as follows:

- Units acquired after 1 April 2017 of equity-oriented mutual funds are akin to shares and were held taxable under Article 13(3A) of the India-Mauritius tax treaty.
- The limitation of benefit ("LOB") provision under Article 27A of the India-Mauritius tax treaty was invoked because the taxpayer was effectively unmanaged after its sole management shareholder lost its licence.

Aggrieved, the taxpayer preferred an appeal before the Delhi Bench of Tax Tribunal.

The Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

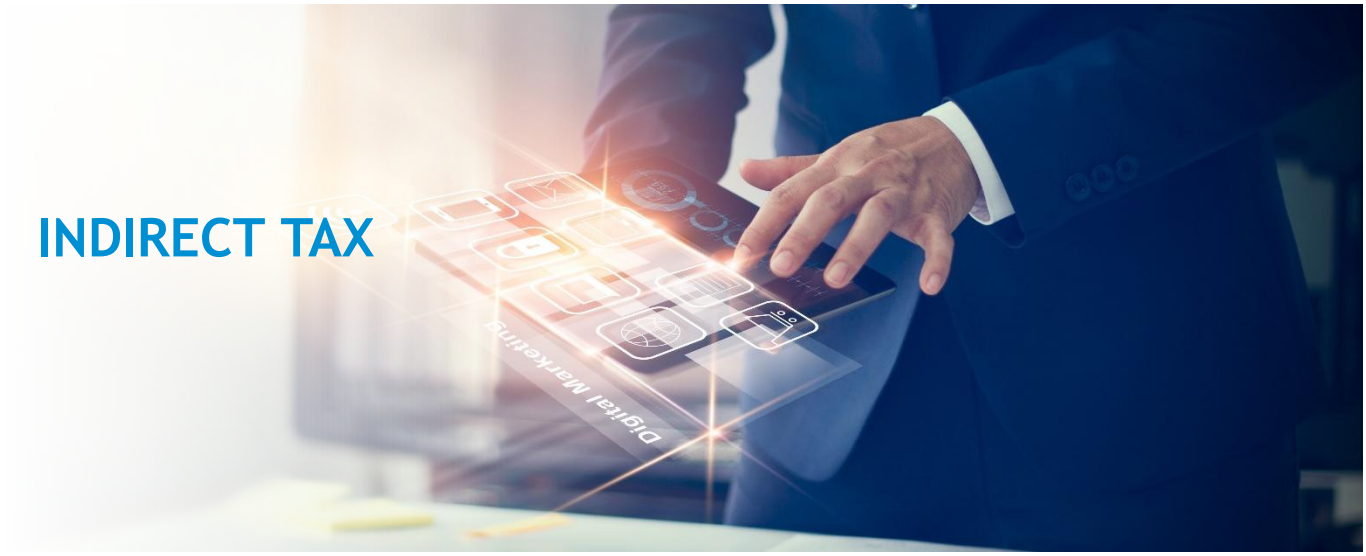
- Since the license of the controlling shareholder, who was also the sole management shareholder and beneficial owner of the taxpayer, was revoked, the controlling shareholder had a time period of 6 months to cease its voting rights and divest its holding. However, this could not be achieved and after a year almost 90% of the management shareholding were transferred, leaving minority shareholding with him.
- As regards applicability of Article 13(3A) of India Mauritius tax treaty, in taxpayer's own case, it was held that units of equity-oriented mutual funds and shares are separate, legally distinct securities and that sale of such units is not alienation of shares.
- The administrator, company secretary, investment manager of the taxpayer are related parties and have same address which means that the taxpayer had no office in Mauritius. The balance sheet, as on 31 March 2023 of the taxpayer showed no physical assets, such as office space, furniture, computer and peripherals, vehicles, etc., except financial assets. The profit and loss account of the taxpayer for the period ending on 31 March 2023 did not reflect any expenses related to office establishment such as salary, staff welfare expenses, electricity, rent, depreciation, local/international travel, hotel etc. The taxpayer does not have any employee to whom salary is being paid. The only expenses shown are management fee, legal and professional fee, bank charges, audit fee and brokerage fee.
- The tax authorities are entitled to examine the taxpayer's eligibility in light of the Apex Court ruling in Tiger Global[13]. That ruling held that Section 90(4) of the Act makes a TRC an eligibility condition, but a TRC is not by itself, conclusive evidence of residence.
- Further, the aforesaid ruling does not hold that every Mauritius entity without employees or an independently leased office is a conduit, or that Article 27A of the India-Mauritius tax treaty applies automatically where physical presence is limited. The tax authorities must show that control or decision-making lay elsewhere and that an impermissible arrangement existed.
- While the facts relied upon by the tax authorities constitute relevant evidence, they are not, by themselves, sufficient to establish ineligibility for treaty benefits.
- The taxpayer's treaty eligibility, applicability of Article 27A, effective management and alleged conduit status required a detailed factual examination, including scrutiny of its management and decision-making structure.
- Natural justice requires that the taxpayer be given an effective opportunity to meet and respond to the factual proposition, the documents relied upon, the legal provision invoked, the applicability of the General Anti-Avoidance Rule ("GAAR"), the alleged tax-avoidance arrangement and the alleged absence of commercial substance.

