

## *Query No. 1*

**Subject:** *Presentation of subsequent recoveries against regulatory provisions related to Investments in Alternative Investment Funds (AIFs), under Ind AS framework.*<sup>1</sup>

### **A. Facts of the Case**

1. A company (hereinafter referred to as ‘the Company’) is primarily engaged in providing loans for residential property construction or purchase, loans against property, loans to real estate developers, and loans to small and medium-sized enterprises (SMEs). It is registered with the National Housing Bank (NHB) under section 29A of the National Housing Bank Act, 1987. The Company is a wholly owned subsidiary of a listed company, listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) of India. The Company’s own debts are also listed on the BSE and NSE. The financial statements are prepared in accordance with Indian Accounting Standards (Ind AS) and the Company adheres to the guidelines and directives from the Reserve Bank of India (RBI) and NHB, as applicable.

2. The querist has stated that as part of its investment portfolio, the Company has invested in Alternative Investment Funds (AIFs) that are registered under the SEBI (Alternative Investment Funds) Regulations, 2012. These AIFs primarily seek capital commitments from contributors and make investments according to the fund’s objectives and investment policy. The income proceeds from these investments are initially used to cover (i) operating expenses and (ii) reserves, including tax obligations. Any remaining capital and income proceeds are classified as ‘Distribution Proceeds’ and are distributed according to the defined distribution waterfall.

3. On December 19, 2023, the RBI issued a Circular regarding investments in AIFs, mandating that regulated entity (RE) i.e., all banks, financial institutions and non-banking financial companies (NBFCs) including housing finance companies shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the RE. However, if the AIFs in which RE is already an investor makes a downstream investment in the debtor company of the RE, the RE must liquidate its investment in the scheme within 30 days. For existing investments, the 30 days period starts from the date of the circular’s issuance. If the RE is unable to liquidate its investment within the stipulated time frame, it must make a 100 percent provision for such investments. The Circular was applicable to investments held by the Company in AIFs.

4. Accordingly, for the quarter ended December 31, 2023, the Company, in compliance with the RBI Circular dated December 19, 2023, made a provision, as required by the regulatory directive, of Rs. 186,292 lakhs in respect of investments in AIFs with downstream investment in the Company’s borrower/ debtor companies (specified AIFs). As the obligation to make a provision for the investments held by the Company (and otherwise not subject to any impairment) was a non-recurring event of material magnitude, in the quarterly accounts, this provision was disclosed under ‘exceptional items’. At the end of the quarter ending March 24 and consequently, as at the end of the financial year (F.Y.) 2023-24, based on actual receipts/recoveries of Rs. 20,524 lakhs, the Company’s investment in the specified AIF schemes stood reduced to Rs. 165,768 lakhs. Hence, for the year ending on March 31, 2024, the exceptional provision, at hundred percent, for the investments in specified AIFs, had to be of

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<sup>1</sup> Opinion finalised by the Committee on 16.4.2025.

the lower amount, representing the reduced investment in specified AIFs. The reduction in the provision by Rs. 20,524 lakhs had to be disclosed as an exceptional item so that the provision for the year ended March 31, 2024 could stand reduced to Rs. 165,768 lakhs. As per the SEBI prescribed formats for disclosure, the amount attributable to the last quarter of a year has to be the balancing figure – representing the difference between the amount required to be and recognised for the year less the aggregate of the amount recognised for the first three quarters<sup>2</sup>.

5. Further clarifications were provided by the RBI in a Circular issued on March 27, 2024. However, according to the querist, as evaluated by management, there was no additional impact/release of provisions, basis clarificatory circular issued on March 27, 2024. Hence, the clarificatory Circular had no accounting or other impact for the Company.

6. Thus, both the provision for investment in specified AIFs and its recovery, were disclosed under ‘exceptional items’ in the Statement of Profit and Loss for the year ended 31<sup>st</sup> March 2024 as well in the quarterly results for the quarters ended December’ 23 and March’ 24.

