THE STANDARD STANCE

The Impact of Amendments Rules, 2026 on Ind AS 109 “Financial Instruments”

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BACKGROUND

The Ministry of Corporate Affairs notified the Companies (Indian Accounting Standards) Amendment Rules, 2026 (“Ind AS Amendment Rules 2026” or “the Amendment”) on 12 August 2026, to sync with corresponding amendments issued by the International Accounting Standards Board (IASB) to the International Financial Reporting Standards (IFRS). The amendments made were a response to the practical application challenges identified through the IASB's post-implementation review of the classification and measurement requirements, mainly for ESG-linked lending, electronic payment systems of financial instruments, and nature-dependent electricity contracts. The major standards impacted are Ind AS 109 “Financial Instruments” and Ind AS 107 “Financial Instruments: Disclosures”.

All the amendments are applicable for annual reporting periods beginning on or after 1 April 2026; however, certain transition provisions are mandated for retrospective application.

IND AS 109 – FINANCIAL INSTRUMENTS: DERECOGNITION OF FINANCIAL LIABILITIES SETTLED THROUGH ELECTRONIC PAYMENT SYSTEMS

Presently, the derecognition of financial assets and financial liabilities is provided under Ind AS 109, which states “*unless the regular-way rule in paragraph 3.1.2 applies, a financial asset or liability is recognised on the date the entity becomes party to the contract; a financial liability is derecognised on the settlement date, i.e. the date the obligation is discharged, cancelled or expires. A financial asset is derecognised when the contractual rights to cash flows expire or the asset is transferred*” (Ind AS 109 Paragraph 3.2.3).

In practice, entities derecognise payables when a payment instruction is released and others only when cash leaves the bank account, as there is no explicit guidance.

The Amendment clarifies that a financial asset is derecognised on the date the contractual rights to the cash flows expire or when the asset is transferred, i.e., generally when cash is received in the bank account. Further, for financial liability, the Amendment brings out an explicit guidance under paragraph B3.1.2A that fixes the date of initial recognition and derecognition, and paragraphs B3.3.8 to B3.3.10, which introduce an optional exception for liabilities settled in cash through an electronic payment system. For derecognition of a financial liability, the Amendment clarifies that a financial liability is derecognised on the settlement date, i.e., the date on which the obligation is discharged, cancelled, expires or otherwise qualifies for derecognition. However, the Amendment gives a policy choice to the entity to derecognise the financial liability early, i.e., on the payment initiation date, subject to fulfilment of certain conditions:

Ind AS 109 paragraph B3.3.8: “*A liability, or part of it, settled in cash through an electronic payment system may be deemed discharged before the settlement date if, and only if, the payment instruction initiated by the entity leaves it with:*

a) no practical ability to withdraw, stop or cancel the instruction,

b) no practical ability to access the cash to be used for settlement, and

c) insignificant settlement risk”

Ind AS 109 paragraph B3.3.9: *“Settlement risk is insignificant where completion follows a standard administrative process and the gap between meeting (a) and (b) and delivery of cash is short; it is not insignificant if completion depends on the entity's ability to deliver cash on the settlement date”*.

Example:

Company A, an Indian entity, has an outstanding trade receivable (financial asset) of USD 100 from Company B as on 31 March 2026. Company B made the payment through electronic transfer of USD 100 on 30 March 2026; however, due to bank clearance procedures, the payment is credited to Company A’s bank account on 2 April 2026. Whether Company A shall derecognise the trade receivable of USD 100 as on March 31, 2026?

Solution:

An entity derecognises the trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and recognises the cash (or another financial asset) received as settlement for that trade receivable on the same date. The entity therefore applies paragraph 3.2.3 of Ind AS 109 in determining the date on which to derecognise the trade receivable and paragraph 3.1.1 of Ind AS 109 in determining the date on which to recognise the cash as a financial asset.

With respect to cash, it is therefore only when cash is deposited in its bank account that the entity has a right to obtain cash from the bank. Consequently, the entity recognises cash as a financial asset on the transfer settlement date, i.e., 02 April 2026.

Example:

Company A, an Indian entity, has an outstanding trade payable (financial liability) of USD 100 to Company B as on 31 March 2026. Company A made the payment of USD 100 through electronic transfer on 30 March 2026. However, due to bank clearance procedures, the payment is credited to Company B's bank account on 2 April 2026. Whether Company A shall derecognise the trade payable of USD 100 as on 31 March 2026?

Solution:

When settling a financial liability in cash using an electronic payment system, an entity is permitted to deem the financial liability to be discharged before the settlement date if, and only if, the entity has initiated a payment instruction that resulted in:

(a) the entity having no practical ability to withdraw, stop or cancel the payment instruction;

(b) the entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction; and

(c) the settlement risk associated with the electronic payment system being insignificant.

In the above instance, an entity needs to evaluate the guidance and if the entity believes derecognition principles are met, then de-recognise the financial liability and reduce the cash balance.

What an entity needs to consider:

- Cheques issued shall not be considered to fall within the scope of electronic payment systems. Therefore, for cheque payments, the liability will be derecognised on the settlement date.
- Align accounting system (ERP) payment-run status codes and bank reconciliation procedures with the chosen policy so that period-end cut-off is applied consistently. The accounting policy and the systems to which the election applies should be documented.
- Demonstrate and document *"what constitutes a 'short' period, and whether settlement risk in a given system is insignificant"*.

Effective date:

- Applies to annual reporting periods beginning on or after 01 April 2026. The first annual period affected is the year ending 31 March 2027; however, since the notification was issued on 12 August 2026, the quarter ending 30 September 2026 will be the first interim period reported. Early adoption is not permitted.