Accordingly, the Tax Tribunal set aside the findings on treaty entitlement and remanded the matter to the tax authorities for fresh adjudication after providing the taxpayer with an effective opportunity of being heard.

[Emerging India Focus Funds v. ACIT – IT(IT)A No. 148/Del/2026, order dated 29 September 2026 (Delhi ITAT)]



[13] AAR v. Tiger Global International II Holdings [2026] 485 ITR 214 (SC)



Tax paid under CGST/SGST due to clerical error can be adjusted against IGST liability; no proceedings for short payment can be initiated

Sunil Steels Vs. The Commissioner of Keralam State GST, Thiruvananthapuram [TS-893-GSTAT(TVP)-2026-GST]

M/s. Sunil Steels ('Taxpayer') was issued a show cause notice under section 73 of the Central Goods and Services Tax Act, 2017 ('CGST Act') on the ground that there was a short payment of Integrated Goods and Services Tax ('IGST') of INR 5.58 lakh owing to a difference between the liabilities as per Form GSTR-1 vis-à-vis Form GSTR-3B. The tax authorities alleged that the Taxpayer had not rectified the discrepancy within the prescribed time and consequently confirmed the demand. The first appellate authority also upheld the demand.

Aggrieved by the above, the Taxpayer preferred an appeal before the Goods and Services Tax Appellate Tribunal, Thiruvananthapuram ('GSTAT'). The GSTAT ruled in favour of the Taxpayer and held as under:

- **Demand cannot be sustained on grounds not alleged in the show cause notice**
  - The show cause notice alleged short payment of tax on account of non-correction of discrepancies between Form GSTR-1 and Form GSTR-3B. However, the adjudicating authority confirmed the demand by placing reliance on section 16(2)(a) of the CGST Act, even though the said provision was neither invoked nor referred to in the show cause notice.
  - The confirmation of demand on a ground not contained in the show cause notice is contrary to the settled principles of natural justice and therefore unsustainable in law.
  - The adjudicating authority had also failed to address the Taxpayer's explanation that the tax had merely been deposited under an incorrect head.
- **Payment under an incorrect tax head does not amount to short payment of tax**
  - The Reliance was placed on the Kerala High Court ruling in *Rejimon Padickapparambil Alex Vs Union of India* (W.A. No. 54 of 2024), wherein the Court recognised the fungibility of balances available in the electronic credit ledger and emphasised that substantive compliance should prevail over procedural lapses.
  - The proceedings under section 73 of the CGST Act can be initiated only where tax has not been paid, has been short paid, erroneously refunded or where input tax credit has been wrongly availed or utilised. In the present case, the tax amount had already been remitted to the Government and the dispute merely related to the tax head under which the payment had been made.
  - Therefore, the clerical error of paying tax under CGST and SGST instead of IGST could not be equated with non-payment or short payment of tax.
- **Excess CGST and SGST balances can be set off against IGST liability**
  - The Kerala High Court in *Rejimon Padickapparambil Alex (supra)* had approved the principle that tax paid under the wrong GST head should be adjusted rather than requiring taxpayers to undergo the cumbersome process of fresh payment followed by refund.

- Reliance was also placed on earlier decisions including *Saji S. Vs Commissioner of State GST (2018 (11) tmi 954 - Kerala High Court)* and other subsequent rulings which recognised that taxpayers should not suffer merely because the tax amount was classified under the wrong head.
- Accordingly, it was held that the excess balances available under CGST and SGST on account of a clerical mistake are eligible to be set off against the corresponding IGST liability through the electronic credit ledger.

- **Residual liability, if any, remains recoverable**
  - The Revenue demonstrated that the excess CGST and SGST payments aggregated to INR 5.43 lakh whereas the IGST shortfall was INR 5.58 lakh, resulting in an unreconciled difference of approximately INR 15,049.
  - Since the Taxpayer failed to dispute this calculation despite being afforded opportunities, the Tribunal accepted the Revenue's contention.
  - Accordingly, while allowing set-off of the excess CGST and SGST balances against the IGST liability, the Tribunal held that any residual amount remaining payable would be recoverable along with applicable interest in accordance with law.



SCN uploaded on GST portal beyond prescribed limitation period is invalid notwithstanding its prior generation on an internal system

Sikka Motors Pvt. Ltd. Vs Union of India & Anr. [TS-911-HC(DEL)-2026-GST]

M/s. Sikka Motors Pvt Ltd ('Taxpayer'), engaged in the business of Hyundai car dealership, was issued a Show Cause Notice ('SCN') under section 73 of CGST Act alleging wrongful availment of Input Tax Credit ('ITC') of ~INR 16.15 lakh during FY 2019-20. The allegations pertained to availment of ITC from suppliers whose registrations had been retrospectively cancelled and in respect of suppliers who had failed to furnish Form GSTR-3B returns. The SCN was subsequently followed by an Order-in-Original ('OIO') confirming the proposed demand. Prior to issuance of SCN, the tax authorities had issued Form GST ASMT-10 communicating the aforesaid discrepancies and had also granted multiple opportunities of personal hearing.