Snapshot of the disclosure is given below:

(Currency : Rs in lakhs)			
	<i>Note</i>	For the year ended March 31, 2024	For the year ended March 31, 2023
<b>Profit/(loss) before share of net profit/(loss) of joint ventures, exceptional items and tax</b>		<b>(188,612)</b>	(255,767)
Share of net profit/(loss) of joint ventures	42 A (i)	(7,183)	2,096
Profit/(Loss) after share of net profit/(loss) of associates and joint ventures before exceptional items and tax		(195,795)	(253,671)
<b>Less: Exceptional items</b>			
Impairment of Goodwill	53	-	1,025,681
Regulatory Provision on investments in alternative investment funds	8	165,768	-
<b>Profit/(Loss) after share of net profit/(loss) of associates and joint ventures and before tax</b>		<b>(361,563)</b>	(1,279,352)
<b>Less: Tax expenses</b>	36		
Current tax		213	91
Reversal of tax Expenses – Earlier years		(53,027)	(332,754)
Deferred tax		(111,221)	(206,553)
		<b>(164,035)</b>	(539,216)
<b>Profit/(Loss) for the year</b>		<b>(197,528)</b>	(740,136)

7. Exceptional item note given in the financial statements for the year ended 31<sup>st</sup> March 2024 is reproduced below:

*“During the quarter ended December 31, 2023, the Company has made regulatory provision of Rs. 165,768 lakhs (net of reversal of Rs. 20,524 lakhs due to subsequent realisation) in respect of its investments in Alternative Investment Funds (AIFs) pursuant to the RBI circular dated December 19, 2023 and March 27, 2024 and the same has been disclosed under ‘exceptional items’.”*

The recoveries from these provisioned assets are expected to be recurring in nature over a period of next 2-3 years. During the quarter ending June’ 24, the Company recovered a further Rs. 9,165 lakhs from these investments.

<sup>2</sup> Regulation 33(3)(e) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - (e) *The listed entity shall also submit the audited or limited reviewed financial results in respect of the last quarter along-with the results for the entire financial year, with a note stating that the figures of last quarter are the balancing figures between audited figures in respect of the full financial year and the published year-to-date figures upto the third quarter of the current financial year.*

8. *Accounting treatment by the Company:*

The Company classifies its investments in AIFs at fair value through profit or loss (FVTPL) in its financial statements, as per Ind AS 109, 'Financial Instruments'. Income from investments in an Alternative Investment Fund (AIF) accrues in two ways: interest income and fair value gains. The interest income accrued and received from AIF investments is classified and presented under 'Interest Income on Investments Measured at FVTPL' in the financial statements and changes in Net Asset Value (NAV) that lead to gains or losses are classified under 'Net Gain/Loss on Fair Value Changes' in the Statement of Profit and Loss.

The Company has, pursuant to regulatory directions, created a 100% provision on investments in AIFs with downstream investments in its debtor companies (specified AIFs), classifying this provision under 'exceptional items' due to its *significant materiality and the specific non-recurring regulatory trigger as a one-time non-recurring event*. The amount recovered against these investments in the quarter ending March '24 has also been disclosed under 'exceptional items', so that the provision for the year, pursuant to the RBI Circular, is disclosed at an amount equal to the investment in specified AIFs, the disclosure being as an 'exceptional item'.

This ensured the disclosure of the gross provision for the quarter ending December 31, 2023 in December quarter as an 'exceptional item' as also the disclosure of the lower provision required for the year ending March 31, 2024 as an 'exceptional item'. In the same accounting year, the part reversal in the March quarter could not be disclosed as normal income. This would be misleading. It would mean disclosing as 'exceptional item', a larger provision than the investments held by the Company. Also, the disclosure requirements prescribed by SEBI require that the accounts for the March ending quarter (last quarter for the year) reflect the difference between the numbers in the annual accounts and the aggregate of the results for the first three quarters<sup>3</sup>.

Recovery against these AIF Investments of Rs. 9,165 lakhs during the quarter ended 30<sup>th</sup> June 2024, for which the Company had made 100% provision in the year ending March 31, 2024 was disclosed as an exceptional item, based on the view of the Company's auditors.