IND AS 109 – FINANCIAL INSTRUMENTS: ASSESSING CONTRACTUAL CASH FLOWS WITH CONTINGENT FEATURES, INCLUDING ESG-LINKED TERMS

Under Ind AS 109, *Financial Instruments*, a financial asset can be measured at amortised cost or at Fair Value through Other Comprehensive Income only if its contractual cash flows are Solely Payments of Principal and Interest on the principal amount outstanding (SPPI test), subject also to the relevant business model. The guidance required an entity to assess cash flows before and after a contingent change, but did not explain how to treat a trigger, such as a sustainability target, that is unrelated to basic lending risks and costs. This created uncertainty over whether such loans could be held at amortised cost.

The Ind AS Amendment Rules, 2026 introduces additional, structured SPPI test for financial assets with contingent features that are unrelated to a change in basic lending risks or costs (ESG-linked features being the primary but not the only example — the test applies to all such contingent features). A financial asset can still meet the SPPI criterion if the contingent cash flows are not significantly different from those of an otherwise identical instrument without the contingent feature.

Example: A bank lends CU 200 crore at 7.5% p.a. for a period of five years. The rate reduces by 10 basis points for each year in which the borrower meets a contractual emissions target, subject to a maximum cumulative reduction of 30 basis points. Assume that annual interest ranges from INR 12.4 crore (7.2%) to INR 15 crore (7.5%). The maximum possible adjustment does not significantly change the cash flows compared with a loan without the feature, so the SPPI condition is met and, subject to the business model, the loan is measured at amortised cost. Had the rate instead tracked a market carbon-price index, the cash flows would be indexed to a non-lending variable, and the SPPI condition would fail (Instrument I).

The amendment provides clarification and inserts/ substitutes new paragraphs with respect to:

- Clarification on the characteristics of Contractually Linked Instruments (CLIs) (Ind AS 109, paragraphs B4.1.20 to B4.1.20A) and distinguishes them from financial assets with non-recourse features (Ind AS 109, paragraph B4.1.16A), including factors relevant to the 'look-through' test for non-recourse cash flows. (Ind AS 109, paragraph B4.1.17).

- Net purchases test - clarification on the unused electricity generated from solar or wind energy under PPA, wherein under present scenario the developer was compelled by market rules to sell surplus it could not use, as it could not demonstrate own-use because the sales looked like net settlement (Ind AS 109, paragraph B2.7).

- Introducing enhanced disclosures for financial assets and liabilities carrying contingent features that are not tied to basic lending risk/cost and are not measured at Fair Value Through Profit or Loss (FVTPL) (Amendment in Ind AS 107)

- Adding disclosure requirements for equity instruments measured at fair value through other comprehensive income (FVOCI) (Amendments in Ind AS 107)

IND AS 109 – FINANCIAL INSTRUMENTS: CONTRACTS REFERENCING NATURE-DEPENDENT ELECTRICITY – HEDGE ACCOUNTING RELIEF

Presently, an entity that used a financially settled (virtual) power purchase agreement as a hedging instrument had to designate a fixed volume of forecast electricity purchases as the hedged item. Because the instrument's cash flows vary with actual generation, the fixed-volume designation produced ineffectiveness and could fail the highly probable requirement.

The amendment brings out new provisions for the hedging on nature-dependent electricity contract with paragraph 6.10.1 and 6.10.2 under Ind AS 109. The amendment provides that, subject to certain conditions, companies are now permitted to designate a variable nominal volume of forecasted sales or purchases of renewable electricity as the hedged transaction, rather than a fixed volume based on highly probable estimation. The variable hedged volume is based on the variable volume expected to be delivered by the generation facility referenced in the hedging instrument. This would facilitate an economic offset between the hedging instrument and the hedged transaction, enabling companies to apply hedge accounting.

The Amendment allows more flexibility in designation of variable volumes as the hedged transactions, reducing ineffectiveness and volatility in profit or loss, as this will change the classification of derivatives from FVTPL.

The amendment brings out additional disclosure requiring entities to disaggregate the information about the terms and conditions of the risk category (Amendment in Ind AS 107).

Other key updates under the Amendment:

a) Synchronisation between Ind AS 115 and Ind AS 109 – trade receivables: the amendment requires Ind AS 109 to require trade receivables to be initially measured at the amount determined in accordance with Ind AS 115, where the amount of transaction price is different from initial trade receivable amount.

b) Derecognition of lease liability: Paragraph 2.1(b) of Ind AS 109 explicitly states that lease liabilities recognised by a lessee are subject to the derecognition requirements in paragraph 3.3.1. It notably does not cross-refer to paragraph 3.3.3, which addresses the accounting for any resulting gain or loss on derecognition. This amendment addresses a potential lack of clarity in relation to the accounting of lease liability by a lessee. The Ind AS Amendment Rules, 2026 state that where a lease liability is derecognised, the accounting is governed by Ind AS 109, whereas lease modifications continue to be accounted for in accordance with Ind AS 116, *Leases*. The MCA has further clarified that, upon derecognition of a lease liability under Ind AS 109, any difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

c) Ind AS 110 *Consolidated Financial Statements*: amendment in the definition of de-facto control, clarifying the guidance for assessing whether another party is acting as a de facto agent when evaluating control.

d) Amendment Ind AS 7 – Statement of Cash Flows: Investments in associates, joint ventures and subsidiaries accounted for at cost.

e) Certain amendment in *Ind AS 101 – First time adoption of Indian Accounting Standards* – hedge accounting and certain annual improvements.

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