The Taxpayer contended that the SCN was made available on the GST portal only on 8 August 2024 whereas as per section 73(2) of CGST Act read with Notification No. 56/2023-Central Tax, the SCN could have been issued on or before 31 May 2024. The Taxpayer therefore challenged the validity of the SCN and the consequential OIO as being barred by limitation. On the other hand, the tax authorities contended that the SCN was generated and uploaded on the internal AIO system on 30 May 2024 but due to a technical glitch during migration to GST back-office portal, it could not be integrated with the GST portal and was consequently re-uploaded on 8 August 2024 with an explanatory remark.

Aggrieved by the issuance of the SCN and the consequential OIO, the Taxpayer filed a writ petition before the Delhi High Court, which ruled in favour of the Taxpayer and held as under:

- **SCN must be made available to the taxpayer within the statutory timeline to qualify as a valid issuance**
  - The Court observed that section 73(2) of CGST Act requires issuance of an SCN at least three months prior to the last date prescribed under section 73(10) of CGST Act for passing the adjudication order.
  - Pursuant to Notification No. 56/2023-Central Tax, the last date for passing the order for FY 2019-20 was extended to 31 August 2024 and therefore, the SCN ought to have been issued on or before 31 May 2024.
  - Since the impugned SCN became available to the Taxpayer only on 8 August 2024, the statutory requirement under section 73(2) is violated and the SCN was consequently barred by limitation.
- **Internal generation of a notice without communication to the taxpayer does not constitute valid issuance**
  - The Court noted that the DRC list maintained by the department reflected the SCN status as "awaiting GSTN confirmation" and did not contain any Common Reference Number ('CRN').

  - In the absence of a CRN and non-integration with the GST portal, it can be demonstrated that the notice had never been communicated to the Taxpayer.
  - The Court held that issuance under section 73(2) must be read in conjunction with the service requirements prescribed under section 169 of the CGST Act and therefore a notice merely generated on an internal departmental system cannot be regarded as a legally issued notice unless it is made available to the taxpayer.
- **Technical glitches cannot extend a statutory limitation period**
  - The Court observed that the Revenue itself accepted the existence of a technical glitch and consequently re-uploaded the SCN on 8 August 2024. Such re-uploading amounted to an acknowledgement that the earlier notice had not attained legal efficacy.
  - The Court further held that neither the explanatory remarks were appended to the re-uploaded notice nor the original generation date could retrospectively validate the notice.
  - It was emphasised that the only mechanism available for extension of statutory time limits is through a notification issued under section 168A of the CGST Act and no such notification extending the period beyond Notification No. 56/2023-Central Tax had been issued.
- **Failure to utilise alternative modes of service cannot prejudice the taxpayer**
  - Even after becoming aware of the technical glitch, the Revenue failed to serve the SCN through any of the alternative modes specifically recognised under section 169 of the CGST Act, including service through registered post, speed post or e-mail.
  - Such administrative lapses or defects in departmental systems cannot operate to the detriment of taxpayers or enlarge a limitation period prescribed by the law.
- **ASMT-10 proceedings and personal hearings cannot substitute a valid SCN**
  - Rejecting the Revenue's reliance on the scrutiny proceedings and personal hearings, it was observed that issuance of Form GST ASMT-10 under section 61 of CGST Act and the grant of hearing opportunities are merely preliminary or procedural steps.
  - Such proceedings cannot replace the statutory requirement of issuing a valid SCN under section 73, which constitutes the foundational document for adjudication.
  - Consequently, the Taxpayer's alleged non-response to ASMT-10 proceedings or non-participation in hearings could not cure the jurisdictional defect arising from issuance of a time-barred SCN.
- **Conclusion**
  - In view of the above, it was concluded that a show cause notice under section 73 of the CGST Act can be regarded as validly issued only when it is communicated to the taxpayer through the modes prescribed under section 169 of the CGST Act. Mere generation or uploading of the notice on an internal departmental system does not satisfy the statutory requirement. Hence, the Delhi High Court held the impugned SCN to be time-barred, set aside the consequential OIO and allowed the writ petition in favour of the Taxpayer.



Retrospective cancellation of GST registration does not bar departmental audit for the relevant period

Oyster Steel and Iron Private Limited vs Assistant Commissioner, Circle VII, Group 61, Central Goods and Services Tax Audit-I [TS-930-HC(DEL)-2026-GST]

M/s. Oyster Steel and Iron Private Limited ('Taxpayer') was issued a notice in Form GST ADT-01 under section 65 of CGST Act proposing audit of its books of accounts and records for the period July 2017 to March 2021. The Taxpayer obtained GST registration in July 2017 and had applied for its cancellation on 11 January 2020 with effect from 31 December 2019 on account of discontinuance of business. However, the cancellation application remained pending with the department when the audit notice was issued.