9. The Company believes that considering the nature of the Company's business, recoveries from provisions made in earlier years would recur regularly over the years. Recoveries from the provision triggered by a non-recurring regulatory event, made in the year ending March 31, 2024, and disclosed as an exceptional item, in the annual accounts for the year ending on that date, are also expected to continue for at least 7 to 8 quarters. The Company's intention is to hold their investments till their full realisation. The recovery from provisions made in earlier years cannot be distinguished on the basis of how the provision was disclosed in the year in which the provision was made. Therefore, the fact that the AIF provision may be fully reversed in seven or eight quarters should not change how the recoveries are disclosed in the year of recovery. Like other recoveries of provided loans and investments, the recovery from specified AIF investments is also a recovery against provisions made.

Such recoveries are not reflected as exceptional items. The Company is desirous of determining the correct mode of presentation for recoveries from provisions made in the earlier years, which, as stated above, represent a normal phenomenon in the business of the Company and which are expected to recur on a regular basis.

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<sup>3</sup> *ibid*

*Detailed analysis by the querist:*

10. 'Exceptional items' are not defined in Ind AS or in the Companies Act. However, basis guidance available in Ind AS 1, 'Presentation of Financial Statements', exceptional items are those that meet the criteria of materiality (size and nature) and infrequency (non-recurrent in nature). This, as per the querist, is also the view expressed by the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) in its opinions, published as Query No. 8 of the Compendium of Opinions, Volume XL and Query No. 2 of the Compendium of Opinions, Volume XXXVIII.

After considering these criteria in the year ended 31<sup>st</sup> March 2024, the provision in respect of investments in specified AIFs with downstream investment in the borrower/debtor companies, being a provision made pursuant to regulatory directions in the RBI circular dated December 19, 2023, was classified as exceptional. Since the provision arose from a specific regulatory requirement, rather than from the normal course of business and as the regulatory requirement was not expected to recur, it was deemed exceptional. It is very rare for a regulator (or rather first time) to direct that an investment has to be completely provided for. Therefore, this type of Circular is a rare phenomenon even for REs. Also, the Circular has a retrospective effect i.e., the Circular has to be applied to all the outstanding investment in AIFs and is not prospective to apply only to fresh investment in AIFs after the issuance of the Circular. This classification as an exceptional item was intended to provide stakeholders with a clearer understanding, given the provision's significant size and the fact that it was not expected to recur.

Given that the initial provision was classified as an 'Exceptional Item', the Company has concluded in quarter ending June 30, 2024 that the reversal of such provision on account of recoveries should also be presented as 'Exceptional Items'. However, there is a counterview that challenges the merits of presenting the recovery as an exceptional item, which is explained below:

- (i) Once an RBI provision policy is implemented, the policy becomes part of the normal business operations of the Company. Hence, subsequent provisioning (for example, if an investee AIF makes an investment in a downstream debtor company) and reversal pursuant to an RBI policy is part of normal business activity of the Company and should not be considered as an exceptional item. However, as stated earlier, enactment of a new RBI policy at the time of making the provision was a rare event.

Also, the Circular had a retrospective effect i.e., the Circular had to be applied to all the outstanding investments in specified AIFs and is not prospective to apply only to fresh investment made in specified AIFs after the issuance of the Circular. Therefore, the one-time impact of implementation of the Circular of applying it to the entire AIF investment portfolio in the year of implementation of the Circular without reference to the year of investment resulted in a material amount. But, once the regulatory directive is implemented, all subsequent provisions, if any, and reversals would occur in regular or routine course of business of the Company and would only relate to business operations of that particular year and will not have an impact of earlier years' business decision like investment in specified AIF. Another such example would be Ind AS implementation, wherein the difference arising on implementation was given a

direct impact in retained earnings, but post Ind AS implementation, the impact of selection of new accounting policies is considered as normal transaction and no exceptional treatment like direct impact in retained earnings is permitted.

- (ii) Paragraph 45 of Ind AS 1, 'Presentation of Financial Statements' states that the Company shall retain the presentation and classification from one period to the next period in the same head unless significant change in the nature of operation of the entity makes another presentation more appropriate or Ind AS requires this change.