The Taxpayer approached the Delhi High Court in separate proceedings seeking disposal of its pending cancellation application. Pursuant to the directions of the Court, the GST registration was ultimately cancelled retrospectively with effect from 31 December 2019 and the returns filed thereafter were directed to be treated as void and *non-est*.

In response to the audit notice, the Taxpayer contended that upon retrospective cancellation of registration, it could no longer be regarded as a "registered person" under section 65 of CGST Act and, therefore, the audit proceedings could not continue particularly for the period subsequent to the effective date of cancellation.

Aggrieved by the continuation of the audit proceedings, the Taxpayer filed a writ petition before the Delhi High Court. The Court dismissed the writ petition and upheld the validity of the audit notice by *inter alia* observing that-

- **Audit under section 65 examines past compliance and is not dependent upon the taxpayer's present registration status**
  - The Court observed that section 2(13) of CGST Act defines audit as examination of records, returns and documents maintained or furnished for verifying compliance with the GST law.
  - Audit is therefore a backward-looking exercise intended to verify historical transactions, taxes paid, refunds claimed and input tax credits availed.
  - Thus, the expression "registered person" appearing in section 65 of CGST Act must be interpreted in the context of the audit function and cannot be restricted only to persons whose registration remains effective on the date of audit.
- **Retrospective cancellation does not erase historical registration or activities undertaken thereunder**
  - The Court distinguished between cases where no registration ever existed and cases where registration existed but was subsequently cancelled with retrospective effect and observed that retrospective cancellation may affect the legal consequences of transactions undertaken during a specified period but it does not obliterate the historical fact that registration had once been granted and activities had been undertaken thereunder.
  - Therefore, records and transactions pertaining to a period during which registration existed remain amenable to audit notwithstanding subsequent retrospective cancellation.
- **Audit jurisdiction must be determined in light of sections 2(13) and 65 of the CGST Act of Central Goods & Service Tax Rules, 2017 ('CGST Rules') read with Rule 101**
  - Section 29(3), which preserves liabilities and statutory obligations prior to cancellation, does not by itself determine the permissible scope of audit. Instead, the audit proceedings must be examined in light of the statutory scheme contained in sections 2(13) and 65 of CGST Act read with Rule 101 of the CGST Rules.
  - On a contextual interpretation of these provisions, the Court held that the records and statutory conduct referable to a registration can be audited even where such registration is subsequently cancelled retrospectively.
- **Delhi High Court relied upon the Bombay High Court ruling over the Madras High Court ruling**
  - The Madras High Court in *Tvl. Raja Stores*, held that audit proceedings under section 65 of CGST Act could not continue after cancellation of registration.
  - The Court observed that the aforesaid decision had not considered the impact of section 29(3) and Rule 101 of CGST Rules and consequently did not fully appreciate the statutory audit framework.
  - On the contrary, the Court adopted the contextual approach taken by the Bombay High Court in *L.J. Victoria Properties Private Limited 2024 (11) Tmi 912 - Bombay High Court*, wherein it was held that subsequent cancellation does not by itself exclude a person from the scope of section 65 of CGST Act.
- **Departmental Audit Manual cannot restrict statutory powers**
  - The Court rejected reliance placed on paragraph 7.1.2 of the Model All India GST Audit Manual, 2023. It held that the Audit Manual is merely a departmental guidance document and cannot determine or curtail the statutory powers conferred under the CGST Act.
  - Therefore, any interpretation contained in the Manual suggesting that retrospective cancellation automatically excludes an assessee from audit proceedings cannot override the legislative framework.

In view of the above, it was concluded that retrospective cancellation of GST registration does not by itself invalidate or restrict audit proceedings under section 65 of the CGST Act in respect of periods covered by the registration and accordingly, the Delhi High Court upheld the audit notice and dismissed the writ petition of the Taxpayer.

TRANSFER PRICING



Judicial Updates

Karnataka High Court held that cash profit can be considered as profit level indicator by excluding depreciation from operating costs, and affirms treatment of bad debt provisions as operating expenditure

The taxpayer, a captive software development service provider, had entered into international transactions during fiscal year ("FY") 2012-13 with its associated enterprises ("AEs"), which were benchmarked under the transactional net margin method ("TNMM"). The depreciation cost in the software development segment in its own case was 5.72%, whereas the average depreciation cost of the comparable companies was only 4.05%. The taxpayer attributed this difference to variations in the type of assets employed, technology used and investment levels of the taxpayer, which materially affected the comparability. While computing the profit level indicator ("PLI"), the taxpayer excluded depreciation from the operating cost on the ground that its depreciation costs were significantly higher than those of the comparable companies and adopted the cash PLI. During transfer pricing ("TP") proceedings, the transfer pricing officer ("TPO") rejected this approach and also excluded the provision for bad and doubtful debts from the operating expenses while computing the PLI. Further, the TPO applied a minimum turnover of INR 10mn, no upper turnover limit was applied, resulting in the inclusion of comparables with turnover exceeding INR 2bn.

The First Appellate Authority ("FAA") granted partial relief to the taxpayer. On further appeal, the Income Tax Appellate Tribunal ("Tax Tribunal") accepted the taxpayer's adoption of cash PLI for the purpose of benchmarking, holding that the differences in depreciation materially affected comparability. The Tax Tribunal also held the provision for bad and doubtful debts to be a normal business expense linked to sales and was accordingly required to be included in operating expenditure. Further, it upheld the exclusion of comparables on having turnover exceeding INR 2bn on account of their significantly higher scale of operations. Aggrieved, the tax authorities preferred appeals before the Karnataka High Court.

The High Court, while ruling in favour of the taxpayer, relied on its earlier ruling[1] and held that depreciation shall be excluded from operating costs while computing the PLI, thereby permitting the adoption of cash PLI. The High Court further upheld the Tax Tribunal's decision that the provision for bad and doubtful debts should be considered as part of the operating expenditure, observing that such provisions could be excluded only where they represented extraordinary items. Additionally, the High Court affirmed the order of the Tax Tribunal, considering INR 2bn as an appropriate upper turnover filter and consequently excluding the companies, exceeding the said threshold, from considering the material differences in their scale of operations.

[PCIT v. AMD India (P.) Ltd. – ITA Nos. 96 and 97 of 2026, order dated 24 September 2026 (Karnataka HC)]

Delhi Tax Tribunal held that intra-group services closely linked to other international transactions cannot be benchmarked separately using a different method

The taxpayer is an Indian company, engaged in the manufacturing business. It entered into international transactions with its AEs during FY 2021-22. These included intra-group services ("IGS") and other transactions linked to its manufacturing business such as management,

[1] Pr. CIT v. Novell Software Development India (P.) Ltd. [2021] 434 ITR 154 (Karnataka)

marketing and information technology support services. Considering the close interrelationship between the transactions, the taxpayer aggregated them and benchmarked the same using TNMM.

During TP proceedings, the TPO accepted the arm's length nature of the other international transactions under TNMM but rejected the aggregation approach in respect of IGS. The TPO independently benchmarked the IGS transaction under 'Other Method' and determined its arm's length price ("ALP") at NIL, resulting in a TP adjustment. The Dispute Resolution Panel ("DRP") upheld TPO's order. Aggrieved, the taxpayer preferred an appeal before the Delhi Bench of the Tax Tribunal.

The Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

- The TPO's approach of independently determining the ALP of IGS transaction at NIL under Other Method was contrary to the approach adopted in the taxpayer's own case for FYs 2011-12 and 2012-13, wherein management fees were aggregated with other international transactions and benchmarked under TNMM.
- The OECD TP Guidelines (2022) provide that where transactions are so closely linked or continuous that they cannot be evaluated adequately on separate basis, they may be analysed together for the purpose of determination of ALP.
- Relying on the Supreme Court's decision in *Magneti Marelli Powertrain India (P.) Ltd.*[2], the Tax Tribunal observed that once TNMM is accepted as the most appropriate method for benchmarking the aggregated international transactions, entered into by the taxpayer, the TPO cannot selectively subject only one particular element of such international transactions to an entirely different method without adequate justification.
- Accordingly, the Tax Tribunal held that the action of TPO/ DRP was not justified in disregarding aggregation of IGS with other closely linked international transactions pertaining to the taxpayer's manufacturing business and setting aside the separate benchmarking of IGS under the Other Method.

[Bucher Hydraulics (P.) Ltd. v. ITO – IT(TP)A No. 16 (Del) of 2026, order dated 23 September 2026 (Delhi ITAT)]

Mumbai Tax Tribunal upholds that royalty payment rate falling within the arm's length range cannot be substituted with the median.

The taxpayer ("S Co") is an Indian company engaged in the sale and distribution of aluminium systems, steel profile systems, fittings and accessories used in façades, doors and windows. S Co is a subsidiary of a German company ("H Co"). During FY 2020-21, S Co paid royalty to H Co at 4.00% of the net invoice value towards the use of know-how and trademark rights. For benchmarking the transaction, S Co adopted the comparable uncontrolled price ("CUP") method and relied on ten license agreements. The benchmarking analysis indicated an arm's length range of 3.00% to 5.00%, within which the royalty rate of 4.00% fell.

During the TP proceedings, the TPO rejected S Co's benchmarking analysis, observing that S Co was engaged in the distribution of finished goods and had not established the need for manufacturing-related know-how. The TPO also observed that S Co's own advertisement and promotional expenditure had contributed to the development of the brand in India. Accordingly, the TPO adopted the Other Method and determined the ALP of the royalty transaction at NIL. The DRP did not accept the NIL determination, excluded three licence agreements from the comparable set and revised the arm's length range to 3.00% to 4.00%. However, despite the actual royalty rate of 4.00% falling within the revised range, DRP substituted the actual rate with the median of 3.00%, resulting in a TP adjustment. Aggrieved, the taxpayer preferred an appeal before the Mumbai Bench of Tax Tribunal.

The Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

- S Co's functions extended beyond the mere distribution of finished products, as it also advised fabricators and customers in areas such as system selection, design, workshop layouts and resolution of technical issues. Accordingly, the licensed know-how and trademark rights had commercial utility in its business. The Tax Tribunal rejected the TPO's contention that only a manufacturing entity needs know-how as an invariable transfer pricing principal, observing that such know-how may also have commercial utility for entities engaged in distribution.
- The Tax Tribunal observed that the tax authorities had failed to demonstrate that S Co had independently developed any independent marketing intangible or undertaken non-routine brand development activities. Merely incurring local advertising and promotional expenditure, could not, by itself, justify disregarding the value of the licensed trademark or determining the ALP of royalty at NIL.
- The Tax Tribunal noted that the DRP itself did not approve the NIL ALP and determined the arm's length royalty range at 3.00% to 4.00%, within which the actual royalty rate of 4.00% fell. Relying on Rule 10CA(5) of the Income-tax Rules, 1962, the Tax Tribunal held that the 35th and the 65th percentiles are inclusive of the boundary values and accordingly, a price falling exactly at either boundary is also considered to be within the prescribed range. Therefore, the actual transaction price of 4.00% had to be accepted as the ALP and could not be substituted with the median rate of 3.00%. The median rate is applicable only where the actual transaction price falls outside the range. The Tax Tribunal observed that the exclusion of the three license agreements did not alter this position, as the actual royalty rate continued to fall within the revised range, leaving the question of their comparability open as academic.

Accordingly, the Tax Tribunal held that the royalty rate of 4.00% fell within the arm's length range and, therefore, was required to be accepted as the ALP. The Tax Tribunal consequently deleted the TP adjustment relating to the royalty payment.

[Schueco India Private Limited v. DCIT – ITA No. 6012/Mum/2024, order dated 5 October 2026 (Mumbai ITAT)]

[2] CIT v. Magneti Marelli Powertrain India (P.) Ltd. [2018] 89 taxmann.com 8 (SC)

Chennai Tax Tribunal held that notional interest cannot be imputed on quasi-equity investments, amounts paid pursuant to invocation of corporate guarantees, and advances where recovery is highly uncertain

The taxpayer is a company engaged in telecom project management, strategic investments and strategic consulting. It had invested in Optionally Fully Convertible Debentures ("OFCDs") issued by its AE, carrying a coupon rate of 2.00%. Owing to uncertainty regarding recovery, the taxpayer had made a provision for the investment and the accrued interest as outstanding at the year-end. The taxpayer had also advanced funds to its AE in Mauritius from its own resources. Owing to uncertainty surrounding recovery, no interest income was recognised on the said loan/advance.

The taxpayer had provided a corporate guarantee to a bank in respect of credit facilities availed by its AE. The guarantee was invoked following the AE's bankruptcy and default, and the taxpayer discharged its obligation by making payment to the bank. The taxpayer had created a provision for this amount in the preceding year, and no interest income was recognised during the year.

During TP proceedings for FY 2014-15, the TPO characterised the aforesaid transactions as loans and imputed interest at LIBOR plus 200 basis points for OFCD investment, and the amount paid pursuant to the invocation of the corporate guarantee, and at EURIBOR plus 200 basis points on the advance to the Mauritius AE. Accordingly, the TPO made TP adjustments to the income.

The Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

- The OFCDs, carrying a coupon of 2.00%, provided an option for conversion into equity, thereby partaking the character of quasi-equity. Considering the significant uncertainty in realisation, the taxpayer had not recognised the interest income in accordance with the Accounting Standard 9 on Revenue Recognition and subsequently wrote off the investment. The Tax Tribunal observed that the doctrine of real income could not be disregarded, and that the accrual interest of income was questionable where recovery of the underlying investment itself was doubtful.
- The Tax Tribunal noted that, in the taxpayer's own case for earlier years, it had held that no adjustment was warranted where the interest charged was at or above LIBOR. Once the transaction suffers from uncertainty of realisation and is of the nature of quasi-equity, no notional interest can be brought to tax.
- The Tax Tribunal observed that the payment arose from the invocation of a corporate guarantee provided in respect of an AE that was already facing bankruptcy proceedings and did not represent a loan advanced in the ordinary course of lending activity. The amount was treated as doubtful and eventually written off. Once the AE is in bankruptcy and recovery is highly improbable, the very foundation for charging interest collapses.
- The taxpayer has demonstrated that funds were advanced out of own resources and that the recovery was uncertain. The Tax Tribunal noted that the AE had subsequently ceased to exist and held that, in the circumstances, the assumption of accrual of interest income is untenable.
- The Tax Tribunal reiterated that recognition of income under the Income-tax Act, 1961 ("the Act") must be governed by real income theory and that hypothetical income cannot be brought to tax merely on the basis of notional interest computations under the transfer pricing provisions.