A distinction needs to be drawn between the making of a material provision directed by a one-time non-recurring change in regulatory policy and reversals of that provision in subsequent years. Paragraph 45 of Ind AS 1 would require that this policy of reflecting the accounting effect, if material, of changes in regulatory policy as 'exceptional items' should continue even in future years, and similar provisions/accounting effects of one time regulatory changes, if material, should be disclosed as 'exceptional items'.

Reversal of provisions made is a distinct transaction and the disclosure thereof should be consistent with the accounting treatment of other reversals – not with the accounting treatment of the making of provisions. The Company is consistently, following the policy of reflecting the provision for Non-Performing Assets (NPAs) and its reversal as part of normal business operations. The Company intends to apply the same policy for reversals from the AIF provision made pursuant to change in RBI policy. The Company also undertakes that if there is another change in the RBI Policy which is infrequent and has material impact on the financial statements, the impact of such change would also be reflected as exceptional item, which would be consistent with the treatment of AIF provision as 'exceptional item'.

- (iii) Clause (g) of paragraph 98 of Ind AS 1 also states that circumstances that would give rise to separate disclosure include 'Other reversals of provisions'. The creation of provision towards investment in AIF and its reversal is relatable to this clause directly. Paragraph 98 of Ind AS 1, in the context of inventory and PPE also states that reversals of provisions should be in tandem with the treatment of the said transaction when it was first originated. It cannot treat the provision and reversal thereof differently.

Paragraph 98 of Ind AS 1 indicates that it does not provide a list of 'exceptional items', it only provides a list of items which would require separate disclosure. The concept of 'exceptional item' is not at all dealt by paragraph 98 of Ind AS 1. For example, Clause (a) of paragraph 98 provides for write down of inventory. Write down of inventory on a routine basis is disclosed as part of business operations and not as 'exceptional item'. Therefore, to regard the list in paragraph 98 as exceptional items would not be correct. Otherwise, any provision of inventory by a company though in regular course of business will have to be reflected as an exceptional item. The view that paragraph 98 only requires a separate disclosure and does not trigger treatment as an 'exceptional item' is affirmed by EAC Opinion published as Query No. 8 of the Compendium of Opinions, Volume XL.

Making recovery from loans for which provision is made in the books of account is very routine and normal business activity for the Company, as all the other provisioning and reversals are part of normal business operations and have not warranted a disclosure as 'exceptional items'.

Therefore, according to the querist, paragraph 98 requires that if the AIF provision reversal is not infrequent, it would require a separate disclosure being reversal of provision but, the paragraph does not require that the reversal be disclosed or regarded as an 'exceptional item'.

Consistency must apply separately to the policy for making of provisions and their disclosure and separately to the accounting policy for accounting treatment of reversal of provisions. Applying the policy considerations for making of provisions to their reversal would be incorrect as policy prescriptions for disclosure and recognition of the making of provisions cannot apply to their reversal.

11. Further, paragraph 46 of Ind AS 1 clarifies that even in the circumstances where change in presentation is considered appropriate, the Company needs to reclassify its comparative information. Accordingly, another view was to reclassify the recoveries made during quarter ended March 2024 to other operating income from exceptional, along with current year recoveries under 'Other Operating Income' with appropriate disclosures to make numbers comparable and be consistent with disclosures in previous year as well. In the facts of the Company's case, the accounting treatment adopted in the year and quarter ending March 31, 2024 had to be adopted to avoid the incongruity of a higher provision for investment in AIF than the investment - that treatment cannot be revisited.

12. Thus, the Company believes that from financial year (F.Y.) 2024-25, accounting treatment of recoveries out of the investment in AIFs would have to be similar to recoveries from other loans and investments, in respect of which a provision has been made in an earlier year. In cases where the recovery relates to loans and/or investments, which have been partly or wholly provided for in its financial statements, the Company reflects such recoveries as operating income from reversal of provisions. The management also expects recoveries from Alternative Investment Funds (AIFs) on a frequent basis, and accordingly, expects to make consequent reversal of the provision. The reversals would be reflected as operating income by recovery from provisions as is the case for other recoveries against provisions made in earlier years. The fact that the provision in respect of investment in specified AIF was disclosed as an exceptional item is irrelevant to the treatment of the recoveries against that provision.

Such recurring recoveries from AIF investments would not be different from other recoveries out of or against loans and/or investments against which the Company has made provisions in earlier years/which have been written off in whole or in part in earlier years. Such recurring recoveries do not meet the test of infrequency and therefore, like other similar recoveries, cannot be classified as 'exceptional items'. These recoveries are expected to occur regularly and would continue to occur regularly in the normal course of business of a lending company as and when underlying investments are redeemed/recovered and therefore such recoveries do not meet the criterion of infrequency required for exceptional classification. Consequently, the recoveries are not to be and cannot be classified as 'exceptional items'.

Even though these recoveries may be material in amount, their frequent nature, and the fact of their occurring in normal course of business would preclude them from being categorised as ‘exceptional’. These recoveries should thus be reported as a separate line item under ‘Other operating income’ in the financial statements, in accordance with paragraphs 97 and 98 of Ind AS 1, reflecting their materiality and regular occurrence along with appropriate disclosure in notes to accounts of the fact that the recovery relates to a provision which, because of the non-recurring regulatory trigger, was presented as an ‘exceptional item’. To put it differently, the making of the 100% provision was exceptional as it was prompted by regulatory direction and was not like other provisions including, in particular, ECL based provisions made in the normal course of business. The recovery against the provisions is a distinct event and like recoveries against other provisions for other loans and investments is a recurring event in the normal course of business. The recovery by itself does not justify being classified as ‘exceptional’.

The recoveries are not related to any regulatory trigger. The position would be different if the reversal was also prompted by a regulatory event such as, RBI directing that the provision in respect of specified AIF investments be reduced from 100% to 50% resulting in release of a significant (material in size) non-recurring reversal.

Classifying some recoveries against provisions made in earlier years as ‘exceptional items’ while continuing to classify other recoveries as normal reversals in the course of business would amount to misleading readers and users. Recovery against a provision made in earlier years is a recovery which has to be reflected as normal income – the classification of recoveries cannot be based on the mode by which the provision when made was presented.

13. The querist has also given the following extracts from Accounting Standards:

*Ind AS 1, ‘Presentation of Financial Statements’:*

- Paragraph 98 of Ind AS 1 requires separate disclosure of items of income or expense that are material. Circumstances that give rise to separate disclosure include disposals of investments, reversals of provisions, and other similar significant items.
- Paragraph 97 states that when items of income or expense are material, their nature and amount should be disclosed separately.
- As per the Education Material on Ind AS 1 issued by ICAI, exceptional items are defined based on materiality and frequency of occurrence. The assessment of these factors is context specific and should consider the entity's nature, the economic environment, and past and future expectations.

Paragraph 45 of Ind AS 1:

An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless:

- (a) it is apparent, following a significant change in the nature of the entity’s operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in Ind AS 8; or

(b) an Ind AS requires a change in presentation.

Paragraphs 97 and 98 of Ind AS 1: When items of income or expense are material, an entity shall disclose their nature and amount separately. Circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant, and equipment;
- (d) disposals of investments;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

Paragraph 7 of Ind AS 1: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

14. *Other references:*

- Further, as per response to question 32 of the ICAI Educational Material on Ind AS 1, “As per Ind AS 1, materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”
- As per the Expert Advisory Committee (EAC) Opinion published as Query No. 2 of the Compendium of Opinions, Volume XXXVIII, on the subject, ‘Disclosure of impairment loss on long-term investments as exceptional item’, “the Committee notes that the querist has drawn attention to the Educational Material on Ind AS 1 issued by the Institute of Chartered Accountants of India on the meaning of ‘Exceptional items’ as per which it appears that all material items are not exceptional items and exceptional items are those items which meet the test of ‘materiality’ and ‘incidence’. Definition of the term ‘Material’ as per paragraph 7 of Ind AS 1 is reproduced in paragraph 18 above. The Committee is of the view that ‘incidence’ refers to frequency of occurrence”. Assessment of ‘frequency of occurrence or incidence’ is to be determined in the specific facts and circumstances of the entity concerned, considering various factors, such as, the nature of its activities, the economic environment in which it operates, past experience, future expectations, etc. and not in general, as what could be a frequent item for one entity may be infrequent for others.