Accordingly, the Tax Tribunal deleted the TP adjustments relating to the OFCD investment, the amount paid pursuant to invocation of the corporate guarantee and the advance to the Mauritius AE.

[Siva Industries and Holdings Ltd. v. DCIT- IT(TP)A Nos. 28 and 29/Chny/2025, order dated 27 April 2026 (Chennai ITAT)]

Mumbai Tax Tribunal accepted a weighted net asset value and discounted cash flow valuation as the arm's length price of the sale of a business undertaking

The taxpayer is a company engaged in trading printing plates, printing equipment, chemicals, film rolls and spare parts required by the printing industry and other commercial customers. It entered into an agreement with Miraclon India Pvt. Ltd. for transfer of Flexographic Packaging Division ("FPD"). For the purpose of such transfer, the taxpayer obtained a valuation report from an independent valuer, who determined the value of the business by assigning weights in the ratio of 2:1 to the net asset value ("NAV") and discounted cash flow ("DCF") approach respectively. The taxpayer also made a *suo motu* TP adjustment in its return of income for FY 2019-20, representing the difference between the value determined in the valuation report and the contractual consideration.

Further, without prejudice to the above, the taxpayer contended that it treated the transaction of sale of FPD as a deemed international transaction on account of an underlying global arrangement, despite the absence of AE relationship under Section 92A(1) or 92A(2) of the Income-tax Act, 1961. It argued that the provisions in Section 92CE(2) relating to secondary adjustment contemplate excess money remaining with an AE as per its meaning contained in Section 92A(1) and 92A(2) and accordingly, the provisions should not apply in the absence of such a relationship. On this basis, the taxpayer claimed a refund of additional income tax paid on account of the secondary adjustment.

During the TP proceedings, the TPO, rejected the taxpayer's valuation and adopted the DCF method only to determine the ALP. Furthermore, he rejected the taxpayer's claim for refund on the ground that the taxpayer itself made primary adjustment. Aggrieved, the taxpayer preferred an appeal before the Mumbai Bench of the Tax Tribunal.

The Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

Re. Sale of the FPD

- The 'Other Method' prescribed under Section 92C of the Act read with Rule 10AB of the Income-tax Rules, 1962, involves determining the ALP on factual basis and takes into consideration the price that has been or would have been charged in a similar uncontrolled transaction. Relying on the decision of the co-ordinate Bench in the case of *Tata Sons (P.) Ltd.*[3], the Tax Tribunal held that objection merely to the application of a hybrid method is devoid of merit; a single method or combination of accepted methods can be applied if justifiable reasons exist for the weight allocated to each method.
- The Tax Tribunal also observed that the NAV, by itself, may not adequately capture the value of an operating business, as its future earning capacity must also be considered. Further, there is no basis by the TPO for assigning NIL weight to NAV and 100% weight to DCF, particularly when no specific error in the NAV computation had been demonstrated and the DCF value adopted by the TPO was the same as that considered by the independent valuer.
- Accordingly, the weighted valuation determined by the independent SEBI-registered merchant banker, by assigning weights to NAV and DCF in the ratio of 2:1, was considered to provide a more balanced application of the Other Method under Rule 10AB than adopting either method independently.

Re. Refund of excess amount

- The issue relating to claim for refund of additional income-tax paid under Section 92CE(2A) of the Act was restored to tax officer to verify whether Miraclon India is an AE to the taxpayer. If no AE relationship existed under Section 92A, the taxpayer's claim for refund of the additional income-tax paid was to be considered and consequential relief granted.

[Kodak India Pvt. Ltd. v. DCIT – ITA No. 4815/Mum/2024, order dated 30 September 2026 (Mumbai ITAT)]

Mumbai Tax Tribunal permits aggregation of interest placement transactions with overseas branches/head office and allows excess interest recovery in some transactions to be set off against short recovery in others

The taxpayer is a non-resident banking company carrying on banking business in India through its branches. During the relevant year, it placed short-term foreign currency deposits with its overseas AEs and benchmarked the interest earned using LIBOR under CUP Method. While certain placements resulted in interest recovery exceeding the LIBOR benchmark, other placements reflected a shortfall. However, on an aggregate basis, the taxpayer had earned interest in excess of the benchmark.

During the TP proceedings for FY 2001-02, the TPO, *inter alia*, proposed an adjustment in respect of transactions reflecting a shortfall in interest recovery, ignoring the excess interest earned on other placements. The FAA upheld the adjustment. Aggrieved, the taxpayer preferred an appeal before the Mumbai Bench of the Tax Tribunal.