## **B. Query**

15. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee on the appropriate presentation and disclosure of the reversal of the provisions triggered by and required by regulatory changes, considering *inter alia* the provisions of Ind AS 1, Ind AS 109, Schedule III of the Companies Act, 2013 and the specific facts and circumstances of this case. Specifically, whether in the Company's Statement of Profit and Loss, the reversal during F.Y. 2024-25 (and subsequently), of provisions which were made due to a regulatory trigger during F.Y. 2023-24 (as per RBI Circular) and reported as 'Exceptional Items', should be classified and disclosed as exceptional items or whether considering the similarity with reversals of other provisions and also considering the likely regularity of recoveries from AIFs and consequent reversal of these provisions on regular basis over the period of next 2-3 years, these recoveries should be presented as other operating income with a separate line item in accordance with paragraph 98 of Ind AS 1, along with detailed disclosure in the notes.

## **C. Points considered by the Committee**

16. The Committee notes that the basic issue raised by the querist relates to presentation and disclosure of the reversal during F.Y. 2024-25 (and subsequently), of the provisions related to Investments in Alternative Investment Funds (AIFs), as triggered and required by regulatory changes (RBI Circulars in this regard) and reported as 'exceptional items' in the Statement of Profit and Loss of the Company. The Committee has therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, impact of RBI circulars regarding investments in AIFs dated 19<sup>th</sup> December, 2023 and 27<sup>th</sup> March, 2024 on the financials of the Company including on regulatory capital and usage thereof, accounting including presentation of provisions on investments in AIFs *per se*, presentation of reversal of provision on investment in AIFs during F.Y. 2023-24 and for comparative figures of previous year in financial statements during F.Y. 2024-25, accounting for investments in AIFs, recognition and measurement of realisation/recovery of investments, recognition, measurement and presentation of interest income from investment in AIFs and fair value changes, appropriateness of the Company's accounting policy for provision for Non-Performing Assets (NPAs) and their reversal, quarterly/yearly reporting as per SEBI regulations, any other RBI Circular that may be applicable in the extant case and its accounting implication on the extant issue, etc. Further, the Committee has expressed its opinion purely from the accounting perspective and not from the perspective of legal interpretation of National Housing Bank Act, 1987 and guidelines/directives issued thereunder, Circulars issued by the Reserve Bank of India (RBI), SEBI Regulations, SEBI prescribed formats for disclosure and recognition of provision, recoveries and receipts etc. Further, the Accounting Standards referred hereinafter are Indian Accounting Standards, notified under the Companies (Indian Accounting Standards) Rules, 2015, as amended/revised from time to time.

At the outset, the Committee notes that earlier EAC opinions issued on similar subjects have been referred to by the querist in the Facts of the Case. In this regard, it may be mentioned that the Committee's opinions are based on the specific facts provided to it and the applicable laws and Standards, which may not necessarily apply in scenarios/situations with different facts. Therefore, the Committee has independently examined the issues referred by the querist under the facts and circumstances of the case and the extent to which the earlier opinions are applicable or are relevant has not been examined by the Committee.

17. The Committee notes that the Company is an NBFC and therefore, Division III of Schedule III to the Companies Act, 2013 is applicable for presentation of its financial statements. The Committee notes that Division III of Schedule III to the Companies Act requires presentation of 'Exceptional Items' as a separate line item in the Statement of Profit and Loss. Further, Note 11(iv) of the 'General Instructions for Preparation of Statement of Profit and Loss' applicable to NBFCs requires that NBFC shall disclose by way of notes, additional information regarding aggregate expenditure and income on some items. One of the items to be disclosed in this regard is 'details of items of exceptional nature'. However, the term 'exceptional item' is neither defined in Schedule III to the Companies Act, nor it is used in Ind ASs.

18. In this regard, the Committee also notes the following paragraphs of Indian Accounting Standard (Ind AS) 1, 'Presentation of Financial Statements':

“31 Some Ind ASs specify information that is required to be included in the financial statements, which include the notes. An entity need not provide a specific disclosure required by an Ind AS if the information resulting from that disclosure is not material except when required by law. This is the case even if the Ind AS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in Ind AS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.”