The Tax Tribunal, while ruling in favour of the taxpayer, made the following key observations:

- The Tax Tribunal noted that although certain placements reflected a transaction-wise shortfall against the LIBOR benchmark, the taxpayer had earned interest in excess of the LIBOR on an aggregate basis. Where the international transactions are closely linked and are appropriately benchmarked on an aggregated basis, the excess interest recovery from certain transactions cannot be considered in isolation while determining the arm's length result of the other closely linked transactions.
- Relying on the decision in *Barclays Bank PLC*[4], the Tax Tribunal directed the tax officer/ TPO were to evaluate the interest placement transactions on an aggregated basis and allow grant set-off of the excess recovery against the short recovery.

[Citi Bank N.A. v. ADIT (IT) – ITA Nos. 4970 and 4981/Mum/2007 and CO No. 284/Mum/2007, order dated 8 October 2026 (Mumbai ITAT)]



[3] Tata Sons (P.) Ltd. v. CIT(A) – ITA No. 1093/Mum/2019 (Mumbai ITAT)
[4] Barclays Bank PLC v. ADIT – [2018] 100 taxmann.com 476 (Mumbai - Trib.)

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CONTACT US

For any content related queries, you may please write to the service line experts at accountingadvisory@bdo.in
For any other queries or feedback, kindly write to us at marketing@bdo.in

BDO INDIA OFFICES

Ahmedabad
Westgate Business Bay, Block - A,
Level-6, Opp. Nirvana Party Plot,
S. G. Highway, Ahmedabad – 380051, INDIA

Bengaluru - Office 1
Prestige Nebula, Floor 3
Infantry Road
Bengaluru 560001, INDIA

Bengaluru - Office 2
SV Tower, No. 27, Floor 3 & 4
80 Feet Road, 6th Block, Koramangala
Bengaluru 560095, INDIA

Bhopal
11th Floor, Bansal One Building
Office No. EL-012 & EL-021
Rani Kamlapati Railway Station
Bhopal 462016, INDIA

Chandigarh
Plot no. 55, Floor 5
Industrial & Business Park
Phase 1, Chandigarh 160002, INDIA

Chennai
Olympia Cyberspace, Floor 10, Module 4
No: 4/22 Arulayiammanpet, SIDCO Industrial
Estate Guindy, Chennai 600032, INDIA

Coimbatore
Pacom Square, Floor 3, 104/1, Sakthi
Main Road, Bharathi Nagar, Ganapathy
Coimbatore 641006, INDIA

Delhi NCR - Office 1
Magnum Global Park, Floor 21, Archview
Drive, Sector 58, Golf Course Extn Road
Gurugram 122011, INDIA

Delhi NCR - Office 2
Windsor IT Park, Plot No: A-1
Floor 2, Tower B, Sector 125
Noida 201301, INDIA

Goa
BIZ – Nest, Floor 7
A Wing, Sunteck Corporate Park
Opp. Shram Shakti Bhavan, Patto
Panaji, Goa 403001, INDIA

Hyderabad
1101/B, Manjeera Trinity Corporate
JNTU-Hitech City Road, Kukatpally
Hyderabad 500072, INDIA

Kochi
XL/215 A, Krishna Kripa
Layam Road, Ernakulam
Kochi 682011, INDIA

Kolkata
Infinity Benchmark, Unit 1302, 13th Floor
Plot No. G-1, Block – EP & GP
Sector – V, Salt Lake
Kolkata – 700 091, INDIA

Mumbai - Office 1
The Ruby, Level 9, North West &
South East Wings, Senapati Bapat Marg
Dadar (W), Mumbai 400028, INDIA

Mumbai - Office 2
601, Floor 6, Raheja Titanium, Western
Express Highway, Geetanjali Railway
Colony, Ram Nagar Goregaon (E),
Mumbai 400063, INDIA

Mumbai - Office 3
Floor 20, 2001 & 2002 - A Wing, 2001-
F Wing Lotus Corporate Park, Western
Express Highway, Ram Mandir Fatak Road,
Goregaon (E) Mumbai 400063, INDIA

Mumbai - Office 4
2nd floor, Empire Complex
414 , Senapati Bapat Marg
Lower Parel West,
Mumbai 400013, INDIA

Mumbai - Office 5
8th & 9th Floor, Kalpataru Infinia
Near Grand Hyatt, Shanti Nagar,
Vakola, Santacruz East
Mumbai 400055, INDIA

Pune - Office 1
Floor 6, Building No. 1
Cerebrum IT Park, Kalyani Nagar
Pune 411014, INDIA

Pune - Office 2
Floor 2 & 4, Mantri Sterling, Deep Bunglow
Chowk, Model Colony, Shivaji Nagar
Pune 411016, INDIA

Vadodara
1008, Floor 10, "OCEAN", Sarabhai
Compound, Nr. Centre Square Mall,
Dr. Vikram Sarabhai Marg Vadodara
390023, INDIA

Ahmedabad | Bengaluru | Bhopal | Chandigarh | Chennai | Coimbatore | Delhi NCR | Goa | Hyderabad | Kochi | Kolkata | Mumbai | Pune | Vadodara

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