**“85 An entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.”**

“86 Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists users in understanding the financial performance achieved and in making projections of future financial performance. An entity includes additional line items in the statement of profit and loss, and it amends the descriptions used and the ordering of items when this is necessary to explain the elements of financial performance. An entity considers factors including materiality and the nature and function of the items of income and expense. For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. An entity does not offset income and expense items unless the criteria in paragraph 32 are met.”

**“Information to be presented in the statement of profit and loss or in the notes**

**97 When items of income or expense are material, an entity shall disclose their nature and amount separately.**

98 Circumstances that would give rise to the separate disclosure of items of income and expense include:

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.”

“101 Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. ...”

Further, the Committee notes that the concept of ‘materiality’ has been discussed in paragraph 7 of Ind AS 1 as below:

**“Material:**

**Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.**

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

...”

19. From the above, the Committee notes that material items need to be presented as separate line items and/or disclosed in financial statements, which includes the notes. As per Ind AS 1, materiality depends on the magnitude and/or nature of information and an information is material if omitting or misstating or obscuring it could be expected to influence the decisions of primary users of financial statements. Further, as per the requirements of paragraphs 86 and 101 of Ind AS 1, since effects of events and transactions differ in frequency, the components of financial performance should be disclosed and additional line items/headings should be presented when such presentation is relevant to understanding of the entity’s financial performance having regard to factors including materiality and the nature of the items of income and expense.

Therefore, drawing an analogy from the above-reproduced requirements of Ind AS 1, the Committee is of the view that exceptional items are those items which meet the test of ‘materiality’ as well as the test of ‘frequency of occurrence or incidence’; and the meaning of the term ‘material’ should be construed as per paragraph 7 of Ind AS 1, as reproduced above. The Committee is of the view that ‘exceptional items’ could be of the nature of items listed in

paragraph 98 of Ind AS 1 reproduced above *if* such items are material and are infrequent in occurrence.

20. Applying the above requirements on reversal of provision on investments in AIFs in the extant case, the Committee is of the view that if reversal of provision on investment meets the criteria of ‘materiality’ (nature and amount) and infrequency (non-recurring), the same should be classified as an ‘exceptional item’ in the Statement of Profit and Loss. In this regard, the Committee notes from the facts supplied that even though the reversal of provision is considered to be ‘material’ by the Company, the management expects recoveries from Alternative Investment Funds (AIFs) on a frequent basis, hence such consequent reversal of provision expected on AIFs is recurring in nature. Therefore, the Committee is of the view that in the extant case, the reversal of provision on investments should not be classified as ‘exceptional items’ in the Statement of Profit and Loss for financial year 2024-25 (and subsequently). However, considering the above-reproduced requirements of paragraph 97 and 98(g) of Ind AS 1, the Committee is of the view that since the reversal of provision is considered ‘material’ by the Company, the nature and amount thereof should be disclosed separately in the financial statements. Further, the Company should also make the appropriate presentation of the reversal of provision as ‘other income’ or ‘other operating revenue’ in the Statement of Profit and Loss as per the requirements of Division III of Schedule III to the Companies Act 2013, based on the specific facts, nature of the item/transaction, nature of activities carried on by the Company, etc.

#### **D. Opinion**

21. On the basis of the above and subject to paragraph 16 above, the Committee is of the opinion that considering the judgement of the Company with regard to frequency of recovery of investment in AIF and consequent recurring reversal of provision on investments, the reversal of provision on investments in AIF in the instant case should not be classified as ‘exceptional items’ in the Statement of Profit and Loss for the financial year 2024-25 (and subsequently). However, considering the requirements of paragraph 97 and 98(g) of Ind AS 1, since the reversal of provision is considered to be ‘material’ by the Company, the nature and amount thereof should be disclosed separately in the financial statements, as discussed in paragraph 20 above. Further, the Company should also make the appropriate presentation of the reversal of provision as ‘other income’ or ‘other operating revenue’ in the Statement of Profit and Loss as per the requirements of Division III of Schedule III to the Companies Act 2013, based on the specific facts, nature of the item/transaction, nature of activities carried on by the Company, etc.

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